

Mr Bill Edge
Chair
Australian Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne, VIC 8007

15 September 2022

Dear Bill

Re: AUASB Consultation Paper – Exposure of the IAASB’s *Proposed Narrow Scope Amendments to:*

- *ISA 700 (Revised), Forming and Opinion and Reporting on Financial Statements; and*
- *ISA 260 (Revised), Communication with Those Charged with Governance,*

as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs) (“AUASB Consultation Paper”)

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the AUASB Consultation Paper.

Overall, we support the principle that transparency is an important means of promoting trust and investor confidence, including with respect to the application of relevant ethical requirements including independence.

While we do not object to using the auditor’s report as the mechanism for the proposed public disclosure, we support the consideration of alternative options that may exist in jurisdictions for operationalising the IESBA disclosure requirement.

We are concerned that unless stakeholders understand the distinction being made about the application of differential independence requirements, the proposed disclosure in the auditor’s report is unlikely to increase the level of confidence in the audit of the financial statements or help in the assessment of the independence of the audit firm. Furthermore, such a disclosure might result in an unintended consequence of creating a perception that there are different levels of independence or audit quality.

Please refer to Appendix A for our responses to the specific questions posed by the AUASB within the Consultation Paper.

If you have any queries in relation to this response, please do not hesitate to contact me at jathorne@deloitte.com.au or 02 9322 7905.

Yours sincerely

Deloitte Touche Tohmatsu

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Jason Thorne
Partner

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Appendix A – Response to specific questions posed within the Consultation Paper

1. *Do you agree that the auditor's report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code?*

While we do not object, we question whether the auditor's report is the most appropriate mechanism for publicly disclosing when the auditor has applied the PIE independence requirements in performing the audit.

The new IESBA provision requires the auditor to “publicly disclose whether the PIE independence requirements have been applied in performing the audit, in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.” In Australia, there is public disclosure mechanism already in place, as the Corporations Act 2001 requires audit firms to publish an annual transparency report that includes the names of the prescribed public interest entities for which the firm conducts an audit. See our response to Question 3.

We note that extant ISA 700 already requires a statement that the auditor is independent of the entity in accordance with related ethical requirements. We are not convinced that the proposed disclosure in the auditor's report of stating compliance with independence requirements specific to PIEs would provide valuable information to users nor enhance market confidence. Unless stakeholders understand the distinction being made about the application of differential independence requirements, the proposed disclosure in the auditor's report is unlikely to increase the level of confidence in the audit of the financial statements or help in the assessment of the independence of the audit firm. Furthermore, such a disclosure might result in an unintended consequence of creating a perception that there are different levels of independence or audit quality.

2. *If the auditor's report is to be used as a mechanism for publicly disclosing the independence requirements complied with, do you support:*
 - a. *the IAASB's proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirement as explained in paragraphs 18-24 of the IAASB's Explanatory Memorandum?*

If the auditor's report is to be used as a mechanism for publicly disclosing the independence requirements complied with, we strongly support the conditional requirement in favour of the unconditional. The disclosure in the audit report should only be required if Australian ethical requirements require it.

- b. *the IAASB's proposed revisions in the ED to ISA 260 (Revised)?*

If the auditor's report is to be used as a mechanism for publicly disclosing the independence requirements complied with, we support the proposed revisions in the IAASB ED to ISA 260 (Revised).

3. *What other mechanism(s) could be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph R400.20 of the IESBA Code?*

As noted above, annual transparency reports prepared under the Corporations Act 2001 already include the requirement to disclose the names of prescribed public interest entities for which the firm conducts an audit. These are accessible at all times, to anyone, on the firms' websites. Firms could also disclose any other PIEs in these reports and firms who aren't required to prepare a transparency report (the requirement applies only to firms who audit 10 or more PIEs) could publish this information on their websites. We consider jurisdictions should be provided with optionality.

4. *Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?*

Yes. Transparency about relevant ethical requirements for independence should be aligned using the same approach for audits and reviews. Therefore ISRE 2400 and ISRE 2410 should be revised on a consistent basis.

5. *If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in Section 2-C of the IAASB's Explanatory Memorandum?*

Yes. The approach should be consistent.

6. *To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner's report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.*

ASRE 2410, paragraph 35(c) requires the Basis for Conclusion section of the auditor's review report to include "a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements".

7. *Effective Date - Given the need to align the effective date with IESBA, do you support the IAASB proposal that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after 15 December 2024 as explained in paragraph 26 of the IAASB's Explanatory Memorandum?*

We support the alignment of effective dates between the IESBA and IAASB proposals.