

Final Pronouncement
October 2023

International Standards on Auditing

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)



PIOB Certification of

IAASB’s “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”

The Public Interest Oversight Board (PIOB) has overseen the standard-setting process throughout the full development cycle of the International Auditing and Assurance Standards Board’s (IAASB) *Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised)* (the ‘Standard’).

The recommendations and the public interest issues, raised by the PIOB and provided to the IAASB throughout the standard-setting process, are available on the PIOB website.

The IAASB has provided a written statement that the Standard has been developed in accordance with agreed due process and is responsive to the public interest, informed by the concepts and principles of the Public Interest Framework (PIF), which is being implemented in the standard-setting process, and which is available in the PIOB website¹.

The PIOB considers that the Standard has been developed in a manner consistent with agreed due process. The PIOB also considers that the Standard is responsive to the public interest, informed by the concepts and principles of the PIF.

¹ https://ipiob.org/wp-content/uploads/2021/11/2020_15th-Anniversary.pdf

About the IAASB

This document was developed and approved by the International Auditing and Assurance Standards Board.

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 Foundation for Ethics and Audit (IFEA).

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International Auditing
and Assurance
Standards Board®

NARROW SCOPE AMENDMENTS TO ISA 700 (REVISED) AND ISA 260 (REVISED) AS A RESULT OF THE REVISIONS TO THE IESBA CODE² THAT REQUIRE A FIRM TO PUBLICLY DISCLOSE WHEN A FIRM HAS APPLIED THE INDEPENDENCE REQUIREMENTS FOR PIEs

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² The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

ISA 700 (REVISED), FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

(Effective for audits of financial statements for periods beginning on or after December 15, 2024)

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Requirements

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Auditor's Report

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Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

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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)

...

(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.

(i) 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); ~~and~~ (Ref: Para. A34–A35~~9~~, A36–A37)

(ii) If the relevant ethical requirements require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities, 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. A35A)

...

Auditor's Report Prescribed by Law or Regulation

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A70–A71)

(a) ...

- (e) 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.
- (i) The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.
- (ii) If the relevant ethical requirements require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities, 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.
- (f) ...

...

Application and Other Explanatory Material

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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.³ 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:

- Establish independence requirements that are specific to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements for 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

³ ISA 200, paragraph A17

it is appropriate to apply such independence requirements to audits of financial statements of entities other than those entities specified in the relevant ethical requirements.

- Require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities. 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.⁴

ISA 260 (Revised) sets out requirements and guidance about the auditor's communication with those charged with governance, which includes communications for these cases.⁵

- 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 related ~~pertain~~ing 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 (Revised) 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 independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest**

⁴ IESBA Code, paragraphs R400.20-R400.21

⁵ ISA 260 (Revised), paragraphs 16A and A29

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 Statements⁶

...

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 audits of financial statements of public interest entities, together with the ethical requirements that are relevant to our audits of the financial statements of public interest entities in [jurisdiction], ~~and w~~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 (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 independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest entities were applied.**

...

⁶ 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.

...

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements⁷

...

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) ethical requirements that are relevant to audits of the financial statements of public interest entities in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with ~~the IESBA Code~~ 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

(Effective for audits of financial statements for periods beginning on or after December 15, 2024)

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Requirements

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Matters to Be Communicated

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Auditor Independence

16A. The auditor shall communicate with those charged with governance the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement, including if applicable in the circumstances, any independence requirements specific to audits of financial statements of certain entities. (Ref: Para. A29)

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

⁷ 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.

- (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. A29A30–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. 16A–17)

A29. The auditor is required to comply with relevant ethical requirements, including those ~~pertain~~related to independence, relating to financial statement audit engagements;⁸ and to communicate with those charged with governance about the requirements the auditor applies. Relevant ethical requirements may:

- Establish independence requirements that are specific to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements for audits of financial statements of public interest entities in the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code). If applicable in the circumstances of the audit engagement, this ISA requires that the auditor also communicates with those charged with governance that the auditor applies such independence requirements.
- Require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities specified in the relevant ethical requirements.⁹ ISA 700 (Revised) addresses the requirements for the auditor's report relating to the auditor's independence and the relevant ethical requirements the auditor applied.¹⁰
- Require or encourage the auditor to determine whether it is appropriate to apply independence requirements that are specific to audits of financial statements of certain entities to audits of

⁸ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

⁹ See, for example, the public disclosure requirements in the IESBA Code, paragraphs R400.20-R400.21.

¹⁰ ISA 700 (Revised), paragraph 28(c)

financial statements of other entities not specified in the relevant ethical requirements.¹¹ If this is the case and the auditor is required to publicly disclose when the auditor applied such independence requirements, the auditor may discuss with management or those charged with governance whether there is a risk of misunderstanding the nature of the entity and any need for additional disclosure.

- 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.¹²
- 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.

...

¹¹ See, for example, encouragement in the application material in the IESBA Code, paragraph 400.19 A1.

¹² See, for example, paragraphs R400.80–R400.82 and R400.84 of the IESBA Code.

The structures and processes that support the operations of the IAASB are facilitated by the International Foundation for Ethics and Audit™ (IFEATM).

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