



Proposed Revisions relating to Public Interest Entities (PIEs)

Including the new Definition and Proposed Transparency
Disclosure in the Auditor's Report

WEBINAR

Presented by APESB and AUASB Staff, 26 August 2022

Welcome & Introduction

Matthew Zappulla FCA
Technical Director, AUASB

Outline of Session

- **Background to IESBA and IAASB Projects on Listed Entity and PIE**
- **APESB – Outline of proposed Key Revisions to the APES 110 Code of Ethics**
- **AUASB – Outline of proposed Key Revisions to ISA 700 and the Impact on the Auditor's Report**
- **Opportunity for Participants to provide Feedback**

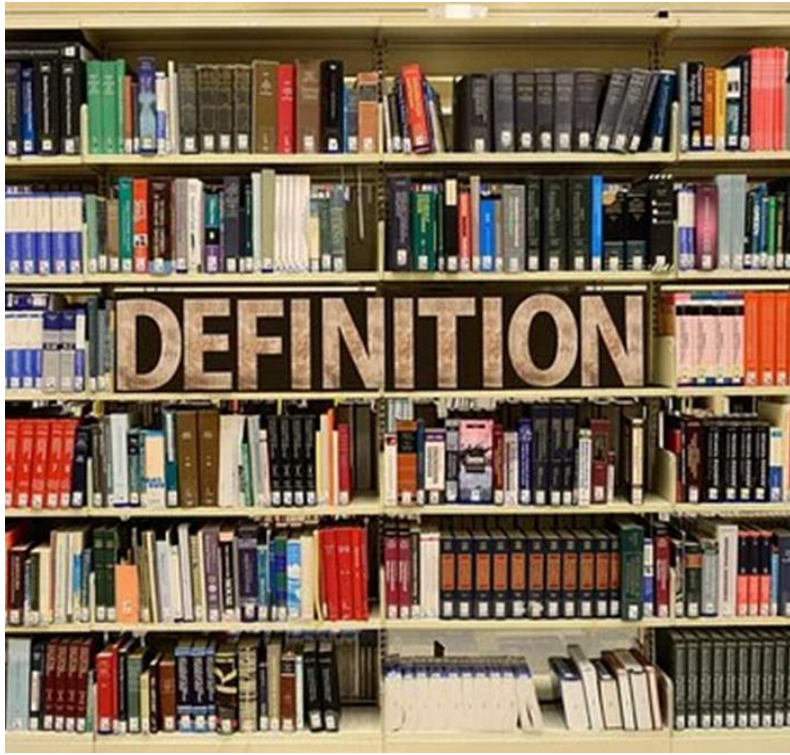
Definitions of Listed Entity and Public Interest Entity

*Proposed revisions to APES 110 Code of Ethics for Professional Accountants
(including Independence Standards)*



Jacinta Hanrahan CA
Principal

Current Australian requirement on PIEs



- Definition of Public Interest Entity (PIE) includes listed entities
- From 1 January 2013, APESB mandated Firms to determine whether additional entities are PIEs (para AUST R400.8.1)
- Determination is based on large number/wide range of stakeholders and considering nature of the business, size & number of employees
- APES 110 requirement higher than IESBA Code

Australian application material on PIEs since 2013

In addition to listed entities, the following entities will generally be considered as PIEs (para AUST 400.8.1 A1):

- Authorised deposit-taking institutions and authorised non-operating holding companies (NOHCs) regulated by APRA
- Authorised insurers and authorised NOHCs regulated by APRA
- Life insurance companies and registered NOHCs regulated by APRA
- Private Health Insurers regulated by APRA
- Disclosing Entities
- Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeships that have five or more members regulated by APRA
- Other issuers of debt and equity instruments to the public

Revision of IESBA Code for Listed Entity & PIE Definitions

Broader definition of PIE, globally applicable and accepted, with roles for NSS and firms

Lead NSS to define PIEs
as IESBA expects

Global baseline
definition not
feasible

NSS best placed to
determine PIEs

Extant

- Only 1 specific category
- No guidance for NSS
- Minimal guidance for firms

Revised

- Expanded list of categories
- Framework of “runway lights” for NSS
 - An overarching objective
 - More comprehensive list of public interest factors
 - Additional factors for firms’ consideration

Overarching Objective

Paragraphs 400.8 and 400.10

Explain why the Code have additional independence requirements for PIEs

Significant public interest in **the financial condition** of an entity

Heightened stakeholder expectations on independence of firm conducting the audit

Additional requirements to meet these expectations

New proposed definition of PIE

IESBA Code

3 specific mandatory categories:

- Publicly traded entity (*replaces listed entity*)
- Deposit-taking institutions
- Insurers

1 broad mandatory category:

- Entity required under local law, regulation or professional standards (*Guidance in para 400.18 A2*)



APES 110

Guidance on Australian PIEs in proposed para AUST 400.18 A3 (retains existing categories)

Determining PIEs

APES 110 proposes to retain firms being mandated to determine PIEs

Expanded non-exhaustive list of factors to evaluate the level of public interest in the financial condition of an entity

Nature of the business or activities (e.g., financial obligations to the public)

Subject to regulatory supervision over the entity's financial obligations

Size of the entity

The importance of the entity to its sector (e.g., replaceable in the event of financial failure)

Number and nature of stakeholders (e.g., investors, customers, creditors & employees)

Potential systemic impact in the event of financial failure

Transparency Requirement



Transparency

R400.20 and R400.21

- To meet the public expectations on transparency of firm independence
- Firms are required to publicly disclose if they have applied the independence requirements for PIE to an audit
- The disclosure has to be in a manner deemed appropriate
 - What is appropriate?
 - IAASB PIE project - Auditor report disclosures
- Exception when disclosure will result in disclosing confidential future plans of the entity (e.g., IPO plan)

APESB timeline for PIE revisions

Key milestones	Date
ED 05/22 comment period closes <ul style="list-style-type: none">• Specific comments - any other entities that would generally be considered PIEs in Australia	28 October 2022
APESB consideration of submissions & approval of final Amending Standard	Dec 2022 – March 2023
Amending Standard proposed effective date	1 January 2025

Purpose & Disclaimers

This set of PowerPoint slides has been developed by APESB Technical Staff using some of the resources developed by the IESBA Technical Staff relating to the Final Standard for the Definitions of Listed Entity and Public Interest Entities in the *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

These slides provide only an *overview* of the proposals in the exposure drafts and do not purport to present all the detailed changes. The slides should be read in conjunction with the proposed new Code, the text of which alone is authoritative. The slides do not form part of the Code.

APESB does not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Key Revisions to ISA 700 and the Impact on the Auditor's Report

IAASB ED: Proposed Narrow Scope Amendments to ISA 700/ISA 260



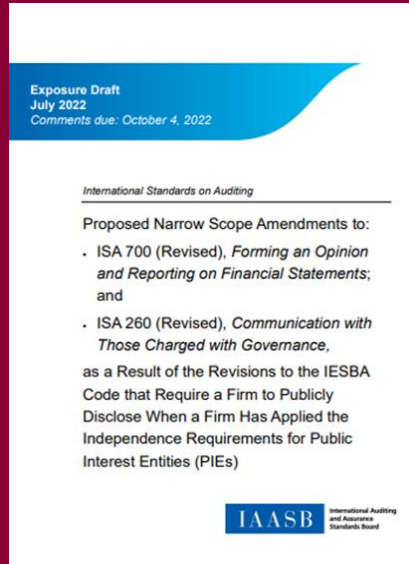
Johanna Foyster CA
Senior Project Manager,
AUASB

First Phase of Broader IAASB PIE Project

- IAASB is fast tracking its consultation to determine whether the Auditor's Report is an appropriate vehicle for the new IESBA Code transparency disclosure – to align with the effective date of the Revised IESBA Code
- Further proposals to be considered by the IAASB later in 2022, as part of the second phase of the project:
 - Whether the IAASB should adopt the IESBA definitions of PIE and Public Interest Entity
 - The objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs
 - Which entities the existing differential requirements for Listed Entities in the ISQMs and ISAs should apply to



New IAASB Exposure Draft



Proposed Narrow Scope amendments to ISA 700 and ISA 260

Introduces a new transparency requirement for firms to disclose in the Auditor's Report when the independence requirements for PIEs have been applied in an audit



Key IAASB Questions

Q1 - Is the Auditor's Report an appropriate mechanism to enhance transparency about the independence requirements applied for certain entities (PIEs) when performing an audit?

Q2 - If the disclosures are to be made in the Auditor's Report, what is the best approach for dealing with this in the report?



Proposed Narrow Scope Revisions to ISA 700, para 28(c)

IAASB's preferred approach:

- Conditional Requirement
- Applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of certain entities (e.g. PIEs) were applied
- If the condition is met, the auditor is required to disclose in the Auditor's Report that the relevant ethical requirements for independence for those entities were applied



Other Amendments to ISA 700

- Additional application material to support the IAASB's preferred approach
- Example Auditor's Reports for listed entities updated to demonstrate how disclosures could be made (ISA 700 Appendix)

Proposed Narrow Scope Changes to ISA 260

- New application material
- To increase transparency with TCWG that differential independence requirements for certain entities have been applied



Proposed Audit Report Disclosures

Extract from IAASB ED, Appendix – Illustration 2

Auditor's Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements for public interest entities that are relevant to our audit of the consolidated financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements.¹ We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



AUASB interested in your views

Consider, for example:

- The trend in recent IAASB proposals for additional information to be included in the Auditor's Report (e.g. Projects on Fraud and Going Concern)?
- The value to users factually reporting that the PIE independence requirements have been applied?
- Whether this additional disclosure will contribute to transparency and confidence in the audit?
- Any potential for unintended consequences?
- Other more appropriate mechanisms for public disclosure?



Review Engagements – ISRE 2400/ISRE 2410

- IAASB seeking feedback on whether similar narrow scope changes should be made to ISRE 2400
- IAASB not considering changes to ISRE 2410

Considerations:

- Do you agree?
- Which review standard is more relevant to review engagements undertaken for PIEs?
- Review standards not updated for some time





Feedback? Questions?

Matthew Zappulla FCA
Technical Director, AUASB

We are interested in your views:

APESB Exposure Draft

- The proposed revisions to the definition of PIE in the Code and whether additional entities should be considered to be PIEs in the Australian environment
- ED 05/22 comment period closes 28 October 2022

AUASB Consultation Paper (IAASB Exposure Draft)

- Stakeholders invited to respond to the Specific Questions identified in paragraph 10 of the Consultation Paper, or other relevant matters
- Responses to the AUASB due by 15 September 2022