

Listed Entity and Public Interest Entity (PIE) – Issues and Due Process Considerations

Objective:

The objective of the IAASB discussion in June 2023 is to approve the narrow scope amendments to ISA 700 (Revised)¹ and ISA 260 (Revised)² as a result of the revisions to the IESBA Code³ that require a firm to publicly disclose when a firm has applied the independence requirements for PIEs, set out in **Agenda Item 5–A**.

Approach to the Board Discussion:

Board members are requested to communicate any significant matters to the PIE Task Force (PIE TF) Chair and Staff by **Wednesday, June 14, 2023**. This request is intended to assist the PIE TF for the turnaround of the final pronouncement that will be shared with the Board by **Wednesday, June 21, 2023**. All significant matters should still be raised and discussed in the Board plenary session on **Friday, June 23, 2023**, to ensure that such matters are on the public record.

After the vote on the approval of the proposed narrow scope amendments and, if the final pronouncement is approved, the Board will be asked for overall views about the PIE TF analysis of the provisions of due process related to whether the narrow-scope amendments need to be re-exposed (see **Section II**).

Introduction

1. At the March 2023 IAASB meeting, the PIE TF presented to the Board the stakeholder feedback to the Exposure Draft (ED): [*Proposed Narrow Scope Amendments to ISA 700 \(Revised\) and ISA 260 \(Revised\) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs*](#) and its initial views and recommendations to address respondent's comments relevant for Track 1 of the narrow scope project on listed entity and PIE.
2. The IAASB broadly supported the PIE TF proposals and provided specific comments for the topics discussed to be considered further in the development of the final pronouncement for Track 1. The draft March 2023 IAASB meeting minutes are available in [Agenda Item 1](#) on the *IAASB Quarterly Board Meeting – June 20-23, 28, 2023* webpage.
3. This paper sets out the following:
 - **Section I:** An explanation of key matters considered since March 2023, and significant changes made by the PIE TF to the proposed narrow scope amendments for Track 1.
 - **Section II:** Due process considerations.

¹ International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

² ISA 260 (Revised), *Communication with Those Charged with Governance*

³ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

Materials Presented—Appendices and Other Agenda Items Accompanying This Paper

4. This Agenda Item includes the following appendices and other agenda items:

Appendix 1	Overview of the PIE TF members and activities since March 2023
Appendix 2	Mapping of the proposed narrow scope amendments for Track 1 to the standard-setting actions and project objective in the project proposal
Appendix 3	Extracts of auditor’s reports on the audit of consolidated financial statements
Agenda Item 5-A	Proposed narrow scope amendments for Track 1 (mark-up from ED)
Agenda Item 5-B	Proposed narrow scope amendments for Track 1 (mark-up from March 2023)
Agenda Item 5-C	Proposed narrow scope amendments for Track 1 (clean version)
Agenda Item 6	Due Process – Proposed narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised)

Project Objectives that Support the Public Interest

5. **Appendix 2** provides a table that compares the actions and project objective that support the public interest included in the [project proposal](#) relevant to Track 1 of the project on listed entity and PIE, and how they have been addressed by the proposed narrow scope amendments.
6. In developing the narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised), the PIE TF considered the qualitative standard-setting characteristics set out in paragraph 31 of the project proposal and those included in the Public Interest Framework (PIF)⁴ as criteria to assess their responsiveness to the public interest. **Appendix 2** also highlights the qualitative standard-setting characteristics that were at the forefront, or of most relevance, when determining how to address the proposed actions.

Coordination Activities and Outreach

IESBA

7. There has been extensive coordination between the IAASB and the IESBA on the topic of listed entity and PIE. This has been accomplished through Staff coordination, the participation of IAASB and IESBA correspondent members in the respective Boards’ PIE Task Forces, plenary discussions involving representatives of IAASB and IESBA at the respective Board’s meetings, incorporating specific questions to seek views from stakeholders in the IAASB/IESBA exposure drafts, joint IAASB-IESBA CAG discussions and joint IAASB-IESBA Jurisdictional / National Standard Setter sessions.

Discussions with Monitoring Group Members

8. In April 2023, the IAASB Chair and Staff met with representatives from the International Forum of

⁴ 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?”).

Independent Audit Regulators (IFIAR) Standard's Coordination Working Group (SCWG) and among other matters discussed the IAASB's rationale for pursuing a conditional approach to the narrow scope amendments for ISA 700 (Revised).

9. In addition, in May 2023, the PIE TF Chair and Staff met with representatives from the International Organization of Securities Commission (IOSCO) Auditing Subcommittee to discuss topics relevant to Track 1 of the listed entity and PIE project, including elaborating further about the practical challenges and concerns raised by respondents to the ED should the IAASB pursue an unconditional approach to amend the requirement in paragraph 28(c) of ISA 700 (Revised).
10. In the course of these discussions, it was suggested that the full extent of the practical challenges associated with an unconditional approach across various jurisdictions may need to be articulated further in order to provide additional insights to stakeholders for the IAASB's rationale to pursue a conditional approach. In this regard, the PIE TF intends to provide a further discussion for this issue in the Basis for Conclusions for Track 1 of the narrow scope project on listed entity and PIE.

Section I – Proposed Narrow Scope Amendments for Track 1

11. **Agenda Item 5–A** reflects the changes to the proposed narrow scope amendments for Track 1 from ED and **Agenda Item 5–B** shows the changes made since the version presented to the Board in March 2023. This section provides further explanation of the key matters considered and significant changes made by the PIE TF since March 2023.

Proposed Narrow Scope Amendments to ISA 700 (Revised)

Previous IAASB Discussion

12. In March 2023, the IAASB directed the PIE TF to consider:
 - (a) Enhancing paragraph 28(c) of ISA 700 (Revised), given the removal of the “differential” term from the requirement which previously clarified that the independence requirements apply only to certain entities.
 - (b) Streamlining and simplifying the application material in paragraph A35A of ISA 700 (Revised) in relation to the variations of the use of the terms “differential” or “additional.”
 - (c) Whether the application material in paragraph A35B of ISA 700 (Revised) is necessary to be retained as well as whether its placement is more appropriate in ISA 260 (Revised).

In addition, comments were made about the use of the word “also” in illustration 1 of ISA 700 (Revised) and whether this word is necessary, and the reference to “financial statements” rather than “consolidated financial statements” in illustration 2 of ISA 700 (Revised) when referring to the relevant ethical requirements that apply to the audit.

PIE TF Discussion and Recommendations

Requirement in Paragraph 28(c) of ISA 700 (Revised)

13. The PIE TF discussed that the removal of the term “differential” from paragraph 28(c) of ISA 700 (Revised) has not caused departure from the substance of the requirement as initially proposed in the ED (i.e., to disclose that the auditor is independent of the entity in accordance with the independence requirements applicable to audits of certain entities) and that this change was in response to concerns received on exposure that the term may cause misunderstanding, including in relation of translation. In addition, the

PIE TF believes that the application material sufficiently clarifies what is meant by the use of the phrase “certain entities” in the requirement (i.e., those specified by the relevant ethical requirements, such as PIEs in the IESBA Code).

14. In response to comments received in March 2023, the PIE TF made further changes to the requirement in paragraph 28(c) of ISA 700 (Revised), including:
 - (a) Simplifying the conditionality used in the requirement and aligning it with the CUSP Drafting Principles and Guidelines⁵ (i.e., replacing the phrase "in circumstances when" with "if").
 - (b) Using more direct language and active voice in the requirement (i.e., including the phrase “the auditor applied...” instead of “...were applied”).
 - (c) Including the clarifying phrase from the application material in relation to the term “certain entities” into the text of the requirement (i.e., adding the phrase certain entities “specified in the relevant ethical requirements”).
 - (d) Presenting the elements of the requirement into two sub-paragraphs (i.e., subparagraphs (i) and (ii)) to enhance understandability for the conditional element given the length of the requirement.

Application Material in Paragraphs A35A and A35B of ISA 700 (Revised)

15. The PIE TF agreed to simplify the application material in paragraph A35A of ISA 700 (Revised) by removing the terms “additional” and “differential.”
16. In addition, the PIE TF reconsidered the placement of the application material in paragraph A35B of ISA 700 (Revised). In this regard, the PIE TF formed the view that it would be more appropriate to address this matter in the context of the narrow scope amendments being proposed to ISA 260 (Revised). Given the PIE TF proposals for a new general requirement in paragraph 16A of ISA 260 (Revised) (see paragraph 27), the auditor and management, or where appropriate, those charged with governance (TCWG) would discuss (and agree) to apply independence requirements for certain entities in the audit engagement. On this basis the auditor could encourage management to provide additional disclosures if necessary to mitigate the risk that the nature of the entity is misunderstood as being a PIE when it is not. To support the linkage between the standards, a reference was added to the application material in paragraph A35A of ISA 700 (Revised) drawing attention to the relevant paragraphs in ISA 260 (Revised) that set out requirements and guidance about the auditor’s communication with TCWG.

Use of “Also” in Illustration 1 of ISA 700 (Revised)

17. The PIE TF agreed that it is appropriate to include the word “also” in illustration 1 of ISA 700 (Revised) when providing the statement that the auditor fulfilled their other ethical responsibilities in accordance with jurisdictional requirements and the IESBA Code. Given this statement is now shown as a separate sentence, the PIE TF believes this remains appropriate because the use of the word “also” reflects the requirement of paragraph 28(c) of ISA 700 (Revised) that refers to both a statement that the auditor is independent of the entity in accordance with the ethical responsibilities relating to the audit and that the auditor has fulfilled the auditor’s other ethical responsibilities in accordance with those requirements.

⁵ See Section 9 “Requirements of an ISA” of the Complexity, Understandability, Scalability and Proportionality (CUSP) [Drafting Principles and Guidelines](#).

Reference to “Consolidated Financial Statements” in Illustration 2 of ISA 700 (Revised)

18. In March 2023, the PIE TF formed the view not to include a reference to “consolidated” financial statements in illustration 2 of the Appendix in ISA 700 (Revised) that depicts a circumstance relevant to a group audit engagement, because this may inadvertently imply that there are relevant ethical requirements that apply to “audits of consolidated financial statements” of PIEs. The PIE TF reflected on comments made in March 2023, that it may be seen as confusing for stakeholders to omit the word “consolidated,” given that the title of the illustration refers to “*Report on the Audit of Consolidated Financial Statements*” as well as that it may be inconsistent with the other instances in the illustration where references to “consolidated financial statements” is provided.
19. Upon further discussion, the PIE TF remained of the view that it is technically appropriate not to refer to “consolidated” financial statements when referring to the relevant ethical requirements that apply to the audit. In addition, the PIE TF notes this is consistent with auditor’s reports on the audit of consolidated financial statements from certain jurisdictions (e.g., the United Kingdom) where transparency in the auditor’s report about the independence requirements that are applicable to audits of financial statements of certain entities is required (see examples in **Appendix 3**).
20. The PIE TF does not believe further changes to illustration 2 of the Appendix in ISA 700 (Revised) should be pursued as the wording remains aligned with the other illustrations in the ISAs where ISA 600 (Revised)⁶ applies. However, the PIE TF believes it would be helpful if this technical element is explained in the Basis for Conclusions, along with providing an example as shown in the box below, how the reference to “consolidated financial statements” can be abbreviated to “financial statements” for purposes of a group audit engagement. This may be the case if the auditor decides that users will be confused with the wording used to describe the relevant ethical requirements applied by the auditor.

INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

...

21. The approach taken in the example above, although different from the illustrations in the ISAs,⁷ complies with the requirements for the auditor’s report in ISA 700 (Revised), including paragraph 45 that requires a section with a heading “Report on the Audit of the Financial Statements” when the

⁶ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁷ See the illustrative auditor’s reports in the Appendices of ISA 600 (Revised), ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report* (illustrations 2–4), and ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information* (illustrations 6–7).

auditor's report contains a separate section that addresses other reporting responsibilities (when there are no other reporting responsibilities, section headings for the report on the audit of the financial statements and other reporting responsibilities are not required). In addition, the example also complies with paragraphs 24(b) and (c) of ISA 700 (Revised) that require that the Opinion section of the auditor's report "state that the financial statements have been audited" and "identify the title of each statement comprising the financial statements."

Proposed Narrow Scope Amendments to ISA 260 (Revised)

Previous IAASB Discussion

22. In March 2023, the Board directed the PIE TF to explore how the proposals in ISA 260 (Revised) could be strengthened as part of Track 1 of the project instead of deferring the amendments to Track 2. Suggestions were made to:
- (a) Include an explicit requirement to increase transparency to TCWG about the independence requirements applied, including whether independence requirements for certain entities were applied.
 - (b) Amend the applicability of the differential requirement in paragraph 17(a) of ISA 260 (Revised) that currently applies for listed entities to require the communication with TCWG about compliance with relevant ethical requirements regarding independence for audits of all entities.

PIE TF Discussion and Recommendations

23. The PIE TF reflected that it would not be inconsistent with previous IAASB deliberations to pursue addressing the matter as part of Track 1 of the project, instead of deferring it to Track 2, given that the Board previously supported the PIE TF proposals under Track 2 of the project,⁸ that included bifurcating the requirement in paragraph 17 of ISA 260 (Revised) into two parts, as follows:
- (a) A part that applies to all audit engagements and addresses communication with TCWG about compliance with relevant ethical requirements regarding independence, including requiring communication about the differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements.
 - (b) A part that applies to audits of financial statements of PIEs and addresses further communication with TCWG on matters related to independence, such as relationships that bear on independence.
24. In addition, doing so would:
- (a) Be responsive to those stakeholders (i.e., Monitoring Group members and other respondents) who supported including an explicit requirement (rather than providing application material) for the auditor to communicate with TCWG the independence requirements applied, mirroring the IAASB proposals for paragraph 28(c) of ISA 700 (Revised).
 - (b) Have a clear timing benefit, as the proposed amendments would become effective earlier given that Track 1 is progressed on a faster-moving track that aligns with IESBA's effective date.

⁸ See paragraphs 33–34 of [Agenda Item 6](#) presented to the Board in December 2022 and the approved [IAASB minutes](#) from December 2022.

25. To inform its approach on how to address the communication with TCWG discussed in paragraph 22, the PIE TF considered:
- (a) Drafting suggestions provided by respondents to the ED and offline Board comments for amending the requirements in paragraph 17 of ISA 260 (Revised).
 - (b) Feedback from respondents to the ED who noted an inconsistency in the applicability of the requirement in paragraph 17 of ISA 260 (Revised) that applies to audits of listed entities, and the proposed revisions in the related application material in paragraph A29 of ISA 260 (Revised) of the ED, which refer to “certain entities” and may include a wider set of entities than listed entities (including PIEs).
 - (c) The alignment of the proposals with the scope of the actions contemplated for Track 1, and in doing so, remained mindful that Track 2 of the project envisions actions to address the applicability of the differential requirements for listed entities in the ISQMs⁹ and ISAs that are yet to be exposed for public comment.
26. Because paragraph 17(a) of ISA 260 (Revised) is an existing differential requirement designed to apply to listed entities, the PIE TF did not believe it is appropriate to pursue bifurcating the requirement under Track 1 of the project. The PIE TF notes that in the context of the project objectives relating to Track 2 of the project, a case-by-case analysis of existing differential requirements will be undertaken, the initial results of which were presented to the Board in December 2022. Any proposals finally agreed by the Board in terms of the scope of existing differential requirements, proposed revisions to such requirements, as well as other implications, for example, changes to illustrative auditor reports in the ISAs, still need to be exposed for public consultation. Therefore, revisions to paragraph 17(a) of ISA 260 (Revised), at this time, have not yet been aired in an exposure draft for stakeholders to have the opportunity to make their views known, after having fully considered all the differential proposals and their implications.
27. Given these considerations, the PIE TF proposed a new general requirement in paragraph 16A of ISA 260 (Revised) that applies to audits of all entities (i.e., is not a differential requirement) to address explicit communication with TCWG about the independence requirements applied for the audit engagement, including if applicable in the circumstances, whether independence requirements for certain entities specified in the relevant ethical requirements were applied. In addition, supporting application material has been included in paragraph A29 of ISA 260 (Revised). The PIE TF had the view that it was necessary to expand the application material to support clarity and implementability by highlighting the scenarios which could arise within the relevant ethical requirements and linking these to the IESBA Code by way of example.

Effective Date

28. The ED included a proposal that the narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after December 15, 2024, to align with the effective date of the revisions to the IESBA Code in relation to listed entity and PIE. The PIE TF notes the support by respondents to the ED for the proposed effective date, and believes this timeframe is sufficient to allow jurisdictions for translation of the final text, for national adoption processes to occur, and for practitioners to update templates and

⁹ International Standards on Quality Management

associated internal materials.

Section II – Due Process Considerations

Significant Matters Raised by Respondents

29. In the PIE TF view, the significant matters it has identified as a result of its deliberations since the beginning of this project, including the substantial matters raised by respondents to the ED, and its conclusions and recommendations thereon, have been carefully considered. The PIE TF analysis of the significant matters and proposals has been reflected in the public agenda materials presented to the IAASB at its meetings. In the PIE TF view, there are no significant matters discussed in the course of this project that have not been brought to the IAASB's attention.

Need for Further Consultation

30. During its March 2023 meeting, the IAASB CAG did not raise any concerns about the PIE TF analysis of the significant matters raised by respondents to the ED or the related proposals. The PIE TF does not anticipate the need to further consult with the IAASB CAG before the planned approval of the final pronouncement at the June 2023 IAASB meeting. The PIE TF has also had the opportunity to engage with various other stakeholders throughout the life cycle of this project, including Monitoring Group members, the Forum of Firms, and Jurisdictional / National Standard Setters. Finally, this project has benefited from close coordination with the IESBA.
31. The PIE TF does not believe that a consultation paper, field testing, or a roundtable is warranted, as the proposed amendments are limited and narrow scope in nature.

Consideration of the Need for Re-Exposure

32. If the Board votes to approve the proposed narrow scope amendments for Track 1, then a separate affirmative vote of the Board is required on whether the standard needs to be re-exposed. Based on the draft as presented in **Agenda Item 5–A**, and prior to any changes proposed at the June 2023 IAASB meeting, the PIE TF is of the view that the proposed narrow scope amendments for Track 1 do not warrant re-exposure.
33. The IAASB's due process set out relevant matters for re-exposure.¹⁰ The principal consideration therein is "whether there has been substantial change to the exposed document such that re-exposure is necessary." The related working procedures, which support the due process, include three examples of situations that may constitute potential grounds for a decision to re-expose:
- (a) Substantial change to a proposal arising from matters not aired in the ED such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion;
 - (b) Substantial change arising from matters not previously deliberated by the IAASB; or
 - (c) Substantial change to the substance of a proposed international pronouncement.
34. The overall tone of the comment letters to the ED was positive, however there were some areas where suggestions were made by respondents on how the proposals could be strengthened. The

¹⁰ See the IAASB's [Due Process and Working Procedures](#), paragraphs 23 and A40-A42.

PIE TF thoroughly considered these matters in developing the narrow scope amendments post-ED. The key revisions to the requirements since the ED are presented in **Agenda Item 5–A** and are also summarized in the table below:

Ref. Para.	Key Revision to the ED
ISA 700 (Revised), Paragraph 28(c)	<ul style="list-style-type: none"> • The term “differential” was removed from the requirement to address concerns that this term is not a commonly understood term that may cause misunderstanding, including in terms of translation. • To explain the use of the phrase “certain entities” a clarification was added that those entities are specified by the relevant ethical requirements (such as PIEs in the IESBA Code). • To improve the understandability of the conditional element in the requirement, the paragraph was separated into two sub-paragraphs and the conditional phrase was simplified.
ISA 700 (Revised), Paragraph 50(e)	<ul style="list-style-type: none"> • The requirement for an auditor’s report in accordance with law or regulation was aligned to be consistent with the proposed revisions to paragraph 28(c) of ISA 700 (Revised). • The revision was necessary to facilitate that an auditor’s report as contemplated in paragraph 50 of ISA 700 (Revised) can refer to “International Standards on Auditing” and to avoid any discrepancy in terms of the minimum elements of an auditor’s report.
ISA 260 (Revised), Paragraph 16A	<ul style="list-style-type: none"> • In response to stakeholder feedback, an explicit requirement was included to address transparency with TCWG about the independence requirements for certain entities applied.

35. The PIE TF considered the major changes in the relevant requirements from the ED, as shown in the table above, and considers that re-exposure is not necessary. These changes clarify, but do not substantially alter, the key elements addressed in the ED, nor have they resulted in a departure from the objective in paragraph 17(d) of the project proposal relevant to Track 1 of the project. In addition, the PIE TF notes that:

- (a) There are no substantial changes to the key concepts of the project. All the key elements presented in the ED have been retained. Some of these elements have been modified, clarified or strengthened in response to comments received on exposure and related coordination activities with IESBA.
- (b) No new key concepts have been introduced.
- (c) The changes to the text post-exposure are in response to feedback from respondents to the ED and do not fundamentally or substantively change the proposals in the ED.

36. Further, the PIE TF is of the view that re-exposing the proposed narrow scope amendments will not result in new information or concerns that have not been aired already through the comment letters or the subsequent coordination and outreach activities as presented in paragraphs 7-10 of this agenda item, and as addressed in other agenda materials post-exposure.

Implementation

37. Given the narrow scope nature of the amendments proposed, the PIE TF does not anticipate the need for development of specific implementation support materials or other non-authoritative guidance related to the narrow scope amendments for Track 1. The PIE TF also believes that the Basis for Conclusions can be leveraged to provide explanations and examples relevant to implementation, if necessary. These may include:
- Additional examples that illustrate the application of the proposed revisions to the Basis for Opinion section of the auditor's report (e.g., to illustrate different circumstances that may occur in practice in addition to those presented in illustrations 1 and 2 of ISA 700 (Revised) by leveraging the Appendix that was presented in the Explanatory Memorandum accompanying the ED, including the matter discussed in paragraphs 18-21 above).
 - Context to support the application of the requirement in paragraph 28(c) of ISA 700 (Revised) for a group audit engagement (e.g., to draw attention to the relevant paragraphs of ISA 600 (Revised),¹¹ and the clarifications for independence for group audits under IESBA's project relating to the definition of engagement team and group audits).¹²

¹¹ ISA 600 (Revised), paragraph 25

¹² See paragraphs 113-114 of the IESBA's [Basis for Conclusions: Revisions to the Code Relating to the Definition of Engagement and Group Audits](#)

PIE TF Members and Activities

PIE TF Members

1. The PIE TF consists of the following members:
 - Sue Almond (Chair)
 - Chun Wee Chiew
 - Fernando Ruiz Monroy
 - Susan Jones

IESBA correspondent member:

 - Sung-Nam Kim
2. Information about the project can be found [here](#).

PIE TF Activities

PIE TF Meetings

3. The PIE TF held 2 virtual meetings since March 2023.

Monitoring Jurisdictional Developments

4. In May 2023, the PIE TF initiated a request for information from Jurisdictional / National Standard Setters. The purpose of the request was to gain insights relevant for Track 2 of the narrow scope project on listed entity and PIE, and in particular whether jurisdictions have extended (or anticipate extending) the applicability of the requirements in the ISQMs and ISAs that apply to listed entities to apply to PIEs. In addition, to inform the revisions to ISRE 2400 (Revised)¹³ to address transparency about the relevant ethical requirements for independence applied for certain entities, a question was included seeking input on how frequently a review of historical financial statements for PIEs occurs in their jurisdictions. The results of this request for input will be shared with the Board at a future IAASB meeting to discuss the proposals for Track 2.

Coordination and Outreach

5. Sung-Nam Kim joined the PIE TF in March 2022 as a correspondent IESBA member and attends all PIE TF meetings. He is also an IESBA member and a member of the IESBA PIE Rollout Working Group. Staff of the IAASB and IESBA engage in ongoing coordination activities in relation to this topic.
6. In April and May 2023, discussions with representatives from IFIAR and IOSCO took place focusing on matters relevant to Track 1 of the listed entity and PIE project, including the IAASB's rationale for pursuing a conditional approach to the narrow scope amendments for ISA 700 (Revised).

¹³ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

Appendix 2

Mapping the Proposed Narrow Scope Amendments for Track 1 to the Actions and Objective in the Project Proposal that Support the Public Interest

1. This appendix maps the proposed narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) to the actions and objective in the project proposal that support the public interest relevant for Track 1 of the project. It also highlights what qualitative standard-setting characteristics were at the forefront, or of most relevance, when determining how to address the proposed actions.
2. The qualitative characteristics considered when developing the narrow scope revisions, including why such characteristics are of importance for the proposals, are as follows:

Qualitative Standard-Setting Characteristics Considered

- ▶ *Coherence* – among the overall body of the IAASB’s and 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., by supporting the IESBA’s efforts to enhance transparency about the independence requirements applied in performing the audit, given the heightened expectations of stakeholders regarding the independence of the auditor in performing audits of PIEs, 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 improving transparency when the relevant ethical requirements require public disclosure about the independence requirements applied for certain entities (e.g., by providing a clear mechanism to operationalize the IESBA’s transparency requirement through the auditor’s report to support the accessibility, timeliness and consistency of the communication for users considering the variety of circumstances that may occur across jurisdictions).

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)		Narrow Scope Amendments	
Project Objective: 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.			
Qualitative Standard-Setting Characteristics:			
Coherence	Relevance	Clarity and conciseness	Implementability
<p>Enhanced transparency in the auditor’s report</p> <p><i>Enhance and clarify ISA 700 (Revised) if it is determined that the auditor’s report is an appropriate mechanism to disclose that relevant ethical requirements for independence for certain entities have been applied in the audit of the financial statements, such as the independence requirements for PIEs in the IESBA Code.</i></p> <p>In considering how this may be accomplished, the project will give consideration to:</p> <ul style="list-style-type: none"> • The appropriate location of the communication in the auditor’s report. For example, such communication may expand upon the required statement in accordance with paragraph 28(c) of ISA 700 (Revised), i.e., that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, as well as identifying the jurisdiction of origin of the relevant ethical requirements or referring to the IESBA Code. • Whether ISA 700 (Revised) could include a requirement or application material, and whether additional information and illustrations are necessary to explain the additional independence requirements applied and demonstrate how such disclosure would be made. • Whether any amendments to ISA 260 (Revised) are appropriate to address the auditor’s communication with those charged with governance about the form and content of the auditor’s report. • Whether the illustrative reports in the other ISAs need to be revised to reflect the changes in ISA 700 (Revised). 		<p>ISA 700 (Revised)</p> <p><i>Requirements:</i></p> <ul style="list-style-type: none"> • Amending paragraph 28(c) of ISA 700 (Revised) to operationalize IESBA’s transparency requirement by providing a statement in the auditor’s report about the independence requirements for certain entities applied, when the relevant ethical requirements require public disclosure. <p><i>Application Material:</i></p> <ul style="list-style-type: none"> • New application material to support the application of the requirement. • The illustrative auditor’s reports 1 and 2 in the Appendix to ISA 700 (Revised) have been updated to reflect the changes in the requirement. <p>ISA 260 (Revised)</p> <p><i>Requirements:</i></p> <ul style="list-style-type: none"> • New general requirement to address transparency with TCWG about the independence requirements for certain entities applied. <p><i>Application Material:</i></p> <ul style="list-style-type: none"> • New application material to support the application of the requirement and how the auditor may respond. 	

Extracts from Auditor's Reports on the Audit of Consolidated Financial Statements

This Appendix includes extracts from auditor's reports on the audit of consolidated financial statements from the United Kingdom that illustrate how transparency about the independence requirements applicable to audits of financial statements of certain entities is provided in the Opinion and Basis of Opinion sections. In particular, the examples demonstrate how the reference to "consolidated financial statements" can be abbreviated to "financial statements." The relevant text is highlighted in red.

Example 1¹⁴

Consolidated financial statements of the bp group

Independent auditor's report to the members of BP p.l.c.

Report on the audit of the financial statements

1. Opinion

In our opinion:

- The financial statements of BP p.l.c. (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended.
- The group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRS as issued by the International Accounting Standards Board (IASB).
- The parent company financial statements have been properly prepared in accordance with United Kingdom accounting standards (United Kingdom generally accepted accounting practice), including Financial Reporting Standard (FRS) 101 'Reduced Disclosure Framework'.
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of BP p.l.c. which comprise the:

- Group income statement;
- Group statement of comprehensive income;
- Group and parent company statements of changes in equity;
- Group and parent company balance sheets;
- Group cash flow statement;
- Group related Notes 1 to 38 to the financial statements, including a summary of significant accounting policies; and
- Parent company related Notes 1 to 14 to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union and as issued by the IASB. As regards the parent company financial statements, the financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards (United Kingdom generally accepted accounting practice), including FRS 101 'Reduced Disclosure Framework'.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in Note 36 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

¹⁴ <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-annual-report-and-form-20f-2020.pdf>

Example 2¹⁵

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

IN OUR OPINION:

the financial statements of Marks and Spencer Group plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 March 2019 and of the Group's profit for the 52 weeks then ended;

the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);

the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated and Company statements of financial position;
- the Consolidated and Company statements of changes in equity;
- the Consolidated and Company statements of cash flows;
- the Reconciliations of movement in net debt and net debt to the Consolidated statement of financial position; and
- the related notes 1 to 30 and C1 to C6.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH


KEY AUDIT MATTERS

The key audit matters that we identified in the current year were:

- Disclosure of adjusting items;
- Accounting for the UK store rationalisation programme;
- Impairment of UK store assets;
- Inventory provisioning for UK Clothing & Home;
- Valuation of UK defined benefit obligation; and
- IFRS 16 Leases disclosures.

Within this report

Any new key audit matters are identified with 

Any key audit matters which are the same as the prior year identified with 

MATERIALITY

The materiality that we used for the Group financial statements was £20.0m (2018: £24.5m) using a benchmark of adjusted profit before tax but excluding the impact of certain adjusting items, as set out on page 88 of this report.

SCOPING

We performed a full scope audit on three components of the business (UK, India and Ireland) representing 99% of the Group's revenue, 95% of the Group's adjusted profit before tax, 92% of the Group's profit before tax, 80% of the Group's total assets, and 99% of the Group's total liabilities.

SIGNIFICANT CHANGES IN OUR APPROACH

Our audit approach is consistent with the previous year, with the exception of:

- Manual adjustments to reported revenue has been removed as a key audit matter on account of the quantum of adjustments applied and the limited scope of judgement involved; and
- IFRS 16 Leases disclosures has been included as a key audit matter due to the inherent level of judgement involved in determining the quantum of the impact and the level of audit effort required in evaluating the appropriateness of the supporting disclosures.

¹⁵ <https://corporate.marksandspencer.com/sites/marksandspencer/files/marks-spencer/results-reports-webcasts-and-presentation/financial-statements.pdf>