PIE Rollout
Draft IAASB PIE Exposure Draft Update

Objective

1. The objective of this agenda paper is to obtain the Board’s feedback on the draft 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 Public Interest Entities (PIEs) (IAASB PIE ED).

2. The Board’s feedback will be provided to the IAASB for its consideration as it finalizes the draft IAASB PIE ED during the June 2022 IAASB meeting.

Background

3. The IESBA approved its revisions to the definitions of listed entity and public interest entity (PIE) in the Code in December 2021. The final pronouncement (IESBA PIE revisions) was released in April 2022 following approval by the Public Interest Oversight Board (PIOB).

4. In March 2022, the IAASB approved a project proposal to undertake a narrow scope maintenance of standards project (IAASB PIE project) on listed entity and PIE, which set out the IAASB’s actions to respond to the recent revisions to the Code in relation to definitions of listed entity and PIE.

5. The IAASB PIE project’s objectives are to:

   (a) Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the International Standards on Quality Management (ISQMs) and International Standards on Auditing (ISAs) to maintain their interoperability;

   (b) Establish an objective and guidelines to support the IAASB’s judgments regarding specific matters for which differential requirements for certain entities are appropriate;

   (c) Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities; and

   (d) 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.

6. In order to remain consistent with the IESBA PIE Revisions, which will become effective for audits of financial statements for periods beginning on or after December 15, 2024, the IAASB acknowledged the urgency of first finalizing its proposals regarding enhanced transparency about the relevant ethical requirements for independence applied in audits of financial statements. This aspect of the IAASB PIE project relates to the transparency requirement set out in paragraph R400.20 of the IESBA PIE revisions. To address this urgency, the IAASB bifurcated its project into two tracks:

   (a) Track 1: A faster-moving track that deals with project objective (d) in paragraph 5 above, with an effective date that aligns with the IESBA’s.
(b) Track 2: A separate track that deals with project objectives that address the other public interest issues with a later effective date (project objectives (a), (b) and (c) in paragraph 5 above).

7. In June 2022, the IAASB will discuss the IAASB PIE ED with a view to approving it for release (refer to Agenda Items 2 and 2A of the IAASB’s June 2022 meeting webpage for a copy of the IAASB PIE Task force’s issues paper and the draft IAASB PIE ED).

8. The draft IAASB PIE ED includes proposed revisions to ISA 700 (Revised)\(^1\) and ISA 260 (Revised)\(^2\), based on the IAASB’s preferred approach taken in March 2022 (see Section “Disclosure in Auditor’s Report” below), to operationalize the IESBA’s transparency requirement in paragraph R400.20 of the IESBA PIE Revisions. In the Explanatory Memorandum (EM) accompanying the draft ED, there is also a question on transparency about the independence requirements applied with respect to review engagements of certain entities.

**Disclosure in the Auditor’s Report**

9. At its March 2022 meeting, the IAASB discussed a number of options proposed by the IAASB PIE Working Group for how ISA 700 (Revised) could be clarified to address circumstances when the auditor’s report is used to disclose that relevant ethical requirements for independence for certain entities have been applied (such as those for PIEs in the Code).

10. Amongst other matters, the IAASB agreed to:
  - Present its preferred option in the ED.
  - Explain the alternative option it has considered in the EM.
  - Ask respondents to the ED whether they agree that the auditor’s report is an appropriate mechanism to publicly disclose when a firm has applied relevant ethical requirements for independence for certain entities, and if not, to indicate what mechanism(s) other than the auditor’s report should be used.

11. The IAASB PIE Task Force has developed the draft ED and EM, taking into account the March 2022 IAASB discussions.

12. Section 2-B “The IAASB’s Proposed Revisions to ISA 700 (Revised) and ISA 260 (Revised)” of the draft EM provides draft IAASB discussions on its preferred option:
  - Paragraphs 22-24 of the draft EM explain the proposed revisions to paragraph 28 (c) of ISA 700 (Revised) in the ED to add a new conditional element that applies when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. If the condition is met, the auditor is required to indicate in the auditor’s report that the relevant ethical requirements for independence for those entities were applied. The discussion also includes a proposed new application material that supports the application of the conditional element of the requirement in paragraph 28(c) of ISA 700 (Revised).
  - The draft EM further explains that the IAASB prefers this approach because it only applies if the relevant ethical requirements have a transparency requirement. As a result, it does not

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1 ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
2 ISA 260 (Revised), *Communication with Those Charged with Governance*
impose an obligation on the auditor to disclose in the auditor’s report that the relevant ethical requirements for independence for those entities were applied if the underlying relevant ethical requirements do not require the auditor to do so. This enables jurisdictions that do not adopt the IESBA Code to determine, in establishing their ethical requirements, whether it is appropriate to have a transparency requirement in their ethical requirements.

- Paragraph 25 of the draft EM explains the proposed additional application material in ISA 260 (Revised) to highlight that the auditor may communicate with those charged with governance that the differential independence requirements that are applicable only to audits of financial statements of certain entities were applied, and that the auditor intends to disclose this information in the auditor’s report, in accordance with proposed paragraph 28(c) of ISA 700 (Revised).

- Paragraph 26 of the draft EM proposes the effective date to align with the effective date of the IESBA PIE Revisions, i.e., for audits of financial statements for periods beginning on or after December 15, 2024.

13. Section 2-C of the draft EM “An Alternative Approach to Amending ISA 700 (Revised)” provides an explanation of the considerations relevant for the IAASB’s alternative approach to revisions to paragraph 28(c) of ISA 700 (Revised):

- Under this alternative approach, proposed paragraph 28(c) of ISA 700 (Revised) would impose a requirement on the auditor to include a statement in the auditor’s report that address if differential independence requirements that are applicable only to audits of financial statements of certain entities were applied. This requirement would apply irrespective of whether the relevant ethical requirements include a transparency requirement.

14. Questions 1-2 in Section 3 of the draft EM relate to the proposed revisions to ISA 700 (Revised) and ISA 260 (Revised).

15. The proposed ED includes the following proposed revisions:

**ISA 700 (Revised)**

- Revisions to the requirement in paragraph 28(c) under the subheading “Basis for Opinion”
- A new application material paragraph A35A under the subheading “Relevant ethical requirements (Ref: Para. 28(c))”
- Revisions to Illustrations 1 & 2 in the Appendix

**ISA 260 (Revised)**

- A new application material paragraph A32A under the subheading “Auditor Independence (Ref: Para. 17)”

16. The proposed revisions to ISA 700 (Revised) as highlighted in paragraph 15 are reproduced below:

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

... Requirements


Auditor’s Report

Basis for Opinion

28. The auditor’s report shall include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that: (Ref: Para. A32)

(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). In circumstances when the relevant ethical requirements require the auditor to publicly disclose that differential independence requirements that are applicable only to audits of financial statements of certain entities were applied, the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to those entities; and (Ref: Para. A34–A39)

Application and Other Explanatory Material

Auditor’s Report (Ref: Para. 20)

Basis for Opinion (Ref: Para. 28)

Relevant ethical requirements (Ref: Para. 28(c))

A35A. Relevant ethical requirements may require the auditor to:

* Apply differential independence requirements that are applicable only to audits of financial statements of certain entities specified in the relevant ethical requirements. The auditor may also determine that it is appropriate to apply those differential independence requirements to other entities in light of the entity’s nature and circumstances.

* Publicly disclose that the differential independence requirements that are applicable only to audits of financial statements of certain entities were applied. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing an audit 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. The following illustrates the disclosure in the Basis for Opinion
section of the auditor’s report when the IESBA Code comprises all of the relevant ethical requirements that apply to the audit:

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 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 public interest entities, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

A36. Law or regulation, national auditing standards or the terms of an audit engagement may also require the auditor to provide in the auditor’s report more specific information about the sources of the relevant ethical requirements, including those pertaining to independence, that applied to the audit of the financial statements.

A37. In determining the appropriate amount of information to include in the auditor’s report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor’s report.

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**Appendix**

(Ref. Para A19)

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**Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

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

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

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- The relevant ethical requirements that apply to the audit comprise the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both. The IESBA Code and the ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable only to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements that are applicable only to audits of financial statements of public interest entities were applied.

…
INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Financial Statements

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 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 public interest entities, together with the ethical requirements for public interest entities that are relevant to our audit of the financial statements in [jurisdiction], and we have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.


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

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

The International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), comprises all of the relevant ethical requirements that apply to the audit. Relevant ethical requirements that apply to the audit are those of the jurisdiction. The ethical requirements relating to the audit in the jurisdiction include differential independence requirements that are applicable only to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the differential independence requirements that are applicable only to audits of financial statements of public interest entities were applied.
INDEPENDENT AUDITOR’S REPORT
To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code—the ethical requirements for public interest entities that are relevant to our audit of the consolidated financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

17. The PIE Rollout Working Group is supportive of the IAASB’s preferred option and the proposed revisions to ISA 700 (Revised) as highlighted in the table in paragraph 16.

18. The Working Group noted that the proposed revisions to paragraph 28(c) of ISA 700 (Revised) and Illustrations 1 and 2 do not require an auditor to expressly state that independence requirements for PIEs have been applied when performing an audit of the financial statements of an entity.

19. However, the Working Group has formed the view that the wording in the revised Illustrations 1 and 2, which indicates that the auditor is independent of the entity in accordance with the relevant ethical requirements for PIEs, is sufficiently clear and effectively operationalizes the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions.

Matter for IESBA Consideration
1. Do IESBA members agree that the draft proposed revisions to ISA 700 (Revised) as highlighted in the table in paragraph 16 effectively operationalize the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions?

Disclosure in the Practitioner’s Report for a Review Engagement
20. During the March 2022 IESBA meeting, IAASB staff provided a brief update on the IAASB’s discussion of the IAASB PIE project proposal. IAASB staff noted that a query was raised during the discussion about the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions.

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4 The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.
with respect to review engagements, as the definition of “audit engagement” in the Code includes "review engagement." IESBA staff explained that when proposing the revisions to the IESBA Code, the focus of the IESBA’s discussions, as well as in its coordination with the IAASB, was on enhancing transparency about the specific independence requirements the auditor applied in an audit of financial statements.

21. The IESBA was supportive of the following IAASB PIE Working Group’s proposals:
   - That the IAASB seek initial feedback about whether the IAASB should consider revisions to International Standard on Review Engagements (ISRE) 2400 (Revised) ⁵ to address transparency about the relevant ethical requirements for independence applied for review engagements.
   - That the IAASB not revise ISRE 2410⁶ as part of the IAASB PIE project.

22. The IESBA was also supportive of a suggestion raised at its March 2022 meeting to include a question in the EM about whether there are any jurisdictions that require the review report to include a statement that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement. In this regard, paragraph 86(j) of ISRE 2400 (Revised) requires the practitioner’s report to include a reference to the practitioner’s obligation under ISRE 2400 (Revised) to comply with relevant ethical requirements. However, the practitioner is not required to provide a statement similar to that required by paragraph 28(c) of ISA 700 (Revised), i.e. that the auditor identify the jurisdiction of origin of the relevant ethical requirements or refer to the Code.

23. Following deliberation in March 2022, the IAASB agreed to seek stakeholder feedback, as part of further information gathering under the IAASB PIE project, as to whether the IAASB should consider revisions to ISRE 2400 (Revised) ⁷ to address circumstances when the firm is required to publicly disclose that it has applied relevant ethical requirements for independence for certain entities in a review engagement.

24. Section 2-D of the draft EM provides an explanation on disclosure in the review report:
   - Paragraphs 31-40 explain the IAASB’s approach for addressing transparency about the relevant ethical requirements for independence applied for certain entities in review engagements.
   - In particular, paragraphs 38-40 provide a brief explanation on seeking views to inform the IESBA about whether there are any jurisdictions that require a practitioner’s review report to include a statement that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

25. Questions 3 and 4 in Section 3 of the draft EM relate to the issue of disclosure in the review report. Question 4 is reproduced below:

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⁵ ISRE 2400 (Revised), Engagements to Review Historical Financial Statements
⁶ ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity
⁷ ISRE 2400 (Revised), Engagements to Review Historical Financial Statements
Request for Specific Comments

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Matter for IESBA Consideration

4. 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.

26. The PIE Working Group is supportive of the proposed Question 4 in the EM of the draft IAASB PIE ED as a way for the IESBA to obtain information about whether there are any jurisdictions that require the review report to include a statement that the practitioner is independent of the entity in accordance with the relevant ethical requirements relating to the review engagement.

Matter for IESBA Consideration

2. Do IESBA members agree with the proposed Question 4 in the EM of draft IAASB PIE ED as highlighted in paragraph 25?