

Extract From the Exposure Draft of Proposed Narrow Scope Amendments to ISQM 1, ISA 200 and ISRE 2400 (Revised)

This paper includes the paragraphs relevant to the proposed narrow scope amendments to ISQM 1, ISA 200 and ISRE 2400 (Revised), which are shown in markup as published in the IAASB's exposure draft.

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

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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.

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Definitions

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

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~~(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.~~

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(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.

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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)

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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)

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Application and Other Explanatory Material

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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.¹ 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.

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Specified Responses (Ref: Para. 34)

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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 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 communicate² and the communication process.³ 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

¹ See, for example, encouragement in the application material in the IESBA PIE Revisions, paragraph 400.19 A1.

² ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs 11–13

³ ISA 260 (Revised), paragraphs 18–22

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, 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.

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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.

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Evaluating Identified Deficiencies (Ref: Para. 41)

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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).

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

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Definitions

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

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(I)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.

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Requirements

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Conduct of an Audit in Accordance with ISAs

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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)

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Application and Other Explanatory Material

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Conduct of an Audit in Accordance with ISAs

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Contents of the ISAs (Ref: Para. 19)

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Scalability Considerations

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- 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.

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Complying with Relevant Requirements

Relevant Requirements (Ref: Para. 22)

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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.⁴ 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

⁴ ISA 230, paragraph 12

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 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.⁵ 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.

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

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Requirements

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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;

(i)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

⁵ See, for example, encouragement in the application material in the IESBA PIE Revisions, paragraph 400.19 A1.

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.

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Application and Other Explanatory Material

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

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

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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.⁶ 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.

⁶ IESBA PIE Revisions, paragraphs R400.20-R400.21