

**TECHNICAL CIRCULAR: 2/2018 [TC 2\_2018]**

**To:** All the Members of the Institute

**From:** Auditing Standards Committee

**Date:** 17 January 2018

**Subject:** Independent Auditor's Report for  
European Union Public Interest Entities

This Technical Circular provides an illustration for the independent auditor's report on the financial statements of European Union (EU) Public Interest Entities (PIEs).

This illustrative audit report takes into account the requirements of Article 10 of EU Regulation 537/2014, Article 69 of the Auditor's Law 2017, ISA 700 (Revised) and ISA 701.

The Institute's Members can use the illustrative audit report included in this Technical Circular in conjunction with any guidance from their network firms, where applicable.

For illustrations of the independent auditor's report on the financial statements of **non-EU** PIEs reference should be made to Technical Circular TC 4 2017 issued on 6 June 2017.

**Illustration:    Unmodified opinion – For EU Public Interest Entities**

**Companies submitting consolidated financial statements**

**Independent Auditor's Report**

**To the Members of ABC Limited**

**Report on the Audit of the Consolidated Financial Statements**

**Opinion**

We have audited the consolidated financial statements of ABC Limited (the “Company”), and its subsidiaries (the “Group”), which are presented in pages [...] to [...] and comprise *[the consolidated statement of financial position as at 31 December 20XX, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows]*<sup>1</sup> for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 20XX, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

**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 remained independent of the Group throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have 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.

## **Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud<sup>5, 6</sup>**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*[Provide required information regarding each key audit matter in accordance with ISA 701 and the requirements of Article 10(2)(c) of the EU Regulation 537/2014]. Provide the following: (i) a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud; (ii) a summary of the auditor's response to those risks; and (iii) where relevant, key observations arising with respect to those risks. Where relevant to the above information provided in the audit report concerning each significant assessed risk of material misstatement, the audit report shall include a clear reference to the relevant disclosures in the financial statements].*

## **Reporting on other information<sup>7</sup>**

The Board of Directors is responsible for the other information. The other information comprises the {information included in the Consolidated Management Report, the Corporate Governance Statement, *the X report and the Y report [tailor accordingly]*} but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements<sup>9</sup>**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

### **Report on Other Legal and Regulatory Requirements<sup>2</sup>**

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

### ***Appointment of the Auditor and Period of Engagement***

We were first appointed as auditors of the Group on [date] by [state by which body]. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of [X] years. *[This wording is indicative and should be updated accordingly depending on specific fact pattern in order to provide the required details in Article 10(2)(a) and (b) of the EU Regulation 537/2014 according to which the requirements are as follows (a) state by whom or by which body the statutory auditor(s) or the audit firm(s) was (were) appointed; (b) indicate the date of the appointment and the period of total uninterrupted engagement including previous renewals and reappointments of the statutory auditors or the audit firms. In the case of several reappointments it might be helpful to insert a table which shows all periods of total uninterrupted engagement including previous renewals and reappointments.]*

### ***Consistency of the Additional Report to the Audit Committee***

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the

Company, which we issued on [insert date] in accordance with Article 11 of the EU Regulation 537/2014.

### ***Provision of Non-audit Services***

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

### ***Other Legal Requirements***

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.<sup>10</sup>
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.<sup>10</sup>
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, *[and which is included as a specific section of the consolidated management report,]* have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.<sup>3</sup>
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.<sup>3</sup>
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.<sup>3</sup>

## Other Matter<sup>4</sup>

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is.....<sup>8</sup>

<i>Where the statutory auditor is a firm</i>
--

*[Signature of engagement partner]*

*[Name of engagement partner]*

Certified Public Accountant and Registered Auditor  
for and on behalf of

*[Name of audit firm]*

Certified Public Accountants and Registered Auditors

*[Address]*

*[Date]*

<i>Where the statutory auditor is a sole practitioner</i>
---

*[Signature of sole practitioner]*

*[Name of sole practitioner]*

Certified Public Accountant and Registered Auditor

*[Address]*

*[Date]*



**Notes:**

- 1 The titles of financial statements that have been used in the above report are those used in the latest version of International Accounting Standard (IAS) 1 "Presentation of financial statements". It should be noted, however, that paragraph 10 of IAS 1 allows entities to use titles other than those used in IAS 1.
- 2 In accordance with paragraph 42 of International Standard on Auditing (ISA) 700 "Forming an opinion and reporting on financial statements", if the auditor addresses other reporting responsibilities in the auditor's report on the financial statements, that are in addition to the auditor's responsibility under the ISAs to report on the financial statements, these other responsibilities shall be addressed in a separate section sub-titled "Report on other legal and regulatory requirements" or otherwise as appropriate to the content of the section.
- 3 This illustration includes the reference required by subparagraph (d) of Paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113 in relation to the corporate governance statement that forms a special part of the Management report or a separate statement which is published together with the Management report or is included in a document that is published in the website of the entity whose securities have been admitted to trading in a regulated market.
- 4 The "Other matter" paragraph of the above report is based on paragraph 8 of ISA 706 "Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report", according to which if the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, the auditor shall do so in a paragraph in the auditor's report, with the heading "Other matter", or other appropriate heading. As the matter in question relates to the whole report it has been placed after the report on other legal requirements.
- 5 Per ISA 700.30-31, the auditor is required to communicate key audit matters of a listed entity in the auditor's report in accordance with ISA 701. For non-listed entities, there is no such requirement unless the auditor decides to communicate the key audit matters in auditor's report. Per ISA 705.29, when the auditor's disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with ISA 701.

**Definition of Key Audit Matters,**

*As per International Standards on Auditing:*

As per ISA 701.08, key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA 315 (Revised).
- b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- c) The effect on the audit of significant events or transactions that occurred during the period.

*As per Regulation (EU) No 537/2014:*

*In accordance with Article 10(2)(c) of the EU Regulation 537/2014 the statutory auditor(s) or the audit firm(s) shall provide in the audit report, in support of the audit opinion, the following:*

- (i) a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud;
- (ii) a summary of the auditor's response to those risks; and
- (iii) where relevant, key observations arising with respect to those risks.

*Furthermore, where relevant to the above information provided in the audit report concerning each significant assessed risk of material misstatement, the audit report shall include a clear reference to the relevant disclosures in the financial statements.*

- 6 A matter giving rise to a modified opinion in accordance with ISA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised), are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report. Rather, the auditor shall report on these matters in accordance with the applicable ISAs and include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s).
- 7 Per ISA 720.A3 and A4, Other Information may comprise of: management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report), chairman's statement, corporate governance statement, internal control and risk assessment reports. Per ISA 720.12 (c), Other Information is defined as financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report, and therefore includes also the tax computation(s) (if presented as additional information in the annual report), detailed analysis of expenses or other items of the statement of comprehensive income and any other analyses/statements that are included in the annual report.



- 8 Per ISA700.49 (k), the name of engagement partner is required to be disclosed for audit of complete set of financial statements of listed entities.
- 9 Per ISA 705.28, when the auditor disclaims an opinion on the financial statements, a more limited description of the auditor's responsibility section is required.
- 10 References to the management report remain only when such a report is included in the financial statements (there are exemptions for preparing management report in accordance with article 151(1) of the Companies Law).