

Proposed Narrow-scope Amendments to CAS 700, *Forming an Opinion and Reporting on Financial Statements*, and CAS 260, *Communication with Those Charged with Governance*, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities

August 2022

COMMENTS TO AASB MUST BE RECEIVED BY September 16, 2022

COMMENTS TO IAASB MUST BE RECEIVED BY October 4, 2022

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this [online form](#). Please address your response to:

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This Exposure Draft reflects proposals made by the International Auditing and Assurance Standards Board that the Auditing and Assurance Standards Board (AASB) intends to adopt, subject to deliberating comments received, as Canadian generally accepted auditing standards.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AASB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

HIGHLIGHTS

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received following exposure, to adopt with appropriate Canadian amendments, if any, proposed narrow-scope revisions to the following International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB):

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; and
- ISA 260 (Revised), *Communication with Those Charged with Governance*.

The AASB proposes to make the same revisions to the corresponding Canadian Auditing Standards (CASs), with Canadian amendments.

This Exposure Draft consists of:

- an explanation of why change is needed;
- key public interest considerations;
- proposed revisions;
- a link to the IAASB's Exposure Draft, including its Explanatory Memorandum;
- a description of the AASB's process for adopting ISAs;
- a discussion of implications of the proposed revisions in Canada;
- a discussion of proposed Canadian amendments; and
- a proposed effective date.

Please review "**Comments requested**" on [page v](#) for information on preparing your response to this Exposure Draft.

Why change is needed

In December 2021, the International Ethics Standards Board for Accountants (IESBA) changed Part 4A of the IESBA Code to enhance confidence in the audit of the financial statements of public interest entities (PIEs).¹ Changes included revising the definitions of PIE and listed entity. The IAASB's proposed revisions to ISA 700 (Revised) and ISA 260 (Revised) are in response to these changes. The changes to the IESBA Code become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024.

Part 4A of the IESBA Code sets out independence requirements for audit and review engagements, including differential independence requirements that apply only to PIEs. The IESBA changes include a new requirement for auditors to publicly disclose when they have applied the differential independence requirements for PIEs (the IESBA's transparency requirement). However, the IESBA Code does not specify the mechanism for such disclosure.

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

The IAASB determined that proposed revisions to ISA 700 (Revised) and ISA 260 (Revised) are needed to support the operationalization of the IESBA's transparency requirement. Consequently, in March 2022, the IAASB approved a narrow-scope maintenance project to make revisions to the ISAs.²

Key public interest considerations

The IAASB's proposed revisions serve the public interest by ensuring the IAASB's standards:

- (a) operate in harmony with the IESBA Code, and without conflict, given that some jurisdictions use both;
- (b) acknowledge the changes to the IESBA Code through drawing appropriate attention to the revised requirements in the IESBA Code; and
- (c) support or recognize when the IESBA Code requires an action relevant to the IAASB's standards.

Proposed revisions

Paragraph 28(c) of ISA 700 (Revised) requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code. However, it does not require the auditor to further specify whether differential independence requirements in the relevant ethical requirements that are applicable to audits of financial statements of certain entities were applied, such as the independence requirements for PIEs in the IESBA Code.

The IAASB proposes revisions to ISA 700 (Revised) intended to:

- alert the auditor to the responsibility that may exist under the relevant ethical requirements for the auditor to publicly disclose that they have applied differential independence requirements applicable to audits of financial statements of certain entities; and
- when such responsibility to publicly disclose exists under the relevant ethical requirements, require the auditor's report to include a statement that the auditor is independent of the entity in accordance with the independence requirements applicable to audits of financial statements of certain entities.

The IAASB also proposes adding application material in ISA 260 (Revised) to suggest that the auditor may communicate with those charged with governance which independence requirements were applied, including whether differential independence requirements for certain entities were applied.

IAASB Exposure Draft

The IAASB's Exposure Draft, "[Proposed Narrow Scope Amendments to: ISA 700 \(Revised\), Forming an Opinion and Reporting on Financial Statements; and ISA 260 \(Revised\), Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities \(PIEs\)](#)," is available on the IAASB website.

The IAASB's Exposure Draft includes the Explanatory Memorandum, which provides background to, and an explanation for, the proposed revisions.

Process for adopting ISAs

The AASB has committed to adopting ISAs as CASs. The Board recognizes that it has a vital role in monitoring revisions to the ISAs to ensure that they remain in the Canadian public interest. To do so, the AASB issues a Canadian exposure draft for every IAASB exposure draft of a proposed ISA.

2. The IAASB "[Framework for Activities](#)," Component III, sets out the purpose, description, responsibility and action, outputs and timing of narrow-scope maintenance of standards projects.

Adoption of an ISA as a CAS is not automatic. The AASB follows amendment criteria, set out in the [Appendix](#), when it considers whether Canadian amendments are required in specific circumstances.

The AASB normally uses the same effective date for the CASs as the IAASB does for ISAs. The AASB makes CASs available shortly after approval so Canadian stakeholders can become familiar with them and prepare to implement them by the effective date.

Implications of the proposed revisions in Canada

In Canada, professional accountants are required to comply with relevant independence and other ethical requirements applicable to the practice of public accounting set out in the Canadian Codes of Conduct/Ethics (the Canadian Codes). The Public Trust Committee oversees the ethics standards, including independence requirements, for proposed adoption by the provincial and territorial accounting bodies. The IESBA Code has not been adopted in Canada. Professional accountants in Canada are not required to comply with the IESBA Code when performing an audit in accordance with Canadian generally accepted auditing standards.

The Canadian Codes include independence requirements applicable to audit and review engagements of financial statements of reporting issuers and listed entities, but do not include a requirement to publicly disclose when they have been applied. In contrast, as previously noted, the IESBA Code was changed to include a requirement for public disclosure.

The table below compares how the IAASB’s proposed revisions would affect the auditor’s report when the relevant requirements in either the IESBA Code or the Canadian Codes are used.

Relevant ethical requirements that apply	Differential independence requirements for certain entities	Relevant ethical requirements require public disclosure	Will disclosure be required in auditor’s reports as a result of the revisions?
IESBA Code	Yes, there are differential independence requirements for PIEs (including publicly traded entities).	Yes	Yes
Canadian Codes	Yes, there are independence requirements for reporting issuers and listed entities.	No	No

Proposed revisions to CAS 700

The proposed revision to the requirement in paragraph 28(c) of ISA 700 (Revised) to state in the auditor’s report that differential independence requirements were applied is conditional on the relevant ethical requirements requiring public disclosure. For example, the Canadian Codes do not require the auditor to publicly disclose that independence requirements for audits of reporting issuers or listed entities were applied. Consequently, consistent with current practice, the Canadian auditor who complies only with the Canadian Codes would not be required to include a statement in the auditor’s report.

Proposed revisions to the illustrative reports in ISA 700 (Revised) are addressed in the section “[Proposed Canadian amendments](#)” below.

Proposed revisions to CAS 260

The proposed new application material in paragraph A29 of ISA 260 (Revised) states that the auditor may communicate with those charged with governance which independence requirements were applied, including whether differential independence requirements that apply to audits of certain entities specified in the relevant ethical requirements were applied. Such proposed guidance, if adopted, will apply in Canada because the Canadian Codes require the auditor to apply independence requirements to audits of financial statements of reporting issuers and listed entities. However, as it is proposed application material and not a proposed new or revised requirement, it does not impose an obligation on the auditor. The auditor would consider, but not be required, to include a statement in the communication with those charged with governance.

Considerations related to Canadian Standards for Review Engagements (CSREs)

In its Explanatory Memorandum, the IAASB notes that the IESBA Code changes also apply to review engagements conducted in accordance with International Standards for Review Engagements (ISREs). As a result, the IAASB is considering whether to revise ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*. The IAASB has included specific questions related to ISRE 2400 (Revised) to inform possible future revisions to ISRE 2400 (Revised).

The AASB did not adopt ISRE 2400 (Revised). Therefore, the AASB is not required to revise CSRE 2400, *Engagements to Review Historical Financial Statements*, if the IAASB revises ISRE 2400 (Revised). Further, Canadian Codes do not require the practitioner to publicly disclose when the independence requirements for reporting issuers and listed entities have been applied. Accordingly, the AASB is not considering whether to include the proposed CAS 700 requirement in CSRE 2400 and is not asking questions in this Exposure Draft about CSRE 2400.

Proposed Canadian amendments

The AASB is not proposing any Canadian amendments to the proposed requirement or application material in ISA 700 (Revised) or ISA 260 (Revised) because these proposed revisions:

- are not linked to the IESBA Code, and, therefore, allow flexibility when ethical requirements other than the IESBA Code are applied; and
- would not conflict with the existing Canadian Codes.

However, the AASB proposes to retain the existing Canadian amendment to the illustrative reports in CAS 700. The Board's practice in illustrative reports is to refer to ethical requirements that are relevant to the audit of the financial statements in Canada.³ Because the Canadian Codes do not include a transparency requirement, the Board proposes not to reflect the IAASB's proposed revisions.

Consequently, the illustrative reports in CAS 700, set out below, would be unchanged and would continue to reflect the existing requirement in paragraph 28(c) to identify the jurisdiction or origin of the relevant ethical requirements.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

3. This is noted in Appendix 3 of the *Preface to the CPA Canada Handbook – Assurance*, which sets out changes to the wording of ISAs so that they can be used in the context of the Handbook.

Proposed effective date

The IAASB expects to approve final revisions to the ISAs in June 2023. If the IAASB meets this timeline, the AASB expects to approve final revisions to CASs in September 2023, and issue them in the CPA Canada Handbook – Assurance in December 2023.

The AASB proposes that the revisions to the CASs become effective for audits of financial statements for periods beginning on or after December 15, 2024, the same effective date the IAASB proposes to the ISAs. The IAASB's proposed effective date aligns with the effective date of the IESBA's changes to the IESBA Code. Revisions to the CASs would have the same effective date, giving Canadian practitioners who apply the IESBA Code a year to prepare. For Canadian practitioners who apply Canadian Codes only, there is no expected change to work effort or the auditor's report.

Comments requested

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. When a respondent agrees with proposals in the Exposure Draft, it will be helpful for the AASB to be made aware of this view.

Responding to the IAASB's Exposure Draft

Respondents are also asked to provide comments on the IAASB's Exposure Draft directly to the IAASB and provide the AASB with a copy of the response. The AASB will take these comments into account in drafting its own response to the IAASB's Exposure Draft. Respondents are asked not to include comments on matters particular to the Canadian environment in their responses to the IAASB. Such comments should be included only in responses sent to the AASB. Please refer to the "Guide for Respondents" contained in the IAASB's Exposure Draft and respond to the specific questions therein. The deadline for providing your comments to the IAASB is October 4, 2022.

Providing comments to the AASB

The AASB would appreciate receiving responses to the questions set out below, in addition to receiving a copy of the response to the IAASB's Exposure Draft.

1. Do you agree that the AASB should adopt the IAASB's proposed revisions?
2. Do you agree that the AASB should not change the wording related to relevant ethical requirements in the illustrative reports in CAS 700?
3. Do you believe there would be any unintended consequences in the Canadian environment?
4. Do you believe the proposals would create any implementation challenges for practitioners in Canada?
5. Do you have any concerns with the proposed effective date?

The deadline for providing your comments to the AASB on the above is September 16, 2022.

Appendix

Amendment Criteria Used by the AASB When Adopting ISQMs as CSQMs, ISAs as CASs, ISAEs as CSAEs and ISRSs as CSRSs

With respect to the adoption of International Standards on Auditing (ISAs)¹ as Canadian Auditing Standards (CASs), and the adoption of an International Standard on Assurance Engagements (ISAE) as a Canadian Standard on Assurance Engagement (CSAE) and International Standard on Related Services (ISRS) as a Canadian Standard on Related Services (CSRS), on a case-by-case basis, the Auditing and Assurance Standards Board's (AASB) overriding goal is to adopt ISAs into the Assurance Handbook without amendment. However, there may be circumstances where amendments are required. The following sets out the limited circumstances when the AASB will make amendments to ISAs:

1. The AASB limits additions to an ISA to those required to comply with Canadian legal and regulatory requirements.²
2. The AASB limits deletions from, or other amendments to, an ISA to the following:
 - (a) The elimination of options (alternatives) provided for in the ISA.
 - (b) Requirements or guidance, the application of which Canadian law or regulation² does not permit, or which require amendments to be consistent with law or regulation.
 - (c) Requirements or guidance, where the ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.
3. The AASB may make amendments to an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such amendments are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, amendments that are:
 - (a) additions to an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
 - (b) deletions from, or other amendments to, an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed amendments to an ISA are highlighted in exposure drafts of proposed Canadian standards. The AASB indicates the reasoning for the amendments and respondents are invited to comment on them, including when the amendment will not result in convergence with the ISA in accordance with the IAASB's guide for national standard setters. Amendments to ISAs will be separately identified in the final Assurance Handbook material.

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1. Reference to ISAs in this appendix also includes reference to International Standards on Quality Management (ISQMs) adopted as Canadian Standards on Quality Management (CSQMs), relevant International Standards on Assurance Engagements (ISAEs) adopted as Canadian Standards on Assurance Engagements (CSAEs) and relevant International Standards on Related Services (ISRSs) adopted as Canadian Standards on Related Services (CSRSs), where applicable.
 2. Canadian incorporating and other governing legislation often require entities to prepare financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Accordingly, if Canadian GAAP necessitates a different audit response in Canada, these differences fall within the definition of a legal or regulatory requirement.

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