

**Statement of Compliance with Relevant Ethical Requirements, Including
Independence, in the Auditor's Report—Matters for Consideration****Background**

1. International Standard on Auditing (ISA) 700¹ requires that the description of an auditor's responsibilities in the auditor's report indicate that the auditor is required to comply with ethical requirements. However, when national law or regulation requires the auditor to use specific wording for the auditor's report, no explicit mention of ethical requirements is required. Because of the importance of compliance with ethical requirements as a basis for the audit, and the increased focus on auditor independence, the International Auditing and Assurance Standards Board (IAASB) proposed in its June 2012 Invitation to Comment (ITC), *Improving the Auditor's Report*, that an explicit statement of compliance with relevant ethical requirements be required in all auditors' reports.
2. Related to this, and in the context of the IESBA's project addressing a breach of a requirement of the Code, there has been a comment from the regulatory community that the IAASB consider whether and, if so, how a breach of a requirement of the Code should be reported in the auditor's report.
3. In the light of this regulatory comment and feedback from the IESBA Planning Committee and further discussions with the IAASB and the IAASB Consultative Advisory Group (CAG), the IAASB's Auditor Reporting drafting team DT-700 is planning to recommend to the IAASB at its June 2013 meeting that the proposed ISA 700 (Revised)² require a more explicit statement in the auditor's report that the auditor:
 - (a) Is independent of the entity within the meaning of the relevant ethical requirements or applicable law or regulation; and
 - (b) Has fulfilled the auditor's other ethical responsibilities under relevant ethical requirements.
4. The drafting team is also proposing that the auditor be required to disclose the specific relevant ethical requirements or applicable law or regulation in such statement (see proposed paragraph 28(c) and related application material in Appendix 1 and the illustrative text to be included in the auditor's report at Appendix 2).
5. For information, the drafting team is also proposing that the auditor be required to describe, in the *Auditor's Responsibilities for the Audit of Financial Statements* section of the auditor's report, the auditor's responsibility under ISA 260³ to communicate about independence with those charged with governance in the case of an audit of financial statements of a listed entity (see paragraph 38(b) of Appendix 1 and the illustrative text to be included in the auditor's report at Appendix 2).

¹ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

² Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

³ ISA 260, *Communication with Those Charged with Governance*

Matters for Consideration

1. Does the IESBA agree with the proposal to require the auditor to:
 - (a) Explicitly state in the auditor's report that the auditor is independent, within the meaning of the relevant ethical requirements;
 - (b) Name the source of the relevant ethical requirements; and
 - (c) State that the auditor has fulfilled the auditor's other ethical responsibilities under those (or other) ethical requirements?
 2. Are the proposed requirement and application material sufficiently clear to enable auditors to operationalize the proposal within the parameters of the relevant ethical requirements?
6. The feedback from the IESBA will be reported back to the IAASB at its June 24-28, 2013 meeting.

Appendix 1

Excerpts of Proposed ISA 700 (Revised) Requirements and Corresponding Application Material Related to Inclusion of a Statement About Independence and Ethical Responsibilities in the Auditor's Report

Basis for Opinion

28. The auditor's report shall include a section with the heading "Basis for Opinion" that:

- (a) States that the ...; (Ref: Para. A28)
- (b) Refers to the ...;
- (c) Includes a statement that the auditor is independent of the entity within the meaning of the [relevant ethical requirements or applicable law or regulation] and has fulfilled the auditor's other ethical responsibilities under those ethical requirements. If the independence and other ethical responsibilities are established by different sources, then the second part of the statement would also specify the source of the other relevant ethical requirements; and (Ref: Para. A29)
- (d) States

Basis for Opinion (Ref: Para. 28)

A28. The reference to

A29. ISA 200 indicates that the auditor shall not represent compliance with ISAs in the auditor's report unless the auditor has complied with the requirements of ISA 200 and all other ISAs relevant to the audit. This includes complying with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.⁴ Although independence requirements in a group audit situation may be complex, ISA 600⁵ establishes requirements for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit. However, the ISAs do not establish specific independence or ethical requirements for auditors, or component auditors, and thus do not extend to or otherwise override the independence requirements of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) or other ethical requirements to which the group engagement team is subject, nor do the ISAs require that the component auditor in all cases be subject to the same specific independence rules applicable to the group engagement team. In circumstances where the group auditor and the component auditors are subject to different independence rules, it may be necessary to either refer to a common base of independence requirements or refer to the respective independence requirements.

38. The auditor's report shall also state that the auditor is required to:

- (a) Communicate with ...; and

⁴ ISA 200, paragraphs 14 and 20

⁵ ISA 600, paragraphs 19–20

- (b) For audits of financial statements of listed entities, provide [those charged with governance] with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Appendix 2

Excerpt of Revised Illustrative Auditor’s Report With a Statement about Auditor Independence and Other Ethical Responsibilities

INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Financial Statements⁶

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company (the Company) as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion (para. 28)

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 within the meaning of [*indicate relevant ethical requirements or applicable law or regulation*] and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters communicated

[*Reporting of individual matters in accordance with paragraphs 11 and 13 of proposed ISA 701 – see Illustration 1.*]

Going Concern

[*Reporting in accordance with proposed ISA 570 (Revised) – see Illustration 1 of proposed ISA 700*]

Other Information

[*Reporting in accordance with proposed ISA 720 (Revised) – see Illustration 1 of proposed ISA 700*]

⁶ The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

Responsibilities of [Management⁷ and Those Charged with Governance or other appropriate terms] for the Financial Statements

[Reporting in accordance proposed ISA 700 (Revised) – see Illustration 1 of proposed ISA 700].

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The shaded material below would be permitted to be relocated to an Appendix to the auditor's report or reference can be made to a website of an appropriate authority established by law, regulation or national auditing standards, rather than including this material in the auditor's report.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism through the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement ...
- Obtain an understanding of internal control⁸
- Evaluate the appropriateness of accounting policies used
- Evaluate the overall presentation, structure and content of the financial statements, ...

We are required to communicate

We are also required to provide [*those charged with governance*] with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

⁷ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁸ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.