

BASIS FOR CONCLUSIONS Narrow-scope Amendments to Canadian Auditing Standard (CAS) 700, Forming an Opinion and Reporting on Financial Statements, and CAS 260, Communication with Those Charged with Governance

November 2023

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, [CAS 700, Forming an Opinion and Reporting on Financial Statements](#), and [CAS 260, Communication with Those Charged with Governance](#).

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make readers aware of the following:

- (a) A Basis for Conclusions prepared by International Auditing and Assurance Standards Board (IAASB) staff for 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. ¹ It provides information on how the IAASB dealt with comments received in response to its Exposure Draft, “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 PIEs” (ED-IAASB), issued in July 2022.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its equivalent Exposure Draft (ED-AASB) is set out below.

Background

In April 2022, the International Ethics Standards Board for Accountants (IESBA) revised the IESBA Code relating to listed entities and PIEs. The IESBA revisions included a new transparency requirement for a firm to publicly disclose when it has applied the independence requirements in the audit of a PIE (IESBA’s transparency requirement). However, the IESBA Code does not specify the mechanism for such disclosure.

In July 2022, the IAASB issued its ED-IAASB, proposing a limited number of targeted changes to ISA 700 (Revised) and ISA 260 (Revised) (referred to as “narrow-scope amendments”) to determine whether the auditor’s report is an appropriate mechanism for public disclosure in operationalizing the IESBA’s transparency requirement.

In August 2022, the AASB issued ED-AASB proposing to adopt, subject to comments received on exposure, the IAASB’s proposed narrow-scope amendments.

The AASB received two comment letters on ED-AASB.

During the comment period, the AASB undertook targeted outreach with interested and affected parties to seek input on the proposed narrow-scope amendments. The input received from this outreach, in addition to written comment letters, informed the AASB’s response letter to the IAASB and the AASB’s consideration of whether any Canadian amendments were needed.

In June 2023, the IAASB approved the final narrow-scope amendments. This approval was subject to the Public Interest Oversight Board’s (PIOB) confirmation that the IAASB followed due process. In October 2023, the IAASB received this confirmation.

In September 2023:

- the AASB approved the narrow-scope amendments; and
- the Auditing and Assurance Standards Oversight Council (AASOC) confirmed that the AASB followed due process in the development of the narrow-scope amendments prior to their issuance in the CPA Canada Handbook – Assurance. ²

Public Interest Considerations

The IAASB’s Basis for Conclusions sets out its key public interest considerations in undertaking this project.

In Canada, professional accountants are required to apply the rules of professional conduct / code of ethics applicable to the practice of public accounting issued by various professional accounting bodies (referred to as “Canadian Codes”). These Canadian Codes may differ from the IESBA Code. Professional accountants in Canada are not required to apply the IESBA Code when performing audits in accordance with Canadian generally accepted auditing standards.

In making the narrow-scope amendments to [CAS 700](#) and [CAS 260](#), the AASB considered its commitment to adopting ISAs as CASs, with amendments that are in accordance with its amendment criteria.

Significant Matters

AASB's Consideration of Canadian Amendments

1. The AASB did not propose any Canadian amendments in ED-AASB. Respondents to ED-AASB suggested Canadian amendments, which are discussed below. The Board did not identify any new Canadian amendments to changes made in finalizing the narrow-scope amendments post-exposure.

The Auditor's Statement in the Auditor's Report Regarding Independence

2. Paragraph [28\(c\)](#) of CAS 700 requires that the auditor's report include a statement that the auditor is independent of the entity and has fulfilled the other ethical responsibilities in accordance with relevant ethical requirements for the audit. ED-AASB proposed a new requirement that mirrors the proposal in ED-IAASB. The proposed new requirement would apply only when the relevant ethical requirements require public disclosure that independence requirements for audits of financial statements of certain entities were applied, such as for audits of financial statements of PIEs under the IESBA Code. In such cases, the proposed requirement requires the auditor to disclose in the auditor's report that the relevant ethical requirements for independence for those entities were applied.
3. The ED-AASB did not propose any Canadian amendments to the proposed requirement or its related application material in ISA 700 (Revised) because:
 - the proposed narrow-scope amendments are not tied to the IESBA Code, allowing for flexibility in applying ethical requirements other than the IESBA Code; and
 - the proposed narrow-scope amendments would not conflict with the existing Canadian Codes. The Canadian Codes include independence requirements for audits and reviews of financial statements of reporting issuers and listed entities. However, unlike the IESBA Code, the Canadian Codes do not require the auditor to publicly disclose when they have been applied. Therefore, the proposed new requirement in [CAS 700](#) would not require the Canadian auditor who complies only with the Canadian Codes to disclose in the auditor's report that the relevant ethical requirement for independence for audits of financial statements of certain entities were applied.
4. However, ED-AASB proposed retaining the existing Canadian wording in the illustrative reports in [CAS 700](#). As a result, the changes made to the wording of the illustrative reports in ISA 700 (Revised) in adopting it as CAS 700 are as follows:
 - replacing the reference to the "IESBA Code" with a reference to "relevant ethical requirements" consistent with established practice in the Handbook; and
 - not including the revised IAASB wording in the illustrative reports that operationalizes the transparency requirement because the Canadian Codes do not include a transparency requirement.
5. Some respondents to ED-AASB suggested Canadian amendments to ISA 700 (Revised) in adopting it as [CAS 700](#). These suggestions can be categorized as follows:
 - (a) Amend the proposed narrow-scope amendments to ISA 700 (Revised) to require the auditor to disclose in the auditor's report the application of independence requirements for audits of financial statements of certain entities in all cases, even when the relevant ethical requirements do not require public disclosure (an unconditional disclosure requirement).
 - (b) Do not adopt the proposed amendments to ISA 700 (Revised) as they are not relevant in Canada considering that there is no comparable IESBA's transparency requirement in the Canadian Codes.

Request for an Unconditional Disclosure Requirement

6. Respondents who suggested a Canadian amendment as discussed in paragraph [5\(a\)](#) above noted the following reasons in support of an unconditional requirement:
 - *Achieve greater transparency in reporting.* In their view, increased transparency in reporting will help financial statement users understand which independence requirements were applied, leading to enhanced confidence and trust in the profession.
 - *Avoid possible inconsistency in reporting.* Large accounting firms that are members of the Transnational Forum of Firms, apply both the IESBA Code and the Canadian Codes. Some firms noted that to apply the IESBA's transparency requirement, they might consider disclosing in their auditors' reports when independence requirements for PIEs in the IESBA Code were applied. However, the Canadian Codes do not require such disclosure of independence requirements for reporting issuers and listed entities. There was a concern that this possible difference in reporting practices may incorrectly imply that the Canadian Codes do not include specific independence requirements for audits of financial statements of certain entities.
7. Some respondents to ED-IAASB also supported an unconditional disclosure requirement that would make transparency disclosure in the auditor's report mandatory in all cases. The IAASB considered such comments and decided to retain the conditional requirement in finalizing the narrow-scope amendments to ISA 700 (Revised), as discussed in the IAASB's Basis for Conclusion.
8. The AASB considered the feedback received and did not make any Canadian amendments for two reasons:

- The existing Canadian Codes do not require a firm to publicly disclose when it has applied the independence requirements for reporting issuers and listed entities. Therefore, introducing an unconditional requirement in [CAS 700](#) to disclose the application of these independence requirements in the auditor's report would not align with these Codes.
- Some Canadian listed entities, as defined in the CASs, are exempt from applying the additional independence requirements applicable to reporting issuers and listed entities in the Canadian Codes. Therefore, even if [CAS 700](#) were to introduce an unconditional requirement, it would not result in consistency in reporting across all listed entities.

Request to Not Adopt the Proposed Narrow-scope Amendments

9. A respondent who suggested a Canadian amendment as discussed in paragraph [5\(b\)](#) above to not adopt the narrow-scope amendments, noted that the narrow-scope amendments are not applicable in Canada. The purpose of the IAASB narrow-scope amendments is to operationalize the IESBA's transparency requirement. However, the Canadian Codes do not currently include such a transparency requirement. Therefore, the narrow-scope amendments to ISA 700 (Revised) are currently not applicable in Canada and there is no need for equivalent amendments in [CAS 700](#). The respondent felt a decision to adopt the narrow-scope amendments to ISA 700 (Revised) should be made only after the Public Trust Committee considers, under its own due process, whether a transparency requirement similar to the IESBA's is appropriate in the Canadian context.
10. The AASB considered the feedback received and decided to adopt the narrow-scope amendments for two reasons:
 - The narrow-scope amendments to ISA 700 (Revised) are relevant to Canadian practitioners who also apply the IESBA Code.
 - As the Canadian Codes do not require auditors to publicly disclose their application of independence requirements to audits of financial statements of certain entities, the narrow-scope amendments to [CAS 700](#) would not affect firms that do not apply the IESBA Code. Therefore, there would be no adverse consequence in adopting these narrow-scope amendments.

Communication with Those Charged with Governance

11. ED-AASB proposed new application material in paragraph [A29](#) of CAS 260, in line with ED-IAASB, on communicating with those charged with governance independence matters that correspond with the proposed narrow-scope amendments to [CAS 700](#).
12. Some respondents to ED-AASB suggested that the proposed application material to [CAS 260](#) should be elevated to a requirement. In their view, information reported to those charged with governance should be at least equivalent to the information disclosed in the auditor's report.
13. The AASB agreed with the views expressed by the respondents and suggested that the IAASB make changes in finalizing ISA 260 (Revised). The IAASB agreed and introduced a new requirement in paragraph 16 of ISA 260 (Revised) that applies to audits of all entities. This paragraph requires the auditor to communicate with those charged with governance about the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement. Additionally, it requires the auditor to communicate whether independence requirements specific to audits of financial statements of certain entities were applied.
14. The AASB believes that the final ISA 260 (Revised) addresses the concerns Canadian respondents raised.

AASB's Re-exposure Considerations

15. When the IAASB does not issue a re-exposure draft, the AASB does not re-expose any aspects of the IAASB standard. However, the AASB's due process requires the Board to consider whether to re-expose any new or revised Canadian amendments. ED-AASB did not propose any Canadian amendments. In approving the final narrow-scope amendments, the AASB made no new Canadian amendments. Therefore, re-exposure is not necessary.

List of Written Response Letters

- MNP LLP
- Canadian Public Accountability Board

Summary of Participants in Consultation Sessions

Format	Big six accounting firms	Regulators	Provincial, territorial & Bermudian bodies	Others	Total
Specific outreach with large firms	6				6
Specific outreach with practice inspectors from the provincial,			9		9

territorial & Bermudian bodies					
Specific outreach with Independence Standing Committee of the Public Trust Committee				10	10
Specific outreach with regulators		1			1
TOTAL PARTICIPANTS	6	1	9	10	26

Footnotes

1. The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).
2. Both the AASB's approval and AASOC's confirmation were subject to the PIOB's confirmation of due process for the IAASB's narrow-scope amendments which was completed in October 2023.

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