

**[UPDATED EXPOSURE DRAFT VERSION DISCUSSED IN FINAL
APPROVAL MARKED FROM AGENDA ITEM 2-A]**

**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*

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Requirements

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Auditor's Report

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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)

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- (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 the audits of those entities; and (Ref: Para. A34–A39)

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Application and Other Explanatory Material

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Auditor's Report (Ref: Para.20)

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Basis for Opinion (Ref: Para. 28)

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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, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. Relevant ethical requirements may also require or encourage the auditor to determine whether it is appropriate to apply those differential independence requirements to audits of financial statements of other entities not 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**

¹ ISA 200, paragraph A16

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

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- ~~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.~~

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-related~~ 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.

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Appendix

(Ref. Para A19)

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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 **(Revised)** does not apply).

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- 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.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements³

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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~~ 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.

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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.

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 **(Revised)** 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

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*

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.

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Requirements

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Matters to Be Communicated

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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)

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Application and Other Explanatory Material

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Matters to Be Communicated

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Auditor Independence (Ref: Para. 17)

A29. The auditor is required to comply with relevant ethical requirements, including those ~~pertaining related~~ to independence, relating to financial statement audit engagements.⁵ Relevant ethical requirements may include differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. The auditor's statement to those charged with governance in accordance with paragraph 17 may include which independence requirements were applied, including whether

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

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differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied. The auditor may also be required to provide information about such differential independence requirements that were applied in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised).

- 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.~~

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