

Listed Entity and Public Interest Entity (PIE)

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IAASB CAG Meeting

June 7, 2022

Agenda Item B.1

Agenda

**Report back on
March 2022 IAASB
discussion**

**Obtain CAG views on
the Exposure Draft
(ED)**

*Proposed Narrow Scope
Amendments to ISA 700
(Revised) and ISA 260
(Revised) as a Result of the
Revisions to the Code*

**Provide an update
on the way forward
for IAASB's project
on listed entity and
PIE**

IAASB Key Decisions in March 2022

Approval of Project Proposal: Narrow Scope Maintenance of Standards Project on Listed Entity and PIE

- Discussed and agreed which reporting option will be presented in the ED.
- Clarified the scope of the project with respect to review engagements.

March Proposed ED Options

Option 1 – A requirement for the auditor to disclose if specific independence requirements for audits of financial statements of certain entities, as set out in the relevant ethical requirements (RERs), were applied

Option 2 - A requirement that when the RERs require transparency about the specific independence requirements applied, the auditor shall disclose this fact in the auditor's report

Option 3 – AM that explains how the auditor may disclose that specific independence requirements were applied when the RERs require transparency about additional independence requirements applied

IAASB Key Decisions in March 2022

Enhanced Transparency About Independence in the Auditor's Report

- Option 2: present in the ED as IAASB proposal
- Option 1: explain in EM main features of this option and that it was an alternative considered
- Option 3: do not mention in the EM
- Seek stakeholder views whether:
 - The auditor's report is an appropriate mechanism for the transparency disclosure
 - ISRE 2400 (Revised) should be amended

Development of the EM and ED: Significant Matters

**Public Interest
Issues
Addressed**

**Proposed
Revisions to ISA
700 (Revised)
and ISA 260
(Revised)**

**International
Standards on
Review
Engagements
(ISRE)**

**Alternative
Approach to
Amending ISA
700 (Revised)**

**Exposure Draft
July 2022**

Comments due: October [...], 2022

International Standards on Auditing

Proposed Narrow Scope Amendments to:

- ISA 700 (Revised), *Forming an 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)

Public Interest Issues Addressed

Public Interest Issues in the EM

- IAASB support for IESBA's efforts to enhance transparency.
- Alignment and consistency between the IAASB Standards and the Code (many jurisdictions utilize both).
- Use of the auditor's report may be appropriate:
 - Enables consistency and comparability in auditor reporting globally.
 - Provides a clear mechanism to operationalize IESBA's transparency requirement.
 - The auditor's report is accessible to users of the financial statements.

Proposals in the ED

Proposed Revisions to ISA 700 (Revised)

Para. 28(c) of ISA 700 (Revised):

- Extending the extant requirement with a conditional element that applies when the RERs require public disclosure that differential independence requirements for audits of certain entities were applied.
- If the condition is met, the auditor is required to indicate in the auditor's report that the RERs for independence for those entities were applied.

Proposals in the ED

Proposed Revisions to ISA 700 (Revised)

Preferred approach by the IAASB because:

- Does not impose an obligation to publicly disclose if the underlying RERs do not require such disclosure.
- Enables jurisdictions who do not adopt the Code to determine whether it is appropriate to publicly disclose that differential independence requirements for audits of financial statements of certain entities were applied.

Proposals in the ED

Proposed Revisions to ISA 700 (Revised)

New Application Material:

- Clarifies that “certain entities” are those as specified in the RERs (such as PIEs in the Code).
- Explains that the auditor may determine to apply the differential independence requirements to entities other than those contemplated in scope by the RERs.
- Refers to the Code to provide an example and provides an illustration in the Basis for Opinion when the Code applies.
- Consistent with the Code - emphasizes that there may be confidentially provisions in the RERs that may prohibit the auditor from providing the disclosure.

Proposals in the ED

Updated Illustrations
in ISA 700 (Revised)

Basis for Opinion

...We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, as applicable to public interest entities, together with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in *[jurisdiction]*, ~~and~~ We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code....

Proposals in the ED

Proposed Revisions to ISA 260 (Revised)

New Application Material highlights that the auditor:

- May communicate with TCWG that the differential independence requirements were applied, and
- That this information will be disclosed in the auditor's report.

Proposals in the ED

Effective
Date

Effective for audits of financial statements for periods beginning on or after **December 15, 2024**.

- Aligned with IESBA's effective date.
- Longer timeframe not considered necessary:
 - Timeframe is adequate for national jurisdictional adoption processes to occur.
 - Not in the public interest to prolong misalignment with Code.

Alternative Approach Considered

- Applies irrespective of whether the RERs include a transparency requirement:
 - More consistency in auditor's reports globally – disclosure required even when RERs do not require disclosure.
- However, it could:
 - Disregard any jurisdictional decision not to impose a transparency requirement.
 - Potentially expands the disclosure to entities that are not PIEs.
 - Creates more complexity in the auditor's report (e.g., when there are multiple ethical codes).

Alternative to Amending ISA 700

The EM includes examples to illustrate the impact on the auditor's report under the proposed and the alternative approach to revising ISA 700 (Revised).

**Refer to Appendix in
Agenda Item 2-A of the
IAASB June 2022
meeting materials.**

Approach to Review Engagements

Review Engagements (ISREs)

IESBA:

- Focus was to enhance transparency in the auditor's report.
- Seek stakeholder feedback (in the ED) to determine possible further actions regarding the applicability of the transparency requirement in the Code for reviews.

IAASB:

- Seek stakeholder feedback in the ED if a revision ***ISRE 2400 (Revised)*** should be pursued:
 - May be limited circumstances when the practitioner is performing a review of a PIE.
 - Standard not updated with structure and elements of the revised auditor's report.

IAASB-IESBA Coordination

Ongoing Coordination and Collaboration with IESBA

- At Staff level
- Participation of IAASB and IESBA correspondent members in the respective Boards' Task Forces
- Discussion at IAASB and IESBA Plenary sessions
- Specific question in the ED for IESBA's consideration

Matter for IAASB CAG Consideration



Representatives are asked for views on the draft ED presented in **Agenda Item B.2.**

Way Forward

Ongoing Coordination and Collaboration with IESBA

Track 1:

- **June 2022:** Approval of ED
- **June 2023:** Final Pronouncement

Track 2:

- **Sep 2023:** Approval of ED
- **Sep 2024:** Final Pronouncement



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