

**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)

About the IAASB

[This Exposure Draft (ED) was developed and approved by the International Auditing and Assurance Standards Board (IAASB).] – *Text subject to IAASB approval of Exposure Draft in June 2022.*

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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REQUEST FOR COMMENTS

This ED, 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)*, was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this ED may be modified in light of comments received before being issued in final form. **Comments are requested by October [...], 2022.**

Respondents are asked to submit their comments electronically through the IAASB website, using the “Submit a Comment” link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

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Introduction

1. This memorandum provides background to, and an explanation of, the IAASB's proposed narrow scope amendments to certain International Standards on Auditing (ISAs) as a result of the revisions to the IESBA Code¹ that require a firm to publicly disclose when a firm has applied the independence requirements for public interest entities (PIEs) (IESBA's transparency requirement).² The IAASB approved the proposed amendments to ISA 700 (Revised) and ISA 260 (Revised) on June [...], 2022 for exposure.

Background

History of the IESBA Project on Listed Entity and PIE

2. In December 2019, the International Ethics Standards Board for Accountants (IESBA) approved its project, [Definitions of Listed Entity and Public Interest Entity](#). The scope of the project included:
 - (a) Revising the definitions of listed entity and PIE in the IESBA Code, in response to feedback globally for reexamining these definitions; and
 - (b) Addressing the impact of the revisions to the definitions of listed entity and PIE on the *International Independence Standards, Part 4A–Independence for Audit and Review Engagements* (Part 4A of the IESBA Code).
3. In January 2021, the IESBA published the Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (2021 IESBA PIE ED), with the comment period closing May 3, 2021. A total of 69 responses were received to the 2021 IESBA's PIE ED from a broad range of stakeholders across many regions.
4. In December 2021, the IESBA approved the revisions to Part 4A of the IESBA Code and its glossary relating to listed entity and PIE (the revised IESBA Code). The revisions to the IESBA Code become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024. Key features of the revisions include:
 - (a) An overarching objective that explains why there are independence requirements that are applicable only to audits of financial statements of PIEs ("differential independence requirements").
 - (b) Factors for consideration in evaluating the extent of public interest in the financial condition of an entity. These factors may be used by bodies responsible for setting ethics standards for professional accountants and firms as described in (c)(i) and (c)(ii)(a) below.
 - (c) A revised definition of PIE that includes a list of categories of entities that firms should treat as PIEs. This is accompanied by:
 - (i) A requirement for firms to take into account more explicit definitions of PIEs established by law, regulation or professional standards when deciding whether an entity falls within the

¹ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

² See paragraphs R400.20 – R400.21 of the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

scope of the mandatory PIE categories.

- (ii) Guidance explaining the interrelationship of the PIE definition in the IESBA Code with definitions established by bodies responsible for setting ethics standards for professional accountants, which includes an explanation that the IESBA Code:
 - a. Provides for bodies responsible for setting ethics standards for professional accountants to more explicitly define mandatory categories of PIEs, with examples of how these categories may be defined at the local level; and
 - b. Anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of PIEs, with examples of such categories (e.g., pension funds and collective investment vehicles).
- (d) Guidance that encourages firms to determine if any additional entities should be treated as PIEs for purposes of Part 4A of the IESBA Code, with factors for firms to consider in making this determination.
- (e) Replacing the term “listed entity” with a newly defined term, “publicly traded entity.” Publicly traded entity is one of the mandatory categories of entities included in the revised PIE definition.
- (f) Requiring firms to publicly disclose when a firm has applied the independence requirements for PIEs in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders. This includes a provision that, as an exception, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity (IESBA’s transparency requirement).

IAASB’s Project on Listed Entity and PIE

5. Given the IESBA project on listed entity and PIE had various matters that are also relevant to the IAASB, there has been close coordination between the IESBA and IAASB throughout the IESBA’s project. The 2021 IESBA PIE ED included an explanation of the following matters affecting the IAASB standards, particularly the ISQMs³ and ISAs, and incorporated the following specific questions to seek preliminary views from the IAASB’s stakeholders on these matters:⁴
- (a) The overarching objective established by IESBA. This included a question about whether the overarching objective could be used by both the IESBA and the IAASB in establishing differential requirements for certain entities, including how this might be approached for the ISQMs and ISAs.
 - (b) A case-by-case approach for establishing differential requirements for certain entities in the IAASB’s Standards. This included a question seeking feedback about the proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to all categories of PIEs.
 - (c) The appropriate mechanism that may be used to publicly disclose when a firm has applied the independence requirements for PIEs. This included a question about whether it would be

³ International Standards on Quality Management

⁴ The Matters for IESBA Consideration included questions 1-14 of the 2021 IESBA PIE ED, however feedback on these questions also had relevance to the IAASB. Question 15 (a)-(c) of the 2021 IESBA PIE ED were specific to the IAASB.

appropriate to make such disclosure within the auditor's report and if so, how might this be approached in the auditor's report.

The feedback from stakeholders has been used by the IAASB as part of information gathering and research activities in exploring a project on listed entity and PIE.

6. In March 2022, the IAASB approved a [project proposal](#) to undertake a narrow scope maintenance of standards project on listed entity and PIE, which includes the following project objectives that support the public interest:
 - (a) Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability.
 - (b) Establish an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate.
 - (c) Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities.
 - (d) Determine whether the auditor's report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements (also see paragraphs 4(f) and 5(c)).
7. As the revisions to the IESBA Code become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, the IAASB recognized the need to take more nimble action in respect of the project objective in paragraph 6(d) to support the operationalization of IESBA's transparency requirement. Accordingly, the IAASB determined that it will undertake the project on listed entity and PIE as two tracks:
 - (a) Track 1: A faster-moving track that deals with the narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) to address the project objective in paragraph 6(d), with an effective date that aligns with the revisions to the IESBA Code.
 - (b) Track 2: A separate track that deals with all other project objectives in paragraph 6, with a later effective date.

This ED deals with the proposed amendments to ISA 700 (Revised) and ISA 260 (Revised) in undertaking Track 1 of the IAASB's narrow scope maintenance of standards project on listed entity and PIE.

Coordination Between the IESBA and IAASB

8. The IESBA and IAASB recognize the importance of coordination between the two Boards to achieve convergence between the concepts of PIE and "publicly traded entity" in the IESBA's and IAASB's standards, to the greatest extent possible. Such convergence enables the interoperability of the proposals made by each Board.
9. Accordingly, throughout the IAASB's and IESBA's projects, there has been extensive coordination between the two Boards through Staff coordination, the participation of IAASB and IESBA

correspondent members in the respective Boards' Task Forces, discussions involving representatives of IESBA at the IAASB's Board meetings, joint IESBA-IAASB CAG discussions and joint IESBA-IAASB National Standard Setter sessions.

Background to IESBA's Transparency Requirement

10. Due to the heightened stakeholder expectations regarding the independence of a firm that audits a PIE, Part 4A of the IESBA Code includes several differential independence requirements that are applicable only to audits of financial statements of PIEs. In the 2021 IESBA PIE ED, the IESBA proposed a new transparency requirement for a firm to publicly disclose whether an entity has been treated as a PIE, to address uncertainty among the public as to whether an entity has been treated as a PIE by a firm given the proposed requirement for firms to make such a determination.
11. There were mixed views among respondents to the 2021 IESBA PIE ED for this proposal:
 - (a) Those who expressed support, commented that this is consistent with the overall objective to enhance stakeholder confidence in an entity's financial statements through enhancing confidence in the audit of those financial statements. These respondents indicated that the additional transparency is important for users who should be made aware if the entity subject to an audit was treated as a PIE for the purposes of understanding that the auditor was subject to additional independence requirements.
 - (b) Respondents who did not support the proposal commented that it may lead to confusion and unintended consequences, because users may incorrectly interpret this disclosure as implying there are different levels of independence for auditors and that audits of non-PIEs are of lesser quality than those of PIEs. Respondents noted that more information would need to be disclosed for the disclosure to be useful, and that without proper context and explanation, it would be of limited value to the users and therefore unlikely to increase the level of confidence in the audit of the financial statements.
12. The IESBA did not specify in the 2021 IESBA PIE ED the mechanism of disclosure and instead sought views from respondents regarding the possible mechanisms to achieve IESBA's transparency requirement. In addition, to assist the IAASB with its initial information gathering, the 2021 IESBA PIE ED asked respondents to comment on whether they believe the auditor's report is a suitable location for such disclosure and, if so, how this might be approached in the auditor's report. Respondents expressed mixed views on the appropriate mechanism to disclose whether a firm has treated an entity as PIE. In the context of the mixed views on whether public disclosure should be made, the majority of respondents supported the use of the auditor's report as an appropriate mechanism if the disclosure were required.
13. In finalizing the revisions to Part 4A of the IESBA Code and its glossary relating to listed entity and PIE, the IESBA considered the various views. Key decisions taken by the IESBA included:
 - (a) Revising the requirement from whether an entity "has been treated as a PIE" to whether the PIE independence requirements have been applied in performing the audit. This was to alleviate the concerns about inadvertently creating a public perception that auditors of PIEs have a higher level of independence than auditors of non-PIEs or that PIE audits are of a higher quality than non-PIE audits.
 - (b) Allowing for an exemption to complying with the requirement if doing so would mean that the

firm discloses confidential future plans of the audit client (see paragraph R400.21 of the revised IESBA Code).

- (c) Clarifying that the disclosure should be made “in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.” This was added by IESBA to alleviate concerns about the auditor’s report not always being made available to the public, or when it may have limited distribution. In addition, this addition addresses the mechanism of disclosure in a neutral manner, because at the time of finalizing the revisions to the IESBA Code, the IAASB had yet to initiate its project on listed entity and PIE and determine whether the auditor’s report is an appropriate mechanism for disclosure. The IESBA noted that, in addition to the auditor’s report as a possible mechanism to achieve IESBA’s transparency requirement, other suggestions from respondents included a firm’s transparency report and websites of the firm, the entity or local bodies.
14. In the [Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), the IESBA noted that following the conclusion of the IAASB’s deliberations on the matter, the IESBA will consider the need for any further action on the matter, including whether further guidance or conforming amendments to the IESBA Code would be warranted.

Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in this ED, but especially those identified in the *Request for Comments* section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. When a respondent agrees with the proposals in the ED, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not stated.

Section 2 Significant Matters

Section 2-A – Public Interest Issues Addressed

15. It is in the public interest for the IAASB’s Standards to:
- (a) Operate in harmony with the IESBA Code, and without confusion, given that many jurisdictions utilize both.
 - (b) Acknowledge and not potentially undermine the revisions to the IESBA Code – either through being inconsistent or through failing to draw appropriate attention to the revised requirements in the IESBA Code when it is appropriate to do so.
 - (c) Support or recognize a situation when the IESBA Code requires an action that has relevance to the IAASB’s Standards.
16. Communication between the auditor and stakeholders in a transparent manner enables stakeholders to understand the audit and enhances stakeholders’ confidence that the audit was performed appropriately, thereby building confidence in the financial statements. The IAASB supports the IESBA’s efforts to enhance transparency about the independence requirements applied in performing the audit, given the heightened expectations of stakeholders regarding the independence of the auditor in performing audits of PIEs.

17. The auditor's report is a key mechanism for communication to users about the audit that was performed, however the IESBA's mandate does not enable it to prescribe disclosures in the auditor's report. Accordingly, the IAASB is proposing narrow-scope amendments to ISA 700 (Revised) to support operationalizing the IESBA transparency requirement. The IAASB is of the view that revising ISA 700 (Revised) to use the auditor's report as the mechanism to achieve IESBA's transparency requirement may be appropriate because:
- (a) It enables consistency and comparability in auditor reporting globally when the relevant ethical requirements include transparency requirements about the independence requirements applied for certain entities specified in the relevant ethical requirements;
 - (b) It provides a clear mechanism to operationalize the IESBA transparency requirement; and
 - (c) The auditor's report is accessible to users of the financial statements, and the auditor's report.
- The IAASB notes that there are no other mechanisms in the IAASB Standards that deal with communication to users.
18. Given that communications with those charged with governance address matters related to independence and the form and content of the auditor's report, narrow scope amendments to ISA 260 (Revised) have also been proposed.

Section 2-B – The IAASB's Proposed Revisions to ISA 700 (Revised) and ISA 260 (Revised)

Proposed Revisions to ISA 700 (Revised)

19. Paragraph 28(c) of ISA 700 (Revised) requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code. However, it does not require the auditor to further specify whether differential independence requirements in the relevant ethical requirements that are applicable only to audits of financial statements of certain entities were applied, such as the independence requirements for PIEs in the IESBA Code.
20. The IAASB proposes extending paragraph 28(c) of ISA 700 (Revised) to include a conditional element that applies when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. If the condition is met, the auditor is required to indicate in the auditor's report that the relevant ethical requirements for independence for those entities were applied.
21. The IAASB prefers this approach because it only applies if the relevant ethical requirements have a transparency requirement. As a result, it does not impose an obligation on the auditor to disclose in the auditor's report that the relevant ethical requirements for independence for those entities were applied if the underlying relevant ethical requirements do not require the auditor to do so. This enables jurisdictions that do not adopt the IESBA Code to determine, in establishing their ethical requirements, whether it is appropriate to have a transparency requirement in their ethical requirements.
22. The proposed amendments to paragraph 28(c) of ISA 700 (Revised) are neutral regarding:
- (a) The relevant ethical requirements applicable in the circumstances, given that jurisdictional ethical requirements may be applicable in the circumstances. However, explicit references to the IESBA Code are included in the application material as examples.

- (b) The entities to which the differential independence requirements apply (the requirement refers to “certain entities”). Jurisdictional ethical requirements may contain differential independence requirements that apply to categories of entities other than PIEs, and such requirements may require the auditor to publicly disclose when such differential independence requirements have been applied. The IAASB notes that the term “PIE” is not currently used in the ISAs and that further consideration of whether the IESBA definition of PIE should be adopted in the ISQMs and ISAs or in the IAASB’s Glossary of Terms is yet to be addressed as part of Track 2 of its narrow scope maintenance of standards project on listed entity and PIE.

The IAASB is aware that certain jurisdictions have modified paragraph 28(c) of ISA 700 (Revised) in their national equivalent standards to specify that the statement in the auditor’s report should provide transparency about the differential independence requirements that are applicable only to audits of financial statements of certain entities have been applied.

Example:

In the United Kingdom (UK), the Financial Reporting Council (FRC) modified paragraph 28(c) of ISA 700 (Revised) in their national equivalent standard to specify that the statement in the auditor’s report should indicate that the relevant ethical requirements include the FRC’s Ethical Standard, applied as required for the types of entity determined to be appropriate in the circumstances. Accordingly, the statement in the auditor’s report refers to the ethical requirements that are relevant to the audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to public interest entities.

23. To support the application of the conditional element of the requirement in paragraph 28(c) of ISA 700 (Revised), the following application material is proposed:

- (a) An explanation that relevant ethical requirements may require, or the auditor may determine it appropriate to apply the differential independence requirements for audits of financial statements of certain entities (i.e., when the entity is not within the scope of entities contemplated by the relevant ethical requirements, but the auditor determined it appropriate to apply the specific independence requirements). For example, paragraph 400.19 A1 of the revised IESBA Code encourages firms to determine if any additional entities should be treated as PIEs for purposes of Part 4A of the IESBA Code, and provides a list of factors for firms to consider in making this determination.
- (b) A reference to the IESBA Code to provide an example of relevant ethical requirements that have a transparency requirement. In addition, an illustration is provided in the application material of how the disclosure is provided in the Basis for Opinion section of the auditor’s report when the IESBA Code comprises all of the relevant ethical requirements that apply to the audit.
- (c) An explanation of what is meant by “certain entities” (i.e., those as specified by the relevant ethical requirements, such as PIEs in the IESBA Code).
- (d) An emphasis on the confidentiality provisions in the relevant ethical requirements that may prohibit the auditor from providing such disclosure, and a reference to paragraph R400.21 of the revised IESBA Code, which contains an exemption on disclosure in circumstances when doing so will result in disclosing confidential future plans of the entity.

24. In addition, the illustrative auditor’s reports in the Appendix of ISA 700 (Revised) that apply to listed

entities have been updated to demonstrate how the disclosures can be made. The IAASB has not identified any other illustrative auditor’s reports in the remaining ISAs that require a similar update.

Proposed Revisions to ISA 260 (Revised)

- 25. The IAASB agreed that revisions to ISA 260 (Revised) may be necessary to increase transparency with those charged with governance that specific independence requirements for certain entities have been applied. Communication of matters related to independence is already captured by paragraph 17 of ISA 260 (Revised).⁵ Accordingly, new application material has been proposed to highlight that the auditor may communicate with those charged with governance that the differential independence requirements that are applicable only to audits of financial statements of certain entities were applied, and that the auditor intends to disclose this information in the auditor’s report, in accordance with proposed paragraph 28(c) of ISA 700 (Revised).

Effective Date

- 26. The IAASB anticipates that the final pronouncement will be approved in June 2023. Given the need to align the effective date with IESBA, the IAASB is proposing 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. The IAASB is of the view that this timeframe is adequate to allow jurisdictions sufficient time for translation of the final text of the amendments to the respective ISAs, for national adoption processes to occur, and for practitioners to update templates and associated internal materials. The IAASB considers that a longer effective date is unnecessary due to the limited nature of the amendments proposed and because it would not be in the public interest to have a prolonged misalignment with the IESBA Code in this regard.

Section 2-C – An Alternative Approach to Amending ISA 700 (Revised)

- 27. In its deliberations, the IAASB noted that there was an alternative approach to amending paragraph 28(c) of ISA 700 (Revised) to operationalize IESBA’s transparency requirement.
- 28. Under the alternative approach, proposed paragraph 28(c) of ISA 700 (Revised) would impose a requirement on the auditor to include a statement in the auditor’s report that address if differential independence requirements that are applicable only to audits of financial statements of certain entities were applied. This requirement would apply irrespective of whether the relevant ethical requirements include a transparency requirement.
- 29. The IAASB noted that, similar to the proposed approach outlined in **Section 2-B**, this alternative approach would create a clear mechanism for auditors to provide transparency about the independence requirements applied for certain entities specified in the relevant ethical requirements. Furthermore, the alternative approach would promote more consistency in the auditor’s reports

At its [June 2022 meeting](#), the IAASB discussed the alternative approach to amending ISA 700 (Revised). **Agenda Item 2** of the June 2022 meeting includes an illustration of the revisions to ISA 700 (Revised) and ISA 260 (Revised) under this alternative approach.

⁵ In the case of listed entities, paragraph 17(a) of ISA 260 (Revised) requires that the auditor communicate with those charged with governance a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

globally, since all auditor's reports would need to indicate when the relevant ethical requirements include the application of differential independence requirements for certain entities, even if the underlying relevant ethical requirements do not require the auditor to disclose that information. However, the alternative approach could:

- (a) Inadvertently disregard any jurisdictional decision not to impose a transparency requirement in the relevant ethical requirements.
- (b) Potentially expand the disclosure to circumstances when relevant ethical requirements, including jurisdictional law or regulation, impose independence requirements on certain entities that are not PIEs, or are only one category of PIEs. For example, jurisdictional law or regulation may contain specific independence requirements for financial institutions.
- (c) Create complexity in describing the independence requirements applied in the auditor's report, particularly if there are multiple ethical codes, law or regulation applicable in the circumstances.

30. The **Appendix** to this Explanatory Memorandum further explains the impact on the auditor's report under the proposed approach outlined in **Section 2-B**, versus the alternative approach described above.

Section 2-D – International Standards on Review Engagements (ISREs)

31. Part 4A of the IESBA Code⁶ applies to both audit and review engagements and therefore the revisions to the IESBA Code regarding listed entity and PIE, including the transparency requirement, also apply to review engagements conducted in accordance with ISREs.
32. As discussed in paragraph 5, the 2021 IESBA PIE ED addressed specific questions for respondents on whether it would be appropriate to disclose when a firm has applied the independence requirements for PIEs within the auditor's report and if so, how might this be approached. When proposing the revisions to the IESBA Code, the focus of the IESBA's discussion was on enhancing transparency about the auditor's assertion of the relevant independence requirements applied in performing an audit of financial statements.
33. In finalizing the IAASB project proposal and determining the scope of the IAASB's work, it was acknowledged that the IESBA's requirement would technically apply to review engagements undertaken in accordance with the ISREs. However, recognizing that the IESBA's focus was on enhancing transparency in the auditor's report, the IAASB determined:
- (a) Not to propose amendments to ISRE 2410⁷ as part of this project. This is consistent with previous decisions of the IAASB that the standard is in a pre-clarity format and has not been subject to conforming amendments arising from other IAASB projects (e.g., quality management projects)⁸ in recent years to avoid giving the impression that this standard is up

⁶ Paragraph 400.2 explains that Part 4A applies to both audit and review engagements and that the terms "audit," "audit team," "audit engagement," "audit client," and "audit report" apply equally to "review," "review team," "review engagement," "review client," and "review engagement report."

⁷ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

⁸ The quality management projects include the following suite of standards: International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2, *Engagement Quality Reviews* and ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*.

to date.

- (b) To seek stakeholder feedback as part of the Explanatory Memorandum accompanying the ED regarding whether a revision to ISRE 2400 (Revised)⁹ would be desirable to address IESBA's requirement for a firm to publicly disclose when it has applied the independence requirements for PIEs in the circumstances of a review engagement, and if so, how this might be approached (see paragraphs 34-37 below).

Considering whether to Revise ISRE 2400 (Revised) to Address Circumstances when Relevant Ethical Requirements include a Transparency Requirement

- 34. As part of the auditor reporting project,¹⁰ completed by the IAASB in September 2014, the IAASB determined not to amend the practitioner's report under ISRE 2400 (Revised) to align it with the changes introduced to the auditor's report (e.g., the structure of the report and including new elements introduced to the auditor's report).
- 35. Paragraph 86(j) of ISRE 2400 (Revised) requires the practitioner's report to include a reference to the practitioner's obligation under ISRE 2400 (Revised) to comply with relevant ethical requirements. The practitioner is not required to provide a statement similar to the requirement in paragraph 28(c) of ISA 700 (Revised), which requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.
- 36. The IAASB notes that there may be very limited circumstances when the practitioner is performing a review of financial statements of a PIE, i.e., given the entity is a PIE, it is likely that the financial statements will be subject to an audit. Furthermore, amending ISRE 2400 (Revised) could raise questions about whether the standard should also be revised to deal with amendments to the auditor's report that were made as part of the auditor reporting project, which goes beyond the scope of this project. Accordingly, the IAASB is cautious to amend ISRE 2400 (Revised) at this time. Nevertheless, the IAASB is interested in stakeholders' views about whether ISRE 2400 (Revised) should be amended.
- 37. If it is determined that changes should be made to ISRE 2400 (Revised), the IAASB is of the view that the approach in ISA 700 (Revised) should be consistently used in ISRE 2400 (Revised). Accordingly, a conditional requirement would be introduced in ISRE 2400 (Revised), together with application material and illustrations as necessary. The conditional requirement is illustrated below, and explained in **Section 2-B** (note that the illustration below is based on the proposed revisions to ISA 700 (Revised)):

⁹ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

¹⁰ See <https://www.iaasb.org/projects/auditor-reporting>.

The Practitioner’s Report

- 86A. In circumstances when the relevant ethical requirements require the practitioner to publicly disclose that differential independence requirements that are applicable only to reviews of financial statements of certain entities were applied, the practitioner’s report shall include a statement that:
- (a) Identifies the jurisdiction of origin of the relevant ethical requirements or refers to the *International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and
 - (b) Indicates that the practitioner is independent of the entity in accordance with the independence requirements applicable to those entities.

Matter for IESBA Consideration

- 38. During the IESBA’s deliberations and its coordination with the IAASB on the transparency requirement, the IESBA’s focus was on audit engagements.
- 39. As highlighted in paragraph 14 above, the IESBA planned to consider the need for any further action following the conclusion of the IAASB’s deliberations on the matters raised in this ED.
- 40. To inform the IESBA’s considerations specifically with respect to review engagements, the IESBA and IAASB have agreed to seek feedback from IESBA’s stakeholders as to whether there are any jurisdictions that require the review report to include a statement that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

Section 3 Request for Comments

The IAASB welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. In this regard, comments will be most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IAASB to be made aware of this view.

Request for Specific Comments

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 to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements, such as the independence requirements for PIEs in the IESBA Code?
 - (a) If not, what other mechanism(s) should be used to **publicly** disclose when a firm has applied the independence requirements for PIEs as required by paragraph R400.20 of the IESBA Code? Furthermore, how should IESBA deal with such mechanisms, noting that the IAASB does not have any other mechanisms within its remit?

2. Do you support the IAASB's proposed revisions to ISA 700 (Revised) and ISA 260 (Revised) in the **ED**, and as explained in **Section 2-B**?
 - (a) If not, do you support the alternative approach to revising ISA 700 (Revised), as described in **Section 2-C**?

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

3. Please provide your views on whether the IAASB should 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.
 - (a) 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-D**?

Matter for IESBA Consideration

4. 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.

Appendix – Impact on the Auditor’s Report Under IAASB’s Proposed and Alternative Approach to Amending ISA 700 (Revised)

This appendix sets out the impact on the auditor’s report under IAASB’s proposed approach outlined in **Section 2-B** versus the alternative approach discussed in **Section 2-C** of this Explanatory Memorandum.

Illustrative Circumstances					Will a disclosure be required in the auditor’s report?	
E.g.	Relevant ethical requirements that Apply	Differential independence requirements for certain entities	Relevant ethical requirements require public disclosure	Type of entity	Proposed Approach	Alternative Approach
1	The IESBA Code.	Yes, there are differential independence requirements for PIEs.	Yes	PIE	<p>Yes</p> <p>We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)</i>, as applicable to public interest entities.</p>	<p>Yes</p> <p>We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)</i>, as applicable to public interest entities.</p>

EXPLANATORY MEMORANDUM TO THE ED FOR 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 PIEs

Illustrative Circumstances					Will a disclosure be required in the auditor's report?	
E.g.	Relevant ethical requirements that Apply	Differential independence requirements for certain entities	Relevant ethical requirements require public disclosure	Type of entity	Proposed Approach	Alternative Approach
2	The relevant ethical requirements are those of the jurisdiction.	Yes, the jurisdictional ethical code has differential independence requirements for PIEs.	Yes	PIE	Yes We are independent of the company in accordance with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in <i>[jurisdiction]</i> .	Yes We are independent of the company in accordance with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in <i>[jurisdiction]</i> .
3	The relevant ethical requirements are those of the jurisdiction.	Yes, the jurisdictional ethical code has differential independence requirements for PIEs.	No	PIE	No	Yes We are independent of the company in accordance with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in <i>[jurisdiction]</i> .

EXPLANATORY MEMORANDUM TO THE ED FOR 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 PIES

Illustrative Circumstances					Will a disclosure be required in the auditor's report?	
E.g.	Relevant ethical requirements that Apply	Differential independence requirements for certain entities	Relevant ethical requirements require public disclosure	Type of entity	Proposed Approach	Alternative Approach
4	The IESBA Code and there is jurisdictional law applicable to financial institutions that includes independence requirements for the auditor.	Yes The IESBA Code includes differential independence requirements for PIEs. The jurisdictional law only applies to audits of financial institutions.	Only the IESBA Code requires public disclosure. The jurisdictional law does not require the auditor to publicly disclose that they have applied the law.	The entity is a financial institution and qualifies as a PIE.	Yes, but only regarding the IESBA Code We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' <i>International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)</i> , as applicable to public interest entities, together with the ethical requirements that are relevant to our audit of the financial statements in <i>[jurisdiction]</i> .	Yes We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' <i>International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)</i> , as applicable to public interest entities, together with the ethical requirements for financial institutions that are relevant to our audit of the financial statements in <i>[jurisdiction]</i> .

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 PIEs

[MARKED-UP FROM EXTANT ISAs]

(Effective for audits of financial statements for periods beginning on or after [DATE])

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

...

Requirements

...

Auditor's Report

...

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)

...

- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code). In circumstances when the relevant ethical requirements require the auditor to publicly disclose that differential independence requirements that are applicable only to audits of financial statements of certain entities were applied, the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to those entities; and (Ref: Para. A34–A39)

...

Application and Other Explanatory Material

...

Auditor's Report (Ref: Para.20)

...

Basis for Opinion (Ref: Para. 28)

...

Relevant ethical requirements (Ref: Para. 28(c))

- A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA 200 explains that relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to an audit of financial statements, together with national requirements that are more restrictive.¹ When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.
- A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

A35A. Relevant ethical requirements may require the auditor to:

- Apply differential independence requirements that are applicable only to audits of financial statements of certain entities specified in the relevant ethical requirements. The auditor may also determine that it is appropriate to apply those differential independence requirements to other entities in light of the entity's nature and circumstances.
- Publicly disclose that the differential independence requirements that are applicable only to audits of financial statements of certain entities were applied. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.² The following illustrates the disclosure in the Basis for Opinion section of the auditor's report when the IESBA Code comprises all of the relevant ethical requirements that apply to the audit:

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 Financial Statements* section of our report. 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, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

¹ ISA 200, paragraph A16

² IESBA Code, paragraphs R400.20-R400.21

- A36. Law or regulation, national auditing standards or the terms of an audit engagement may also require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those pertaining to independence, that applied to the audit of the financial statements.
- A37. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.

...

Appendix

(Ref. Para A19)

...

Illustration 1 – Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 does not apply).**
- **The relevant ethical requirements that apply to the audit comprise the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both. The IESBA Code and the ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable only to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements that are applicable only to audits of financial statements of public interest entities were applied.**

...

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements³

³ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

...

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 Financial Statements* section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

...

Illustration 2 – Auditor's Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 applies).**
- **~~The *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, comprises all of the relevant ethical requirements that apply to the audit.~~ relevant ethical requirements that apply to the audit are those of the jurisdiction. The ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable only to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements that are applicable only to audits of financial statements of public interest entities were applied.**

...

...

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁴

...

⁴ The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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 ~~International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)~~ (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

...

ISA 260 (Revised), *Communication with Those Charged with Governance*

...

Requirements

...

Matters to Be Communicated

...

Auditor Independence

17. In the case of listed entities, the auditor shall communicate with those charged with governance:

- (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
 - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
 - (ii) In respect of threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats, or applying safeguards to reduce the threats to an acceptable level. (Ref: Para. A29–A32)

...

Application and Other Explanatory Material

...

Matters to Be Communicated

...

Auditor Independence (Ref: Para. 17)

- A29. The auditor is required to comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.⁵
- A30. The communication about relationships and other matters, and how threats to independence that are not at an acceptable level have been addressed varies with the circumstances of the engagement and generally addresses the threats to independence, safeguards to reduce the threats, and measures to eliminate the circumstances that created the threats.
- A31. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.⁶
- A32. The communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

A32A. The relevant ethical requirements may require the auditor to:

- Apply differential independence requirements that are applicable only to audits of financial statements of certain entities specified in the relevant ethical requirements. The auditor may also determine that it is appropriate to apply those differential independence requirements to other entities in light of the entity's nature and circumstances.
- Publicly disclose that the differential independence requirements that are applicable only to audits of financial statements of certain entities were applied.

The auditor may communicate with those charged with governance that the differential independence requirements that are applicable only to audits of financial statements of certain entities were applied, and that paragraph 28(c) of ISA 700 (Revised) requires the auditor to disclose in the auditor's report which independence requirements were applied.

⁵ SA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

⁶ See, for example, paragraphs R400.80–R400.82 and R400.84 of the IESBA Code

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