

<u>TECHNICAL CIRCULAR:</u>	1/2022 [TC 1_2022]
To:	ALL MEMBERS OF THE INSTITUTE
From:	Auditing Standards Committee & Accounting Standards Committee
Date:	3 February 2022
Subject:	Illustrative auditor's report in a dual opinion format where consolidated financial statements are not prepared

The purpose of this Technical Circular ("TC") is to provide guidance to statutory auditors/audit firms in relation to the impact on the audit opinion where a company registered in Cyprus, **which is not a public-interest entity (PIE)¹ as defined in paragraph 2 of the Auditor's Law of 2017**, has not complied with the requirements of the Cyprus Companies Law, Cap. 113 ("the Law") and/or IFRS 10 "Consolidated Financial Statements" when it comes to the preparation of consolidated financial statements in the cases where the consolidation exemptions, either of IFRS 10 paragraph 4 or the Law, are not met.

Under the Law, a company with subsidiaries is required to prepare two sets of financial statements complying with International Financial Reporting Standards as adopted by the EU ('IFRSs-EU'), as follows

- the separate financial statements; and
- the consolidated financial statements of the company and its subsidiaries (if not exempted under the Law and/or IFRS 10).

According to Article 142 (4)(b) of the Law, if the company director fails to take all reasonable steps to comply with the above mentioned, he/she commits an offense and he/she is subject, in the event of a conviction, to imprisonment not exceeding one year or to a fine not exceeding one thousand seven hundred euros or to both of these penalties.

¹ For PIEs, the standard formats of the adverse/qualified opinion on the auditor's report should be followed as illustrated in [ICPAC's Auditors Report Booklet](#).

The Law, under article 152A, further requires that both of these sets of financial statements are submitted for audit.

When a company does not comply with the requirements of the Law to prepare consolidated financial statements, the statutory auditor/audit firm must exercise professional judgement to decide whether to issue an adverse or qualified opinion under the provisions of ISA 705 (Revised) “Modifications to the opinion in the independent auditor’s report”, unless the matter is not material.

This circular provides guidance and introduces a new ‘dual’ format audit opinion to be issued for non-PIEs under a scenario where **separate financial statements are prepared but consolidated financial statements are not prepared (Scenario 3 below)** so as to differentiate the audit opinion on the separate financial statements and provide a distinct adverse/qualified audit opinion on the impact of the non-preparation of consolidated financial statements.

This TC replaces Illustrations 17 and 21 of the previous version of ICPAC’s Auditor’s Booklet dated 11 January 2021 that was in place up until the date of release of this TC. The Auditor’s Booklet has been updated as of the date of this TC to incorporate the relevant illustrations that are shown in Appendices 1 and 3.

It is assumed that the company has determined that the exemptions under Articles 142 (1)(d) and (f) of the Law from the requirement to prepare consolidated financial statements which applies to (i) small and medium-sized groups, except where any affiliated company in the group is a public-interest entity or where the obligation to draw up consolidated financial statement is required by other legislations; and (ii) parents whose parent or any intermediate parent or the ultimate parent (‘upper’ parent) issues consolidated financial statements under Generally Accepted Accounting Principles (‘GAAP’) have not been met. The impact on the audit opinion of any other disagreements or inability to obtain sufficient and appropriate audit evidence or any other matters impacting the audit report should be considered in the context of International Standard on Auditing (ISA) 700 (Revised) “Forming an Opinion and Reporting on Financial Statements”, ISA 705 (Revised) and ISA 706 (Revised) “Emphasis of Matter paragraphs and other matter paragraphs in the independent auditor’s report”.

The following three scenarios are applicable when it comes to the audit opinion issued for separate financial statements under ISA 700 (Revised) and ISA 705 (Revised):

- **Scenario 1**

The separate and consolidated financial statements are prepared and issued at the same time (or consolidated financial statements are issued before the separate financial statements are issued or the company takes advantage of the

consolidation exemptions not to prepare consolidated financial statements under the Law (i.e., small or medium-sized group or upper parent has issued consolidated financial statements under GAAP as explained above) and/or IFRS 10).

Refer to Illustrations 5-7 in ICPAC's [Auditors Report Booklet](#).

- **Scenario 2**

Separate financial statements have been prepared and audit report is to be issued but, although consolidation is not yet finalised, consolidated financial statements are expected to be issued within a reasonably short period after the issuance of the separate financial statements, not exceeding the parent upper parent company's legal/regulatory timeframe obligations

- a. When separate parent financial statements are prepared in accordance with IFRSs-EU, it is possible for those financial statements to comply with IFRSs-EU under the EU framework even if consolidated financial statements are prepared subsequent to the separate parent financial statements.

As stated in [ICPAC's TC 1/2019](#):

“The European Commission’s (EC) position is that the requirement to prepare financial statements in accordance with IFRSs as adopted by the EU is governed by law and not by IFRSs. When this matter was discussed by the Accounting Regulatory Committee (ARC), the ARC did not dissent from this position. The EC argues that since parent companies are required by the EU Directive to prepare separate financial statements and may be permitted or required by national law to prepare those separate financial statements in accordance with IFRSs as adopted by the EU, the provisions in IFRS 10 requiring the preparation of consolidated financial statements do not apply. In other words, a parent company preparing and filing separate financial statements in accordance with IFRSs as adopted by the EU does so independently from and irrespective of whether it prepares consolidated financial statements in conformity with IFRSs as adopted by the EU.”

This requires auditor's professional judgment, supported by historical or other evidence, to ensure that the consolidated financial statements will be issued. Factors that the auditor could take into account in making this judgment, include, but are not limited to, the existence of a signed engagement letter for the audit of the consolidated financial statements or the existence of signed statutory audited consolidated financial statements in previous years. If the statutory auditor/audit firm is satisfied that the consolidated financial statements will be issued within a

reasonably short¹ period after the signing of the audit report on the separate financial statements, not exceeding the parent company's legal/regulatory timeframe obligations, then the audit opinion will likely not be modified provided that explicit and sufficient disclosures are made to that effect ([Appendix 2](#)) and the auditor gives an emphasis of matter in the auditor's report as per the provisions of ISA 706 (Revised) ([Appendix 1](#)).

- b. By analogy, there are cases whereby the parent's followed past practice is to obtain exemption from consolidation because its upper parent publishes consolidated financial statements under GAAP (Article 142 (1)(f) of the Law), nonetheless that upper parent has not yet issued the consolidated financial statements but is expected to do so within a reasonably short² period after the signing of the audit report on the separate financial statements not exceeding the upper parent company's legal/regulatory timeframe obligations. In such cases, the audit opinion will likely not be modified if the statutory auditor/audit firm is satisfied that the consolidated financial statements of the upper parent prepared under GAAP, will be made available to the users of the separate financial statements of the parent, provided that explicit and sufficient disclosures are made to that effect ([Appendix 2](#)) and the auditor gives an emphasis of matter in the auditor's report ([Appendix 1](#)).

In case the Board of Directors:

- does not prepare and approve the consolidated financial statements, or
- the upper parent does not publish consolidated financial statements under GAAP

within a reasonably short period after the signing of the separate financial statements, not exceeding the parent/upper parent company's legal/regulatory timeframe obligations, the statutory auditor/audit firm is expected to take the following steps:

- i. in the event that the company withdraws and re-issues the financial statements (to state that no consolidated financial statements are to be prepared), the auditor should reissue the auditor's report following the guidance of Scenario 3 and applying the provisions of ISA 560 "Subsequent Events" paragraphs 15 and 16 ensuring that the previously issued separate financial statements are

¹ The consolidated financial statements are presented in a general meeting no later than eighteen months after the incorporation of the company and thereafter at least once per calendar year (Articles 142(1)(a) and (b), 142 (2)(a), 142(4)(a) and 152(1)(a) of the Law). Each company shall convene annually a general meeting as its annual general meeting in addition to any other general meetings at that year and shall designate the general meeting as such in the notices convening it and no more than fifteen months must elapse between one annual general meeting and the next, subject to the provisions of paragraph (a) of subsection (2) of article 142 of the Law (Article 125 (1) of the Law).

² Publication of the consolidated financial statements by the upper parent should be within the legal/regulatory timeframe required by its country of incorporation.

- properly withdrawn by the company and replaced with the re-issued separate financial statements;
- ii. in the event that the company does not withdraw and reissue the separate statements as per (i) above, the auditor should take steps to seek to prevent future reliance on the auditor's report issued on the separate financial statements by following the provisions of ISA 560 paragraph 17, explaining the reasons and the impact to the audit opinion of the non-preparation of consolidated financial statements. This should take place at a General Meeting(s) at which the financial statements were expected to be laid (in accordance with Articles 142 (1)(a) and (b), 142(4)(a) and 152(1)(a) of the Law). The auditor should also consider whether all other known users of the financial statements should be notified accordingly;
 - iii. consider client continuance and– in case of resignation, CyPAOB and ICPAC should be informed in compliance with Article 77(2) of the Auditor's Law of 2017 and as per the guidance included in [CyPAOB's circular 8/2018](#);
 - iv. inform the successor auditor about the reasons of the resignation as part of the professional clearance process.

[Appendix 1](#) provides a specimen of the *Emphasis of Matter* to be included in the audit report on the separate financial statements (included as Illustration 10 in [ICPAC's Auditor's Report Booklet](#)) and [Appendix 2](#) provides a specimen of the *Basis of preparation* of the separate financial statements for the above two cases.

In the normal cases that the consolidated/upper parent consolidated financial statements are prepared on or before the publication of the separate financial statements refer to Illustrations 5/7 of the ICPAC's Auditors Report Booklet respectively.

Refer also to [Appendix 5](#) for a related diagram.

- **Scenario 3 for non-PIEs**

Separate financial statements prepared but no consolidated financial statements are or will be prepared contrary to IFRSs-EU and the Law

An adverse or qualified opinion will be issued on the separate financial statements depending on the impact of the non-preparation of consolidated financial statements. The audit opinion will comprise two paragraphs – one for the separate financial statements and one for the impact of non-preparation of consolidated financial statements.

An adverse opinion will need to be issued on the separate financial statements if the effect of the non-preparation of consolidated financial statements is both material and pervasive or a qualified opinion if the effect is material but not pervasive. The statutory

auditor/audit firm should apply appropriate professional judgement to determine the materiality and pervasiveness of the effect of the non-consolidation, however in most cases the effect is expected to be pervasive, and an adverse opinion should be issued to this respect.

[Appendix 3](#) provides a specimen of the audit report on the separate financial statements of a non-PIE where the company has not complied with its obligation to prepare and present consolidated financial statements. The auditor's report has been included in [ICPAC's Auditor's Report Booklet](#) as Illustration 21.

[Appendix 4](#) provides a specimen of *Basis of preparation* of the separate financial statements where the company has adequately disclosed the above-mentioned event in its financial statements.

Refer also to [Appendix 5](#) for a related diagram.

APPENDIX 1

Specimen of the Emphasis of Matter paragraph to be included in the audit report on the separate financial statements of a parent company which issues its separate financial statements before its consolidated financial statements are issued or which is exempted from consolidation under Article 142 (1)(f) of the Law but the parent company or an upper parent has not yet issued its consolidated financial statements, and consolidated financial statements are expected to be issued within a reasonably short period after the issuance of the separate financial statements, not exceeding the parent/upper parent company's legal/regulatory timeframe obligations (i.e., Scenario 2 of this TC)

Independent Auditor's Report

To the Members of ABC Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of parent company ABC Limited (the "Company"), [the remaining words are the same as those appearing in the first paragraph of the Opinion paragraph of Illustration 2 of [ICPAC's Auditors Report Booklet](#) except for the following].

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of parent company ABC Limited as at 31 December 20XX [the remaining words are the same as those appearing in the second paragraph of the Opinion paragraph of Illustration 2 of [ICPAC's Auditors Report Booklet](#)].

Basis for Opinion

[As per Illustration 2 of [ICPAC's Auditor's Report Booklet](#)].

Emphasis of Matter

[When consolidation by the parent is not yet finalized] *We draw attention to Note X to the separate financial statements which states that the Company is a parent company, that the consolidated financial statements of the Company prepared in accordance with IFRSs as adopted by the EU have not yet been prepared and approved by the Board of Directors and that the consolidated financial statements are expected to be issued by the Board of Directors within a reasonably short period after the issuance of the separate*

financial statements, not exceeding the Company's legal/regulatory timeframe obligations. Our opinion is not modified in respect of this matter.

[When the parent does not prepare consolidated financial statements due to claiming the exemption in Article 142 (1)(f) of the Companies Law, Cap.113 but the upper parent's consolidated financial statements have not yet been published] We draw attention to Note X to the separate financial statements which states that [name of company] is not required by the Cyprus Companies Law, Cap.113, to prepare consolidated financial statements because the [parent or intermediate parent or ultimate parent] of the Company, [name of the parent or intermediate parent or the ultimate parent], publishes consolidated financial statements in accordance with Generally Accepted Accounting Principles in [state the country] and the Company does not intend to issue consolidated financial statements for the year ended 31 December 201X. At the time of approval of these separate financial statements, [name of the parent or the intermediate parent or the ultimate parent] has not yet published consolidated financial statements and consolidated financial statements are expected to be issued within a reasonably short period after the issuance of the separate financial statements, not exceeding the [parent or intermediate parent or ultimate parent] company's legal/regulatory timeframe obligations. Our opinion is not modified in respect of this matter.

Other information

[As per Illustration 2 of [ICPAC's Auditors Report Booklet](#)].

Responsibilities of the Board of Directors for the Financial Statements

[As per Illustration 2 of [ICPAC's Auditors Report Booklet](#)].

Auditor's Responsibilities for the Audit of the Financial Statements

[As per Illustration 2 of [ICPAC's Auditors Report Booklet](#)].

Report on Other Legal Requirements

[As per Illustration 2 of [ICPAC's Auditors Report Booklet](#)].

Other Matter

[As per Illustration 2 of [ICPAC's Auditors Report Booklet](#)].

APPENDIX 2

Specimen of Basis of preparation of separate financial statements of a parent company which issues its separate financial statements before its consolidated financial statements are issued or which is exempted from consolidation under Article 142 (1)(f) of the Law but the parent company or an upper parent has not yet issued consolidated financial statements and consolidated financial statements are expected to be issued within a reasonably short period after the issuance of the separate financial statements, not exceeding the parent/upper parent company's legal/regulatory timeframe obligations (i.e., Scenario 2 of this TC)

Basis of preparation of separate financial statements of a parent company which issues its separate financial statements before its consolidated financial statements are issued

These separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113.

At the time of approval of these separate financial statements, the Company has not published consolidated financial statements in accordance with IFRSs as adopted by the EU for the Company and its [subsidiary / subsidiaries] (the "Group") as required by IFRS 10 "Consolidated Financial Statements" and the Cyprus Companies Law, Cap.113.

The Board of Directors applied an interpretation issued by the European Commission which states that if a company chooses or is required to prepare its annual financial statements in accordance with IFRSs as adopted by the EU, it can prepare and file them independently from the preparation and filing of its consolidated financial statements. In particular, the Board of Directors concluded that this interpretation is also applicable in the case where the consolidated financial statements will be prepared and approved by the Board of Directors at a subsequent date which is expected to be within its legal/regulatory timeframe obligations (*to be tailored as relevant*). Accordingly, the Board of Directors has prepared these separate financial statements in accordance with IFRSs as adopted by the EU in advance of the preparation and filing of the consolidated financial statements.

Users of these separate financial statements should read them together with the Company's consolidated financial statements as at 31 December 20XX and for the year then ended, when they become available, in order to obtain a proper understanding on

the financial position, financial performance and cash flows of the Group. The consolidated financial statements, when prepared, can be obtained from [address].

Basis of preparation when the parent is exempted from the preparation of consolidated financial statements under Article 142 (1)(f) of the Law but the upper parent has not yet issued its consolidated financial statements

These separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

The Company is not required by the Cyprus Companies Law, Cap.113, to prepare consolidated financial statements because the [parent or intermediate parent or ultimate parent] of the Company, [name of the parent or the intermediate parent or the ultimate parent], publishes consolidated financial statements in accordance with Generally Accepted Accounting Principles in [state the country] and the Company does not intend to issue consolidated financial statements for the year ended 31 December 20XX.

The European Commission has concluded that since parent companies are required by the EU Accounting (2013/34/EU) Directive to prepare separate financial statements and since the Cyprus Companies Law, Cap. 113, requires the preparation of such financial statements in accordance with IFRSs as adopted by the EU, the provisions in IFRS 10 “Consolidated Financial Statements” requiring the preparation of consolidated financial statements in accordance with IFRSs do not apply.

At the time of approval of these separate financial statements, the [parent or intermediate parent or ultimate parent] of the Company, [name of the parent or the intermediate parent or the ultimate parent] has not yet published consolidated financial statements in accordance with Generally Accepted Accounting Principles.

The Board of Directors applied an interpretation issued by the European Commission which states that if a company chooses or is required to prepare its annual accounts in accordance with IFRSs as adopted by the EU, it can prepare and file them independently from the preparation and filing of its consolidated accounts. In particular, the Board of Directors concluded that this interpretation is also applicable in the case where the consolidated financial statements will be issued by the [parent or intermediate parent or ultimate parent] company at a subsequent date which is expected to be within the [parent or intermediate parent or ultimate parent] company’s legal/regulatory timeframe obligations (*to be tailored as relevant*). Accordingly, the Board of Directors has prepared these separate financial statements in accordance with IFRSs as adopted by the European Union in advance of the preparation



and filing of the consolidated financial statements which will be issued by the [*parent or intermediate parent or ultimate parent*] company.



APPENDIX 3

Specimen audit report for non-PIEs¹ on the separate financial statements when the company has not complied with its obligation to prepare and present consolidated financial statements (i.e., Scenario 3 of this TC)

Independent Auditor's Report

To the Members of ABC Limited

Report on the Audit of the Financial Statements

[Adverse/Qualified]² opinion

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

In our opinion:

i. Separate financial statements

- The accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 20XX, and of its financial performance and its 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 relating to separate financial statements.

ii. Impact of non-preparation of consolidated financial statements

- As stated in Note X to the financial statements, the Company has not complied with the requirements of the Cyprus Companies Law, Cap. 113 and of IFRS 10 “Consolidated Financial Statements” which require the preparation and presentation of consolidated financial information of the Company and its subsidiaries (together the “Group”). In the absence of consolidated financial information, the separate financial statements do not, on their own, provide sufficient information about the financial position, financial performance, and cash flows of the Group as a whole. The

¹ Illustration 21 replaces Illustrations 17 and 21 of previous [ICPAC's Auditors Report Booklet](#).

² The auditor must make an assessment as to whether the non-presentation of consolidated financial information has either a pervasive or a material but not pervasive effect on the financial statements and amend as appropriate.

impact of the above matter is material but not pervasive [when opinion is qualified]/ OR The impact of the above matter is material and pervasive [when opinion is adverse].

Basis for [adverse/qualified] opinion

IFRS 10 requires the preparation and presentation of consolidated financial statements. The Companies Law, Cap. 113 also requires, in addition to the preparation and presentation of separate financial statements, the preparation and presentation of consolidated financial statements, both of which must be submitted for audit.

As stated in Note X to the separate financial statements, the Company has not prepared consolidated financial statements. The preparation and presentation of consolidated information, in addition to the separate financial statements, is [*fundamental* (for Adverse) / *significant* (for Qualified)] for a proper understanding of the financial position, the financial performance and the cash flows of the Group and for the provision of relevant and faithfully presented financial information as per the principles of the Conceptual Framework of IFRSs and consequently, its omission is [*pervasive* (for Adverse) / *material* (for Qualified)].

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 Separate Financial Statements* section of our report. We are independent of the Company in accordance with the *International Code of Ethics (including International Independence Standards) for Professional Accountants of the International Ethics Standards Board for Accountants (“IESBA Code”)* together with the ethical requirements that are relevant to our audit of the separate 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 [Adverse/Qualified] opinion.

Other information

[As per Illustration 2 of [ICPAC’s Auditors Report Booklet](#), except as follows]

[...] 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. [*As described in the Basis for Adverse/Qualified Opinion section above, the Company has not prepared consolidated financial statements, and as a consequence it has not prepared a consolidated management report. Accordingly, we have concluded that the other information is materially misstated with respect to this matter.*]

Responsibilities of the Board of Directors for the Financial Statements

[As per Illustration 2 of [ICPAC’s Auditors Report Booklet](#)].

Auditor's Responsibilities for the Audit of the Separate Financial Statements

[As per Illustration 2 of [ICPAC's Auditors Report Booklet](#)].

Report on Other Legal Requirements

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

- In our opinion, the 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 financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the management report [*except as explained in the Basis for Qualified/Adverse Opinion section of our report above*].

Other Matter

[As per Illustration 2 of [ICPAC's Auditors Report Booklet](#)].

APPENDIX 4

Specimen of Basis of preparation of a company that has not complied with its obligation to prepare and present consolidated financial statements

<i>Basis of preparation</i>
<p>The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113. These are separate financial statements that contain information about [name of the Company] as an individual company and do not contain consolidated financial information as the parent of a group.</p> <p>The Company has not prepared consolidated financial statements as required by IFRS 10 “Consolidated Financial Statements” and the Cyprus Companies Law, Cap.113.</p>

APPENDIX 5

