

**Meeting:** IESBA CAG  
**Meeting Location:** New York, NY  
**Meeting Date:** March 6, 2023

# Agenda Item A-3

## Engagement Team-Group Audits Independence

### Objective of Agenda Item

- To report back on the discussions at the September 2022 CAG meeting relating to the Task Force’s proposals addressing the significant comments received on the [Exposure Draft, Revisions to the Code Regarding the Definition of Engagement Teams and Group Audits](#) (ET/GA ED).

### Background, Project Status and Timeline

- The IESBA approved the ED of the proposed changes to the Code at its [November-December 2021](#) meeting and released it in February 2022 with the comment period closing on May 31, 2022. [Forty-nine comment letters](#) were received from respondents across a wide range of stakeholder groups, including two Monitoring Group (MG) members,<sup>1</sup> other regulators, national standard setters, professional accountancy bodies, other professional bodies and firms.
- In [September 2022](#), CAG representatives and the IESBA received [an analysis](#) of the significant comments received to the ED and the Task Force’ [proposed changes](#) to the proposals to address those comments.
- The IESBA discussed the proposed changes and approved the final text at its November-December 2022 meeting. After PIOB’s approval, the [Final Pronouncement](#) was released on February 28, 2023 on the [IESBA’s website](#) together with the [Basis for Conclusions](#).

### Report Back on September 2022 CAG Discussion

- Below are extracts from the draft minutes of the September 2022 CAG meeting<sup>2</sup> and an indication of how the Task Force or the IESBA has responded to the CAG’s comments.

Matters Raised	Task Force/IESBA Response
NEW DEFINITIONS	
Mr. Yurdakul suggested that the proposed revisions to Section 400 of the Code also include the definition of audit team, not only the definition of engagement team.	During the meeting, Ms. Lee clarified that the Code already includes the definition of audit team in the Glossary. She explained that the proposed application material in Section 400, in conjunction with the definitions in the Glossary, aims to provide

<sup>1</sup> International Organization of Securities Commissions (IOSCO) and International Forum of Independent Audit Regulators (IFIAR)

<sup>2</sup> The draft September 2022 minutes will be approved at the March 2023 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
	<p>guidance as to the determination of who is included in an engagement team and an audit team in the context of audit, review, and group audit engagements.</p>
<p>Ms. Landell-Mills asked how PAs could determine if an individual – especially from a component auditor firm (CAF) – can directly influence the outcome of the group audit engagement and, therefore, be part of the audit team. Ms. Manabat suggested that the IESBA provide more clarity regarding the term "direct influence."</p>	<p>Ms. Lee responded that whether an individual can directly influence the outcome of the group audit depends on the specific facts and circumstances. For example, she raised the situation where a group audit client is a holding company and one of its components carries out all the group's operations. She explained that in that case, the individual who can influence the outcome of the component audit might also have the ability to directly influence the outcome of the group audit.</p> <p>The IESBA commissioned IESBA Staff to develop Frequently Asked Questions (FAQs) that would assist the application of the provisions. The FAQs will provide further examples and clarification regarding the determination of direct influence on an audit engagement.</p>
<p>Ms. Meng suggested that the IESBA consider addressing the independence of external experts too.</p>	<p>Ms. Lee responded that the IESBA's <a href="#">Strategy Survey 2022</a> already indicated that the IESBA would consider this topic as part of developing its Strategy and Work Plan 2024-2027.</p> <p>In December 2022, the IESBA approved a <a href="#">project</a> to develop ethics and independence provisions addressing the use of experts by organizations as well as in the context of audit and assurance engagements.</p>
<p>Ms. Stokhof asked whether the reference to internal auditors in the definition of engagement team meant that these are individuals seconded to the team.</p>	<p>During the session, Ms. Lee explained that in line with ISA 220 (Revised),<sup>3</sup> internal auditors are excluded from the engagement team. She clarified that internal auditors might provide some direct assistance on the engagement, but the engagement team needs to take full responsibility for the audit work performed.</p>

<sup>3</sup> International Standard on Auditing (ISA) 220, *Quality Management for an Audit of Financial Statements*

Matters Raised	Task Force/IESBA Response
INDEPENDENCE CONSIDERATIONS	
<p>Ms. Blomme supported the Task Force's preferred approach of Option 3,<sup>4</sup> acknowledging the concerns representatives of small and medium practices (SMPs) raised in their responses to the ED regarding proportionality and undue burden. Ms. McGeachy-Colby and Mr. Cela agreed with Ms. Blomme and supported Option 3.</p>	<p>Point noted.</p> <p>The IESBA discussed the possible options presented and supported Option 2, noting that it strikes a more balanced approach.</p> <p>After due consideration, the IESBA approved a more targeted approach for independence considerations applicable to CAFs outside the group auditor firm's (GAF) network. The IESBA believes that this approach would result in the same independence outcome as the approach proposed in the ED, but do so in a more operable and proportionate manner, with a lower likelihood of unintended consequences for audit quality, and thus better serve the public interest.</p> <p>See paragraphs R405.6 to R405.8 in the <a href="#">final text</a>.</p>
<p>Ms. McGeachy-Colby added that she also had concerns regarding the proposal in the ED requiring an SMP outside the GAF's network auditing a non-PIE component to apply the PIE independence provisions if the group audit client is a PIE. She was of the view that the provisions applicable to a PIE audit client should be applicable only if the SMP performed significant audit procedures.</p>	<p>The IESBA discussed the comment raised and reaffirmed that as a principle, the independence provisions that apply at the group level should apply throughout the group, including to CAFs outside the GAF's network. This approach is in line with the overarching principles of ISA 220 (Revised) and ISA 600 (Revised).</p> <p>However, if the group audit client is a PIE, the IESBA agreed that a CAF outside the GAF's network would only be required to comply with certain independence provisions applicable to a PIE for purposes of the group audit. The IESBA determined that such independence provisions only include:</p> <ul style="list-style-type: none"> <li>• The requirements and application material relevant to the permissibility of a NAS to an audit client (see further discussion immediately below), excluding the provisions addressing communication with TCWG of the group audit client on the provision of a NAS (see</li> </ul>

<sup>4</sup> Ms. Lee asked Representatives for their views regarding the options<sup>4</sup> presented in relation to independence considerations applicable to individuals from a component auditor firm outside the group auditor firm's network. For Options 1 to 3, please refer to pages 18-19 of [Agenda Item 5-A](#) of the September 2022 IESBA meeting.

Matters Raised	Task Force/IESBA Response
	<p>paragraphs R405.16 and R405.17 in the <a href="#">final text</a>); and</p> <ul style="list-style-type: none"> <li>The requirements and application material relevant to key audit partners and partner rotation (see paragraph R405.18(b)(ii) in the <a href="#">final text</a>).</li> </ul>
<p>Mr. Hansen supported Option 1, which he felt would be more in line with the SEC's approach regarding affiliates. He believed Option 3 could be a potential way forward in the case of non-listed group audit clients.</p>	<p>During the session, Ms. Lee explained that based on the ED proposals, in the case of listed entities, the CAF should monitor independence with respect to every related entity in the group. She noted that the CAF outside of the GAF's network would have no access to information about the entire "family tree" of the group. She highlighted that although the communication by the GAF to the CAFs is crucial in this regard, in a large group scenario, the changes to the group's structure on a regular basis make the communication and monitoring burdensome. She clarified that the Task Force proposed that the Code require the CAFs outside the GAF's network to apply the "reason to believe" principle based on the conceptual framework instead of actively monitoring independence with respect to all entities in the group.</p> <p>See the approved more targeted approach applicable to CAFs outside the GAF's network in paragraphs R405.6 to R405.8 in the <a href="#">final text</a>.</p>
<p>Mr. Greene was of the view that the Task Force's proposal could be seen as imposing a higher level of responsibility for independence for individuals at the group level than individuals in CAFs outside the GAF's network. Ms. Landell-Mills agreed with Mr. Greene's comment, especially in a listed group audit context. She argued that CAFs could face the same pressures and threats to independence. She felt that the challenge of access to information is not a sufficient rationale for setting a "lower level" of independence. Mr. Yurdakul shared Mr. Greene's and Ms. Landell-Mills' concerns. He believed that group audit team members from CAFs within or outside the GAF's network should</p>	<p>Apart from the practical challenges in relation to accessing information about entities in the group outside the chain of control of the component audit client, Ms. Lee also highlighted during the session the likelihood of threats to independence with respect to such entities. She argued that if a CAF provides a NAS to a controlled entity of the group audit client outside the chain of control of the component audit client, it is unlikely that a self-review threat would be present unless that controlled entity has related party transactions with the component audit client. Mr. Siong clarified that the Task Force aimed to address the concerns raised regarding the issue of proportionality in terms of the systems that would be necessary at the CAF</p>

Matters Raised	Task Force/IESBA Response
<p>be subject to the same independence requirements.</p>	<p>outside the GAF’s network to monitor personal independence across all entities in the group. He emphasized that the Task Force's proposals would still require CAFs to apply the "reason to believe" principle and the conceptual framework when considering threats to independence with respect to any other related entities and components in the group outside the chain of control of the component audit client.</p> <p>After due consideration, the IESBA approved a targeted approach for independence considerations applicable to CAFs outside the GAF’s network. The IESBA believes that this approach would result in the same independence outcome as the approach proposed in the ED, but do so in a more operable and proportionate manner, with a lower likelihood of unintended consequences for audit quality, and thus better serve the public interest.</p> <p>See paragraphs R405.6 to R405.8 in the <a href="#">final text</a>.</p>
<p>Mr. Dalkin noted that group structures can include really complex relationships. He believed that the proposals need to address the issue of complexity too.</p>	<p>Point taken.</p> <p>During the session, Mr. Siong raised that a group could have hundreds of components not just in one jurisdiction but across multiple jurisdictions. He noted that the complexity becomes a practical issue when asking SMPs to put systems in place for monitoring compliance. Ms. Lee explained that the Task Force intended to find a balanced approach between the likelihood of threats to independence created with respect to certain entities within the group and the complexity of the relationships in the group structure.</p>

Matters Raised	Task Force/IESBA Response
<p>Mr. Sullivan noted that the concept of independence is fundamental to the performance of an effective audit, irrespective of whether it is complex, burdensome, or costly. He added that while the cost-benefit analysis is meaningful, the benefits would need to be carefully balanced against the costs. Regarding the practical challenges related to accessing information about the group's structure, he highlighted that it is the GAF's responsibility to ensure that the entire engagement team is aware of the entities within the group worldwide.</p>	<p>Ms. Lee agreed with Mr. Sullivan's point regarding the importance of communication between the GAF and the CAF. She pointed out that the Task Force proposed new requirements and guidance to provide greater clarity about the matters to be communicated from the GAF to the CAF, and to emphasize that that the communication should take place on a timely basis.</p> <p>See paragraphs R405.3 and R405.4 in the <a href="#">final text</a>.</p>
<p>Ms. Vanich noted that the PCAOB has some statistics about how many engagement teams are involved in audits within the scope of the PCAOB's remit. She highlighted that the largest audit has 67 different firms and that average number was between 5 and 10 firms. She explained that based on the PCAOB rules, the lead auditor is required to obtain a written affirmation that the other auditors understand and will comply with the independence requirements. She added that the PCAOB has not received comments about the costs and practical challenges arising from the application of the PCAOB's independence rules.</p>	<p>Point taken into account.</p>
<p>PERIOD DURING WHICH INDEPENDENCE IS REQUIRED</p>	
<p>Mr. Sullivan questioned whether the period during which the component auditor firm's independence is required was an issue that Section 405 needs to address at all, especially if the CAF's engagement is recurring. He added that based on his experience, CAFs often have the responsibility to update their work before the issuance of the audit opinion on the group financial statements. Accordingly, they would need to be independent until that point. Ms. Landell-Mills shared Mr. Sullivan's views.</p>	<p>During the session, Ms. Lee explained that the Task Force intended to address the independence considerations in the context of a non-recurring engagement when the CAF carries out a specific audit procedure on a non-recurring basis, and there is not even a need for an update of the report on its work done. She clarified that the proposal was more of an exception that provided flexibility for the group audit engagement partner to determine the period during which the CAF's independence is required.</p> <p>Upon further discussion, the IESBA agreed to include a guidance in Section 405; however, it did not provide an option for the group engagement partner to determine the period during which the</p>

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<b>Matters Raised</b>	<b>Task Force/IESBA Response</b>
	CAF's independence is required in the case of non-recurring engagements. See paragraph in 405.14 A1 in the <a href="#">final text</a> .