February 2024

Consultation Paper

Exposure of the IAASB's *Proposed Narrow Scope Amendments to:*

- ***International Standards on Quality Management;***
- ***International Standards on Auditing; and***
- ***International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements***

as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

Issued by the **Auditing and Assurance Standards Board**

Australian Government
Auditing and Assurance Standards Board

Obtaining a Copy of this Consultation Paper

This Consultation Paper is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007 AUSTRALIA

ISSN 2201-3644

Important Note and Disclaimer

This Consultation Paper is issued by the AUASB to provide information to auditors, assurance practitioners and other stakeholders about IAASB Exposure Draft *Exposure of the IAASB's Proposed Narrow Scope Amendments to International Standards on Quality Management; International Standards on Auditing; and International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code*.

This Consultation Paper contains proposals to amend existing AUASB Standard(s) but the document itself does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors are required to comply when conducting an audit engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

CONTENTS

CONSULTATION PAPER

Exposure of the IAASB's Proposed Narrow Scope Amendments to International Standards on Quality Management; International Standards on Auditing; and International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

Introduction

1. The International Auditing and Assurance Standards Board (IAASB) has issued *Exposure Draft, Proposed Narrow Scope Amendments to International Standards on Quality Management (ISQMs); International Standards on Auditing (ISAs); and International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements (ISRE 2400) as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code* (IAASB ED).

2. The Australian Auditing and Assurance Standards Board (AUASB) is seeking feedback from stakeholders to inform us when responding to the IAASB on the IAASB ED, and to identify potential compelling reasons[1] to modify ISQMs, ISAs and ISRE 2400 (Revised) for application in Australia.

3. This Consultation Paper provides an overview of how the AUASB is requesting feedback from Australian stakeholders on the proposed changes detailed in the IAASB ED, and their impact on the Australian assurance environment.

Overview

Purpose

4. The aim of this Consultation Paper is to:

    (a) provide stakeholders with information about the IAASB ED;

    (b) provide stakeholders with information as to how the IAASB ED is being exposed by the AUASB; and

    (c) seek stakeholder feedback.

Materials issued as part of this Consultation

5. The following materials have been issued to seek Australian stakeholder feedback:

    (a) AUASB Consultation Paper to the IAASB ED (this document);

    (b) IAASB ED.

6. The IAASB ED includes the IAASB's Explanatory Memorandum (IAASB EM) which provides the full background to, and an explanation of, the IAASB's proposed narrow scope amendments to ISQMs; ISAs; and ISRE 2400 (Revised).

[1] Refer to paragraphs 25-26 of this Consultation Paper for an explanation of compelling reasons.

7. The IAASB ED and the related IAASB EM are included within this Australian Consultation Paper as an attachment – refer to Attachment 2.

Request for Comments

8. The AUASB requests comments on all matters relating to the IAASB ED, but specifically in relation to the questions included at Attachment 1 of this Consultation Paper. Stakeholders' responses to these questions will be used to inform the AUASB in their formal response to the IAASB. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final Australian standards, including assessing compelling reasons for any Australian-specific enhancements. Stakeholders may choose to address specific questions relevant to them or raise matters not specifically addressed by the questions.

9. Stakeholders are requested to clearly indicate whether they agree or do not agree with the proposed amendments. 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.

Background (Refer to IAASB EM at Attachment 2, paragraphs 2-7, for further details)

IAASB's Project on Listed Entity and PIE

10. The IAASB ED is part of a broader IAASB project in response to the *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* issued by the International Ethics Standards Board for Accountants (IESBA) in April 2022.

11. As the Revised IESBA Code becomes effective for audits and reviews of financial statements for periods beginning on or after 15 December 2024, the IAASB recognised the need to expedite its process to support the operationalisation of the IESBA's new transparency requirement.

12. Accordingly, the IAASB determined that it will undertake its project on Listed Entity and PIE as two tracks:

    (a) Track 1: A faster-moving track to determine whether the auditor's report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities (for example PIEs) when performing an audit of financial statements, with an effective date that aligns with the revisions to the IESBA Code.

    (b) Track 2: A separate track that will consider other narrow scope amendments, with a purpose of:

    - Aligning to the greatest extent possible the definitions and key concepts underlying the definitions in the International Standards on Quality Management (ISQMs) and ISAs related to listed entities and PIEs to the IESBA's definitions and key concepts in the revisions to the IESBA Code.
    - Establishing an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate.
    - Extending the applicability of existing differential requirements for listed entities in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for public interest entities.

13. Track 1 of the IAASB's Listed Entity and PIE project was exposed in Australia by the AUASB on 21 July 2022 for a 56-day comment period. The AUASB's submission to the

IAASB on 3 October 2022 can be viewed here. In October 2023, the IAASB approved and issued the final pronouncement of Track 1. The AUASB will deliberate on the final IAASB pronouncement at a future AUASB meeting.

14. This Consultation Paper, in line with the IAASB ED, deals solely with Track 2 of the IAASB's proposals.

Key IAASB Proposals (Refer to IAASB EM, paragraphs 11-65, for detail)

Definitions of PIE and "Publicly Traded Entity"

15. A new definition is introduced[2] – An entity is a public interest entity when it falls within any of the following categories:

    (a) A publicly traded entity;

    (b) An entity one of whose main functions is to take deposits from the public;

    (c) An entity one of whose main functions is to provide insurance to the public; or

    (d) An entity specified as such by law, regulation or professional requirements, for a purpose related to the significance of the public interest in the financial condition of the entity.

16. The definition of "Publicly Traded Entity" will replace the definition of "listed entity" as an entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

Differential Requirements in the ISQMs and ISAs

17. The table below references, by affected ISQM and ISA, the paragraphs proposed in the IAASB ED for extending the relevant extant differential requirements for listed entities to apply to PIEs. Paragraphs 39-51 of the IAASB EM provide additional explanation of the proposed changes relating to engagements subject to engagement quality review (ISQM 1), auditor independence (ISA 260 (Revised)[3]) and communicating KAM (ISA 701[4]), as well as for not proposing changes in relation to transparency about Other Information (ISA 720 (Revised)[5]).

[2] Refer to paragraph 28 of this Consultation Paper for the Australian definition of PIE.
[3] See ISA 260 (Revised) *Communication With Those Charged With Governance*.
[4] See ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.
[5] See ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*.

Description	*Paragraph(s) in the ED*
Engagements Subject to an Engagement Quality Review	ISQM 1, paragraph 34(f)
Communication with TCWG About the System of Quality Management	ISQM 1, paragraph 34(e)
Auditor Independence	ISA 260 (Revised), paragraphs 17, 17A; ISA 700 (Revised), paragraph 40(b)
Communicating KAM	ISA 700 (Revised), paragraphs 30–31, 40(c); ISA 701, paragraph 5
Name of the Engagement Partner	ISA 700 (Revised), paragraphs 46, 50(l)
Transparency About the Other Information	ISA 720 (Revised), paragraphs 21–22(b)

18. The IAASB has decided not to amend the differential requirements for listed entities in paragraphs 21–22(b) of ISA 720 (Revised) to apply to PIEs. In reaching its view, the IAASB considered the findings from the Auditor Reporting Post Implementation Review that noted challenges and practical difficulties which arose in various jurisdictions with the implementation of ISA 720 (Revised), including:

- Identifying which other information is included in the annual report and therefore affecting the scope of the auditor's responsibilities to read and consider the other information.
- Practical issues that arise when the other information is not available at the time the auditor's report is signed.

Differential Requirements Relating to the Fraud and Going Concern Projects

19. The IAASB's fraud and going concern projects are considering establishing differential requirements that apply to listed entities which have implications to the auditor's report, as follows:

- For the Fraud project, when applying ISA 701, communicating in the KAM section of the auditor's report, a KAM related to fraud.
- For the Going Concern project, describing in a separate section of the auditor's report how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).

Specific questions on these proposals have been included within the Going Concern ED-570 and will be included within the Fraud ISA 240 ED.

20. For a further understanding of the significant matters dealt with in the Consultation Paper stakeholders should refer to the IAASB EM at Attachment 2 - Section 1, paragraphs 11-65.

Proposed Application Date

21. The IAASB proposes that the final pronouncement for Track 2 of the listed entity and PIE project will be applicable for audits and reviews of financial reporting periods **beginning on or after approximately 18 months after the approval of the final narrow scope amendments for Track 2**.

The AUASB's Approach in Seeking Stakeholder Feedback

22. The IAASB ED is issued for comment in Australia by the AUASB without modification.

23. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing and Assurance Standards. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing and assurance standards, unless there are compelling reasons not to do so; and to amend the international standards only when there are compelling reasons to do so.[6]

24. The AUASB's approach, in accordance with the *AUASB International Strategy*, is to actively influence the international standard setting process to produce international standards that serve as the most effective base possible from which to develop equivalent Australian Auditing and Assurance Standards. As part of this strategy, the AUASB actively monitors the development of new IAASB Standards and revisions to IAASB Standards and provides continual feedback to raise issues with the IAASB throughout the international standard's development process.

25. The AUASB makes formal submissions on Exposure Drafts issued by the IAASB to contribute to the setting of international standards. Stakeholders' feedback in response to this Consultation Paper will be used to inform the AUASB in its formal response to the IAASB. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final Australian standard, including assessing compelling reasons for any Australian-specific enhancements.

26. In accordance with the *AUASB Policy and Process for International Conformance and Harmonisation of Standards*, international standards should only be modified if there are compelling reasons to do so. The Compelling Reason Test[7] for modification of an international standard is triggered when the international standard does not reflect, or is not consistent with, Australian legal and regulatory arrangements, or principles and practices that are considered appropriate in maintaining or improving audit or assurance quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB). Any such changes must not result in a requirement that is lesser than or in conflict with the requirements of the equivalent international standard.

27. Any addition or modification from the international standard will be clearly marked as an Australian paragraph ("Aus" prefix). However, minor wording and spelling changes (as opposed to significant terminology changes) need not be reflected in the Australian standard as a modification to the international standard where the intent remains unchanged.

[6] The AUASB's principles of convergence with international auditing and assurance standards can be found in *AUASB Policy and Process for International Conformance and Harmonisation of Standards*. For further background on the AUASB's mandate and strategic directive, and the principles and process adopted by the AUASB to develop Australian Standards based on equivalent international standards, refer to the AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*.

[7] Refer to *AUASB Policy and Process for International Conformance and Harmonisation of Standards*, for an explanation of the compelling reasons for modification of international standards and application of the Compelling Reasons Test.

Compelling Reasons

28. The Accounting Professional & Ethical Standards Board Limited (APESB) approved the *Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the APESB's Revisions) in November 2023. The APESB's Revisions largely adopted the IESBA definition and criteria for PIE but also retained the following Australian specific paragraph (AUST R400.23.1) which states:

> The following entities in Australia will generally satisfy the conditions in paragraphs 400.14, R400.22 and R400.23 reflecting the significant public interest in the financial condition, having a large number and wide range of stakeholders and thus are likely to be classified as Public Interest Entities. In each instance Firms shall consider the nature of the business, its size and the number of its employees:
>
> - Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulatory Authority (APRA) under the *Banking Act 1959*;
> - Authorised insurers and authorised NOHCs regulated by APRA under the *Insurance Act 1973*;
> - Life insurance companies and registered NOHCs regulated by APRA under the *Life Insurance Act 1995*;
> - Private health insurers regulated by APRA under the *Private Health Insurance (Prudential Supervision) Act 2015*;
> - Disclosing entities as defined in Section 111AC of the *Corporations Act 2001*;
> - Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA under the *Superannuation Industry (Supervision) Act 1993*; and
> - Other issuers of debt and equity instruments to the public.[8]

As a result, the APESB's definition of PIE may capture more entities than the IAASB's definition of PIE.

29. Furthermore, the APESB's Revisions also retained the Australian-specific paragraph AUST R400.24 that requires a firm to determine whether to treat additional entities, or certain categories of entities, as public interest entities. However, the IAASB proposals, aligned with the IESBA Code, only encourage this determination. For example, the IAASB proposed amendments to ISQM 1 paragraph A29G states that the firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs.

30. The differences in the APESB Code represent local regulatory differences which are likely to trigger the Compelling Reason Test in Australia and the AUASB will need to align with the APESB's Revisions to the Code. Any such modification will be clearly marked as an Australian paragraph ("Aus" prefix). Refer Attachment 1, Australian specific question Aus 1.

8 See *Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* for more information.

AUASB Proposals

31. If the IAASB makes changes to standards consistent with its proposals, the AUASB proposes to make consistent changes to its standards but using the APESB's definition and criteria for PIEs.

32. The implication of this would be that the differential requirements proposed by the IAASB relating to engagements subject to engagement quality review, auditor independence and communicating KAMs (see paragraph 17 of this Consultation Paper for the detailed differential requirements in the ISQMs and ISAs) may apply to more entities under the APESB's definition of PIEs.

33. The AUASB changes would apply for the same reporting periods as the IAASB changes.

Comment Closing Date

34. This AUASB Consultation Paper will be open to stakeholders for a 50-day comment period closing on Monday 25 March 2024. This is to allow stakeholders time to respond to the AUASB on the IAASB ED, and for the AUASB to conduct further outreach, while also allowing time for the AUASB to collate and consider all feedback when developing our submission to the IAASB due on 8 April 2024.

35. At the completion of the exposure period and consultation process, the AUASB will consider stakeholders' submissions:

    (a) to inform us when developing our response to the IAASB on their ED; and

    (b) where the AUASB determines that a compelling reason exists, to inform us as to whether modifications may be required when we are adopting the final standard.

Additional Website Resources

36. The AUASB welcomes stakeholders' input to the development of Australian Auditing and Assurance Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards. Stakeholders are encouraged to access the websites of the AUASB and the IAASB to obtain further information.

ATTACHMENT 1

Overall Questions from International Explanatory Memorandum

Objective for Establishing Differential Requirements for PIEs

1. Do you agree with establishing the overarching objective and purpose for differential requirements for PIEs in the ISQMs and ISAs as proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why?

Definitions of PIE and "Publicly Traded Entity"

2. Do you agree with adopting the definitions of PIE and "publicly traded entity" into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A– 16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED)? If not, what do you propose and why?

Differential Requirements in the ISQMs and ISAs

3. Do you agree with the IAASB's proposals for extending the extant differential requirements in the ISQMs and ISAs to apply to PIEs? If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

   Please answer these questions separately for each of the relevant differential requirements, as follows (references are to the proposed paragraphs in the ED):

   (a) ISQM 1, paragraph 34(f) – engagement quality reviews.

   (b) ISQM 1, paragraph 34(e) – communication with TCWG (those charged with governance) about the firm's system of quality management.

   (c) ISA 260 (Revised), paragraphs 17, 17A, and ISA 700 (Revised), paragraph 40(b) – communicating about auditor independence.

   (d) ISA 700 (Revised), paragraphs 30-31, 40(c), and ISA 701, paragraph 5 – communicating KAM (key audit matters in the audit report).

   (e) ISA 700 (Revised), paragraph 46, 50(l) – name of the engagement partner.

4. Do you agree with the IAASB's proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to "publicly traded entity"? If not, what do you propose and why?

Proposed Revisions to ISRE 2400 (Revised)

5. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner's review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, what do you propose and why?

Other Matters

6. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

7. Effective Date—Given it is preferred to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24

months after the PIOB's process of certification of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

Australian Specific Questions:

For all Australian Stakeholders:

Aus 1 Do you support the AUASB adopting the APESB's definition of PIEs (including related paragraphs such as paragraph AUST R400.23.1 of APES 110) which differ from the IESBA requirements referred to in IAASB's proposals? Would adopting the APESB definition of PIEs result in a requirement that is lesser than or in conflict with the IESBA definition proposed by the IAASB (see paragraphs 28 – 30 of this Consultation Paper)? If you would not support the AUASB adopting the APESB's definition, what do you propose and why?

Aus 2 The IAASB have raised a specific question about Key Audit Matters (KAMs) in their Exposure Draft (refer Question 3(d) above). On the basis that the AUASB are likely to adopt the APESB's definition of PIEs, do you support the proposal to extend the applicability of ASA 701 to all PIEs in Australia, particularly considering the AUASB's recent consultation on this topic[9]? If not, what do you propose and why?

For questions Aus 3 to Aus 7, stakeholders are asked to comment on the AUASB proposal to adopt the IAASB proposals but using the APESB's definition and criteria for PIEs.

Aus 3 Have applicable laws and regulations been appropriately addressed in the proposed narrow scope amendments for Track 2 of the listed entity and PIE project?

Aus 4 Are there any laws or regulations that may, or do, prevent or impede the application of the proposed narrow scope amendments, or may conflict with the proposed narrow scope amendments for Track 2 of the listed entity and PIE project?

Aus 5 Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed narrow scope amendments, or may conflict with the proposed narrow scope amendments for Track 2 of the listed entity and PIE project?

Aus 6 What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed narrow scope amendments? If significant costs are expected, the AUASB would like to understand:

(i) Where those costs are likely to occur;

(ii) The estimated extent of costs, in percentage terms (relative to audit fees); and

(iii) Whether expected costs outweigh the benefits to the users of audit services?

Aus 7 Are there any other significant public interest matters that stakeholders wish to raise?

9 Refer to AUASB Feedback Statement *Expanding Key Audit Matters Beyond Listed Entities*.

ATTACHMENT 2

IAASB Exposure Draft of Proposed Narrow Scope Amendments to International Standards on Quality Management; International Standards on Auditing; and International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

Exposure Draft
January 2024
Comments due: April 8, 2024

Proposed Narrow Scope Amendments to:

- International Standards on Quality Management;
- International Standards on Auditing; and
- International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*

as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

International Auditing and Assurance Standards Board

About the IAASB

This document has been prepared and approved by the International Auditing and Assurance Standards Board. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing or other of the IAASB's International Standards.

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 (CAG), which provides public interest input into the development of the standards and guidance (a new Stakeholder Advisory Council will commence activities in 2024 and replaces the IAASB CAG).

For copyright, trademark, and permissions information, please see page 89.

REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) accompanies, and should be read along with, the Exposure Draft (ED), proposed *Narrow Scope Amendments to the International Standards on Quality Management (ISQMs); International Standards on Auditing (ISAs); and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statement as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code,*[1] which was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®). This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

The proposals in this ED may be modified based on comments received before being issued in final form. **Comments are requested by April 8, 2024.**

Use of Response Template

We encourage all respondents to submit their comments electronically using the Response Template provided. The response template has been developed to facilitate responses to the questions in **Section 2** of this EM. Use of the template will facilitate our collation and analysis of the responses.

Recognizing that the IAASB utilizes software to support our analysis of comments received from respondents to public consultations, you can assist our review of the responses by bearing the following in mind in preparing your submission:

- Respond directly to the questions in the template and **provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements or application material. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.**
- You may respond to all questions or only those questions for which you have specific comments.
- When formulating your responses to a question, it is most helpful to identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
- Avoid inserting tables or text boxes in the template when providing your responses to the questions.

The completed response template can be uploaded using the "Submit Comment" link on the IAASB website: www.iaasb.org. When submitting your completed response template, it is not necessary to include a covering letter with a summary of your key issues. The response template provides the opportunity to provide details about your organization and, should you choose to do so, any overall views you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

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

EXPLANATORY MEMORANDUM

CONTENTS

Introduction

1. This memorandum provides background to, and an explanation of, the IAASB's proposed narrow scope amendments to certain International Standards as a result of the revisions to the definitions of listed entity and PIE in the IESBA Code. The IAASB approved the proposed amendments to the ISQMs, ISAs and ISRE 2400 (Revised) on December 14, 2023, for exposure.

Background

IESBA's Project on the Definitions of Listed Entity and PIE

2. In December 2021, the IESBA concluded its project on the Definitions of Listed Entity and Public Interest Entity, which included revisions to Part 4A of the IESBA Code and its glossary relating to listed entity and PIE (the IESBA PIE Revisions).[2]

3. The IESBA PIE Revisions become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, and include the following key features:

    (a) An overarching objective in paragraph 400.8, setting out the basis for defining a class of entities as PIEs for which auditors are subject to additional independence requirements under the IESBA Code.

    (b) Factors, in paragraph 400.9, for consideration in evaluating the extent of public interest in the financial condition of an entity. These factors may be used by relevant local bodies responsible for setting ethics standards for professional accountants and firms as described in (d)(i) and (d)(ii)(a) below.

    (c) An explanation, in paragraph 400.10, that clarifies why there are additional independence requirements that are applicable only to audits of financial statements of PIEs in the IESBA Code (i.e., to meet the heightened expectations of stakeholders regarding the independence of a firm when performing an audit engagement for a PIE given the significance of the public interest in the financial condition of such entities).

    (d) A revised definition of PIE in paragraph R400.17 and the IESBA Code Glossary, that includes a broadly defined list of mandatory categories of entities that firms should treat as PIEs, subject to refinement by relevant local bodies as part of the adoption and implementation process of the approved IESBA PIE Revisions. This is accompanied by:

        (i) A requirement in paragraph R400.18, 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 scope of the mandatory PIE categories.

        (ii) Guidance explaining the interrelationship of the PIE definition in the IESBA Code with definitions established by relevant local 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

[2] See the Final Pronouncement: *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*.

examples of how these categories may be defined at the local level (paragraph 400.18 A1); 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) (paragraph 400.18 A2).

(e) Guidance in paragraph 400.19 A1, 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.

(f) Replacing the term "listed entity" in the IESBA Code Glossary 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.

(g) Requirements in paragraphs R400.20–R400.21, for 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 (i.e., the IESBA's transparency requirement).

IAASB's Project on Listed Entity and PIE

4. The IAASB leveraged the IESBA's Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (the IESBA PIE ED) in exploring a project for revising the ISQMs and ISAs as a result of the revisions to the definitions of listed entity and PIE in the IESBA Code. Considering this information gathering, in March 2022, the IAASB approved a project proposal to undertake a narrow scope project on listed entity and PIE.

5. The IESBA PIE ED incorporated specific questions that discussed various matters that were also relevant to the IAASB standards, particularly the ISQMs and ISAs, and incorporated specific questions to seek preliminary views from the IAASB's stakeholders on those matters. This included specific questions about:[3]

(a) Whether the overarching objective established by the IESBA 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) 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 appropriate to make such disclosure within the auditor's report and if so, how might this be approached in the auditor's report.

[3] The matters for the IESBA consideration included questions 1-14 of the IESBA PIE ED, however feedback on these questions also had relevance to the IAASB. Question 15 (a)-(c) of the IESBA PIE ED was specific to the IAASB.

6. The following are the project objectives that support the public interest, with the project being undertaken as two Tracks:

   Track 1:

   - 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 (i.e., to operationalize the IESBA's transparency requirement).

   Track 2:

   - 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.
   - Establish an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate.
   - 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.

7. Track 1 of the project was concluded in June 2023, when the IAASB approved the narrow scope amendments to ISA 700 (Revised)[4] and ISA 260 (Revised)[5] to operationalize the IESBA's transparency requirement.[6] This ED deals with the proposed amendments to the ISQMs, ISAs and ISRE 2400 (Revised) in undertaking Track 2 of the IAASB's narrow scope project on listed entity and PIE.

Coordination Between the IESBA and IAASB

8. The IESBA and the IAASB recognize the importance of coordination between the two Boards to achieve convergence, to the greatest extent possible, between the concepts of PIE and "publicly traded entity" in the IESBA's and the IAASB's standards. Such convergence enables the interoperability of the proposals made by each Board.

9. Accordingly, throughout the IAASB's and the IESBA's projects, there has been extensive coordination between the two Boards through Staff coordination, the participation of the IAASB and the IESBA correspondent members in the respective Boards' Task Forces, plenary discussions involving representatives of the IAASB and the IESBA at the respective Boards' meetings, incorporating specific questions to seek views from stakeholders in the IAASB and the IESBA exposure drafts, joint IAASB-IESBA Consultative Advisory Group discussions and joint IAASB-IESBA Jurisdictional / National Standard Setter (NSS) sessions.

---

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

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

6 See the Final Pronouncement: *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*.

Coordination with Other IAASB Task Forces

10. In developing the ED, consideration was given to the following matters that are being contemplated by other IAASB projects:

    - Audits of Less Complex Entities (LCEs): The IAASB reflected on the impact that the adoption of the PIE definition would have on the Authority of the ISA for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). This included consideration of how not to create complexity for jurisdictions when determining the scope of entities for which the use of the ISA for LCE is prohibited.
    - Fraud and Going Concern Projects: The IAASB recognizes that further consideration may be necessary for certain proposals contemplated by the fraud and going concern projects that include establishing differential requirements that currently apply to listed entities. Such matters will be considered once the IAASB's deliberations for Track 2 of the project have advanced post exposure and in parallel with the finalization of the proposed revised standards on fraud and going concern (see paragraphs 63-64). The IAASB is also mindful about aligning the possible effective date for this ED and the proposed revised standards on fraud and going concern given these projects are considering, among other proposed actions, possible changes to enhance transparency in the auditor's report (see paragraph 65).

Section 1 Significant Matters

Section 1-A – Public Interest Issues Addressed

11. In developing this ED, the IAASB considered the qualitative standard-setting characteristics set out in paragraph 31 of the project proposal and those included in the Public Interest Framework (PIF)[7] as criteria to assess the proposed standard's responsiveness to the public interest.

12. **Appendix 2** to this EM sets out a table that maps the proposed narrow scope revisions to the standard-setting actions included in the project proposal as the actions are directly related to the project objectives that support the public interest. **Appendix 2** to this EM also highlights what qualitative standard-setting characteristics were at the forefront, or of most relevance, when determining how to address each proposed action.

Section 1-B – Objective for Establishing Differential Requirements for PIEs

13. Respondents to relevant IAASB matters addressed in the IESBA PIE ED supported the use of a common objective as an overarching principle for establishing differential requirements for certain entities across the IAASB standards and the IESBA Code.

14. Considering this support, the IAASB agreed to adopt the objective in paragraph 400.8 of the IESBA PIE Revisions into ISQM 1[8] and ISA 200,[9] given these standards prescribe the authority for all ISQMs and ISAs respectively (see proposed paragraph A29A of ISQM 1 and paragraph A81A of ISA 200 in

---

[7] See the Monitoring Group report *Strengthening the International Audit and Ethics Standard-Setting System* (pages 22–23 of the PIF's section on "What qualitative characteristics should the standards exhibit?").

[8] ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*

[9] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

the ED). In doing so, the IAASB adapted the objective with minimal tailoring, so it remains appropriate in the context of the ISQMs and ISAs.[10]

15. Respondents to the IESBA PIE ED also commented that the purpose for establishing differential requirements in the IAASB standards may include a different rationale than the "*independence of a firm*" as stated in paragraph 400.10 of the IESBA PIE Revisions.

16. The IAASB proposes that for the ISQMs and ISAs, the purpose of the differential requirements is to meet "the heightened expectations of stakeholders regarding *the audit engagement"* (see proposed paragraph A29B of ISQM 1 and paragraph A81B of ISA 200 in the ED). The IAASB believes this is appropriate because the differential requirements in the ISQMs and ISAs include more than one rationale and address broader matters than auditor independence, including:

- Establishing policies or procedures by the firm that address engagement quality reviews.[11]
- Providing transparency to intended users about aspects of the audit (e.g., auditor independence, communicating key audit matters (KAM), the name of the engagement partner and providing transparency about other information).[12]
- Communicating to those charged with governance (TCWG) to assist them in fulfilling their responsibility to oversee the financial reporting process (e.g., communicating about the system of quality management and auditor independence).[13]

17. The IAASB acknowledges that ISQM 1 applies to all engagements performed under the IAASB standards, including the ISA for LCE, reviews of financial statements in accordance with International Standards on Review Engagements (ISREs), and other assurance or related services engagements in accordance with International Standards on Assurance Engagements (ISAEs) and International Standards on Related Services (ISRSs). However, the ISREs, ISAEs and ISRSs standards do not presently include differential requirements,[14] and as such, the focus on the *audit engagement* in ISQM 1 would not at this time be inconsistent with the overall body of standards. Similarly, the ISA for LCE does not include differential requirements, and its authority prohibits application for listed entities or entities with public interest characteristics.

18. In addition, the IAASB considered, but decided against providing an objective that would be specific about the nature of the differential requirements described in paragraph 16, because of:

- The desire for *consistency, coherence,* and *conciseness* across the ISQMs and ISAs. Providing more specificity would necessitate different explanations in the ISQMs and the ISAs

[10] This included providing a reference to the ISQMs and ISAs in place of the relevant Part of the IESBA Code and removing the reference to "application material" given these paragraphs already form part of the application and other explanatory material to the authority section of ISQM 1 and ISA 200.

[11] ISQM 1, paragraph 34(f)

[12] ISA 700 (Revised), paragraphs 30–31, 40(b)–(c), 46, 50(l), ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraph 5 and ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraphs 21–22(b)

[13] ISQM 1, paragraph 34(e) and ISA 260 (Revised), paragraph 17

[14] The differential requirements in the ISQMs and ISAs apply only to listed entities. The proposed narrow scope amendments to ISRE 2400 (Revised) discussed in **Section 1-E** of the EM include a proposal for a conditional requirement that applies to certain entities specified in the relevant ethical requirements, which does not constitute a differential requirement established by the IAASB.

given the nature of the differential requirements across those standards are different. This could lead to an inconsistent approach across the overall body of standards and may inadvertently create complexity across the differential requirements in the IAASB standards.

- The need for *relevance* through recognizing and responding to emerging public interest issues and evolving user needs over time. Providing more specificity could inadvertently predetermine the scope of matters for which differential requirements are appropriate and restrict flexibility for circumstances when differential requirements are necessary in the ISQMs and ISAs as part of future standard-setting.

Section 1-C – Definitions of PIE and "Publicly Traded Entity"

19. Respondents to relevant IAASB matters addressed in the IESBA PIE ED encouraged the IAASB and the IESBA to seek consistency and alignment of important concepts and definitions used in the respective Boards' standards, and in doing so supported alignment in the types of entities to which differential requirements apply.

20. Considering this support, the IAASB is proposing to adopt the definitions of PIE and "publicly traded entity" in the Definitions section of ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED). In addition, upon finalization of the approved pronouncement for Track 2, these definitions will become accessible through the IAASB Glossary of Terms,[15] to assist with common and consistent interpretation (including for translations).

21. The definitions of PIE and "publicly traded entity" were exposed for public comment by IESBA in their project on the definitions of listed entity and PIE. Therefore, these changes have undergone proper due process for the Standard Setting Boards under the International Foundation for Ethics and Audit.

Definition of PIE

22. The definition of PIE includes a broadly defined list of mandatory, high-level PIE categories, shown in the box below.

> Mandatory, high-level PIE categories:
>
> (i) A publicly traded entity;
>
> (ii) An entity one of whose main functions is to take deposits from the public;
>
> (iii) An entity one of whose main functions is to provide insurance to the public; or
>
> (iv) An entity specified as such by law, regulation or professional requirements related to the significance of the public interest in the financial condition of the entity.[16]

---

[15] The IAASB Glossary of Terms is a non-authoritative document. Paragraph A67 of ISA 200 explains that the IAASB Glossary of Terms contains a complete listing of terms defined in the IAASB standards and includes descriptions of other terms found in the IAASB standards to assist in common and consistent interpretation and translation.

[16] Some changes were applied to category (iv) in incorporating the IESBA PIE Revisions which were necessary given the differences in the drafting conventions among the respective Boards' standards. For example, the term "professional standards" was replaced with "professional requirements" because unlike the IESBA Code, the term "professional standards" has a defined meaning for the purpose of the ISQMs and ISAs. In addition, the reference to the purpose described in paragraph 400.10 of the

23. When developing the approach to revise the PIE definition, the IESBA recognized the difficulty of establishing a concise definition that can be universally adopted at the global level because of the variety of circumstances that exist across jurisdictions. Accordingly, under the proposed approach of the IESBA Code, the relevant local bodies (such as regulators or oversight bodies, NSS or professional accountancy bodies, as appropriate in a jurisdiction) play a pivotal role in establishing the local PIE definition through refining the PIE categories, setting size criteria and adding new types of entities or exempting particular entities. The IESBA noted that the relevant local bodies have the responsibility, and are also best placed, to assess and determine with greater precision which entities or types of entities should be treated as PIEs for the purposes of meeting the IESBA Code's overarching objective. The IESBA also observed that a number of relevant local bodies have already done so by taking into consideration issues, concerns and nuances specific to the local environment and how these impact the public interest in their jurisdictions.

24. The IAASB believes that it is essential to incorporate in the ISQMs and ISAs the entire approach to scoping PIEs as contemplated in the IESBA Code because convergence is part of the IAASB's project objectives (see paragraph 6) and because all elements of the approach are necessary to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction. The IAASB has therefore proposed to adopt the definition of PIE and include a requirement with supporting application material to treat an entity as a PIE in accordance with the definition, based on the approach in the IESBA Code (see proposed paragraphs 16(p)A, 18A, A29D–A29F of ISQM 1 and paragraphs 13(l)A, 23A, A81D–A81F of ISA 200 in the ED). In addition, to recognize the primary role of the firm in establishing policies or procedures about entities that meet the definition of PIE and other entities to be treated as PIEs, paragraph 23A of ISA 200 in the ED was supplemented to require the auditor to follow the firm related policies or procedures.

Definition of "Publicly Traded Entity" in Place of Listed Entity

25. The IESBA PIE Revisions included replacing the definition of "listed entity" with a newly defined term – "publicly traded entity." "Publicly traded entity" is also one of the mandatory categories of entities included in the PIE definition. As shown in the box below, the defined term "publicly traded entity" encapsulates the term listed entity as an example defined by relevant securities law or regulation (rather than a standalone definition). On this basis a listed entity as defined by relevant securities law or regulation in the jurisdiction will continue to meet the definition of a "publicly traded entity" provided the other criteria of the definition are met and subject to any refinements to this category by relevant local bodies (e.g., making reference to specific public markets for trading securities).

> Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

26. The table below includes examples that have been sourced from the IESBA PIE ED and the Basis for Conclusions, *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*, illustrating how replacing the definition of "listed entity" with "publicly traded entity" would impact

IESBA PIE Revisions was not cross-referenced given it forms part of the application material of the ISQM 1 and ISA 200. Instead, the phrase "*related to the significance of the public interest in the financial condition of the entity*" was added to the text of category (iv).

entities. This is relevant when considering how the scope of entities to which the extant differential requirements in the ISQMs and ISAs would change:

Impact on Entities	***Description***	***Example***
The change would result in the entity being scoped in	Entities issuing and trading financial instruments other than shares, stock or debt as currently specified in the extant definition of "listed entity."	► Entities issuing and trading other types of instruments such as warrants or hybrid securities.
	Entities trading financial instruments in less regulated markets.	► Entities trading on second-tier markets or over-the-counter trading platforms.
The change would result in the entity being scoped out	Entities whose financial instruments might be listed but are not intended to be traded or are not freely transferable.	► Groups where the relevant instruments are held entirely intra-group.
	Entities trading through a market mechanism that is not publicly accessible or when there is no facilitated trading platform such as an auction-based exchange or electronic exchange.	► Privately negotiated agreements (with or without the assistance of a broker).

Section 1-D – Differential Requirements in the ISQMs and ISAs

27. The IAASB previously explored, through its standard-setting projects, extending the applicability of its differential requirements for listed entities in the ISQMs and ISAs to apply more broadly to other entities that exhibit public interest or public accountability characteristics. This was largely driven by an increased emphasis by intended users regarding the performance of audit engagements on this broader group of entities and stakeholder demands for the requirements to be consistently applied to certain types of entities that may not be listed, but for which the requirements would be appropriate (e.g., for financial institutions including banks and insurance companies).

28. The IAASB is also aware of ongoing legislative developments in various jurisdictions who have already extended, or are considering extending, the applicability of the differential requirements for listed entities in their national equivalent ISQMs and ISAs to apply to PIEs.[17]

29. The IAASB decided not to expand the differential requirements beyond listed entities in the ISQMs and ISAs in previous public consultations, deliberations, and discussions, mostly due to:

[17] For example, the United Kingdom, European Union, Japan and New Zealand (for reporting entities considered to have a higher level of public accountability) have extended in full or in part the differential requirements to apply to PIEs. In addition, several jurisdictions, such as Australia, Canada, and South Africa, are currently assessing, or plan to assess in the near future, the extension of the applicability of the differential requirements in the ISQMs and ISAs to apply to entities other than listed entities.

- The lack of a global baseline for the definition of PIE that could be consistently applied across jurisdictions.
- The unintended consequences of the requirements applying to smaller entities that could be scoped into the definition of a PIE (e.g., due to regulations or legislation) and for which it may be impracticable or overly burdensome to apply the requirements in such cases.

30. In developing the definition, the IESBA acknowledged the challenge described in paragraph 29 of inadvertently scoping in entities where the public interest in the financial condition of those entities is not significant. In response, the IESBA has:

    - Provided for law, regulation, or professional standards to more explicitly define the mandatory categories of PIEs (see paragraph 400.18 A1 of the IESBA PIE Revisions) by, for example, referring to specific public markets for trading securities, referring to law or regulation containing definitions of entities, making exemptions or setting size criteria.
    - Set a requirement for firms to apply these more explicit definitions established by law, regulation, or professional standards (see paragraph R400.18 of the IESBA PIE Revisions).

31. Accordingly, the revised approach to PIEs in the IESBA Code places a significant focus on the entities that should be treated as PIEs in the context of the facts and circumstances in a specific jurisdiction (e.g., determining whether smaller entities should be excluded from any or all of the categories of PIEs and what threshold should be set for such exclusion taking into account the need to balance the public interest and the burden of additional requirements imposed on the auditors of PIEs). In addition, the IESBA formed the view that establishing an overarching objective and expanding the PIE categories in the IESBA Code should bring some level of global consistency to the types of entities that should be treated as PIEs (i.e., a global baseline).[18]

32. Given that relevant local bodies play an essential role in the proposed approach when establishing national PIE definitions, the IESBA has also committed to an outreach and rollout program to assist developing or revising the definitions of PIE at the local level based on the IESBA PIE Revisions.[19]

33. Accordingly, the IAASB believes that the revised approach to scoping PIEs in the IESBA Code addresses previous concerns raised from public consultations about extending the differential requirements in the ISQMs and ISAs to apply to PIEs.

Case-by-Case Analysis

34. Respondents to relevant IAASB matters addressed in the IESBA PIE ED broadly supported that the IAASB should undertake a case-by-case approach to determine whether the differential requirements established in the IAASB standards that currently apply only to listed entities should be revised to apply more broadly to all categories of PIEs. In doing so, respondents commented that the approach undertaken should remain sufficiently flexible (i.e., avoid a "one-size fits all" approach) and that it should take into consideration the public interest factors in the context of the individual objectives of the standards where differential requirements exist. Respondents also supported a balanced approach to avoid creating complexity through introducing too many differential requirements in the IAASB standards.

---

18 See the IESBA's Basis for Conclusions, *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*.

19 See the IESBA's Rollout initiative, including non-authoritative materials to support the adoption and effective implementation of the IESBA PIE Revisions: the IESBA's *Database of PIE Definitions by Jurisdiction* and the IESBA Questions and Answers, *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*.

35. Given this support, the IAASB undertook a case-by-case analysis of extant differential requirements in the ISQMs and ISAs, which included consideration of:

- The purpose of the extant differential requirements to validate that the public interest factors which drive those requirements is consistent with the objective described in **Section 1-B**.
- The related application material to the differential requirements in order to identify whether any unintended consequences exist, such as matters around jurisdictional considerations or practicality and operability for audits of financial statements of entities other than PIEs.
- Whether there was indication of support for extending the applicability of the differential requirements to apply to PIEs or more broadly from previous IAASB public consultations, deliberations and decisions at the time when the extant differential requirements were established.
- Other relevant IAASB information gathering.[20]

A summary of the outcome from the case-by-case analysis is provided in **Appendix 1**.

36. The IAASB's key observation regarding the case-by-case analysis is that the public interest factors which drive the extant differential requirements in the ISQMs and ISAs support enhancing stakeholders' confidence in the audit and the audited financial statements of listed entities. This aligns with the purpose stated in the objective for establishing differential requirements more broadly for PIEs discussed in **Section 1-B**. Consequently, it would be *consistent* with the objective if they were extended to apply to PIEs. In addition, the feedback from other IAASB information gathering indicated broad support from stakeholders for the applicability of the extant differential requirements in the ISQMs and ISAs to apply to PIEs, with one notable exception. Extending the reporting requirements in paragraphs 21–22(b) of ISA 720 (Revised) to PIEs was not supported, because respondents found the practical difficulties associated with identifying and considering the other information received after the date of the auditor's report to outweigh the public interest benefits of doing so (see paragraphs 47-51).

37. Except for ISA 720 (Revised), the IAASB believes that extending the extant differential requirements in the ISQMs and ISAs to PIEs, as summarized in **Appendix 1**, would support the public interest as this would:

- Be responsive to stakeholder feedback from previous IAASB information gathering and public consultations, including capturing certain financial institutions such as banks and insurance companies for which stakeholders have indicated it would be appropriate to apply the differential requirements for listed entities in the ISQMs and ISAs.
- Promote more consistency among jurisdictions globally when applying the ISQMs and ISAs, given that some jurisdictions have already extended (or are considering extending) the applicability of the differential requirements to apply to PIEs in their national equivalent auditing standards.
- Result in alignment of key concepts and definitions across the IAASB and the IESBA standards and enable less complexity related to the types of entities to which the differential requirements in the respective standards apply.

[20] For example, the post-implementation review (PIR) of the Auditor Reporting Standards and, where appropriate, how NSS have addressed this issue at jurisdictional levels.

38. The table below references, by affected ISQM and ISA, the paragraphs proposed in the ED for amending the relevant extant differential requirements. Paragraphs 39-51 below provide additional explanation of the proposed changes relating to engagements subject to engagement quality review (ISQM 1), auditor independence (ISA 260 (Revised)) and communicating KAM (ISA 701), as well as for proposing changes in relation to transparency about other information (ISA 720 (Revised)).

Description	***Paragraph(s) in the ED***
Engagements Subject to an Engagement Quality Review	ISQM 1, paragraph 34(f)
Communication with TCWG About the System of Quality Management	ISQM 1, paragraph 34(e)
Auditor Independence	ISA 260 (Revised), paragraphs 17, 17A; ISA 700 (Revised), paragraph 40(b)
Communicating KAM	ISA 700 (Revised), paragraphs 30–31, 40(c); ISA 701, paragraph 5
Name of the Engagement Partner	ISA 700 (Revised), paragraphs 46, 50(l)
Transparency About the Other Information	ISA 720 (Revised), paragraphs 21–22(b)

Engagements Subject to an Engagement Quality Review

39. In addition to the rationale set out in paragraph 37 above for extending the applicability of the extant differential requirement for engagement quality reviews, the IAASB also considered that entities with a significant public interest in their financial condition would likely already be covered in the scope of entities subject to engagement quality reviews given the risk-based approach in ISQM 1 to determining engagements subject to an engagement quality review.

40. In determining the proposed revisions, the IAASB also considered that ISQM 1 became effective as of December 15, 2022, and that further revisions to the standard in short succession would not be optimal or practical for stakeholder constituencies. However, given the possible effective date of December 2026 for the proposed narrow scope amendments contemplated under Track 2 of the project (see paragraph 65 below), the IAASB believes that there is a sufficient period of stability provided to support stakeholder implementation efforts in relation to ISQM 1. In addition, given that the IESBA PIE Revisions become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, this would also benefit stakeholder constituencies to have already considered and implemented the definition of PIE in their national jurisdictions.

Auditor Independence

41. The IAASB is proposing to amend the applicability of the extant differential requirement in paragraph 17 of ISA 260 (Revised) by bifurcating the requirement as follows:

- A requirement that would apply to audits of financial statements of all entities to communicate with TCWG 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.
- A requirement that would apply only to PIEs to communicate with TCWG a statement that would address the matters set out in subparagraphs 17(i)–(ii) of extant ISA 260 (Revised) (i.e., in accordance with the rationale set out in paragraph 37 above for differential requirements that apply to PIEs).

42. In proposing that paragraph 17 of ISA 260 (Revised) in the ED should apply to audits of financial statements of all entities, the IAASB considered:
    - The requirement in paragraph 28(c) of ISA 700 (Revised) that requires communication about compliance with independence requirements in the auditor's report for all audit engagements. It is therefore illogical and inconsistent that the auditor would communicate with TCWG about compliance with independence requirements only if the entity is a listed entity (or PIE).
    - The interrelationship with the new requirement in paragraph 16A of ISA 260 (Revised), approved under Track 1 of the project, that applies to audits of all entities, and requires the communication with TCWG about the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement.

43. In coordinating with the IESBA, it was noted that the extant requirement in paragraph 17(a) of ISA 260 (Revised) is not consistent with recently revised requirements to communicate with TCWG in the IESBA Code.[21] The IAASB considered whether ISA 260 (Revised) should be updated to better align with the IESBA Code, however believes that doing so is duplicative, and creates complexities and confusion if the requirements in the IAASB standards do not fully address all requirements in the IESBA Code dealing with communication with TCWG. As such, the IAASB proposes removing the explicit requirement to communicate fee-related matters in paragraph 17(a) of ISA 260 (Revised), and instead refer to the IESBA Code in the application material to draw attention to the fact that the IESBA Code also contains requirements regarding communication with TCWG (see proposed paragraph A29A in ISA 260 (Revised) of the ED).

44. The IAASB believes this approach is appropriate because it is consistent with the objective of the listed entity and PIE project to achieve to the greatest extent possible convergence between the key concepts in the IESBA Code and the IAASB standards so as to maintain their interoperability. In addition, the IAASB believes doing so would not weaken the ISAs because the auditor is already required to comply with relevant ethical requirements in accordance with paragraph 14 of ISA 200. Also, this would accommodate a more future-proof approach when there are changes to the relevant requirements of the IESBA Code given that the IESBA Code is better placed to robustly address any need to communicate matters to TCWG regarding ethics and independence. Furthermore, revising the ISAs to replicate requirements in the IESBA Code does not promote a framework neutral approach to ethical requirements.

[21] For example, ISA 260 (Revised) requires communication of "*all relationships and other matters between the firm, network firms, and the entity.*" This would not include all direct financial interests or material indirect financial interests in the audit client as required by paragraph R510.4 of the IESBA Code. Similarly, the IESBA has introduced new requirements to communicate with TCWG in recent projects such as the Revisions to the Non-Assurance Service Provisions of the Code and the Revisions to the Fee-related Provisions of the Code.

45. As a consequence of the proposals discussed in paragraph 41 above to bifurcate the extant requirement in paragraph 17 of ISA 260 (Revised), the IAASB has also proposed to align the requirement in paragraph 40(b) of ISA 700 (Revised) in the ED. In addition, alignment changes have been proposed to the illustrative auditor's reports that are affected.

Communicating KAM

46. In addition to the rationale set out in paragraph 37 above for extending the applicability of the extant differential requirement for communicating KAM, the IAASB also considered:

- The support from the Auditor Reporting Post Implementation Review (PIR) Stakeholder Survey indicating respondents' preference for mandatory communication of KAM for PIEs. While there was majority support from all stakeholder constituencies, a substantially higher percentage of respondents who responded to the PIR Stakeholder Survey (above 80%) was indicated by investors and regulators relative to other respondent groups.
- The guidance in paragraph A59 of ISA 701 that draws attention that there may be certain limited circumstances (e.g., for a listed entity that has very limited operations) when there are no matters that required significant auditor attention. In such circumstances, the auditor would determine that there is no KAM.

Transparency About Other Information

47. The IAASB has decided not to amend the differential requirements for listed entities in paragraphs 21–22(b) of ISA 720 (Revised) to apply to PIEs.

48. In reaching its view, the IAASB considered the findings from the Auditor Reporting PIR that noted challenges and practical difficulties which arose in various jurisdictions with the implementation of ISA 720 (Revised), including:

- Identifying which other information is included in the annual report and therefore affecting the scope of the auditor's responsibilities to read and consider the other information.
- Practical issues that arise when the other information is not available at the time the auditor's report is signed. Respondents' views included that for those jurisdictions where the other information is usually received after the auditor's report is signed and for entities other than listed entities, the practical difficulties encountered with considering the other information outweighed the public interest benefits.

49. On balance, the IAASB believes that it is in the public interest not to extend the differential requirements in ISA 720 (Revised) to PIEs as this may exacerbate the identified issues. However, the IAASB notes that the public interest factors that drive these requirements include to provide transparency to intended users about the other information and the auditor's work effort in relation to such information, including whether there is a material misstatement that may undermine the credibility of the financial statements and the auditor's report thereon or inappropriately influence the economic decisions of the users for whom the auditor's report is prepared. Because these factors align with the objective for establishing differential requirements for PIEs discussed in **Section 1-B**, the IAASB intends to defer a discussion on extending these requirements to apply to PIEs until a comprehensive revision of the standard is undertaken based on future IAASB work plan decisions.

50. Until such time that a comprehensive revision of ISA 720 (Revised) is undertaken, the IAASB has proposed to amend the applicability of the differential requirements for listed entity to apply to "publicly traded entity." In reaching its view, the IAASB considered that it is necessary to reduce complexity about the scope of the standard, given that listed entity would no longer be a defined term for the ISAs (see paragraph 25) and because in certain jurisdictions law or regulation may not define a listed entity. In addition, the IAASB considered the impact of the change to the scope of entities should a requirement apply to listed entities compared to publicly traded entities (see paragraph 26). The IAASB formed the view that for ISA 720 (Revised) it would be appropriate to provide transparency to intended users about other information for those entities whose financial instruments are transferrable and traded through a publicly accessible market mechanism as envisioned by the "publicly traded entity" definition.

51. Certain changes to the illustrative auditor's reports in the Appendix of ISA 720 (Revised) were also made to maintain the *coherence* with the proposed extensions for the differential requirements for listed entities in ISA 700 (Revised) and ISA 701 to apply to PIEs.

Section 1-E – Proposed Revisions to ISRE 2400 (Revised)

52. As discussed in paragraph 7, in June 2023, under Track 1 of the project, the IAASB approved narrow scope amendments to ISA 700 (Revised) that supported operationalizing the IESBA's transparency requirement. This included amending paragraph 28(c) of ISA 700 (Revised) to include a requirement that applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied, such as PIEs in the IESBA Code. If this is the case, then the auditor is required to indicate in the auditor's report that the relevant ethical requirements for independence for those entities were applied.[22]

53. Given that Part 4A of the IESBA Code also applies to review engagements,[23] the IAASB is proposing amending ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, in order to maintain the *coherence* and interoperability with the IESBA Code. In doing so, the IAASB believes that pursuing a *consistent* approach to the practitioner's review report with the revisions to the auditor's report would support the public interest because it would avoid confusion for intended users that may arise if the disclosure of independence requirements for audit and review engagements are misaligned.

54. Paragraph 86(j) of extant ISRE 2400 (Revised) requires the practitioner to include a reference in the practitioner's report of the obligation to comply with relevant ethical requirements. However, 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. In addition, ISRE 2400 (Revised) is not aligned with the

---

22 See the Final Pronouncement: *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*.

23 Paragraph 400.2 of the IESBA Code explains that Part 4A (which includes the transparency requirement in paragraphs R400.20–R400.21 of the IESBA PIE Revisions) applies to both audit and review engagements unless otherwise stated, 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.

changes to the auditor's report introduced as part of the IAASB's auditor reporting project,[24] such as the structure of the report and including new elements introduced to the auditor's report.

55. The proposed amendments to paragraph 86(j)A of ISRE 2400 (Revised) in the ED include a new requirement that applies only when the relevant ethical requirements require public disclosure that specific independence requirements for reviews of financial statements of certain entities were applied, such as PIEs in the IESBA Code. If this is the case, then the practitioner is required to include a statement in the practitioner's report that identifies the jurisdiction of origin of the relevant ethical requirements or refers to the IESBA Code and indicates that the practitioner is independent of the entity in accordance with the independence requirements applicable to reviews of financial statements for those entities.

56. Proposed paragraph A137A of ISRE 2400 (Revised) in the ED includes new application material in support of the requirement. Among other matters, the application material refers to the IESBA Code as an example of relevant ethical requirements that have a transparency requirement and provides an illustration of the disclosure in the practitioner's report when the IESBA Code comprises all the relevant ethical requirements that apply to the review engagement.

57. The IAASB is also aware that reviews of PIEs' historical financial statements under ISRE 2400 (Revised) are rare in practice,[25] and it is more common among jurisdictions that an interim review engagement would be performed by the independent auditor for listed entities or PIEs under ISRE 2410.[26] However, in line with the actions discussed in the project proposal, the IAASB is not proposing amendments to ISRE 2410 at this time given that ISRE 2410 is still in pre-clarity format and has not been subject to conforming and consequential amendments arising from other IAASB projects in recent years to avoid giving the impression that this standard is up to date. The IAASB also acknowledges that any resulting revisions to ISRE 2410 would need to be part of a broader project to revise this standard that would be determined as part of the IAASB's future work plan decisions.

Section 1-F – Other Matters

Central List of Factors in Evaluating the Extent of Public Interest of an Entity

58. The application material to the current differential requirements for listed entities in the ISQMs and ISAs includes various examples that illustrate:

- The types of entities that may exhibit public interest or public accountability characteristics for which it may also be appropriate to apply a certain differential requirement.[27]
- Circumstances when law or regulation may require the application of a differential requirement to entities other than listed entities.[28]

[24] As part of the auditor reporting project, completed by the IAASB in September 2014, the IAASB determined not to make revisions to assurance reports for other engagements (including for reviews of financial statements) to include elements similar to those in the auditor's report on an audit of financial statements.

[25] Form its information gathering with NSS, only one jurisdiction (i.e., South Africa) noted that there is a regulatory reporting requirement in accordance with ISRE 2400 (Revised) for banks which would qualify as PIEs under the revised PIE definition.

[26] ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

[27] For example, see paragraph A32 of ISA 260 (Revised).

[28] For example, see paragraph A40 of ISA 700 (Revised).

59. The IAASB is proposing a central list of factors, based on paragraphs 400.9 and 400.18 A2 of the IESBA PIE Revisions, incorporated in ISQM 1 and ISA 200 to support consideration of whether there are other types of entities for which it may be appropriate to apply the differential requirements in the ISQMs and ISAs (see proposed paragraphs A29C, A29G of ISQM 1 and paragraphs A81C, A81G of ISA 200 in the ED). The IAASB believes this would drive *consistency* and reduce the duplicative nature of this application material across the ISQMs and ISAs.

60. In incorporating the factors, the IAASB considered the commonality between the factors in the IESBA Code and the existing application material in the ISQMs and ISAs that describes other entities to which the differential requirements may be relevant. In addition, the IAASB notes that these factors were exposed for public comment by the IESBA in their project on the definitions of listed entity and PIE and have therefore undergone a proper due process.

61. The central list of factors is not exhaustive, which is consistent with the approach of the IESBA Code. Law, regulation, or relevant local bodies may identify additional entities that are PIEs, or a firm may identify additional entities to which the firm applies a requirement that is applicable to audits of PIEs. In addition, to drive a consistent approach when determining to treat other entities as a PIE between the IESBA Code and the ISQMs / ISAs, the IAASB emphasized that a relevant consideration when making such determination is whether the firm / auditor treated an entity as a PIE when applying relevant ethical requirements, including those related to independence.

Alignment Changes

62. Because of the proposals in this ED, various alignment changes were necessary for the introductory and application material in the ISQMs and ISAs. For example, in the illustrative auditor's reports included in the Appendices of the 500, 700 and 800 series of ISAs, the term "listed entity" (or "entity other than listed entity") was replaced with "public interest entity," "entity other than a public interest entity" or "publicly traded entity." Also, when applicable, the application material that relates to a differential requirement(s) has been updated as a result of changes to entities to which the extant differential requirements apply and to align with the concepts underpinning PIEs.

Differential Requirements Relating to the Fraud and Going Concern Projects

63. As discussed in paragraph 10, in addressing the project objectives for enhanced transparency, the IAASB's fraud and going concern projects are considering establishing differential requirements that apply to listed entities which have implications to the auditor's report, as follows:

- For the fraud project, when applying ISA 701, communicating in the KAM section of the auditor's report, KAM related to fraud.
- For the going concern project, describing in a separate section of the auditor's report how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).

64. The public consultation for ED-570[29] closed on August 24, 2023. ED-570 included a specific question for respondents (i.e., question 14) seeking views from respondents to inform the IAASB's

[29] See Exposure Draft (ED-570): *Proposed International Standard on Auditing 570 (Revised 202X), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs*.

consideration about extending the applicability of the proposed differential requirements for listed entities to apply to audits of financial statements of entities other than listed entities. In addition, as part of the public consultation for fraud,[30] the IAASB intends to seek views from respondents about extending the applicability of the differential requirements for listed entities to communicate KAM related to fraud. As the deliberations for this ED advance post exposure, and in parallel with the finalization of the proposed revised standards for fraud and going concern, the IAASB also intends to further consider extending the applicability of the differential requirements for listed entities proposed for fraud and going concern.

Effective Date

65. The IAASB anticipates that the final pronouncement for Track 2 of the listed entity and PIE project would be approved in December 2024. Recognizing that it is preferred to coordinate effective dates with the fraud and going concern projects that are also considering actions that may result in revisions that impact auditor reports, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18-24 months after the PIOB's process of certification of the final narrow scope amendments for Track 2.[31] The IAASB is of the view that this timeframe is adequate to allow jurisdictions sufficient time for translation of the final text of the standard, for national adoption processes to occur, and for practitioners to update templates and associated internal materials.

[30] The public consultation for proposed ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, is expected to be published in quarter 1 of 2024 for a 120-day public comment period.

[31] After approval by the IAASB, the PIOB will consider its public certification of an approved new or revised standard(s) to confirm the PIOB's oversight of the standard-setting process throughout the full development cycle, that the standard was developed in a manner consistent with agreed due process and that the standard is responsive to the public interest, in accordance with the Public Interest Framework.

Section 2 Questions for Respondents

Respondents are asked to respond to the questions below using the Response Template as explained in the **Request for Comments** on page 3 of this EM.

Specific Questions for Respondents	**Sections or paragraphs in this EM for reference**
Objective for Establishing Differential Requirements for PIEs	
1. Do you agree with establishing the overarching objective and purpose for differential requirements for PIEs in the ISQMs and ISAs as proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why?	Section 1-B, paragraphs 13–18
Definitions of PIE and "Publicly Traded Entity"	
2. Do you agree with adopting the definitions of PIE and "publicly traded entity" into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED)? If not, what do you propose and why?	Section 1-C, paragraphs 19–26
Differential Requirements in the ISQMs and ISAs	
3. Do you agree with the IAASB's proposals for extending the extant differential requirements in the ISQMs and ISAs to apply to PIEs? If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)? **Please answer these questions separately for each of the relevant differential requirements, as follows** (references are to the proposed paragraphs in the ED): 3A. ISQM 1, paragraph 34(f) – engagement quality reviews. 3B. ISQM 1, paragraph 34(e) – communication with TCWG about the firm's system of quality management. 3C. ISA 260 (Revised), paragraphs 17, 17A, and ISA 700 (Revised), paragraph 40(b) – communicating about auditor independence. 3D. ISA 700 (Revised), paragraphs 30-31, 40(c), and ISA 701, paragraph 5 – communicating KAM. 3E. ISA 700 (Revised), paragraph 46, 50(l) – name of the engagement partner.	Section 1-D, paragraphs 27–46 Appendix 1

Specific Questions for Respondents	Sections or paragraphs in this EM for reference
4. Do you agree with the IAASB's proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to "publicly traded entity"? If not, what do you propose and why?	Section 1-D, paragraphs 47–51 Appendix 1
Proposed Revisions to ISRE 2400 (Revised)	
5. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner's review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, what do you propose and why?	Section 1-E, paragraphs 52–57
Other Matters	
6. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.	

Request for General Comments

The IAASB is also seeking comments on the matters set out below:

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

8. Effective Date—Given it is preferred to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24 months after the PIOB's process of certification of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

Appendix 1 – Summary of the Case-by-Case Analysis of Extant Differential Requirements in the ISQMs and ISAs

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability[32]
Engagements Subject to an Engagement Quality Review			
ISQM 1, paragraph 34(f)	Providing *greater confidence* to the public in the consistent performance of quality engagements.	*ISQM 1, paragraph A134:* *A firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks. This could include entities that have public accountability characteristics (e.g., banks, insurance companies, pension funds), entities with high public profile or whose management/owners have high public profile and entities with large number and wide range of stakeholders.*	**Yes**[33] Support to apply for PIEs and for mandating for audit firms to carry out engagement quality reviews on internationally active banks and insurers. Trends noted in jurisdictions to require an engagement quality review for PIEs.
Communication with TCWG About the System of Quality Management			
ISQM 1, paragraph 34(e)	Providing TCWG with *greater transparency and confidence* about how the firm's system of quality	*ISQM 1, paragraph A128:* *May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions*	**Yes**[34] Broad support for enhanced communication and transparency with stakeholders about how

32 See Agenda Item 6-B discussed with the IAASB in December 2022, that provides background information including an overview of previous IAASB deliberations when certain differential requirements were established and sets out other relevant information gathering undertaken by the IAASB.

33 See respondents feedback received in response to question 11 of the Exposure Draft, *Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (February 2019). Also see the Basis for Conclusions, *ISQM 2, Engagement Quality Reviews* (December 2020) that provides a summary of the IAASB deliberations and decisions.

34 See respondents feedback received in response to question 10 of the Exposure Draft, *Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (February 2019). Also see the Basis for Conclusions, *ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (December 2020) that provides a summary of the IAASB deliberations and decisions.

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability[32]
	management supports quality audit engagements to assist them in fulfilling their responsibility to oversee the financial reporting process.	*(banks, insurance companies and pension funds) and charities.*	the system of quality management supports quality engagements.
Auditor Independence			
ISA 260 (Revised), paragraph 17	Assisting TCWG in fulfilling their responsibility to oversee the financial reporting process and to *enhance their confidence* in the audit of the entity's financial statements.	*ISA 260 (Revised), paragraph A32:* *May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions (banks, insurance companies and pension funds) and charities.* *ISA 260 (Revised), paragraph A32:* *May not be relevant for situations when all of TCWG are informed through their management activities of relevant facts or where the entity is owner-managed and the auditor's firm has little involvement with the entity beyond the financial statement audit.*	**Yes**[35] Support to be applied more broadly to all entities (including for PIEs).
ISA 700 (Revised), paragraph 40(b)	Providing transparency to intended users about auditor independence so as to *enhance their confidence* in the audit of the entity's financial statements.		

[35] See respondents feedback to the Exposure Draft of proposed ISA 260 (Revised), *Communication with Those Charged with Governance* (March 2005), the Exposure Draft of proposed ISA 260 (Revised and Redrafted), *Communication with Those Charged with Governance* (October 2006), and the *Basis for Conclusion: ISA 260 (Revised and Redrafted), Communication with Those Charged with Governance* (December 2007) that provides a summary of the IAASB deliberations and decisions.

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability[32]
Communicating KAM			
ISA 700 (Revised), paragraphs 30–31, 40(c) ISA 701, paragraph 5	Enhance the communicative value of the auditor's report by providing *greater transparency* about the audit that was performed. *Increase intended user confidence* in the audit and the audited financial statements.	*ISA 700 (Revised), paragraphs A40–A41:* *Law or regulation may require communication of KAM for other entities, e.g., PIEs.* *May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions (banks, insurance companies and pension funds) and charities.*	**Yes**[36,37] Support for requiring the communication of KAM for PIEs and scoping in banks and insurance companies, regardless of whether they are listed entities. Majority preference from all stakeholder constituencies for mandatory communication of KAM for PIEs. Trends noted in jurisdictions to extend applicability of KAM to PIEs.
Name of the Engagement Partner			
ISA 700 (Revised), paragraphs 46, 50(l)	Providing *transparency to intended users* about the engagement partner who is responsible for the audit to	*ISA 700 (Revised), paragraph A62:* *Law, regulation, or national auditing standards may require that the auditor's report include the name of the engagement partner responsible for audits of other entities than those of financial*	**Yes**[38] Support from users, regulators and those jurisdictions in which the name of the engagement partner is required to be included

36 See respondents feedback to the Exposure Draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)* (July 2013) and the Basis for Conclusions: *Reporting on Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments* (January 2015), that provides a summary of the IAASB deliberations and decisions.

37 See respondents feedback to the Auditor Reporting PIR Stakeholder Survey that included 148 responses from a broad range of stakeholders across 48 jurisdictions. In addition, Agenda Item 3 discussed by the IAASB in February 2021, provides an overview of stakeholder feedback from the Auditor Reporting PIR Stakeholder Survey and other information-gathering activities and Agenda Item 5 presented to the IAASB at its September 2021 meeting provides the recommendations to the Auditor Reporting PIR.

38 See the Invitation to Comment: *Improving the Auditor's Report* (June 2012) and the Basis for Conclusions: *Reporting On Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments* (January 2015).

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability[32]
	enhance their confidence in the audit that has been performed.	*statements of listed entities.* *Law, regulation, or national auditing standards may require including additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner (e.g., professional license number that is relevant to the jurisdiction where the auditor practices).*	in the auditor's report by law or regulation.
Transparency About the Other Information			
ISA 720 (Revised), paragraphs 21–22(b)	Providing *transparency to intended users* about the other information and auditor's work effort in relation to such information, including whether there is a material misstatement that may undermine the credibility of the financial statements and the auditor's report thereon or inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.	*ISA 720 (Revised), paragraph A52:* *May also be appropriate to consider identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report for an entity other than listed entity. This may be the case when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.*	**No**[39] Views that the practical difficulties encountered with identifying and considering the other information received after the date of the auditor's report outweighed the public interest benefits of doing so.

39 See respondents feedback to the Exposure Draft, *ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon* (November 2012), the re-exposure of Exposure Draft, ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* (April 2014), the Basis for Conclusion: *The Auditor's Responsibilities Relating to Other Information* (April 2015), and the findings and recommendations of the Auditor Reporting PIR discussed in Agenda Item 3 (February 2021) and Agenda Item 5 (September 2021).

Appendix 2 – Mapping the Key Changes Proposed by the Narrow Scope Amendments to the Actions and Objectives in the Project Proposal that Support the Public Interest

Qualitative Standard-Setting Characteristics Considered

- *Scalability* – addresses both less and more complex circumstances, commensurate to the facts and circumstances specific to a particular jurisdictional context (e.g., through establishing a global baseline for the categories of entities in the definition of PIE that could be consistently applied across jurisdictions and the revised approach to refining the categories of PIEs by placing a significant focus on the entities that should be treated as PIEs in the context of the facts and circumstances in a specific jurisdiction).
- *Proportionality* – addresses the issues in a proportionate manner by considering the relative impact that the proposals may have on different stakeholders (e.g., by considering the need for a more robust and consistent approach as to when the differential requirements in the ISQMs and ISAs are appropriate to apply for PIEs, and by recognizing heightened stakeholder expectations regarding the performance of audit engagements for certain types of entities that may not be listed, but for which the differential requirements would be appropriate to apply (e.g., for financial institutions, including banks and insurance companies)).
- *Coherence* – among the overall body of the IAASB's and the IESBA's standards (e.g., by acknowledging and not potentially undermining 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).
- *Relevance* – focuses on responding to emerging issues, evolving stakeholder needs and perceptions and changes in business environments (e.g., the need to maintain the relevance and robustness of the ISQMs and ISAs given the heightened expectations of stakeholders regarding the performance of audit engagements for PIEs, and by recognizing situations when the IESBA Code requires an action that also has relevance to the IAASB's standards).
- *Clarity and conciseness,* including overall *understandability* – addresses minimizing the likelihood of differing interpretations when concepts across the IAASB's and the IESBA's standards differ or are misaligned (e.g., by including requirements and application guidance to support that the IAASB's and the IESBA's standards operate in harmony, and without confusion, given that many jurisdictions utilize both).
- *Implementability* and ability of being *consistently applied and globally operable* – focuses on reducing complexity and supporting consistent application and understanding when concepts across the IAASB and the IESBA standards are aligned, including when there is alignment in the types of entities to which differential requirements apply (e.g., by supporting consistency among jurisdictions globally when applying the ISQMs and ISAs through adopting a common overarching objective for establishing differential requirements for PIEs, aligning definitions and the approach to scoping in PIEs, and by minimizing complexity when too many differential requirements for certain types of entities apply or when requirements are misaligned).

<table>
<tr><th rowspan="2">Proposed Actions in the <u>Project Proposal</u>
(Ref. Section VI, paragraph 30)</th><th>Key Changes Proposed</th><th rowspan="2">Qualitative Standard-Setting Characteristics Considered [40]</th></tr>
<tr><th>Description</th></tr>
<tr><td colspan="3">A. Project Objective: 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.</td></tr>
<tr><td>A.1: The IESBA definition of PIE
Consider adopting the IESBA definition of PIE into the ISQMs and ISAs, or the IAASB Glossary of Terms.
This project would consider whether the PIE definition should be adopted in the ISQMs and ISAs, because extant differential requirements for listed entities in the ISQMs and ISAs may be amended to apply to all categories of PIEs (also see item C.4 below).
This project would also consider the application material in the ISQMs and ISAs that describes entities that have public interest or public accountability characteristics, and any new application material supporting the differential requirements considered as part of this project, and whether it should also reflect the concepts underpinning the definition of PIE (also see item C.5 below).
This project would consider whether the PIE definition should be included in the IAASB Glossary of Terms, if it is not defined in the ISQMs and ISAs, but still used, for example, in application material (also see item C.5 below).</td><td>Definitions
• Adopting the definition of PIE in the Definitions section of the ISQMs and ISAs, and in IAASB Glossary of Terms.
Para’s. 16(p)A of ISQM 1; 13(l)A of ISA 200 in the ED
Requirements and Application Material
• Incorporating requirements and application material in the authority of ISQM 1 and ISA 200 to support the entire approach to scoping PIEs as contemplated in the IESBA Code, given that all elements of the approach are necessary to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction.
Para’s. 18A, A29D–A29F of ISQM 1; 23A, A81D–A81F of ISA 200 in the ED</td><td>• Scalability
• Coherence
• Relevance
• Clarity and conciseness
• Implementability, and ability of being consistently applied and globally operable</td></tr>
</table>

[40] The qualitative standard-setting characteristics listed are those that were at the forefront, or of most relevance, when determining how to address each proposed action.

<table>
<tr><th rowspan="2">Proposed Actions in the Project Proposal
(Ref. Section VI, paragraph 30)</th><th>Key Changes Proposed</th><th rowspan="2">Qualitative Standard-Setting Characteristics Considered [40]</th></tr>
<tr><th>Description</th></tr>
<tr><td>A.2: The IESBA definition of “publicly traded entity”
Consider adopting the IESBA definition of “publicly traded entity” into the ISQMs and ISAs, as a replacement of listed entity.
The project would consider the impact on the ISQMs and ISAs of adopting the definition of “publicly traded entity” and replacing “listed entity” with “publicly traded entity” (also see item C.4 below). In particular, the replacement of the term may result in changes in the underlying entities that such requirements apply to, for example:
• Additional entities may be scoped into the definition of “publicly traded entity” that are not scoped into the extant definition of “listed entity” in the ISQMs and ISAs.
• The definition of “publicly traded entity” refers to “a listed entity as defined by relevant securities law or regulation” as an example of a publicly traded entity. As a result, depending on how the term “listed entity” is defined in securities law or regulation, the notion of a listed entity may be broader or narrower than the extant definition of a “listed entity” in the ISQMs and ISAs.</td><td>Definitions
• Adopting the definition of “publicly traded entity” in the Definitions section of the ISQMs and ISAs, and in IAASB Glossary of Terms.
Para’s. 16(p)B of ISQM 1; 13(l)B of ISA 200 in the ED</td><td>• Scalability
• Coherence
• Relevance
• Clarity and conciseness
• Implementability, and ability of being consistently applied and globally operable</td></tr>
<tr><td colspan="3">B. Project Objective: Establish an objective and guidelines to support the IAASB’s judgments regarding specific matters for which differential requirements for certain entities are appropriate.</td></tr>
<tr><td>B.3: An objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs
Adopt the overarching objective established by the IESBA in paragraph 400.8 of the IESBA Code as a principle for establishing differential requirements for certain entities and application material in the ISQMs</td><td>Application Material
• Adopting the overarching objective for establishing differential requirements in the ISQMs and ISAs, based on paragraph 400.8 of the IESBA PIE Revisions.</td><td>• Scalability
• Proportionality
• Coherence
• Relevance</td></tr>
</table>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 30)	Key Changes Proposed Description	Qualitative Standard-Setting Characteristics Considered [40]
and ISAs. *Develop a tailored objective, based upon the overarching objective, and taking into consideration paragraph 400.10 of the IESBA Code, that explains the purpose for differential requirements for certain entities in the ISQMs and ISAs.* *Develop guidelines that assist the IAASB in identifying when differential requirements for certain entities may be appropriate, and if so, how such requirements should be established in the ISQMs and ISAs.* *Determine the appropriate location and accessibility of the objective or guidelines described above.* The objective and guidelines would be used as a basis for: • Undertaking a case-by-case analysis of existing differential requirements for listed entities in the ISQMs and ISAs to determine whether those requirements need to be amended to apply to all categories of PIEs (also see item C.4 below); and • Future IAASB projects in determining whether differential requirements need to be established for certain entities in the ISQMs and ISAs (i.e., it would be used to inform the approach by providing principles against which future proposals for differential requirements can be tested).	• Tailoring the purpose for the objective in paragraph 400.10 of the IESBA PIE Revisions to meet "the heightened expectations of stakeholders regarding *the audit engagement.*" *Paras. A29A–A29B of ISQM 1; A81A–A81B of ISA 200 in the ED*	• *Clarity and conciseness* • *Implementability,* and ability of being *consistently applied and globally operable*

<table>
<tr><th>Proposed Actions in the <u>Project Proposal</u>
(Ref. Section VI, paragraph 30)</th><th>Key Changes Proposed
Description</th><th>Qualitative Standard-Setting Characteristics Considered [40]</th></tr>
<tr><td colspan="3">C. Project Objective: 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.</td></tr>
<tr><td>C.4: Case-by-case analysis of extant differential requirements for listed entities in the ISQMs and ISAs
Undertake a case-by-case analysis to determine:
• Whether the extant differential requirements for listed entities should be amended to apply to all categories of PIEs; and
• The impact on extant differential requirements for listed entities of adopting the definition of “publicly traded entity” as a replacement of “listed entity.”
In undertaking the case-by-case analysis, the project would consider:
• The objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs (also see item B.3 above).
• The impact of amending the extant differential requirements for listed entities to apply to other entities, including the impact of adopting the definition of “publicly traded entity” as a replacement of “listed entity” if the differential requirements were to apply to “publicly traded entities” (also see items A.1 and A.2 above).
• Other information available (e.g., the post-implementation review of the auditor reporting standards, respondents’ feedback from</td><td>Scope and Requirements
• Extending the differential requirements for listed entities to apply to PIEs in ISQM 1, ISA 260 (Revised), ISA 700 (Revised) and ISA 701.
• Bifurcating the requirements in paragraph 17 of ISA 260 (Revised), to address the communication about compliance with independence requirements in the auditor’s report for all audit engagements.
• Amending the differential requirements in paragraphs 21– 22(b) of ISA 720 (Revised) to apply to “publicly traded entity.”
Paras. 34(e)–(f) of ISQM 1; 17, 17A of ISA 260 (Revised); 30–31, 40(b)–(c), 46, 50(l) of ISA 700 (Revised); 5 of ISA 701; 21–22(b) of ISA 720 (Revised) in the ED</td><td>• Scalability
• Proportionality
• Relevance
• Clarity and conciseness
• Implementability, and ability of being consistently applied and globally operable</td></tr>
</table>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 30)	Key Changes Proposed Description	Qualitative Standard-Setting Characteristics Considered [40]
the Exposure Draft on Proposed ISQM 1[41] regarding the scope of entities that should be subject to an engagement quality review, the Board's deliberations and decisions at the time when certain differential requirements were established, and, where appropriate, how national standard setters have addressed this issue at jurisdictional levels).		
C.5: Application and introductory material in the ISQMs and ISAs *As a consequence of undertaking the case-by-case analysis, consider whether:* • *The application material in the ISQMs and ISAs should be updated as a result of any changes to entities to which the extant differential requirements apply and to align with the concepts underpinning PIEs.* • *Updates may be needed to application material (e.g., examples and appendices) and introductory material (e.g., scope and scalability paragraphs) that use the term "listed entity(ies)" or otherwise make reference to listed entities (e.g., entities that are listed or entities other than listed entities).* The ISQMs and ISAs include application material to explain that certain entities other than listed entities could have characteristics that give rise to similar public interest issues as listed entities to alert auditors that it may be appropriate to apply a requirement that was designed for an audit of financial statements of a listed entity to a broader range of	*Application Material* • Inclusion of a central list of factors in the authority of ISQM 1 and ISA 200 that supports consideration of whether there are other types of entities for which it may be appropriate to apply the differential requirements in the ISQMs and ISAs. • Changes to align the entities to which the extant differential requirements apply as well as to align with the concepts underpinning the definition of PIE. *Various application and introductory material paragraphs and the illustrative auditor's reports in the ED*	• *Implementability,* and ability of being *consistently applied and globally operable*

[41] See Exposure Draft: *Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

<table>
<tr><th rowspan="2">Proposed Actions in the <u>Project Proposal</u>
(Ref. Section VI, paragraph 30)</th><th>Key Changes Proposed</th><th rowspan="2">Qualitative Standard-Setting Characteristics Considered [40]</th></tr>
<tr><th>Description</th></tr>
<tr><td>entities.[42] Various examples are included in application material to illustrate the types of entities that may exhibit such characteristics.

This project will consider whether such application material should be updated:

• As a consequence of the IAASB's decisions regarding which entities the differential requirements apply to; and

• To include the categories of entities included in the definition of PIE (i.e., if the requirement continues to apply to listed entities or publicly traded entities only), the factors in the IESBA Code for evaluating the extent of public interest in the financial condition of an entity and the factors in the IESBA Code for firms to consider in determining whether to apply the requirements in the IESBA Code for PIEs to other entities.

The ISQMs and ISAs include references to listed entities and related terms[43] (e.g., examples in application material, appendices, and scope and scalability paragraphs). The project will consider whether such application material needs to be updated.</td><td></td><td></td></tr>
</table>

[42] References in the application material made with respect to "public interest entities", "public entities", "entities with public accountability", "entities with public interest or public interest characteristics", "entities with significant public interest" and other similar descriptions.

[43] Related terms include the following: "non-listed", "other than listed", "unlisted" and "smaller listed" entity.

PROPOSED NARROW SCOPE AMENDMENTS TO THE ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

[MARKED-UP FROM EXTANT[1]]

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

ISQM 1, QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

Introduction

Scope of this ISQM

…

Scalability

10. In applying a risk-based approach, the firm is required to take into account:

    (a) The nature and circumstances of the firm; and

    (b) The nature and circumstances of the engagements performed by the firm.

    Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of ~~listed~~ public interest entities, will likely need to have a more complex and formalized system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation engagements.

…

Definitions

16. For purposes of this ISQM, the following terms have the meanings attributed below:

…

    ~~(j) Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.~~

…

[1] The ISQMs and the ISAs as published in the IAASB 2022 Handbook (Volumes I-II), as well as: (i) the approved narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) as part of Track 1 of the narrow scope project on listed entity and PIE and (ii) conforming and consequential amendments as a result of the revision of other approved ISAs which are not yet effective. In addition, certain references refer to the IESBA PIE Revisions instead of paragraphs of the IESBA Code, given that these revisions will only become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024.

(p)A Public interest entity – An entity is a public interest entity when it falls within any of the following categories:

(i) A publicly traded entity;

(ii) An entity one of whose main functions is to take deposits from the public;

(iii) An entity one of whose main functions is to provide insurance to the public; or

(iv) An entity specified as such by law, regulation or professional requirements related to the significance of the public interest in the financial condition of the entity.

Law, regulation or professional requirements may define more explicitly the categories of entities in (i)–(iii) above.

(p)B Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

…

Requirements

Applying, and Complying with, Relevant Requirements

17. The firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A29)

18. The individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual(s) assigned operational responsibility for the firm's system of quality management shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.

Public Interest Entities

18A. The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as consider more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)–(iii). (Ref: Para. A29A–A29G)

…

Specified Responses

34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)

(a) The firm establishes policies or procedures for:

(i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117)

(ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A118–A119)

(b) The firm obtains, at least annually, a documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent.

(c) The firm establishes policies or procedures for receiving, investigating and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures established in accordance with this ISQM. (Ref: Para. A120–A121)

(d) The firm establishes policies or procedures that address circumstances when:

 (i) The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement; or (Ref: Para. A122–A123)

 (ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A123)

(e) The firm establishes policies or procedures that: (Ref: Para. A124–A126)

 (i) Require communication with those charged with governance when performing an audit of financial statements of ~~listed~~ public interest entities about how the system of quality management supports the consistent performance of quality audit engagements; (Ref: Para. A127–A129)

 (ii) Address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management; and (Ref: Para. A130)

 (iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A131–A132)

(f) The firm establishes policies or procedures that address engagement quality reviews in accordance with ISQM 2, and require an engagement quality review for:

 (i) Audits of financial statements of ~~listed~~ public interest entities;

 (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A133)

 (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s). (Ref: Para. A134-A137)

…

Application and Other Explanatory Material

…

Applying, and Complying with, Relevant Requirements (Ref: Para. 17)

A29. *Examples of when a requirement of this ISQM may not be relevant to the firm*

- The firm is a sole practitioner. For example, the requirements addressing the organizational structure and assigning roles, responsibilities and authority within the firm, direction, supervision and review and addressing differences of opinion may not be relevant.

- The firm only performs engagements that are related services engagements. For example, if the firm is not required to maintain independence for related services engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.

Public Interest Entities (Ref: Para. 18A)

A29A. Some of the requirements set out in the ISQMs are applicable only to audits of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

A29B. Stakeholders have heightened expectations regarding an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements in the ISQMs that apply to audits of financial statements of public interest entities is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

A29C. The extent of public interest in the financial condition of an entity may, for example, be affected by:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

A29D. Law, regulation or professional requirements may use terms other than "public interest entity" to describe entities in which there is a significant public interest in the financial condition (see paragraph A29B). The requirements in the ISQMs that are relevant to public interest entities also apply to such entities. However, if law, regulation or professional requirements designate entities as "public interest entities" for reasons unrelated to the significant public interest in the financial condition of the entities, the requirements for audits of financial statements of public interest entities in the ISQMs may not necessarily apply to such entities.

A29E. The categories set out in paragraph 16(p)A(i)–(iii) are broadly defined and law, regulation or professional requirements may more explicitly define these categories, by for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.

- Setting size criteria for certain types of entities.

A29F. Paragraph 16(p)A(iv) anticipates that those responsible for setting law, regulation or professional requirements may add categories of public interest entities to meet the purpose described in paragraph A29B, and may consider the matters in paragraph A29C in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

A29G. The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence.[2] In addition, the firm may consider the matters set out in paragraph A29C as well as the following factors:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, the firm has applied the differential requirements for public interest entities to other entities.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional requirements.
- Whether the entity or other stakeholders requested the firm to apply the differential requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.
- Whether in similar circumstances, a predecessor firm has applied differential requirements for public interest entities to the entity.

…

Specified Responses (Ref: Para. 34)

…

Communication with Those Charged with Governance (Ref. Para: 34(e)(i))

A127. How the communication with those charged with governance is undertaken (i.e., by the firm or the engagement team) may depend on the firm's policies or procedures and the circumstances of the engagement.

A128. ISA 260 (Revised) deals with the auditor's responsibility to communicate with those charged with

[2] See, for example, encouragement in the application material in the IESBA PIE Revisions, paragraph 400.19 A1.

governance in an audit of financial statements, and addresses the auditor's determination of the appropriate person(s) within the entity's governance structure with whom to communicate[3] and the communication process.[4] In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than ~~listed~~ public interest entities (or when performing other engagements). ~~for example, entities that may have public interest or public accountability characteristics, such as:~~

- ~~Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds.~~
- ~~Entities with a high public profile, or whose management or owners have a high public profile.~~
- ~~Entities with a large number and wide range of stakeholders.~~

Public sector considerations

A129. The firm may determine it is appropriate to communicate to those charged with governance of a public sector entity about how the firm's system of quality management supports the consistent performance of quality engagements, taking into account the size and complexity of the public sector entity, the range of its stakeholders, the nature of the services it provides, and the role and responsibilities of those charged with governance.

Determining When it is Otherwise Appropriate to Communicate with External Parties (Ref. Para: 34(e)(ii))

A130. The firm's determination of when it is appropriate to communicate with external parties about the firm's system of quality management is a matter of professional judgment and may be influenced by matters such as:

- The types of engagements performed by the firm, and the types of entities for which such engagements are undertaken.
- The nature and circumstances of the firm.
- The nature of the firm's operating environment, such as customary business practice in the firm's jurisdiction and the characteristics of the financial markets in which the firm operates.
- The extent to which the firm has already communicated with external parties in accordance with law or regulation (i.e., whether further communication is needed, and if so, the matters to be communicated).
- The expectations of stakeholders in the firm's jurisdiction, including the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements.
- Jurisdictional trends.
- The information that is already available to external parties.
- How external parties may use the information, and their general understanding of matters related to firms' system of quality management and audits or reviews of financial statements,

[3] ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs 11–13

[4] ISA 260 (Revised), paragraphs 18–22

or other assurance or related services engagements.

- The public interest benefits of external communication and whether it would reasonably be expected to outweigh the costs (monetary or otherwise) of such communication.

The above matters may also affect the information provided by the firm in the communication, and the nature, timing and extent and appropriate form of communication.

Nature, Timing and Extent and Appropriate Form of Communication with External Parties (Ref. Para: 34(e)(iii))

A131. The firm may consider the following attributes in preparing information that is communicated to external parties:

- The information is specific to the circumstances of the firm. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information becomes overly standardized and less useful over time.
- The information is presented in a clear and understandable manner, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (e.g., the information is presented in a manner that is appropriately balanced towards positive and negative aspects of the matter being communicated).
- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (e.g., the firm's website).

A132. The firm uses professional judgment in determining, in the circumstances, the appropriate form of communication with the external party, including communication with those charged with governance when performing an audit of financial statements of ~~listed~~ public interest entities, which may be made orally or in writing. Accordingly, the form of communication may vary.

Examples of form of communication to external parties

- A publication such as a transparency report or audit quality report.
- Targeted written communication to specific stakeholders (e.g., information about the results of the firm's monitoring and remediation process).
- Direct conversations and interactions with the external party (e.g., discussions between the engagement team and those charged with governance).
- A webpage.
- Other forms of digital media, such as social media, or interviews or presentations via webcast or video.

Engagements Subject to an Engagement Quality Review

Engagement Quality Review Required by Law or Regulation (Ref: Para. 34(f)(ii))

A133. This ISQM requires an engagement quality review for audits of financial statements of public interest entities. Paragraph 16(p)A(iv) anticipates that law, regulation or professional requirements may include additional categories of public interest entities, for example, pension funds. Law or regulation may also include explicit requirements to perform an engagement quality review ~~to be performed~~ for certain entities, for example, for audit engagements for entities that:

- ~~Are public interest entities as defined in a particular jurisdiction;~~
- Operate in the public sector or which are recipients of government funding, or entities with public accountability;
- Operate in certain industries ~~(e.g., financial institutions such as banks, insurance companies and pension funds)~~;
- Meet a specified asset threshold; or
- Are under the management of a court or judicial process (e.g., liquidation).

Engagement Quality Review as a Response to Address One or More Quality Risk(s) (Ref: Para. 34(f)(iii))

A134. The firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, as required by paragraph 25(a)(ii), relates to the nature and circumstances of the engagements performed by the firm. In designing and implementing responses to address one or more quality risk(s), the firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks.

Examples of conditions, events, circumstances, actions or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response

Those relating to the types of engagements performed by the firm and reports to be issued:

- Engagements that involve a high level of complexity or judgment, such as:
  - Audits of financial statements for entities operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (e.g., ~~certain large financial institutions or~~ certain financial institutions or mining entities), or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern.
  - Assurance engagements that require specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).
- Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unremediated significant deficiencies in internal control, or a material restatement of comparative information in the financial statements.

- Engagements for which unusual circumstances have been identified during the firm's acceptance and continuance process (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner).
- Engagements that involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, and that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus.

Those relating to the types of entities for which engagements are undertaken:

- Entities in emerging industries, or for which the firm has no previous experience.
- Entities for which concerns were expressed in communications from securities or prudential regulators.
- ~~Entities other than listed entities that may have public interest or public accountability characteristics, for example:~~.
  - ~~Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation.~~
- Entities with a high public profile, or whose management or owners have a high public profile.
  - ~~Entities with a large number and wide range of stakeholders.~~

A135.The firm's responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, for audits of financial statements, the firm's responses may include reviews of the engagement team's procedures relating to significant risks, or reviews of certain significant judgments, by personnel who have specialized technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.

A136.In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review or another form of engagement review is an appropriate response to address the quality risk(s).

Public sector considerations

A137.The nature and circumstances of public sector entities (e.g., due to their size and complexity, the range of their stakeholders, or the nature of the services they provide) may give rise to quality risks. In these circumstances, the firm may determine that an engagement quality review is an appropriate response to address such quality risks. Law or regulation may establish additional reporting requirements for the auditors of public sector entities (e.g., a separate report on instances of non-compliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial statements). In such cases, the firm may also consider the complexity of such reporting, and its importance to users, in determining whether an engagement quality review is an appropriate response.

…

Engagement Inspections (Ref: Para. 38)

A151. *Examples of matters in paragraph 37 that may be considered by the firm in selecting completed engagements for inspection*

- In relation to the conditions, events, circumstances, actions or inactions giving rise to the quality risks:
  - The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement.
  - The types of entities for which engagements are undertaken, for example:
    - Entities that are ~~listed~~ public interest entities.
    - Entities operating in emerging industries.
    - Entities operating in industries associated with a high level of complexity or judgment.
    - Entities operating in an industry that is new to the firm.
  - The tenure and experience of engagement partners.
- The results of previous inspections of completed engagements, including for each engagement partner.
- In relation to other relevant information:
  - Complaints or allegations about an engagement partner.
  - The results of external inspections, including for each engagement partner.
  - The results of the firm's evaluation of each engagement partner's commitment to quality.

…

Evaluating Identified Deficiencies (Ref: Para. 41)

…

Root Cause of the Identified Deficiencies (Ref: Para. 41(a))

A165. The objective of investigating the root cause(s) of identified deficiencies is to understand the underlying circumstances that caused the deficiencies to enable the firm to:

- Evaluate the severity and pervasiveness of the identified deficiency; and
- Appropriately remediate the identified deficiency.

Performing a root cause analysis involves those performing the assessment exercising professional judgment based on the evidence available.

A166. The nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency may also be affected by the nature and circumstances of the firm, such as:

- The complexity and operating characteristics of the firm.

- The size of the firm.
- The geographical dispersion of the firm.
- How the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities.

Examples of how the nature of identified deficiencies and their possible severity and the nature and circumstances of the firm may affect the nature, timing and extent of the procedures to understand the root cause(s) of the identified deficiencies

- The nature of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of financial statements of a ~~listed~~ publicly traded entity was issued that was inappropriate or the identified deficiency relates to leadership's actions and behaviors regarding quality.
- The possible severity of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when the deficiency has been identified across multiple engagements or there is an indication that policies or procedures have high rates of non-compliance.
- Nature and circumstances of the firm:
  - In the case of a less complex firm with a single location, the firm's procedures to understand the root cause(s) of an identified deficiency may be simple, since the information to inform the understanding may be readily available and concentrated, and the root cause(s) may be more apparent.
  - In the case of a more complex firm with multiple locations, the procedures to understand the root cause(s) of an identified deficiency may include using individuals specifically trained on investigating the root cause(s) of identified deficiencies, and developing a methodology with more formalized procedures for identifying root cause(s).

…

ISQM 2, ENGAGEMENT QUALITY REVIEWS

…

Application and Other Explanatory Material

Appointment and Eligibility of Engagement Quality Reviewers

Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: Para. 17)

A1. Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about:

- The responsibilities of an engagement quality reviewer;
- The criteria in paragraphs 18 and 19 regarding the eligibility of engagement quality reviewers; and
- The nature and circumstances of the engagement or the entity subject to an engagement

quality review, including the composition of the engagement team.

A2. The firm's policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers not be a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (e.g., in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.

A3. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm's policies or procedures may specify a different process for appointing engagement quality reviewers for audits of ~~listed~~ public interest entities than for audits of ~~non-listed~~ entities other than public interest entities or other engagements, with different individuals responsible for each process.

…

Performance of the Engagement Quality Review (Ref: Para. 24–27)

…

Procedures Performed by the Engagement Quality Reviewer (Ref: Para. 25–27)

A28. The firm's policies or procedures may specify the nature, timing and extent of the procedures performed by the engagement quality reviewer and also may emphasize the importance of the engagement quality reviewer exercising professional judgment in performing the review.

A29. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement or the entity, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (e.g., planning, performing and reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction, on or before the date of the engagement report. For example, the engagement quality reviewer may perform procedures in relation to the overall strategy and plan for the engagement at the completion of the planning phase. Timely performance of the engagement quality review also may reinforce the exercise of professional judgment and, when applicable to the type of engagement, professional skepticism, by the engagement team in planning and performing the engagement.

A30. The nature and extent of the engagement quality reviewer's procedures for a specific engagement may depend on, among other factors:

- The reasons for the assessments given to quality risks,[5] for example, engagements performed for entities in emerging industries or with complex transactions.
- Identified deficiencies, and the remedial actions to address the identified deficiencies, related to the firm's monitoring and remediation process, and any related guidance issued by the firm, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.
- The complexity of the engagement.

[5] ISQM 1, paragraph A49

- The nature and size of the entity, including whether the entity is a ~~listed~~ public interest entity.
- Findings relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or other concerns raised about the quality of the work of the engagement team.
- Information obtained from the firm's acceptance and continuance of client relationships and specific engagements.
- For assurance engagements, the engagement team's identification and assessment of, and responses to, risks of material misstatement in the engagement.
- Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm's policies or procedures may address the actions the engagement quality reviewer takes in circumstances when the engagement team has not cooperated with the engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.

A31. The nature, timing and extent of the engagement quality reviewer's procedures may need to change based on circumstances encountered in performing the engagement quality review.

…

ISA 200, OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING

…

Definitions

…

13. For purposes of the ISAs, the following terms have the meanings attributed below:

…

(l)A Public interest entity – An entity is a public interest entity when it falls within any of the following categories:

(i) A publicly traded entity;

(ii) An entity one of whose main functions is to take deposits from the public;

(iii) An entity one of whose main functions is to provide insurance to the public; or

(iv) An entity specified as such by law, regulation or professional requirements related to the significance of the public interest in the financial condition of the entity.

Law, regulation or professional requirements may define more explicitly the categories of entities in (i)–(iii) above.

(l)B Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

…

Requirements

…

Conduct of an Audit in Accordance with ISAs

…

Complying with Relevant Requirements

22. Subject to paragraph 23, the auditor shall comply with each requirement of an ISA unless, in the circumstances of the audit:

    (a) The entire ISA is not relevant; or

    (b) The requirement is not relevant because it is conditional and the condition does not exist. (Ref: Para. A79–A80)

23. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. A81)

Public Interest Entities

23A. The auditor shall treat an entity as a public interest entity in accordance with the definition in paragraph 13(l)A, as well as consider more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 13(l)A(i)–(iii). In doing so, the auditor shall follow the firm's related policies or procedures. (Ref: Para. A81A–A81G)

…

Application and Other Explanatory Material

…

Conduct of an Audit in Accordance with ISAs

…

Contents of the ISAs (Ref: Para. 19)

…

Scalability Considerations

…

A69. Scalability considerations have been included in some ISAs (e.g., ISA 315 (Revised 2019)), illustrating the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex. Less complex entities are entities for which the characteristics in paragraph A71 may apply.

A70. The "considerations specific to smaller entities" included in some ISAs have been developed primarily with ~~unlisted~~ entities other than public interest entities in mind. Some of the considerations, however, may be helpful in audits of smaller ~~listed~~ public interest entities.

A71. For purposes of specifying additional considerations to audits of smaller entities, a "smaller entity" refers to an entity which typically possesses qualitative characteristics such as:

(a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and

(b) One or more of the following:

(i) Straightforward or uncomplicated transactions;

(ii) Simple record-keeping;

(iii) Few lines of business and few products within business lines;

(iv) Simpler system of internal controls;

(v) Few levels of management with responsibility for a broad range of controls; or

(vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

…

Complying with Relevant Requirements

Relevant Requirements (Ref: Para. 22)

…

Departure from a Requirement (Ref: Para. 23)

A81. ISA 230 establishes documentation requirements in those exceptional circumstances where the auditor departs from a relevant requirement.[6] The ISAs do not call for compliance with a requirement that is not relevant in the circumstances of the audit.

Public Interest Entities (Ref: Para. 23A)

A81A. Some of the requirements set out in the ISAs are applicable only to audits of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

A81B. Stakeholders have heightened expectations regarding an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements in the ISAs that apply to audits of financial statements of public interest entities is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's

6 ISA 230, paragraph 12

financial statements that can be used when assessing the entity's financial condition.

A81C. The extent of public interest in the financial condition of an entity may, for example, be affected by:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

A81D. Law, regulation or professional requirements may use terms other than public interest entity to describe entities in which there is a significant public interest in the financial condition (see paragraph A81B). The requirements in the ISAs that are relevant to public interest entities also apply to such entities. However, if law, regulation or professional requirements designate entities as "public interest entities" for reasons unrelated to the significant public interest in the financial condition of the entities, the requirements for audits of financial statements of public interest entities in the ISAs may not necessarily apply to such entities.

A81E. The categories set out in paragraph 13(l)A(i)–(iii) are broadly defined and law, regulation or professional requirements may more explicitly define these categories by, for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
- Setting size criteria for certain types of entities.

A81F. Paragraph 13(l)A(iv) anticipates that those responsible for setting law, regulation or professional requirements may add categories of public interest entities to meet the purpose described in paragraph A81B, and may consider the matters in paragraph A81C in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

A81G. The auditor may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISAs. When making this determination, the auditor may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence.[7] In addition, the auditor may consider the matters set out in paragraph A81C as well as the following factors:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, the auditor has applied the differential requirements for public interest entities to other entities.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional requirements.
- Whether the entity or other stakeholders requested the auditor to apply the differential requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.
- Whether in similar circumstances, a predecessor auditor has applied differential requirements for public interest entities to the entity.

…

ISA 210, AGREEING THE TERMS OF AUDIT ENGAGEMENTS

…

Application and Other Explanatory Material

…

Preconditions for an Audit

…

Agreement of the Responsibilities of Management (Ref: Para. 6(b))

…

A12. The way in which the responsibilities for financial reporting are divided between management and those charged with governance will vary according to the resources and structure of the entity and any relevant law or regulation, and the respective roles of management and those charged with governance within the entity. In most cases, management is responsible for execution while those charged with governance have oversight of management. In some cases, those charged with governance will have, or will assume, responsibility for approving the financial statements or monitoring the entity's internal control related to financial reporting. In larger or more complex entities, a subgroup of those charged with governance, such as an audit committee, may be charged with certain oversight responsibilities.

…

[7] See, for example, encouragement in the application material in the IESBA PIE Revisions, paragraph 400.19 A1.

ISA 220 (REVISED), QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

…

Application and Other Explanatory Material

…

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 16–21)

Relevant Ethical Requirements (Ref: Para. 1, 16–21)

A38. ISA 200[8] requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of ~~listed~~ public interest entities. ISA 600 (Revised) includes additional requirements and guidance to those in this ISA regarding communications about relevant ethical requirements with component auditors.

…

ISA 240, THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

…

Application and Other Explanatory Material

…

Identification and Assessment of the Risks of Material Misstatement Due to Fraud

Risks of Fraud in Revenue Recognition (Ref: Para. 27)

A29. Material misstatement due to fraudulent financial reporting relating to revenue recognition often results from an overstatement of revenues through, for example, premature revenue recognition or recording fictitious revenues. It may result also from an understatement of revenues through, for example, improperly shifting revenues to a later period.

A30. The risks of fraud in revenue recognition may be greater in some entities than others. For example, there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of ~~listed~~ certain public interest entities when, for example, performance is measured in terms of year over year revenue growth or profit. Similarly, for example, there may be greater risks of fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales.

A31. The presumption that there are risks of fraud in revenue recognition may be rebutted. For example, the auditor may conclude that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where a there is a single type of simple revenue transaction, for

[8] ISA 200, paragraphs 14 and A16–A19

example, leasehold revenue from a single unit rental property.

…

ISA 260 (REVISED), COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this ISA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for ~~listed~~ public interest entities. This ISA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

…

Requirements

…

Matters to Be Communicated

…

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, t~~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.

17A. For audits of financial statements of public interest entities, the statement required by paragraph 17 shall include:

(a) 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 (Ref: Para. A29A)

(b) 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. A30–A32)

…

The Communication Process

…

Forms of Communication

…

20. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraphs 17 and 17A.

…

Application and Other Explanatory Material

…

Matters to Be Communicated

…

Auditor Independence (Ref: Para. 16A–17A)

A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements[9] 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.[10] 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.[11]
- 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

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

[10] See, for example, the public disclosure requirements in the IESBA PIE Revisions, paragraphs R400.20-R400.21.

[11] ISA 700 (Revised), paragraph 28(c)

financial statements of other entities not specified in the relevant ethical requirements.[12] 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.

A29A. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance for matters that may reasonably be thought to bear on independence. For example, the IESBA Code requires the auditor to communicate with those charged with governance information regarding fees[13] and the provision of non-audit services for audit clients that are public interest entities.[14]

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 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.[15]

A32. Paragraph A81G of ISA 200 explains that the auditor may treat other entities as public interest entities and provides considerations for the auditor in doing so. The communication requirements relating to auditor independence that apply in the case of ~~listed~~ public interest entities may also be appropriate in the case of some ~~other~~ entities other than public interest 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.

…

The Communication Process

Establishing the Communication Process (Ref: Para. 18)

…

[12] See, for example, encouragement in the application material in the IESBA PIE Revisions, paragraph 400.19 A1.

[13] See, for example, paragraphs R410.23–R410.28 of the IESBA Code.

[14] See, for example, paragraphs R600.21–R600.23 of the IESBA Code.

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

Considerations Specific to Smaller Entities

A40. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of, for example, publicly traded or ~~listed or~~ larger entities.

…

ISA 265, COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

…

Application and Other Explanatory Material

…

Significant Deficiencies in Internal Control (Ref: Para. 6(b), 8)

…

A9. Law or regulation in some jurisdictions may establish a requirement (particularly for audits of ~~listed~~ public interest entities) for the auditor to communicate to those charged with governance or to other relevant parties (such as regulators) one or more specific types of deficiency in internal control that the auditor has identified during the audit. Where law or regulation has established specific terms and definitions for these types of deficiency and requires the auditor to use these terms and definitions for the purpose of the communication, the auditor uses such terms and definitions when communicating in accordance with the legal or regulatory requirement.

…

Communication of Deficiencies in Internal Control

Communication of Significant Deficiencies in Internal Control to Those Charged with Governance (Ref: Para. 9)

…

A13. In determining when to issue the written communication, the auditor may consider whether receipt of such communication would be an important factor in enabling those charged with governance to discharge their oversight responsibilities. In addition, for ~~listed~~ public interest entities in certain jurisdictions, those charged with governance may need to receive the auditor's written communication before the date of approval of the financial statements in order to discharge specific responsibilities in relation to internal control for regulatory or other purposes. For other entities, the auditor may issue the written communication at a later date. Nevertheless, in the latter case, as the auditor's written communication of significant deficiencies forms part of the final audit file, the written communication is subject to the overriding requirement[16] for the auditor to complete the assembly of the final audit file on a timely basis. ISA 230 states that an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the

[16] ISA 230, *Audit Documentation*, paragraph 14

auditor's report.[17]

A14. Regardless of the timing of the written communication of significant deficiencies, the auditor may communicate these orally in the first instance to management and, when appropriate, to those charged with governance to assist them in taking timely remedial action to minimize the risks of material misstatement. Doing so, however, does not relieve the auditor of the responsibility to communicate the significant deficiencies in writing, as this ISA requires.

A15. The level of detail at which to communicate significant deficiencies is a matter of the auditor's professional judgment in the circumstances. Factors that the auditor may consider in determining an appropriate level of detail for the communication include, for example:

- The nature of the entity. For example, the communication required for a public interest entity may be different from that for an entity other than a ~~non-~~public interest entity.
- The size and complexity of the entity. For example, the communication required for a complex entity may be different from that for an entity operating a simple business.
- The nature of significant deficiencies that the auditor has identified.
- The entity's governance composition. For example, more detail may be needed if those charged with governance include members who do not have significant experience in the entity's industry or in the affected areas.
- Legal or regulatory requirements regarding the communication of specific types of deficiency in internal control.

…

ISA 315 (REVISED 2019), IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

…

Application and Other Explanatory Material

…

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control (Ref: Para. 19–27)

…

The Entity and Its Environment (Ref: Para. 19(a))

The Entity's Organizational Structure, Ownership and Governance, and Business Model (Ref: Para. 19(a)(i))

The entity's organizational structure and ownership

A56. An understanding of the entity's organizational structure and ownership may enable the auditor to understand such matters as:

[17] ISA 230, paragraph A21

- The complexity of the entity's structure.
- …
- The distinction between the owners, those charged with governance and management.

> **Example:**
>
> In less complex entities, owners of the entity may be involved in managing the entity, therefore there is little or no distinction. In contrast, such as in some ~~listed~~ publicly traded entities, there may be a clear distinction between management, the owners of the entity, and those charged with governance.[18]

…

ISA 510, INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES

…

Appendix

(Ref: Para A8)

Illustrations of Auditors' Reports with Modified Opinions

…

> **Illustration 1:**
>
> **For purposes of this illustrative auditor's report, the following circumstances are assumed:**
>
> - **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[19] does not apply).**
>
> …

> **Illustration 2:**
>
> **For purposes of this illustrative auditor's report, the following circumstances are assumed:**
>
> - **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
>
> …

[18] ISA 260 (Revised), paragraphs A1 and A2, provide guidance on the identification of those charged with governance and explains that in some cases, some or all of those charged with governance may be involved in managing the entity.

[19] ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

ISA 570 (REVISED), GOING CONCERN

…

Appendix

(Ref: Para. A29, A31–A32)

Illustrations of Auditor's Reports Relating to Going Concern

- Illustration 1: An auditor's report containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 2: An auditor's report containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure.
- Illustration 3: An auditor's report containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

Illustration 1 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

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

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[20] does not apply).**

…

Illustration 2 – Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

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

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

[20] ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements

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

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ <u>public interest</u> entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

ISA 600 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

…

Appendix 1

(Ref: Para. A42)

Illustration of Independent Auditor's Report Where the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

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

- **Audit of a complete set of consolidated financial statements of an entity other than a ~~listed~~ <u>public interest</u> entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements[21]

…

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised). The last two paragraphs which are applicable for audits of ~~listed~~ <u>public interest</u> entities only would not be included.*]

…

[21] 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.

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

…

Requirements

…

Auditor’s Report

…

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

…

Key Audit Matters

30. For audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities, the auditor shall communicate key audit matters in the auditor’s report in accordance with ISA 701.

31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor’s report, the auditor shall do so in accordance with ISA 701. (Ref: Para. A40–A43~~2~~)

…

Auditor’s Responsibilities for the Audit of the Financial Statements

…

40. The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report also shall: (Ref: Para. A50)

    (a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;

    (b) ~~For audits of financial statements of listed entities, s~~State that the auditor provides those charged with governance with a statement that the auditor has:

        (i) C~~c~~omplied with relevant ethical requirements regarding independence; and

        (ii) For audits of financial statements of public interest entities, communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor’s independence, and where applicable, actions taken to eliminate threats or safeguards applied; and

    (c) For audits of financial statements of ~~listed~~ public interest entities and any other entities for which key audit matters are communicated in accordance with ISA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53)

…

Name of the Engagement Partner

46. The name of the engagement partner shall be included in the auditor's report on financial statements of ~~listed~~ public interest entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A61–A63)

…

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) …

(l) For audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.

(m) …

…

Application and Other Explanatory Material

…

Auditor's Report (Ref: Para. 20)

…

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

…

Key Audit Matters (Ref: Para. 31)

A40. This ISA requires communication of key audit matters for audits of financial statements of public interest entities. Paragraph 13(l)A(iv) of ISA 200 anticipates that law, regulation or professional requirements may include additional categories of public interest entities, for example, pension funds. Law or regulation may also require communication of key audit matters for audits of entities other than public interest entities ~~listed entities, for example, entities characterized in such law or regulation~~

~~as public interest entities~~.

A41. Paragraph A81G of ISA 200 explains that the auditor may treat other entities as public interest entities and provides considerations for the auditor in doing so. The auditor may also decide to communicate key audit matters for ~~other~~ entities other than public interest 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~~.

A42. ISA 210 requires the auditor to agree the terms of the audit engagement with management and those charged with governance, as appropriate, and explains that the roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance arrangements of the entity and relevant law or regulation.[22] ISA 210 also requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.[23] When the auditor is not otherwise required to communicate key audit matters, ISA 210[24] explains that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

Considerations specific to public sector entities

A43. ~~Listed entities are not common in the public sector. However, p~~Public sector entities may be significant due to size, complexity or public interest aspects. In such cases, an auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report.

…

Name of the Engagement Partner (Ref: Para. 46)

A61. The objective of the firm in ISQM 1[25] is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Notwithstanding the objective of ISQM 1, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on the financial statements of a ~~listed~~ public interest entity.

22 ISA 210, paragraphs 9 and A22

23 ISA 210, paragraph 10

24 ISA 210, paragraph A25

25 ISQM 1, *Quality Control for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 14

A62. Law, regulation or national auditing standards may require that the auditor's report include the name of the engagement partner responsible for audits other than those of financial statements of ~~listed~~ public interest entities. The auditor may also be required by law, regulation or national auditing standards, or may decide to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to the jurisdiction where the auditor practices.

A63. In rare circumstances, the auditor may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement partner is made public, may result in physical harm to the engagement partner, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or national auditing standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement partner may be omitted.

…

Appendix

(Ref: Para A19)

Illustrations of Independent Auditor's Reports on Financial Statements

- Illustration 1: An auditor's report on financial statements of a ~~listed~~ public interest entity prepared in accordance with a fair presentation framework
- Illustration 2: An auditor's report on consolidated financial statements of a ~~listed~~ public interest entity prepared in accordance with a fair presentation framework
- Illustration 3: An auditor's report on financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with a fair presentation framework (where reference is made to material that is located on a website of an appropriate authority)
- Illustration 4: An auditor's report on financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with a general purpose compliance framework

Illustration 1 – Auditor's Report on Financial Statements of a ~~Listed~~ Public Interest 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~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

Illustration 2 – Auditor's Report on Consolidated Financial Statements of a ~~Listed~~ Public Interest 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~~ public interest entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

Illustration 3 – Auditor's Report on Financial Statements of an Entity Other than a ~~Listed~~ Public Interest 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 an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **The auditor elects to refer to the description of the auditor's responsibility included on a website of an appropriate authority.**

…

Illustration 4 – Auditor's Report on Financial Statements of an Entity Other than a ~~Listed~~ Public Interest Entity Prepared in Accordance with a General Purpose Compliance Framework

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

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity required by law or regulation. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements[26]

…

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- …

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. <u>We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.</u>

…

ISA 701, COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

Introduction

Scope of this ISA

…

5. This ISA applies to audits of complete sets of general purpose financial statements of ~~listed~~ <u>public interest</u> entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This ISA also applies when the auditor is required by law or regulation

[26] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

to communicate key audit matters in the auditor's report.[27] However, ISA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation. [28]

…

Application and Other Explanatory Material

…

Communicating Key Audit Matters

…

Form and Content of the Key Audit Matters Section in Other Circumstances (Ref: Para. 16)

…

A59. The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a ~~listed~~ <u>public interest</u> entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a ~~listed~~ <u>public interest</u> entity that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention.

…

ISA 705 (REVISED), MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

…

Appendix

(Ref: Para A17–A18, A25)

Illustrations of Independent Auditor's Reports with Modifications to the Opinion

- Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the consolidated financial statements.
- Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate.
- Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial

[27] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 30–31

[28] ISA 705 (Revised), paragraph 29

statements.

- Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

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

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[29] does not apply).**

…

Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

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

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

Illustration 3 – Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

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~~ public interest entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

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

- **Audit of a complete set of consolidated financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

[29] ISA 600 (Revised), Special Considerations—*Audits of Group Financial Statements (Including the Work of Component Auditors)*

Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

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

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised), does not apply).**

…

ISA 706 (REVISED), EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

…

Application and Other Explanatory Material

…

Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report (Ref: Para. 9, 11)

…

A17. Appendix 3 is an illustration of the interaction between the Key Audit Matters section, an Emphasis of Matter paragraph and an Other Matter paragraph when all are presented in the auditor's report. The illustrative report in Appendix 4 includes an Emphasis of Matter paragraph in an auditor's report for an entity other than a ~~listed~~ public interest entity that contains a qualified opinion and for which key audit matters have not been communicated.

…

Appendix 3

(Ref: Para A17)

Illustration of an Independent Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

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

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[30] does not apply).**

…

[30] ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Appendix 4

(Ref: Para A8)

Illustration of an Independent Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter Paragraph

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

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ <u>public interest</u> entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

ISA 710, COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

…

Appendix

(Ref: Para A5, A7, A10)

Illustrations of Independent Auditors' Reports

<u>Illustration 1 – Corresponding Figures</u>

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

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ <u>public interest</u> entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[31] does not apply).**

…

<u>Illustration 2 – Corresponding Figures</u>

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

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ <u>public interest</u> entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

[31] ISA 600 (Revised), Special Considerations—*Audits of Group Financial Statements (Including the Work of Component Auditors)*

Illustration 3 – Corresponding Figures

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

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

Illustration 4 – Comparative Financial Statements

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

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

ISA 720 (REVISED), THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

Introduction

…

Scope of this ISA

…

6. The auditor's responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.

…

Requirements

…

Reporting

21. The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:

    (a) For an audit of financial statements of a ~~listed~~ publicly traded entity, the auditor has obtained, or expects to obtain, the other information; or

    (b) For an audit of financial statements of an entity other than a ~~listed~~ publicly traded entity, the auditor has obtained some or all of the other information. (Ref: Para. A52)

22. When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)

    (a) A statement that management is responsible for the other information;

    (b) An identification of:

        (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and

        (ii) For an audit of financial statements of a ~~listed~~ publicly traded entity, other information, if any, expected to be obtained after the date of the auditor's report;

    (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;

    (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA; and

    (e) When other information has been obtained prior to the date of the auditor's report, either:

        (i) A statement that the auditor has nothing to report; or

        (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

…

Application and Other Explanatory Material

…

Obtaining the Other Information (Ref: Para. 13)

…

A12. When the annual report is translated into other languages pursuant to law or regulation (such as may occur when a jurisdiction has more than one official language), or when multiple "annual reports" are prepared under different legislation (for example, when an entity is ~~listed~~ publicly traded in more than one jurisdiction), consideration may need to be given as to whether one, or more than one of the "annual reports" form part of the other information. Local law or regulation may provide further guidance in this respect.

…

Reporting (Ref: Para. 21–24)

A52. For an audit of financial statements of an entity other than a ~~listed~~ publicly traded entity, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this ISA. The auditor may consider it appropriate to do so, for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.

…

Appendix 2

(Ref: Para. 21-22, A53)

Illustration of Independent Auditor's Reports Relating to Other Information

- Illustration 1: An auditor's report of any entity~~, whether listed or other than listed,~~ containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Illustration 2: An auditor's report of a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 3: An auditor's report of an entity other than a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 4: An auditor's report of a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- Illustration 5: An auditor's report of any entity~~, whether listed or other than listed,~~ containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- Illustration 6: An auditor's report of any entity~~, whether listed or other than listed,~~ containing a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.
- Illustration 7: An auditor's report of any entity~~, whether listed or other than listed,~~ containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.

Illustration 1 – An auditor's report of any entity~~, whether listed or other than listed,~~ containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

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

- **Audit of a complete set of financial statements of any entity~~, whether listed or other than listed,~~ using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[32] does not apply).**

…

- **Key audit matters have been communicated in accordance with ISA 701.** [33]

…

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements[34]

…

Key Audit Matters[35]

…

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [*name*].[36]]

…

[32] ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

[33] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report.* The Key Audit Matters section is required for ~~listed~~ public interest entities only.

[34] 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.

[35] The Key Audit Matters section is required for ~~listed~~ public interest entities only.

[36] The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).

Illustration 2 – An auditor's report of a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

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

- **Audit of a complete set of financial statements of a ~~listed~~ publicly traded entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements[37]

…

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [*name*].[38]]

…

Illustration 3 – An auditor's report of an entity other than a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

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

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ publicly traded entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

[37] 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.

[38] The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).

Illustration 4 – An auditor's report of a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.

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

- **Audit of a complete set of financial statements of a ~~listed~~ publicly traded entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

Illustration 5 – An auditor's report of any entity~~, whether listed or other than listed,~~ containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.

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

- **Audit of a complete set of financial statements of any entity~~, whether listed or other than listed,~~ using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

INDEPENDENT AUDITOR'S REPORT

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

…

Key Audit Matters[39]

…

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [*name*].[40]]

…

[39] The Key Audit Matters section is required for ~~listed~~ public interest entities only.

[40] The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).

Illustration 6 – An auditor's report of any entity~~, whether listed or other than listed,~~ containing a~~n~~ qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.

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

- **Audit of a complete set of consolidated financial statements of any entity~~, whether listed or other than listed,~~ using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).**

…

INDEPENDENT AUDITOR'S REPORT

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

…

Key Audit Matters[41]

…

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [*name*].[42]]

…

Illustration 7 – An auditor's report of any entity~~, whether listed or other than listed,~~ containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.

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

- **Audit of a complete set of consolidated financial statements of any entity~~, whether listed or other than listed,~~ using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).**

…

INDEPENDENT AUDITOR'S REPORT

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

---

41 The Key Audit Matters section is required for ~~listed~~ public interest entities only.

42 The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).

…

Key Audit Matters[43]

…

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [*name*].[44]]

…

ISA 800 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

…

Application and Other Explanatory Material

…

Forming an Opinion and Reporting Considerations (Ref: Para. 11)

…

Application of ISA 700 (Revised) When Reporting on Special Purpose Financial Statements

…

Key Audit Matters

A16. ISA 700 (Revised) requires the auditor to communicate key audit matters in accordance with ISA 701[45] for audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities. For audits of special purpose financial statements, ISA 701 only applies when communication of key audit matters in the auditor's report on the special purpose financial statements is required by law or regulation or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on special purpose financial statements, ISA 701 applies in its entirety.[46]

Other Information

A17. ISA 720 (Revised) deals with the auditor's responsibilities relating to other information. In the context of this ISA, reports containing or accompanying the special purpose financial statements—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented

---

43 The Key Audit Matters section is required for ~~listed~~ public interest entities only.

44 The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).

45 ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

46 ISA 700 (Revised), paragraph 31

in the special purpose financial statements—are considered to be annual reports for the purpose of ISA 720 (Revised). In the case of financial statements prepared using a special purpose framework, the term "similar stakeholders" includes the specific users whose financial information needs are met by the design of the special purpose framework used to prepare the special purpose financial statements. When the auditor determines that the entity plans to issue such a report, the requirements in ISA 720 (Revised) apply to the audit of the special purpose financial statements.

Name of the Engagement Partner

A18. The requirement in ISA 700 (Revised) for the auditor to include the name of the engagement partner in the auditor's report also applies to audits of special purpose financial statements of ~~listed~~ public interest entities.[47] The auditor may be required by law or regulation to include the name of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on special purpose financial statements of entities other than ~~listed~~ public interest entities.

…

Appendix

(Ref: Para. A14)

Illustrations of Independent Auditor's Reports on Special Purpose Financial Statements

- Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).
- Illustration 3: An auditor's report on a complete set of financial statements of a ~~listed~~ public interest entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).

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

- **The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework). Management does not have a choice of financial reporting frameworks.**

…

[47] See ISA 700 (Revised), paragraphs 45 and A56–A58

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Emphasis of Matters – Basis of Accounting and Restriction on Distribution and Use

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements[48]

…

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- …

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. <u>We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.</u>

…

48 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).

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

- **Audit of a complete set of financial statements that have been prepared by management of a partnership in accordance with the tax basis of accounting in Jurisdiction X (that is, a special purpose framework) to assist partners in preparing their individual income tax return. Management does not have a choice of financial reporting frameworks.**

…

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Emphasis of Matters – Basis of Accounting and Restriction on Distribution

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements[49]

…

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

[49] Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- …

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. <u>We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.</u>

…

Illustration 3: An auditor's report on a complete set of financial statements of a ~~listed~~ <u>public interest</u> entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, 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~~ <u>public interest</u> entity that have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.**

…

ISA 805 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

…

Application and Other Explanatory Material

…

Forming an Opinion and Reporting Considerations (Ref: Para. 11)

…

Application of ISA 700 (Revised) When Reporting on a Single Financial Statement or on a Specific Element of a Financial Statement

…

Key Audit Matters

A20. ISA 700 (Revised) requires the auditor to communicate key audit matters in accordance with ISA 701 for audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities.[50] For audits of a single financial statement or a specific element of a financial statement, ISA 701 only applies when communication of key audit matters in the auditor's report on such financial statements or elements is required by law or regulation, or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on a single financial statement or a specific element of a financial statement, ISA 701 applies in its entirety.[51]

Other Information

A21. ISA 720 (Revised) deals with the auditor's responsibilities relating to other information. In the context of this ISA, reports containing or accompanying the single financial statement or specific element of a financial statement—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the single financial statement or the specific element of a financial statement—are considered to be annual reports for purposes of ISA 720 (Revised). When the auditor determines that the entity plans to issue such a report, the requirements in ISA 720 (Revised) apply to the audit of the single financial statement or the element.

Name of the Engagement Partner

A22. The requirement in ISA 700 (Revised) for the auditor to include the name of the engagement partner in the auditor's report also applies to audits of single financial statements of ~~listed~~ public interest entities or specific elements of financial statements of ~~listed~~ public interest entities.[52] The auditor may be required by law or regulation to include the name of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on a single financial statement or on an element of a financial statement of entities other than ~~listed~~ public interest entities.

…

Appendix 2

(Ref: Para. A17)

Illustrations of Independent Auditor's Reports on a Single Financial Statement and on a Specific Element of a Financial Statement

- Illustration 1: An auditor's report on a single financial statement of an entity other than a ~~listed~~ public interest entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 2: An auditor's report on a single financial statement of an entity other than a ~~listed~~ public interest entity prepared in accordance with a special purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 3: An auditor's report on a specific element of a financial statement of a ~~listed~~ public interest entity prepared in accordance with a special purpose framework (for purposes of this

[50] ISA 700 (Revised), paragraph 30

[51] ISA 700 (Revised), paragraph 31

[52] See ISA 700 (Revised), paragraphs 46 and A61–A63.

illustration, a compliance framework).

Illustration 1: An auditor's report on a single financial statement of an entity other than a ~~listed~~ public interest entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).

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

- **Audit of a balance sheet (that is, a single financial statement) of an entity other than a ~~listed~~ public interest entity.**

…

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Material Uncertainty Related to Going Concern

…

Responsibilities of Management and Those Charged with Governance for the Financial Statement[53]

…

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

[53] Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- …

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. <u>We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.</u>

…

Illustration 2: An auditor's report on a single financial statement of an entity other than a ~~listed~~ <u>public interest</u> entity prepared in accordance with a general purpose framework.

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

- **Audit of a statement of cash receipts and disbursements (that is, a single financial statement) of an entity other than a ~~listed~~ <u>public interest</u> entity.**

…

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Emphasis of Matter – Basis of Accounting

…

Responsibilities of Management and Those Charged with Governance for the Financial Statement[54]

…

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are

[54] Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- …

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. <u>We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.</u>

…

Illustration 3: An auditor's report on a specific element of a financial statement of a ~~listed~~ <u>public interest</u> entity prepared in accordance with a special purpose framework.

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

- **Audit of an accounts receivable schedule (that is, element, account or item of a financial statement).**

…

ISA 810 (REVISED), ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

…

Appendix

(Ref: Para. A23)

Illustrations of Independent Auditor's Reports on Summary Financial Statements

- Illustration 1: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which summary financial statements are derived. The auditor's report on the audited financial statements includes *a Material Uncertainty Related to Going Concern* section and communication of other key audit matters.

…

Illustration 1:

Circumstances include the following:

- **An unmodified opinion is expressed on the audited financial statements of a ~~listed~~ public interest entity.**

…

ISRE 2400 (REVISED), ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL INFORMATION

…

Requirements

…

The Practitioner's Report

86. The practitioner's report for the review engagement shall be in writing, and shall contain the following elements: (Ref: Para. A124–A127, A148, A150)

    (a) …

    (j) A reference to the practitioner's obligation under this ISRE to comply with relevant ethical requirements;

    (j)A If the relevant ethical requirements require the practitioner to publicly disclose when the practitioner applied independence requirements specific to reviews of financial statements of certain entities, the practitioner's report shall include a statement that:

    (i) Identifies the jurisdiction of origin of the relevant ethical requirements or refers to the IESBA Code; and

    (ii) Indicates that the practitioner is independent of the entity in accordance with the independence requirements applicable to reviews of financial statements of those entities. (Ref. Para. A137A)

    (k) The date of the practitioner's report; (Ref: Para. A144–A147)

    (l) The practitioner's signature; and (Ref: Para. A138)

    (m) The location in the jurisdiction where the practitioner practices.

…

Application and Other Explanatory Material

…

The Practitioner's Report (Ref: Para. 86–92)

…

The Practitioner's Responsibility (Ref: Para. 86(f))

…

Relevant Ethical Requirements (Ref. Para. 86(j)A(ii))

A137A.Relevant ethical requirements may:

- Establish independence requirements that are applicable to reviews of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements for reviews of financial statements of public interest entities in the IESBA Code. Relevant ethical requirements may also require or encourage the practitioner to determine whether it is appropriate to apply such independence requirements to reviews of financial statements of entities other than those entities specified in the relevant ethical requirements.
- Require the practitioner to publicly disclose when the practitioner applied independence requirements applicable to reviews 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 a review 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.[55] The following illustrates the disclosure in the practitioner's report when the IESBA Code comprises all of the relevant ethical requirements that apply to the review engagement:

  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 reviews of financial statements of public interest entities.

…

[55] IESBA PIE Revisions, paragraphs R400.20-R400.21

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 **F** +1 (212) 286-9570
www.iaasb.org