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

(Mark-up from Exposure Draft)

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.

400.36 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 all audit team members, including individuals from a component auditor firm who perform audit work related to a component for purposes of a group audit. Independence as it does to the fundamental principles set out in Section 110. Section 405 sets out specific independence provisions 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 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.

400.B10 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.C11 An audit engagement might involve experts from within, or engaged by, the firm or a network firm, external experts or, in the case of a group audit, experts from a component auditor firm outside the 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 auditing complex information using automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
- 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 in fields other than accounting or auditing are neither engagement team nor audit team members.

400.D12 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.
400.14 (…)

[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, including a group 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 engagement.

Requirements and Application Material

General

405.2 A1 The ISAs apply to an audit of group financial statements. This section addresses the relevant independence considerations that apply in a group audit. 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 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; and

(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.

Independence Considerations Applicable to Individuals

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

All members of the audit team for 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

Members of the group audit team within, or engaged by, a component auditor firm outside 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.

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.

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
• A business relationship that is significant or involves a material financial interest (see Section 520).

• An immediate family member who is: (see Section 521)
  o A director or officer of an entity; or
  o 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 523)
  o A director or officer of an entity; or
  o An employee in a position to exert significant influence over an entity’s accounting records or financial statements.

R405.8 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.

Independence Considerations Applicable to a Group Auditor Firm

R405.49 A group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the firm.

Independence Considerations Applicable to Network Firms of a Group Auditor Firm

R405.510 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 the network firm.

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

All Group Audit Clients

R405.611 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) Shall not hold or apply the relevant requirements in paragraphs R510.4(a direct or material indirect), 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) Shall, in relation to Section 511 regarding with respect to loans and guarantees, apply the relevant specific requirements and application material with respect to the entity on whose group financial statements the group auditor firm expresses an opinion.

R405.712 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 R405.11(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.

**R405.813** 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 R405.11(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.

**Group Audit Clients that are Not Public Interest Entities**

**R405.915** 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.

**405.15 A1** 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**

**R405.16 A1** 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 requires a firm to evaluate whether that are applicable to public interest entities with respect to the provision of non-assurance services provided to the component audit client.

**405.16 A1** For example, where the group audit client is a public interest entity, the component auditor firm is prohibited from acting, 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.

- **Designing** the amounts involved are material to the financial information of the technology system, or an aspect of it, for a component audit client. Similarly, the component auditor firm’s design and implementation of that is not a public interest entity where such information technology systems generate information for the component audit client’s information technology system that generates the financial information on which the component auditor firm will perform audit work creates a self-review threat and is therefore prohibited if the group audit client is a public interest entity accounting records or financial statements.
405.42 A2 The financial information on which a component auditor firm performs audit 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 procedures are limited to a specific item such as inventory, the evaluation of the self-review threat would include 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.

R405.17 As an audit client create threats exception to independence. The application of paragraph R405.10 requires, a component auditor firm to apply the independence requirements for outside the group auditor firm’s network may provide a non-assurance services for public interest entities that is not prohibited under Section 600 to the component audit client where, without communicating information about the proposed non-assurance service to those charged with governance of the group audit client is a public interest entity, or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R600.21 to R600.24.

Key Audit Partners

R405.18 The group engagement partner might determine whether an audit partner who performs audit work related to 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 group audit clients that are public interest entities, that the individual is also subject to paragraphs R524.6, R540.5(c) and R540.20.

405.18 A1 Because that individual is 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. In these circumstances, once the group engagement partner has communicated that determination to the engagement partner on the audit of the component, that individual will be subject to the provisions in paragraphs R411.4 and R524.6 and Section 540 that apply to key audit partners.

Changes in Components

All Group Audit Clients

R405.19 When an entity that is not a related entity becomes a component 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

405.43 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.

405.1320 A2 Paragraphs 400.31 A1- to A3 set out application material that is also 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.

405.20 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

405.21 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.

405.21 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.

Breach of an Independence Provision at a Component Auditor Firm

When a Component Auditor Firm Within the Group Auditor Firm’s Network Identifies a Breach

R405.14 If a component auditor firm within the group auditor firm’s network concludes that a breach of this section has occurred, the component auditor firm shall communicate the breach immediately to the group engagement partner. Based on the assessment of the component auditor firm’s breach, the group engagement partner shall determine what action to take in accordance with the provisions of paragraphs R400.80 to R400.89.

405.22 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 R405.23 to R405.29 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.

405.22 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 Outside the Group Auditor Firm’s Network Identifies a Breach

R405.1523 If a component auditor firm outside the group auditor firm’s network 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; (Ref: Para 400.80 A2)

(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 (Ref: Para 400.80 A3)

(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.

405.23 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.

R405.1624 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 proposed can be, or have been taken to address the consequences of the breach;

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

(c) Determine the need for any further action.

R405.1725 In making this determination applying paragraph R405.24, 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.

405.1825 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.
405.1825 A2 ISA 600 (Revised) sets out that if there has been a breach by a component auditor and the breach cannot be satisfactorily addressed, the group auditor firm cannot use the component auditor firm's 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.

**Communication Discussion with Those Charged with Governance of the Group Audit Client**

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

**R405.1927** 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 significance of the breach at the component auditor firm, 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

(b) Whether the actions proposed or taken;

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

(ii) The group auditor firm will use other means to obtain the work of necessary audit evidence on the component auditor firm's 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.

**R405.290** If those charged with governance do not concur that the actions that proposed can be, or have been 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.
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 relation to a component or a legal entity or business unit that is part of a group 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(a) and (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

(Mark-up from *Exposure Draft*)

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

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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

(Mark-up from Exposure Draft)

PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Requirements and Application Material

General

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Addressing Threats

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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:

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- 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.

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SECTION 310

CONFLICTS OF INTEREST

Conflict Identification

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Threats Created by Conflicts of Interest

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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.
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Confidentiality

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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.

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INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

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Requirements and Application Material

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Period During which Independence is Required

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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.

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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.

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SECTION 510

FINANCIAL INTERESTS

Requirements and Application Material

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

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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.

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

Introduction

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Requirements and Application Material

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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

(Mark-up from Exposure Draft)

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

(Mark-up from Exposure Draft)

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 listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.20.)

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 the 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.A9.

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

ISA 620 deals with the auditor’s responsibilities relating to the work of expert as an individual or organization possessing expertise in a field of expertise other than accounting or auditing, when whose work in that workfield 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 entity, the group audit client includes its related entities as specified in paragraph R400.20 and any other components that are subject to which audit work is performed.
When the entity is not a listed 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 R400.20.

Group auditor firm

The firm that expresses the opinion on the group financial statements

Group audit team / Audit team for the group audit

(a) The engagement team for the group audit, including individuals from component auditor firms who perform audit work 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.* |

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1 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, issued on and Public Interest Entity in the Code*, issued on April 11, 2022.
EFFECTIVE DATE

- The changes to Section 400 relating to the revision 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.