Engagement Team – Group Audit Independence
(Mark up from Agenda Item 5-C of the September 2022 IESBA Meeting)

Chapter 1 – Proposed Changes to the International Independence Standards Relating to the Revision to the Definition of Engagement Team and Group Audits

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

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400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements.

400.2 This Part applies to both audit and review engagements, unless otherwise stated. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

Note to changes in paragraph 400.2
The proposed change to this paragraph is only editorial. It aligns the text to the version that was adopted as part of the Fees Final Pronouncement which will come into effect in December 2022.

[....]

400.6 When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110. Section 405 sets out specific requirements and application material applicable in a group audit.

400.7 This Part describes:

(a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;

(b) Potential actions, including safeguards, that might be appropriate to address any such threats; and

(c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.
Engagement Team and Audit Team

400.8 This Part applies to all audit team members, including engagement team members.

400.9 An engagement team for an audit engagement includes all partners and staff in the firm who perform audit work procedures on the engagement, and any other individuals who perform such procedures who are from:

(a) A network firm; or

(b) A firm that is not a network firm, or another service provider.

For example, an individual from a component auditor firm who performs audit procedures on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit.

Note to changes in paragraphs 400.9 and 405.12 A2

In light of the IAASB’s previous discussion in the context of the ISA 600 project, (see IAASB September 2021 Meeting, Agenda Item 2, Proposed ISA 600 (Revised) – Issues Paper, paragraphs 29 and 30), the Task Force has reviewed the use of the terms “audit work” and “audit procedures” in the proposed Section 405.

The IAASB’s position is that “audit work” refers more broadly to the entirety of the work effort, including with respect to the work requested to be performed by component auditors. For example, audit work would encompass all aspects of planning and performing the group audit, including with respect to direction, supervision and review, and necessary administrative tasks (e.g., coordination with management). In the context of ISA 600 (Revised), the IAASB used “audit procedures” when referring more specifically to the nature, timing and extent of audit procedures to be performed, including when component auditors are requested to perform specified audit procedures. However, the IAASB acknowledges that the references in other ISAs are not always consistent with this approach.

The Task Force has revisited the references to “audit work” and “audit procedures” in the proposals to follow the IAASB’s practice in ISA 600 (Revised). In the context of the work of the component auditor firm, where either “audit procedures” or “audit work” could be appropriate, the Task Force proposes referring to “audit work” to capture a broader scope of work (for example, in paragraphs 405.2019 A1).

400.10 In ISQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organizations in the network.

400.11 An audit engagement might involve experts within, or engaged by, the firm, a network firm, or a component auditor firm outside a group auditor firm’s network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit team members. For example:

- Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in analyzing complex information produced by the application of automated tools and techniques for the purpose of identifying unusual or unexpected relationships to analyze client data.

- Individuals within, or engaged by, the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit team members but not
engagement team members.

However, individuals who are external experts are neither engagement team nor audit team members.

### Note to changes in paragraph 400.11

**First bullet point**

During the Task Force’s discussion with IAASB Staff and Representatives of the ISA 600 Task Force, it was raised that the reference to “analyze client data” might not be fully understood in terms of what specific procedures this is intended to cover. At the September IESBA meeting, IESBA members also provided wording suggestions to try to clarify the role of experts with IT expertise covered under the first bullet point.

The Task Force noted that the role of engagement team members with IT expertise who perform audit procedures is intended to be in line with the provisions in ISA 220 (Revised). Therefore, the Task Force proposes that the wording of this paragraph of the Code mirror paragraph A19 in ISA 220 (Revised) below:

“A19. Engagement teams may include individuals with expertise in a specialized area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.”

**Third bullet point**

An IESBA member pointed out that the lead-in to paragraph 400.11, introducing examples of audit team and engagement team members, was not in line with the specific examples in the three bullet points. As external experts are neither audit team nor engagement team members, the Task Force agreed that the third bullet point should not be part of the list of examples. Instead, the Task Force proposes that the third bullet point of this paragraph be a separate statement at the end of the paragraph.

400.12 If the audit engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are audit team members but not engagement team members.

### Public Interest Entities

400.13 Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Size.
- Number of employees.
[As part of the Final Pronouncement “Revisions to the Definitions of Listed Entity and Public Interest Entity,” the IESBA approved changes to the subsection on “Public Interest Entities” that will come into effect in December 2024. The numbering of these approved paragraphs will be updated in accordance with the changes above to Section 400.]
SECTION 405

GROUP AUDITS

Introduction

405.1 Section 400 requires a firm to be independent when performing an audit engagement, and to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group audit engagements.

Requirements and Application Material

General

405.2 A1 The ISAs apply to an audit of group financial statements. ISA 600 (Revised) deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. ISA 600 (Revised) requires the group engagement partner to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit. The independence requirements referred to in ISA 600 (Revised), or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised), are those specified in this section.

405.2 A2 A component auditor firm that participates in a group audit engagement might separately issue an audit opinion on the financial statements of the component audit client. Depending on the circumstances, the component auditor firm might need to comply with different independence requirements when performing audit work for a group audit and separately issuing an audit opinion on the financial statements of the component audit client for statutory, regulatory or other reasons.

Communication between a Group Auditor Firm and a Component Auditor Firm

R405.3 ISA 600 (Revised) requires the group engagement partner to take responsibility to make a component auditor aware of the relevant ethical requirements that are applicable given the nature and the circumstances of the group audit engagement. When making the component auditor firm aware of the relevant ethical requirements, the group auditor firm shall communicate at appropriate times the necessary information to enable the component auditor firm to meet its responsibilities under this section.

405.3 A1 Examples of matters the group auditor firm might communicate include:

- Whether the group audit client is a public interest entity and the relevant ethical requirements applicable to the group audit engagement.

- The related entities and other components within of the group audit client that are relevant to the independence considerations applicable to the component auditor firm and the group audit team members within, or engaged by, that firm.

- The period during which the component auditor firm is required to be independent.

- Whether an audit partner who performs work at the component for purposes of the group audit is a key audit partner for the group audit.
ISA 600 (Revised) also requires the group engagement partner to request the component auditor to communicate whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement. For the purposes of this section, such request shall include the communication of:

(a) Any independence matters that require significant judgment;
(b) In relation to those matters, the component auditor firm’s conclusion regarding whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.

If a matter comes to the attention of the group engagement partner that indicates that a threat to independence exists, ISA 220 (Revised) requires the group engagement partner to evaluate the threat and take appropriate action.

Note to changes in paragraph R405.4

1. References to the requirements in ISA 600 (Revised)

The IAASB Staff and Representatives of the ISA 600 Task Force supported and raised no concerns regarding the references to the requirements in ISA 600 (Revised) addressing communication between the group auditor firm and the component auditor firm. However, they suggested clarifying that the proposed new requirement in paragraph R405.4 is applicable only in the context of the Code and that the wording of the paragraph does not give the impression that the matters to be communicated under this paragraph are requirements of ISA 600 (Revised).

The proposed change is intended to provide this clarification.

2. Confirmation of compliance with relevant ethical requirements

During the September 2022 IESBA meeting, a Board member suggested that the Task Force consider requiring the component auditor firm to communicate to the group auditor firm its compliance with the relevant ethical requirements and any changes to such compliance.

The Task Force noted that (1) paragraph 45 of ISA 600 (Revised) already requires the communication of such confirmation, and (2) the proposed paragraph R405.4 already includes a reference to the communication by the component auditor firm of that required confirmation. The Task Force does not believe there should be duplication of this communication requirement in ISA 600 (Revised) in Section 405.

Note to paragraph 405.4 A1

Proposed paragraph R405.7 requires members of the group audit team within, or engaged by, a component auditor firm outside the group auditor firm’s network to notify the component auditor firm about any threats to their independence in the context of the group audit. Proposed paragraph R405.8 requires the component auditor firm to evaluate and address any such threats.

Paragraph R405.4 requires the component auditor firm to communicate any independence matters that required significant judgment from the component auditor firm and its conclusions. This includes independence matters in relation to the component auditor firm and group audit team members within, or engaged by, the component auditor firm.

Representatives of the ISA 600 Task Force and IAASB staff suggested clarifying that, in line with principles set out in paragraph 21 of ISA 220 (Revised), it is ultimately the responsibility of the group engagement partner to determine whether independence requirements have been fulfilled. Given that
context, the Task Force is proposing guidance in paragraph 405.4 A1 that includes a reference to the group engagement partner’s responsibility to evaluate the threats communicated by the component auditor firm in accordance with paragraph R405.4 and take appropriate action as set out in paragraph 18 of ISA 220 (Revised).

Independence Considerations Applicable to Individuals

Members of the Group Audit Team Within, or Engaged by, a Group Auditor Firm and Its Network Firms

R405.5 Members of the group audit team who are within, or engaged by, the group auditor firm and its network firms shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the audit team.

Other Members of the Group Audit Team

R405.6 Members of the group audit team within, or engaged, by a component auditor firm outside of the group auditor firm’s network shall be independent of:

(a) The component audit client;

(b) The entity on whose group financial statements the group auditor firm expresses an opinion; and

(c) Any entities over which the entity in subparagraph (b) has direct or indirect control, provided that such entities have direct or indirect control over the component audit client,

in accordance with the requirements of this Part that are applicable to the audit team.

R405.7 In relation to related entities or components within the group audit client other than those covered in paragraph R405.6, a member of the group audit team within, or engaged by, a component auditor firm outside the group auditor firm’s network shall notify the component auditor firm about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual’s independence in the context of the group audit.

405.7 A1 Examples of such relationships or circumstances involving the individual or any of the individual’s immediate family members, as applicable, that the individual might consider in complying with paragraph R405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group audit client if the group audit client is material to that entity (see Section 510).
- A material loan or guarantee involving an entity that is not a bank or similar institution (see Section 511).
- A business relationship that is significant or involves a material financial interest (see Section 520).
- An immediate family member who is: (see Section 521)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over an entity’s accounting records or financial statements.
- The individual serving as, or having recently served as: (see Section 522 and Section
A director or officer of an entity; or
An employee in a position to exert significant influence over an entity’s accounting records or financial statements.

Upon receiving the notification as set out in paragraph R405.7, the component auditor firm shall evaluate and address any threats to independence created by the individual’s relationship or circumstance.

Note to changes in the subsection on Independence Considerations Applicable to Individuals

1. Independence considerations applicable to individuals

See Agenda Item 2-B.

2. Reference to audit team members engaged by component auditor firms outside the group auditor firm’s network

An IESBA member pointed out that based on the proposed wording of the definition of “group audit team” in the Glossary, it is not clear whether an individual engaged by a component auditor firm would be a member of the group audit team, although the proposed paragraphs R405.5 and R405.6 seemed to implicitly make reference to them as audit team members.

The Task Force notes that the group audit team definition in the Glossary only includes explicit reference to individuals who are engaged by the group auditor firm (sub-bullets (b)(i) to (iii)). However, bullet (a) of the group audit team definition states that the audit team includes the engagement team for the group audit. The engagement team includes any individuals who perform procedures on the engagement. These individuals could be engaged by a component auditor firm within or outside the group auditor firm’s network to perform the audit procedures.

For clarification, the Task Force also notes that the requirements in paragraphs R405.5 and R405.6 are applicable not only to group audit team members from the group auditor firm and component auditor firms, but also to other group audit team members, i.e., independent service providers who are engaged by the group auditor firm, its network firms, or component auditor firms to perform audit procedures for the group audit.

Independence Considerations Applicable to a Group Auditor Firm

A group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a firm.

Independence Considerations Applicable to Network Firms of a Group Auditor Firm

A network firm of the group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a network firm.

Independence Considerations Applicable to Component Auditor Firms outside a Group Auditor Firm’s Network

A component auditor firm outside the group auditor firm’s network shall:

(a) Be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all audit clients;
(b) Apply the relevant requirements in paragraphs R510.4-(a), R510.7 and R510.9 with respect to financial interests in the entity on whose group financial statements the group auditor firm expresses an opinion; and

(c) Apply the relevant requirements in Section 511 with respect to loans and guarantees involving the entity on whose group financial statements the group auditor firm expresses an opinion.

R405.120 When a component auditor firm outside the group auditor firm’s network knows, or has reason to believe, that a relationship or circumstance involving the group audit client, beyond those addressed in paragraph R405.119(b) and (c), is relevant to the evaluation of the component auditor firm’s independence from the component audit client, the component auditor firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

R405.131 When a component auditor firm outside the group auditor firm’s network knows, or has reason to believe, that a relationship or circumstance of a firm within the component auditor firm’s network with the component audit client or the group audit client, beyond those addressed in paragraph R405.119(b) and (c), creates a threat to the component auditor firm’s independence, the component auditor firm shall evaluate and address any such threat.

Period During Which Independence is Required

405.14 A1 The references to the financial statements and the audit report in paragraphs R400.30 and 400.30 A1 mean the group financial statements and the audit report on the group financial statements, respectively, when applied in this section.

405.12 A2 If the engagement of a component auditor firm outside the group auditor firm’s network is not of a recurring nature, the group engagement partner might determine that the period during which the component auditor firm is required to be independent ends at the later of the completion of the work of the component auditor firm for the purposes of the group audit or the notification by the group auditor firm that the component auditor firm’s involvement in the group audit has ended, irrespective of when the audit report on the group financial statements is issued.

Note to changes in paragraphs 405.14 A1 and the deletion of the previous paragraph 405.12 A2

A few IESBA members were concerned about the proposed discretion given to the group engagement partner regarding the determination of the period during which a component auditor firm is required to be independent. The Task Force agreed with the comments raised and proposes deleting the application material in the previous paragraph 405.12 A2.

However, responding to the comment received during the public consultation, the Task Force proposes to retain the application material in paragraph 405.14 A1 providing guidance on the application of paragraphs R400.30 and 400.30 A1 in the context of a group audit.

Group Audit Clients that are Not Public Interest Entities

R405.153 When the group audit client is not a public interest entity, a component auditor firm outside the group auditor firm’s network shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to audit clients that are not public interest entities for the purposes of the group audit.
Where a component auditor firm outside the group auditor firm’s network also performs an audit engagement for a component audit client that is a public interest entity for reasons other than the group audit, for example, a statutory audit, the independence requirements that are relevant to audit clients that are public interest entities apply to that engagement.

Group Audit Clients that are Public Interest Entities

Non-Assurance Services

Subject to paragraph R405.17, when the group audit client is a public interest entity, a component auditor firm outside the group auditor firm’s network shall comply with the provisions in Section 600 that are applicable to public interest entities with respect to the provision of non-assurance services to the component audit client except paragraphs R600.21 to R600.24.

Where the group audit client is a public interest entity, a component auditor firm is prohibited from, for example:

- Acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court, regardless of whether the amounts involved are material to the financial information of the component audit client.
- Designing or implementing the information technology systems, or an aspect of it, for a component audit client that is not a public interest entity where such information technology systems generate information for the component audit client’s accounting records or financial statements as such a non-assurance service creates a self-review threat.

The financial information on which a component auditor firm performs audit procedures work is relevant to the evaluation of the self-review threat that might be created by the component auditor firm’s provision of a non-assurance service, and therefore the application of Section 600. For example, if the component auditor firm’s audit work is limited to a specific item such as inventory, the results of any non-assurance service that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory are relevant to the evaluation of the self-review threat.

As an exception to paragraph R405.16, a component auditor firm outside the group auditor firm’s network may provide a non-assurance service that is not prohibited under Section 600 to a component audit client without communicating information about the proposed non-assurance service to those charged with governance of the group audit client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R600.21 to R600.24.

Note to Paragraph R405.16

During the September 2022 IESBA meeting, a Board member expressed concerns that the proposal did not require a component auditor firm outside the group auditor firm’s network to apply the provisions of Section 600 with respect to the group audit client or any parent entities of the component audit client, and asked the Task Force to consider whether it could raise any perception issues.

The Task Force reiterates that the ED proposed a proportionate approach regarding the independence considerations applicable to a component auditor firm outside the group auditor firm’s network, requiring
the component auditor firm:

- To be independent of the component audit client in accordance with Part 4A of the Code, and
- Not to hold certain financial interests, loans, and guarantees with respect to the entity on whose group financial statements the group auditor firm expresses an opinion.

Based on this approach, the component auditor firm outside the group auditor firm’s network is required to apply the “knows, or has reason to believe” principle that is described in applying the conceptual framework in various paragraphs in the extant Code (e.g., paragraphs R400.20, R800.9, R800.11, R310.7 and 340.14 A1), if the provision of a non-assurance service (NAS) to the group audit client or other upstream related entity is relevant to the evaluation of the component auditor firm’s independence from the component audit client.

As a substantial body of the respondents has supported this proportionate approach in the ED, the Task Force does not believe there are compelling reasons to revisit this approach.

**Note to Paragraph R405.17**

The exception to the requirement in paragraph R405.16 provides that the component auditor firm outside the group auditor firm’s network is not required to comply with the requirements regarding the communication of information concerning a proposed NAS to the component audit client with TCWG of the group audit client, or to seek their concurrence regarding the provision of that NAS, as addressed in paragraphs R600.21 to R600.24.

This exception was previously embedded in paragraph R405.16. The Task Force believes it is clearer if it set out as a separate provision, consistent with the Structure drafting conventions.

**Note to Paragraph 405.16 A1**

During the September IESBA meeting, a Board member suggested that the Task Force consider updating the example in relation to IT system services as it describes design or implementation as being prohibited only if it involves the whole IT system for a component audit client. The Task Force’s aim is to keep the examples in the application material as simple and as straightforward as possible. Therefore, the Task Force proposes some refinements to the wording of this paragraph to address the comment as well as reference only one type of IT-related service as an example to illustrate the application of the requirement in paragraph R405.16.

**Key Audit Partners**

**R405.185** The group engagement partner shall determine whether an audit partner who performs audit work at a component for purposes of the group audit is a key audit partner for the group audit. If so, the group engagement partner shall:

(a) Communicate that determination to that individual; and

(b) Indicate:

   (i) In the case of all group audit clients, that the individual is subject to paragraph R411.4, and

   (ii) In the case of a group audit clients that is a public interest entities, that the individual is also subject to paragraphs R524.6, R540.5-(c) and R540.20.

**405.185 A1** A key audit partner makes key decisions or judgments on significant matters with respect to the audit of the group financial statements on which the group auditor firm expresses an opinion
in the group audit.

**Changes in Components**

*All Group Audit Clients*

**R405.1**

When an entity that is not a related entity becomes a component of within the group audit client, the group auditor firm shall apply paragraphs R400.71 to R400.76.

**Changes in Component Auditor Firms**

*All Group Audit Clients*

405.2017 A1 There might be circumstances in which the group auditor firm requests another firm to perform audit work as a component auditor firm during or after the period covered by the group financial statements, for example due to a client merger or acquisition. A threat to the component auditor firm’s independence might be created by:

(a) Financial or business relationships of the component auditor firm with the component audit client during or after the period covered by the group financial statements but before the component auditor firm agrees to perform the audit work; or

(b) Previous services provided to the component audit client by the component auditor firm.

405.2017 A2 Paragraphs 400.31 A1 to A3 set out application material that is applicable for a component auditor firm’s assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client during or after the period covered by the group financial statements, but before the component auditor firm begins to perform the audit work for the purposes of the group audit, and the service would not be permitted during the engagement period.

405.2017 A3 Paragraph 400.31 A4 sets out application material that is applicable for a component auditor firm’s assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client prior to the period covered by the group financial statements.

**Group Audit Clients that are Public Interest Entities**

405.2118 A1 Paragraphs R400.32 and 400.32 A1 are applicable when a component auditor firm agrees to perform audit work for group audit purposes in relation to a group audit client that is a public interest entity if the component auditor firm has previously provided a non-assurance service to the component audit client.

405.2118 A2 Paragraphs R600.25 and 600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component auditor firm to a component audit client and the group audit client subsequently becomes a public interest entity.

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3 The numbering for paragraphs 400.31 A1-A3 will be updated when the revised NAS provisions become effective.
Breach of an Independence Provision at a Component Auditor Firm

405.2249 A1 A breach of a provision of this section might occur despite a component auditor firm having a system of quality management designed to address independence requirements. Paragraphs R405.2349 to R405.294 are relevant to a group auditor firm's determination as to whether it would be able to use a component auditor firm's work if a breach has occurred at the component auditor firm.

405.2249 A2 In the case of a breach at a component auditor firm within the group auditor firm's network, paragraphs R400.80 to R400.89 also apply to the group auditor firm in relation to the group audit, as applicable.

When a Component Auditor Firm Identifies a Breach

R405.230 If a component auditor firm concludes that a breach of this section has occurred, the component auditor firm shall:

(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;

(b) Evaluate the significance of the breach and its impact on the component auditor firm's objectivity and ability to perform audit work for the purposes of the group audit;

(c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and

(d) Promptly communicate in writing the breach to the group engagement partner, including the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

Note to bullet (d) of paragraph R405.23

An IESBA member questioned whether it is necessary to explicitly require the component auditor firm to communicate the breach to the group engagement partner in writing.

The Task Force notes that the proposal requires the group auditor firm to review the breach and make an assessment of the component auditor firm's objectivity based on the information communicated by the component auditor firm. Furthermore, the group auditor firm communicates the information received from the component auditor firm about the significance of the breach to TCWG of the group audit client.

As the communication between the component auditor firm and the group engagement partner forms a basis of subsequent reviews and discussion internally and with TCWG, the Task Force believes that in this case there are strong arguments to require written communication.

405.230 A1 Paragraphs 400.80 A2 and A3 set out application material relevant to the component auditor firm's evaluation of the significance and impact of the breach on the component auditor firm's objectivity and ability to issue an opinion or conclusion on the audit work performed at the component for purposes of the group audit, and its consideration of any actions that might be taken to address the breach satisfactorily.

R405.244 Upon receipt of the component auditor firm's communication of the breach, the group engagement partner shall:

(a) Review the component auditor firm's assessment of the significance of the breach and
its impact on the component auditor firm’s objectivity, and any actions that can be, or have been proposed or taken to address the consequences of the breach;

(b) Evaluate the group auditor firm’s ability to use the work of the component auditor firm for the purposes of the group audit; and

(c) Determine the need for any further action.

R405.252 In applying paragraph R405.241, the group engagement partner shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component auditor firm’s objectivity is compromised, and therefore, the group auditor firm is unable to use the work of the component auditor firm for the purposes of the group audit.

405.252 A1 If the group engagement partner determines that the breach has been satisfactorily addressed by the component auditor firm and does not compromise the component auditor firm’s objectivity, the group auditor firm may continue to use the work of the component auditor firm for the group audit. In certain circumstances, the group engagement partner might determine that additional actions are needed to satisfactorily address the breach in order to use the component auditor firm’s work. Examples of such action include the group auditor firm performing specific procedures on the areas impacted by the breach or requesting the component auditor firm to perform appropriate remedial work on the affected areas.

405.252 A2 ISA 600 (Revised) sets out that if there has been a breach by a component auditor and the breach has not been satisfactorily addressed, the group auditor cannot use the work of that component auditor. In those circumstances, the group engagement partner might find other means to obtain the necessary audit evidence on the component audit client’s financial information. Examples of such means include the group auditor firm performing the necessary audit work on the component audit client’s financial information or requesting another component auditor firm to perform such audit work.

Discussion with Those Charged with Governance of the Group Audit Client

405.263 A1 With respect to breaches by a component auditor firm within the group auditor firm’s network, paragraph R400.84 applies.

R405.274 With respect to breaches by a component auditor firm outside the group auditor firm’s network, the group auditor firm shall discuss with those charged with governance of the group audit client:

(a) The component auditor firm’s assessment of the significance and impact of the breach on the component auditor firm’s objectivity, including the nature and duration of the breach, and the actions proposed or taken; and

(b) Whether

(i) The actions that can be, or have been proposed or taken would satisfactorily address the consequences of the breach; or

(ii) The group auditor firm will use other means to obtain the necessary audit evidence on the component audit client’s financial information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.
R405.28 The group auditor firm shall communicate in writing to those charged with governance of the group audit client all matters discussed in accordance with paragraph R405.27 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach.

R405.29 If those charged with governance do not concur that the actions that can be, or have been proposed or taken, would satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm shall not use the work performed by the component auditor firm for the purposes of the group audit.

Note to paragraphs R405.27 and R405.8

At the September 2022 IESBA meeting, an IESBA member questioned why the proposed approach to communication of breaches at a component auditor firm is different in the case of a firm within or outside the group auditor firm’s network and whether it is supposed to be a separate communication.

The Task Force noted that the communication on breaches at a component auditor firm mirrors the communication of breaches in the extant Code. Paragraphs R400.81 and R400.82 of the extant Code also require the firm to discuss with TCWG the significance of the breach and the actions proposed or taken to address the breach. Further, the firm is also required to communicate in writing to TCWG:

- The matters discussed
- Relevant information about the firm’s policies and procedures

As such, paragraph R405.27 requires the group auditor firm to discuss with TCWG of the group audit client the significance of the breach and the actions proposed or taken to address the breach. As the policies and procedures of a component auditor firm outside the group auditor’s network are not relevant to the group auditor firm’s objectivity, the Task Force proposes that the group auditor firm only communicate to TCWG the matters they discussed.

Based on the discussion with TCWG, the firm is required obtain the concurrence of TCWG of the group audit client that the actions can be, or have been, taken to satisfactorily address the consequence of the breach. If TCWG do not concur that the actions proposed or taken satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm cannot use the work of the component auditor firm for the purposes of the group audit and must use other means to obtain the necessary audit evidence on the component audit client’s financial information.
Chapter 2 – Proposed Conforming Amendments to Section 360 of the Code to Align with ISA 600 (Revised) Terminology

PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Communication with Respect to Groups

R360.16 Where a professional accountant becomes aware of non-compliance or suspected non-compliance in either of the following two situations in the context of a group, the accountant shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

(a) The accountant performs audit work related to a component for purposes of the group audit; or

(b) The accountant is engaged to perform an audit of the financial statements of a legal entity or business unit that is part of a group for purposes other than the group audit, for example, a statutory audit.

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.

360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group engagement partner’s firm or network is the same as or different from the professional accountant’s firm or network.

R360.17 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of a group audit, the group engagement partner shall consider whether the matter might be relevant to:

(a) One or more components subject to audit work for purposes of the group audit; or

(b) One or more legal entities or business units that are part of the group and whose financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

R360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and legal entities or business units specified in paragraph R360.17.(b), the group engagement partner shall take steps to have the matter communicated to those performing audit work at the components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant legal entities
or business units specified in paragraph R360.17–(b) are subject to audit and, if so, to ascertain to the extent practicable the identity of the auditors.

360.18 A1 The purpose of the communication is to enable those responsible for audit work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner’s firm or network is the same as or different from the firms or networks of those performing audit work at the components, legal entities or business units.
Chapter 3 – Proposed Conforming Amendment to Revised Non-assurance Services (NAS) Provisions issued in April 2021

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Requirements and Application Material

…

R400.31 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

(a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or

(b) Previous services provided to the audit client by the firm or a network firm.
Chapter 4 – Proposed Conforming Amendments to the Code Resulting from the Revision to the Definition of Engagement Team

PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Requirements and Application Material

General
...

Addressing Threats
...

Examples of Safeguards

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

● …

● Using different partners and teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.

● …
SECTION 310

CONFLICTS OF INTEREST

Conflict Identification

...

Threats Created by Conflicts of Interest

...

310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

● Having separate teams who are provided with clear policies and procedures on maintaining confidentiality.

● ...

Confidentiality

...

When Disclosure to Obtain Consent would Breach Confidentiality

R310.12 When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

(a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;

(b) Specific measures are in place to prevent disclosure of confidential information between the teams serving the two clients; and

...

Documentation

R310.13 In the circumstances set out in paragraph R310.12, the professional accountant shall document:

(a) The nature of the circumstances, including the role that the accountant is to undertake;

(b) The specific measures in place to prevent disclosure of information between the teams serving the two clients; and

...
SECTION 320
PROFESSIONAL APPOINTMENTS

Requirements and Application Material

Client and Engagement Acceptance

General

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.

...
INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

... ...

Requirements and Application Material

... ...

Period During which Independence is Required

... ...

400.30 A1 The engagement period starts when the engagement team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

... ...

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period covered by the financial statements, but before the engagement team begins to perform the audit, and the service would not be permitted during the engagement period.

SECTION 510

FINANCIAL INTERESTS

Requirements and Application Material

... ...

Financial Interests Held by the Firm, a Network Firm, Audit Team Members and Others

... ...

510.4 A1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other engagement team members, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

...
SUBSECTION 605 – INTERNAL AUDIT SERVICES (FROM REVISED NAS PRONOUNCEMENT)

Introduction

...

Requirements and Application Material

...

605.4 A2 When a firm uses the work of an internal audit function in an audit engagement, ISAs require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This might create a self-review threat because it is possible that the engagement team will use the results of the internal audit service for purposes of the audit engagement without:

(a) Appropriately evaluating those results; or
(b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to an audit client, and evaluating the level of such threat include:

- The materiality of the related financial statement amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the engagement team will place on the work of the internal audit service.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R605.6 applies.
PART 4B (REVISED) – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

…

Requirements and Application Material

…

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

(a) The engagement period; and

(b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the engagement team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

…

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the engagement team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.
Chapter 5 – Proposed Quality Management-related Consequential Amendments to the Code

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Requirements and Application Material

All Audit Clients

... 

R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the audit engagement;

(b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or

(c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

...

Restrictions on Activities During the Cooling-off Period

R540.20 For the duration of the relevant cooling-off period, the individual shall not:

(a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement;

(b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual’s time-on period where this remains relevant to the audit);

(c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or

(d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:

(i) Having significant or frequent interaction with senior management or those
charged with governance; or

(ii) Exerting direct influence on the outcome of the audit engagement.

...  

SECTION 800  

REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

Requirements and Application Material

General

Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

R800.10 When the firm performs an eligible audit engagement:

(a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;

(b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:

(i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

(ii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.
PART 4B (REVISED) – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 940
LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

Requirements and Application Material

General

... 

R940.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the assurance engagement;

(b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or

(c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

SECTION 990
REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

R990.7 When the firm performs an eligible assurance engagement:

(a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;

(b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:

(i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

(ii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.
Chapter 6: Proposed Changes to the Glossary

Assurance Team  
(a) All members of the engagement team for the assurance engagement;
(b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including:
   (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
   (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
   (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.

Audit Client  
An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded listed entity in accordance with paragraphs R400.22 and R400.23, audit client will always include its related entities. When the audit client is not a listed publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.202.)

In Part 4A, the term “audit client” applies equally to “review client.” In the case of a group audit, see the definition of group audit client.

Audit Team  
(a) All members of the engagement team for the audit engagement;
(b) All others within, or engaged by, the firm who can directly influence the outcome of the audit engagement, including:
   (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
   (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
   (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
   (c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

In Part 4A, the term “audit team” applies equally to “review team.” In the case of a group audit, see the definition of group audit team.
### Component
An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit.

### Component audit client
A component in respect of which a group auditor firm or component auditor firm performs audit work for purposes of a group audit. When a component is:

(a) A legal entity, the component audit client is the entity and any related entities over which the entity has direct or indirect control; or

(b) A business unit, function or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

### Component auditor firm
The firm performing audit work related to a component for purposes of a group audit.

### Engagement team
All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement.

In Part 4A, the term “engagement team” refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9A.

ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.

ISA 620 defines an auditor’s expert as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ISA 620 deals with the auditor’s responsibilities relating to the work of such experts.

ISA 610 (Revised 2013) deals with the auditor’s responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.

In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.

### Group
A reporting entity for which group financial statements are prepared.

### Group audit
The audit of group financial statements.

### Group audit client
The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a listed publicly traded entity, the group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a listed publicly traded entity, the
group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

See also paragraph R400.202.

Group auditor firm
The firm that expresses the opinion on the group financial statements

Group audit team
(a) The engagement team for the group audit, including individuals from component auditor firms who perform audit procedures related to components for purposes of the group audit;
(b) All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including:
   (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
   (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and
   (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;
(c) Any other individuals within a network firm of the group auditor firm’s network who can directly influence the outcome of the group audit; and
(d) Any other individuals within a component auditor firm outside the group auditor firm’s network who can directly influence the outcome of the group audit.

Group engagement partner
The engagement partner who is responsible for the group audit

Group financial statements
Financial statements that include the financial information of more than one entity or business unit through a consolidation process

Key audit partner
The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, engagement partners for certain components in a group audit such as significant subsidiaries or divisions.
Review team

(a) All members of the engagement team for the review engagement; and

(b) All others within, or engaged by, the firm who can directly influence the outcome of the review engagement, including:

(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);

(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and

(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) All those within a network firm who can directly influence the outcome of the review engagement.
Chapter 7: Proposed Changes to the Glossary Arising from Approved Revisions to the Definition of Listed Entity and Public Interest Entity

Audit Client

An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity, in accordance with paragraphs R400.22 and R400.23, audit client will always include its related entities. When the audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.22.)

In Part 4A, the term “audit client” applies equally to “review client.”

In the case of a group audit, see the definition of group audit client.

Group audit client

The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a publicly traded entity, the group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a publicly traded entity, the group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

See also paragraph R400.22.

Note to Chapter 7 and changes in the Glossary

The definitions of “audit client” and the “group audit client” make references to “listed entity,” a term that has been revisited as part of the PIE project. As the changes from the PIE project will come into effect only a year later, in December 2024, the proposals include two different versions of these definitions with different effective dates.

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2 The proposed conforming amendments will come into effect with the changes to the audit client definition in the Final Pronouncement, *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*, issued on April 11, 2022.
EFFECTIVE DATE

- The changes to Section 400 relating to the definition of engagement team and the new provisions in Section 405 relating to group audits (Chapter 1) will be effective for audits and reviews of the financial statements and audits of group financial statements for periods beginning on or after December 15, 2023.

- The proposed conforming amendments to Section 360 to align with ISA 600 (Revised) terminology in Chapter 2 will be effective as of December 15, 2023.

- The conforming amendments to the revised non-assurance services provisions in Chapter 3 are effective as of the day the amendments are issued with the final pronouncement.

- The conforming amendments to Sections 300, 310, 320, 400, 605 and 900 resulting from the revisions to the definitions of engagement team (Chapter 4) will be effective as of December 15, 2023.

- The quality management-related consequential amendments to Sections 540, 800, 940, and 990 in Chapter 5 are effective as of the day the amendments are issued with the final pronouncement.

- The changes to the Glossary in Chapter 6 will be effective for audits and reviews of financial statements and audits of group financial statements for periods beginning on or after December 15, 2023. In the case of assurance engagements other than audit and review engagements, the changes to the Glossary in Chapter 6 relating to assurance engagements with respect to underlying subject matter covering periods will be effective for periods beginning on or after December 15, 2023; otherwise, they will be effective as of December 15, 2023.

- The changes to the Glossary arising from the approved revisions to the definitions of listed entity and public interest entity (Chapter 7) will be effective for audits of financial statements and group financial statements for periods beginning on or after December 15, 2024.

The changes to the audit client definition in the Final Pronouncement, Revisions to the Definitions of Listed Entity, issued on and Public Interest Entity in the Code, issued on April 11, 2022, will come into effect with the conforming amendments in Chapter 7.

TRANSITIONAL PROVISION

For non-assurance services engagements, a component auditor firm outside the group auditor firm’s network has entered into with a component audit client before December 15, 2023 and for which work has already commenced, the component auditor firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.

Note to Effective Date

Given that the main objective of the proposed changes to the Code relating to group audits is to articulate the specific independence provisions that form part of the concept of “relevant ethical requirements, including those related to independence” referred to in ISA 600 (Revised), the IESBA proposed in the ED that the effective date of the proposed changes arising from this project should be aligned with the effective date of ISA 600 (Revised). Respondents to the ED generally supported that proposal.

Consequently, the Task Force is proposing that the relevant revisions become effective for audits and reviews of financial statements and audits of group financial statements for periods beginning on or after December 15, 2023.
Some representatives of the Forum of Firms, however, have raised concerns regarding the proposed effective date, highlighting that it does not provide sufficient time for adoption and implementation. They noted a risk that this could lead to inconsistent application.

Although the Task Force recognizes the challenges related to the short period available for adoption and implementation, it notes that it is in the public interest for the relevant provisions to become effective at the same time as ISA 600 (Revised), especially given that the revised definition of engagement team is integral to ISA 600 (Revised). The Task Force notes that subject to Board approval of the final provisions at the November-December 2022 IESBA meeting, Staff can make the unofficial final text of the provisions available on the IESBA website by the end of the year, pending PIOB consideration and approval of the final text in early April 2023. This would enable national standard setters and firms to make an early start on adoption and implementation activities pending release of the final pronouncement in April 2023.

**Note to Transitional Provision**

Based on the proposed Section 405, if the group audit client is a PIE, a component auditor firm outside the group auditor firm’s network is required to comply with the provisions in Section 600 applicable to PIE audit clients (subject to the exception provided in paragraph R405.17) with respect to the component audit client. This requirement applies irrespective of whether the component audit client is a PIE.

In line with the NAS final pronouncement issued in April 2022, The Task Force proposes a transitional provision for NAS engagements between the component auditor firm and the component audit client that have started before the proposed effective date of the requirements in Section 405.