

# Audit & Assurance Alert

## AUDITOR REPORTING AND COMMUNICATING WITH THOSE CHARGED WITH GOVERNANCE - NARROW-SCOPE AMENDMENTS

NOVEMBER 2023

### STANDARDS DISCUSSED

CAS 700, *Forming an Opinion and Reporting on Financial Statements*  
CAS 260, *Communication with Those Charged with Governance*

### Why should you read this *Alert*?

The International Auditing and Assurance Standards Board (IAASB) issued limited, focused changes (referred to as narrow-scope amendments) to International Standard on Auditing (ISA) 700 (Revised)<sup>1</sup> and ISA 260 (Revised).<sup>2</sup> The purpose of these amendments is to enhance transparency about the relevant ethical requirements for independence applied by the auditor when performing an audit of financial statements. They are part of Track 1 of the IAASB's two-track project titled [Listed Entity and Public Interest Entity](#).

The Auditing and Assurance Standards Board (AASB) is committed to adopting ISAs as Canadian Auditing Standards (CASs) and has adopted these amendments into CAS 700 and CAS 260. This *Alert* is being issued to raise awareness of these amendments and to highlight their application in the Canadian context. The amendments were published in the *CPA Canada Handbook - Assurance* in November 2023.

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

2 ISA 260 (Revised), *Communication with Those Charged with Governance*

## When are the narrow-scope amendments effective?

The narrow-scope amendments to CAS 700 and CAS 260 will be effective for audits of financial statements for periods **beginning on or after December 15, 2024**. This effective date is aligned with the effective date of the narrow-scope amendments to the related ISAs.

## What significant narrow-scope amendments were made?

### Auditor reporting

In CAS 700 there is an existing requirement in paragraph 28(c) that the auditor's report include statements that:

- the auditor is independent of the entity
- the auditor has fulfilled the other ethical responsibilities for the audit

This paragraph now specifies: *“if the relevant ethical requirements require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities, the statement [in the auditor's report] shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to the audits of those entities.”*<sup>3</sup>

### Communicating with those charged with governance

In CAS 260, there is an existing requirement in paragraph C17 (renumbered as paragraph C18 as a result of the amendments) that the auditor communicate with those charged with governance that the engagement team and others in the firm have complied with relevant ethical requirements regarding independence. This requirement applies only to audits of financial statements of listed entities.

CAS 260 now has an additional requirement in paragraph 17 applicable to audits of financial statements of **all types of entities**. It 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. Furthermore, if the auditor applies enhanced independence requirements specific to audits of financial statements of certain entities, the auditor must communicate this application to those charged with governance.

<sup>3</sup> CAS 700, paragraph 28(c)(ii)

## Why were the narrow-scope amendments made?

The IAASB made these amendments in response to changes to the IESBA Code<sup>4</sup> made by the International Ethics Standards Board for Accountants (IESBA), which develops ethical standards and guidance for professional accountants for use around the world. The IESBA Code now requires auditors to tell the public when they have applied the enhanced independence requirements for public interest entities (PIEs). However, the IESBA Code does not specify exactly how auditors should disclose this information to the public. So, the narrow-scope amendments to ISA 700 (Revised) and ISA 260 (Revised) help auditors:

- operationalize the new requirement in the IESBA Code by requiring disclosure of this information in the auditor's report
- enhance communication to those charged with governance in audits of financial statements of all types of entities, ensuring they are informed about the independence requirements applied by the auditor

## Implications in Canada

In Canada, professional accountants follow the rules of professional conduct / code of ethics applicable to the practice of professional accounting issued by the provincial and territorial professional accounting bodies (referred to as Canadian CPA Codes). These Canadian CPA Codes may differ from the IESBA Code.

### Will auditor's reports in Canada change?

The Canadian CPA Codes include enhanced independence requirements for audit and review engagements of financial statements of reporting issuers and listed entities. However, they do not require the auditor to publicly disclose when the auditor applies these enhanced independence requirements.

The new requirement in paragraph 28(c) of CAS 700 **applies only** if the relevant ethical requirements state that the auditor must tell the public that they have applied the enhanced independence requirements specific to audits of financial statements of certain entities, for example, as is the case in the IESBA Code for PIEs. Since the Canadian CPA Codes do not include a public disclosure requirement, the auditor's reports won't change for Canadian auditors who apply only the Canadian CPA Codes.

### How will communication with those charged with governance change?

As the new requirement in CAS 260 applies to audits of financial statements of all entities, you will need to communicate with those charged with governance about the relevant ethical requirements, including those related to the independence requirements that you applied for the engagement.

In meeting this new requirement, consider what you currently communicate with those charged with governance and what additional information you may need to communicate.

<sup>4</sup> International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (IESBA Code)

## What those charged with governance may need to know about the narrow-scope amendments

Those charged with governance of an audit client may question why your communication to them has changed.

You may wish to inform them that the relevant ethical requirements related to independence haven't changed. However, the revised auditing standards now recognize that communication to those charged with governance about the independence requirements applied by the auditor is important for all types of entities.

## What can you do to prepare for the changes?

- Read the revisions to [CAS 700](#) and [CAS 260](#) in the *CPA Canada Handbook*.
- Read the Basis for Conclusions document.
- Consider what you currently communicate with those charged with governance and what else you will need to communicate to meet the new requirement in CAS 260.

## Feedback

If you have comments on this *Audit & Assurance Alert* or suggestions for future *Alerts*, please send them to:

### Andrea Lee, CPA, CA

Principal, Research, Guidance and Support  
Chartered Professional Accountants of Canada  
277 Wellington Street West  
Toronto ON M5V 3H2  
Email: [research@cpacanada.ca](mailto:research@cpacanada.ca)

## DISCLAIMER

This *Alert* was prepared by the Chartered Professional Accountants of Canada (CPA Canada) as non-authoritative guidance. CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material. This *Alert* has not been issued under the authority of the Auditing and Assurance Standards Board.

Copyright © 2023 Chartered Professional Accountants of Canada

All rights reserved. This publication is protected by copyright and written permission is required to reproduce, store in a retrieval system or transmit in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise).

For information regarding permission, please contact [permissions@cpacanada.ca](mailto:permissions@cpacanada.ca).