

3 October 2022

International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, 10017 USA

### Dear Colleagues

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the effort of IAASB and welcomes this opportunity to comment on the IAASB's Exposure Draft (ED), 7/ 2022, "*proposed narrow scope amendments to ISA 700 (revised), and ISA 260 (revised), 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)*".

SOCPA's interest in this project comes from its continuous efforts to provide sufficient technical support to accounting professional individuals, institutions, and users of their professional services, specifically that SOCPA has just recently fully adopted IESBA's code of ethics. Thus, SOCPA is supportive of the IAASB's initiative to improve the auditing standards to reflect the IESBA's amendments in differentiating its ethical requirements that apply to PIEs. As such, SOCPA supports the initiative to include a conditional disclosure requirement within ISA 700 (revised) and ISA 260 (revised). However, SOCPA suggests, at the same time, certain enhancements to the proposed revisions, which are further explained in its responses to the questions in the appendix.

SOCPA believes that the conditional approach to make the proposed disclosure serves the purpose better since IESBA and alike regulatory bodies governing and setting ethical requirements for auditors are increasingly moving toward differentiating the ethical requirements applying to the audit of certain types of entities.

SOCPA also encourages the IAASB to consider a revision to ISRE 2400 to address transparency about the relevant ethical requirements for independence applied to the review of PIEs because such proposed amendments are not expected to majorly alter the review report whether in terms of volume or perception.

The full details of our responses to the questions included in the ED are attached in the Appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



**Dr. Ahmad Almeghames**  
**SOCPA Chief Executive Officer**

## Appendix

**SOCPA Comments on Exposure Draft (ED), 7/ 2022, "proposed narrow scope amendments to ISA 700 (revised), and ISA 260 (revised), 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)".**

### **Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements**

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?

*Please answer question 2A or 2B based on your answer to question 1:*

2A. *If you agree:*

(a) Do you support 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 Explanatory Memorandum?

(b) Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?

2B. *If you do not agree*, what other mechanism(s) should 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?

#### **SOCPA Comments**

**Question1:** We agree that the auditor's report is the 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.

- (a) We support the IAASB's proposed revisions to ISA 700 (revised) as such proposed amendments can enhance the understanding of the type of independence ethical requirements that professionals are bound by when performing the audit of a PIE's financial statements. We believe the proposed requirement for the public disclosure can serve the purpose of the IESBA's efforts in developing stricter ethical requirements (including independence requirements) for the auditing of an entity qualifying as a PIE entity.
- (b) We support the IAASB's proposed revisions to ISA 260 (revised) since the amendments in its essence help to improve the alignment among the ISAs, and between the ISA's and the IESBA's ethical requirements. However, it is worth noting that the way the public disclosure requirement of the independence differential requirements for PIEs is communicated in the revisions can be enhanced. We believe the revision narratives should be more focused on using the term "PIEs", rather than "listed entities", since the definition of PIEs in IESBA's code of ethics is broader and cover a wide range of entities. Additionally, we acknowledge that the governance components are highly expected in listed entities, but the idea behind communication with "those charged with governance" is not limited to the definition of governance components as identified in certain corporate governance codes, but to all those who have the authority to govern the entity.

### Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Reviews of Financial Statements

3. 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?
4. 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**?

#### SOCPA Comments

3. We believe that the IAASB may consider a revision to ISRE 2400 to address transparency about the relevant ethical requirements for independence applied to PIEs. The ISRE 2400 should also be aligned with what IESBA's Code of Ethics requires to achieve independence in the "auditing" of a PIE's financial statements. For instance, paragraph 400.2 of the IESBA's Code of Ethics explains that the term "audit" applies equally to "review" when used in the 4A section. Although we acknowledge the IAASB's expressed concerns about revising the ISRE 2400 at this time, not considering amending the standard to reflect such requirement may cause a confusion whether or not to disclose the independence requirements as required by IESBA's code. Thus, we believe considering revising ISRE 2400 comes in line with the IAASB's CUSP project as well as the IAASB's objective to improve the alignment between its pronouncements and the IESBA's. It should also be noted that such proposed amendments also are not expected to make a major change in the standard and its requirements.

4. Yes, we believe that the proposed approach (conditional requirement) serves reasonably the purpose of the amendments.

#### *Matter for IESBA Consideration*

5. 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.

#### SOCPA Comments

5. We apply the IAASB's auditing standards whereby professionals are required to disclose that they are independent while conducting a review engagement, as requested by the applicable ethical requirements issues by the IESBA.

**The IAASB is also seeking comments on the following matters:**

6. Translations—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing this ED.

7. Effective Date—Given the need to align the effective date with IESBA, do you support the 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 December 15, 2024 as explained in paragraph 26?

**SOCPA Comments**

6. Based on the limited proposed amendments in the ED, we do not foresee any major challenges to translate the new proposed requirements, except that the translated narratives may look longer in the target language.

7. We support the IAASB's proposal of the effective date for such proposed amendments. This approach acknowledges the challenges that professional regulators (as SOCPA) may experience when they attempt to clearly define what counts as PIEs in their jurisdictions since there are different players and factors can have a role in determining the entities which can be defined as PIEs. Thus, establishing a guidance that meets IESBA's guidelines and jurisdiction requirements to determine what can be defined as a PIE is expected to take a considerable amount of time. Accordingly, we believe that it is most appropriate to align the effective date of such proposed amendments with the expected effective date of the IESBA's project on PIEs.