

October 4, 2022

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017
U.S.A.

Dear Mr. Botha:

RE: IAASB 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)*

The Canadian Auditing and Assurance Standards Board (AASB)¹ is pleased to comment on 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)* (the IAASB ED). In our response, "we" refers to the AASB.

We support the IAASB's efforts to ensure that the IAASB's and International Ethics Standards Board for Accountants' (IESBA) standards work together without conflict. We appreciate that the IAASB recognizes that not all jurisdictions adopt the IESBA Code, and has proposed revisions that can be applied globally, regardless of the ethical requirements followed.

In developing this response letter, we considered comments provided to us by interested and affected parties in Canada, including:

- practitioners from large accounting firms;
- regulators; and
- the committee in Canada responsible for considering the independence standards for use by Canadian professional accountants.

¹ The AASB is an independent body with the authority and responsibility for setting standards for quality management, audit, other assurance and related services engagements and guidance in Canada. The AASB does not set independence standards in Canada.

In addition to our [Overall Comments](#), we provide detailed comments to the questions in the IAASB ED. Our responses are presented in the [Appendix](#) to this letter.

If you have any questions or require additional information, please contact me at bbosshard@asbcanada.ca or Karen DeGiobbi at kdegiobbi@asbcanada.ca.

Yours very truly,

A handwritten signature in blue ink that reads "Bob".

Bob Bosshard, CPA, CA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Julie Corden, CPA, CA, IAASB Member
Eric Turner, FCPA, FCA, IAASB Member

OVERALL COMMENTS

We support the proposed amendments to ISA 700 (Revised). We agree that the revisions provide a clear mechanism to operationalize the IESBA's transparency requirement, while recognizing that some jurisdictions, like Canada, adopt the ISAs but apply ethical requirements different from the IESBA Code.

However, we believe paragraph 17 of ISA 260 (Revised) should be amended to include an explicit requirement for the auditor to communicate with those charged with governance which independence requirements were applied. We believe those charged with governance should be fully informed regarding the firm's independence, including which independence requirements were applied. We are concerned that proposed paragraph A29 of ISA 260 (Revised) may not, in all circumstances, achieve this desired transparency.

Finally, we are concerned that the IAASB has other projects underway, in addition to this project, that may result in multiple changes to the auditor's report. These changes, in relatively quick succession, could create implementation challenges and reduce the understandability of the auditor's report. In considering any future revisions to the auditor's report, we strongly urge the IAASB to ensure such revisions are coordinated to mitigate the risk of these potential unintended consequences.

Appendix – Responses to Specific Questions

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements

1. Do you agree that the auditor’s report is an appropriate mechanism for publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements, such as the independence requirements for PIEs in the IESBA Code?

Yes.

We agree that the auditor’s report is an appropriate mechanism to operationalize the IESBA’s requirement to publicly disclose when the auditor has applied relevant ethical requirements for independence for certain entities. The audited financial statements of many public interest entities are available publicly.

We support the IESBA further considering if guidance or conforming amendments to the IESBA Code are necessary for public interest entities whose audited financial statements are not publicly available.

- 2A. If you agree:

- (a) Do you support the IAASB’s proposed revisions in the ED to ISA 700 (Revised), in particular the conditional requirement as explained in paragraphs 18-24 of the Explanatory Memorandum?

Yes.

We support the IAASB’s proposed revisions to ISA 700 (Revised), including the conditional requirement that applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. Such conditionality allows appropriate flexibility for jurisdictions, like Canada, that do not adopt the IESBA Code, to determine whether it is appropriate to have a public disclosure requirement in their ethical requirements.

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. Instead, they are required to comply with relevant independence and other ethical requirements applicable to the practice of public accounting in the Codes of Professional Conduct (the “Canadian Codes”).

The Canadian Codes include differential independence requirements applicable to audit and review engagements of financial statements of certain entities. However, the Canadian Codes do not require a firm to publicly disclose that differential independence requirements for audits of financial statements of certain entities were applied.

(b) Do you support the IAASB's proposed revisions in the ED to ISA 260 (Revised)?

No.

We believe that the proposed application material in paragraph A29 of ISA 260 (Revised) about communicating to those charged with governance which independence requirements were applied should be elevated to a requirement.

In our view, firms should be required to communicate to those charged with governance:

- that they have complied with relevant ethical requirements regarding independence (as set out in paragraph 17 of ISA 260 (Revised)); and
- which independence requirements were applied.

We believe that paragraph 17 of ISA 260 (Revised) and the proposed amendments to paragraph A29 of ISA 260 (Revised) may not, in all circumstances, achieve the desired transparency in the communication with those charged with governance about which independence requirements were applied.

Accordingly, we suggest the following revision to paragraph 17:

17. In the case of listed entities, the auditor shall communicate with those charged with governance:
 - (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
 - ...
 - (b) The independence requirements that were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied. (Ref: Para. A29-A32)

The proposed new second sentence in paragraph A29 could then be removed:

- A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements. Relevant ethical requirements may include differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code. The auditor's statement to those charged with governance in accordance with paragraph 17 may include which independence requirements were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements were applied. The auditor may also be required to provide information about such differential independence requirements that were applied in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised).

2B. If you do not agree, what other mechanism(s) should be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph R400.20 of the IESBA Code?

N/A.

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Reviews of Financial Statements

3. Should the IAASB consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code?

We have not adopted ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*, in Canada. However, ISRE 2400 (Revised) was the basis for our Canadian Standard on Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*. CSRE 2400 contains all the requirements and application material in ISRE 2400 (Revised), with Canadian amendments.

In principle, it seems reasonable to consider revisions to ISRE 2400 (Revised), as the IESBA Code applies to audit and review engagements. However, we would have to do more research and consider any potential unintended consequences of such revisions before responding conclusively.

4. If the IAASB were to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, do you support using an approach that is consistent with ISA 700 (Revised) as explained in Section 2-C? Matter for IESBA Consideration

We have not considered whether there would be any unintended consequences. We understand that if the IAASB decides to revise ISRE 2400 (Revised), the revisions would be publicly exposed for comment.

5. To assist the IESBA in its consideration of the need for any further action, please advise whether there is any requirement in your jurisdiction for a practitioner to state in the practitioner's report that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

Like ISRE 2400 (Revised), CSRE 2400 requires the practitioner's report to reference the practitioner's obligation to comply with relevant ethical requirements. However, CSRE 2400 does not include a requirement to state in the practitioner's report that the practitioner is independent of the entity in accordance with the Canadian Codes. In addition, the Canadian Codes do not require firms to publicly disclose that they are independent of the entity for a review engagement.

Request for General Comments

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

We did not identify any potential translation issues while translating the IAASB ED to French.

7. Effective Date—Given the need to align the effective date with IESBA, do you support the proposal that the 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 as explained in paragraph 26?

We acknowledge the importance of aligning the effective date for the amendments to ISA 700 (Revised) and ISA 260 (Revised) with the IESBA Code and agree with the proposed effective date as explained in paragraph 26 of the IAASB’s Explanatory Memorandum.

However, we are concerned that the IAASB has other projects underway, including fraud² and going concern,³ that may result in multiple changes to the auditor’s report. In isolation, the change to the auditor’s report proposed in this Exposure Draft is limited. However, when considered holistically with other projects, the changes to the auditor’s report may be more significant.

There may be unintended consequences of the multiple changes to the auditor’s report being considered, including:

- **Implementation challenges.** The audit report changes are being proposed in short succession. Firms and preparers of implementation tools and guidance would need to revise the templates for auditor’s reports multiple times in a short timeframe, which could be costly and take significant time and effort.
- **Understandability of the auditor’s report.** These potential changes may have a cumulative effect of lengthening the auditor’s report and reducing its communicative value to users.

We strongly urge the IAASB to carefully consider the potential for unintended consequences and coordinate any future revisions to the auditor’s report.

² Revisions to ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

³ Revisions to ISA 570 (Revised), *Going Concern*