Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits —

Summary of Significant Comments on Exposure Draft and Task Force Proposals

Note to IESBA Meeting Participants

This agenda paper contains a summary of the significant comments received on the Exposure Draft, Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits (ED), and the Task Force's responses to these comments.

While not all comments are mentioned in this paper, the Task Force reviewed all comments when developing its responses. The revised proposed text is set out in Agenda Item 5-B

I. Introduction

1. This section provides a high-level overview and breakdown of the comments received on the ED.

2. In February 2022, the IESBA released the ED with the comment period closing on May 31, 2022. As stated in the Explanatory Memorandum (EM) to the ED, the proposed revisions to the Code, among other matters:
   - Align the definition of "engagement team" in the Code with the definition of the same term in ISA 220 (Revised)¹ and ISQM 1.²
   - Change the definitions of "audit team," "review team" and "assurance team" to recognize that engagement quality reviewers (EQRs) may be sourced from outside a firm and its network.
   - Enhance the provisions regarding independence considerations in a group audit context by proposing a new Section 405 (Group Audits) on independence principles for individuals and firms, and additions of new defined terms to the Glossary.
   - Provide guidance to deal with an entity becoming an audit client during or after the period covered by the group financial statements on which a group auditor firm will express an opinion.
   - Enhance guidance on a process to address a breach of an independence requirement at the component auditor firm level.

3. Respondents were asked for views on ten specific questions relating, among others, to the key areas highlighted above. Part II of this paper addresses the significant comments identified from responses to these questions.

¹ International Auditing Standard (ISA) 220 (Revised), Quality Management for an Audit of Financial Statements
² International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
A. OVERVIEW OF RESPONSES

4. As of July 2022, the IESBA had received a total of 49 comment letters with the following breakdown by stakeholder group and region (refer to Appendix 1 for a list of the respondents):

<table>
<thead>
<tr>
<th>Stakeholder Category</th>
<th>#</th>
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<tbody>
<tr>
<td>Regulators</td>
<td>7</td>
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<tr>
<td>Public Sector Organizations</td>
<td>1</td>
</tr>
<tr>
<td>Independent National Standard Setters</td>
<td>2</td>
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<tr>
<td>Professional Accountancy Organizations</td>
<td>27</td>
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<tr>
<td>Firms</td>
<td>11</td>
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<tr>
<td>Others</td>
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<td><strong>Total</strong></td>
<td><strong>49</strong></td>
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<tr>
<th>Region</th>
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<tr>
<td>Global organizations</td>
<td>12</td>
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<tr>
<td>Asia-Pacific</td>
<td>10</td>
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<tr>
<td>Europe</td>
<td>13</td>
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<tr>
<td>Middle East &amp; Africa</td>
<td>6</td>
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<tr>
<td>North America</td>
<td>6</td>
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<tr>
<td>South America</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49</strong></td>
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5. Regarding the respondents:^3

- Two Monitoring Group (MG) members provided comments on the ED (IFIAR and IOSCO).
- The majority of the respondents were professional accountancy organizations (PAOs), including IFAC member bodies.
  - Some of the PAOs also have full, partial, or shared responsibility for setting ethics standards, including independence requirements, in their jurisdictions.
- Two Independent National Standard Setters^4 submitted comment letters to the ED (APESB and NZAuASB).
- In the representation of mainly small practitioners, two organizations provided comments to the proposals (EFAA and IFAC SMPAG).
- Among 11 firms that provided comments to the proposals, 8 are members of the **Forum of Firms**.
- There were no responses from preparers, those charged with governance (TCWG), investors or investor representatives, and the academic community.

^3 For the abbreviations used in this paper for the specific respondents, please refer to the list of respondents in Appendix 1.

^4 Independent National Standard Setters do not form part of professional accountancy organizations.
## B. MATTERS FOR IESBA CONSIDERATION

6. The significant comments and the Task Force's responses are grouped by key issues under Part II below. (Refer to 5-D.1 to X-D.11 for the respondents' comments.)

<table>
<thead>
<tr>
<th>7. Following detailed consideration of the respondents' comments and suggestions, the Task Force is proposing revisions to the ED (See Agenda Item 5-B) to, among others:</th>
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<tr>
<td>• Set out requirements regarding communication between a group auditor firm and component auditor firms, to complement the relevant requirements in ISA 600 (Revised).[^5]</td>
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<tr>
<td>• Provide a more proportionate approach for the independence considerations applicable to audit team members who are from a component auditor firm outside the group auditor firm's network.</td>
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<tr>
<td>• Clarify the specific requirements applicable to a component auditor firm where a component audit client is not a public interest entity (PIE) but the group audit client is a PIE.</td>
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<td>• More clearly set out the period during which the independence of a component auditor firm is required.</td>
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<td>• Provide guidance for a component auditor firm when:</td>
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<td>o The firm has provided a non-assurance service (NAS) to the component audit client prior to becoming a component auditor; or</td>
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<tr>
<td>o The group audit client later becomes a PIE.</td>
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<tr>
<td>• Align the process for addressing a breach of an independence provision at a component level for component auditor firms within and outside the group auditor firm's network.</td>
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<tr>
<td>• Provide guidance to deal with an entity that is not a related entity becoming a component of the group.</td>
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## II. Significant Comments

### A. Determination of Engagement Team and Audit Team

**Proposed Revised Definition of Engagement Team**

8. Respondents generally supported the proposed approach for aligning the engagement team definition of the Code to the revisions to the definition of the same term in the ISQM 1 and ISA 220 (Revised). However, some commenters[^6] noted that the new determination of audit team members, including engagement team members, is overly complex. Some respondents[^7] suggested that the IESBA develop a visual illustration, such as a diagram, to facilitate understanding of the revised definitions of engagement team and audit team.

9. A few commenters[^8] raised that the slightly different wording between the revised definition of engagement team in the Glossary and the proposed application material in Section 400 could be

[^5]: ISA 600 (Revised), Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors)
[^6]: CNCC, IDW, PP, WPK
[^7]: ACCA CAANZ, AE, CPAC, CNCC, ICAEW
[^8]: AE, KICPA
confusing. They suggested further alignment between the two. There were a few questions about why Section 400 only includes specific application material on the engagement team and not also on the audit team. A few respondents argued that it would be easier for users if Section 400 also included application material on the audit team to provide more context.

10. In relation to the application material in paragraph 400.A of the ED, some respondents suggested splitting the reference in bullet (b) to "a firm that is not a network firm, or another service provider" into two separate points, i.e., "(b) a firm that is not a network firm," and "(c) another service provider."

11. In the light of the proposed revisions to the engagement team definition, an independent national standard setter asked whether and how the definition would apply to other professional services in Part 3 of the Code.

Task Force Responses

12. The Task Force acknowledges that the definitions of engagement team and audit team may seem complex because they cover a number of individuals who play different roles on the audit. To assist users of the Code to better understand who is included in the engagement team and the audit team, and in response to the suggestion from some of the respondents, the Task Force has developed the diagram in Appendix 2. The Task Force believes this diagram will help firms apply the definitions consistently, whether they are undertaking an audit of financial statements or an audit of group financial statements. Subject to the Board’s input, this diagram might be made available as part of non-authoritative guidance to support the implementation of the provisions. It will complement the proposed guidance on engagement team and audit team in paragraphs 400.8 – 400.12 of Agenda Item 5-B.

13. The IESBA previously agreed that the definitions of engagement team and other newly added terms in relation to the group audit should be part of the Glossary to the Code. The Task Force notes that the Board had also agreed that with the availability of the electronic version of the Code on the elIS platform, with its pop-up functionality for definitions of terms, it would be unnecessary to repeat the definitions in Sections 400 and 405. The Task Force additionally notes that the application material in Section 400 is intended to explain the composition of an engagement team and an audit team and draw out the nuances in the definitions and between them, instead of repeating the definitions. As such, the wording of the guidance will not replicate the exact definitions.

14. Concerning the comments on paragraph 400.A of the ED, the Task Force notes that the wording of this paragraph is in line with the application material in ISA 220 (Revised). As the engagement team definition is consistent with the revised term in ISAs, introducing a deviation from the guidance in ISA 220 (Revised) could create confusion and raise questions about potential differences between the two sets of standards. Furthermore, splitting bullet (b) as suggested by some of the respondents
would suggest that a network firm (bullet (a) of paragraph 400.A of the ED) is a service provider, which would not be consistent with the definition of "service provider" in ISQM 1.

15. With respect to whether the definition of engagement team would apply to Part 3, the Task Force notes that the term “engagement team” and its definition will be applicable only in Parts 4A and 4B of the Code. In Parts 1 to 3, in the context of other professional activities or services, the Code will use the generic term "team."

16. Once the proposed changes are finalized and approved, the Task Force suggests that the new subsection on the engagement team and the audit team be the first subsection in Section 400 of the Code, following the general provisions on the application of the conceptual framework in Part 4A and preceding the subsection on "Public Interest Entities."

Service Providers

17. A few regulators\(^\text{15}\) questioned why the determination of service providers in paragraph 400.B of the ED is different from the service provider definition in ISQM 1. They also wondered why paragraph 400.B did not include a reference to the "resources that are used in the system of quality management." Although "service provider" is already a defined term in ISQM 1, a few respondents\(^\text{16}\) also had concerns that it is not very clear how this term would apply in the context of the Code. They suggested that the Code include specific examples.

18. There were a few comments\(^\text{17}\) that the determination of a service provider refers to both individuals and organizations, which could create the impression that the International Independence Standards (IIS) apply not only to individual service providers who perform audit procedures on an audit engagement but also to the service provider organization. They felt that the Code should be more explicit about the independence considerations applicable to the individual service providers and their organizations.

Task Force Response

19. As a result of aligning the engagement team definition with the definition of the same term in ISQM 1, the IESBA proposed to make it explicit that the IIS apply to individuals from service providers who perform audit procedures. The EM explained that this would not represent a change in practice because the extant Code already scopes in the engagement team individuals engaged by the firm or a network firm who perform audit procedures on the engagement. As the Code only focuses on those who perform the audit procedures, the Task Force does not believe that it is necessary to include the definition of a service provider from ISQM 1 verbatim. The Task Force also points out that the examples of service providers in ISQM 1 also apply in the context of the Code; therefore, no further guidance is necessary in Section 405 in this regard.

20. Regarding the independence considerations applicable to service provider organizations, the EM explained that the IESBA had considered that it would be disproportionate to bring those organizations into the scope of the IIS as they do not participate in the group audit and are further removed from it. The Task Force notes that the proposed engagement team definition only includes

\(^{15}\) UK FRC, IRBA

\(^{16}\) JICPA, WPK

\(^{17}\) MIA, BDO, EY
individuals [emphasis added] who perform procedures on the engagement. Therefore, the Task Force does not believe it would be necessary to make it explicit in the Code that the IIS do not apply to the individuals’ organizations (other than component auditor firms involved in the group audit).

**Experts**

21. Respondents generally agreed with the exclusion of external experts and internal auditors who provide direct assistance on the audit from the engagement team and audit team definitions. However, there were some comments\(^{18}\) that further guidance and examples regarding the role of other experts and whether they are part of the engagement team or the audit team would be necessary.

22. A commenter\(^{19}\) suggested that the term "external expert" be defined in the Code rather than referring users to ISA 620\(^{20}\) in the Glossary definition of engagement team. A few respondents,\(^{21}\) including a MG member, suggested that the IESBA consider closer alignment with the relevant provisions of ISA 620 regarding the determination and responsibility for the work of an auditor’s expert. Separately, an independent national standard setter noted\(^{22}\) that the references to ISA 610\(^{23}\) and ISA 620 in the engagement team definition appear to increase the definition's complexity rather than provide clarity.

23. Some respondents\(^{24}\) questioned whether the proposed changes would sufficiently accommodate the role and independence of experts providing sustainability-related services. They suggested that the IESBA consider the impact of the use of experts in Part 4B of the Code. It was noted that the use of experts providing sustainability-related services is likely to increase with the increase in demand for reporting of ESG information.

24. A few commenters\(^{25}\) noted that while there is mention of "experts from a component auditor firm" in the introduction to paragraph 400.C of the ED, there is no further mention of them in the examples in the bullet points. It was also questioned\(^{26}\) whether individuals engaged by the component auditor firm outside the group auditor firm's network could be audit team members, for example, as experts.

25. Regarding the reference to "individuals with expertise in auditing client information using automated tools and techniques" in paragraph 400.C of the ED, a respondent\(^{27}\) commented that it is unclear if this phrase is referring to IT professionals who test automated controls, in line with the auditing standards, or to another group, such as data analysts and individuals who are acquiring data. The commenter asked for more guidance on what auditing client information using automated tools and techniques is meant to include and what can be excluded (particularly, how data analysts who extract, validate, sort, and filter information that the engagement team uses are to be treated).

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\(^{18}\) NZAuASB, GAO, ACCA CAANZ, WPK, KPMG, IFAC SMP AG

\(^{19}\) ICAS

\(^{20}\) ISA 620, *Using the Work of an Auditor's Expert*

\(^{21}\) IOSCO, UK FRC, ICAS

\(^{22}\) APESB

\(^{23}\) ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

\(^{24}\) NZAuASB, EFAA, IDW, MIA, SAICA, WPK, KPMG, IFAC SMP AG

\(^{25}\) ICAS

\(^{26}\) CPAC

\(^{27}\) KPMG
26. A few respondents suggested that the IESBA consider introducing some flexibility when the consultation with experts was not significant, for example, adding a threshold based on the time spent on the consultation or the significance of the issue under consultation.

Task Force Responses

27. The Task Force believes that the diagram in Appendix 2 will also help clarify some of the perceived complexity around the involvement of experts in the engagement team and audit team. Furthermore, the Task Force suggests that the Board commission the development of Staff Frequently Asked Questions (FAQs) to explain in more detail the approach to experts with respect to the definitions of engagement team and audit team, as well as address other questions respondents have raised in relation to the proposals. Therefore, the Task Force does not propose adding further specificities and examples to the application material as those could lead to an undue amount of detail in the Code and unbalance the guidance relative to other guidance in Section 400.

28. Concerning the determination of external experts, the Task Force notes that the Glossary in the extant Code already defines “external experts” as individuals with expertise in fields other than accounting or auditing. The Task Force, however, proposes to delete the reference to “in fields other than accounting or auditing” in the third bullet of paragraph 400.C of the ED (proposed paragraph 400.11 in Agenda Item 5-B). Such reference is unnecessary given that the term “external expert” is already defined in the Glossary.

29. Although external experts are not scoped in for the purposes of the IIS, they are subject to objectivity requirements under ISA 620 in the context of an audit of financial statements. In line with respondents’ comments, the Task Force proposes refinements to the reference to ISA 620 in the explanatory material attached to the engagement team definition in the Glossary to (a) further align the determination of auditor’s experts to the determination in ISA 620, and (b) clarify that ISA 620 deals with the auditor’s responsibilities relating to the work of such experts.

30. Regarding the matter of independence of experts, the Task Force points out that in the 2022 survey to the IESBA’s Future Strategy and Work Plan, the IESBA has indicated a potential project on the “Independence of External Experts.” Such a project would address the questions and concerns about the independence of external experts involved in an audit engagement and determine whether any changes are necessary to the Code in this regard.

31. Further, one of the priority areas the IESBA has identified for its Strategy and Work Plan for 2024-2027 is to respond to the developments relating to reporting and assurance of sustainability information. Therefore, while the independence considerations of experts providing sustainability-related services are not within the remit of this project, they will be addressed as part of the IESBA’s future standard-setting activities.

32. Concerning experts within, or engaged by, a component auditor firm, whether within or outside the group auditor firm’s network, the Task Force notes that whether such individuals are members of the engagement team or audit team truly depends on their role in the audit engagement. If an expert

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28 CNCC, MAZARS

29 The Glossary defines an “external expert” as an individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.
(other than an external expert) is engaged by a component auditor firm to perform audit procedures for the purposes of the group audit, this individual will be part of the group audit team under bullet (a) of the group audit team definition. The first bullet of paragraph R400.C in the ED includes examples of such experts. If an expert (other than an external expert) within a component auditor firm could have a direct influence over the group audit, that individual would be considered part of the group audit team under either bullet (c) or bullet (d) of the group audit team definition. However, the Task Force does not believe that individuals engaged by a component auditor firm would be able to directly influence the outcome of the group audit; therefore, the Task Force does not propose that such individuals be part of the group audit team. As noted above, the Task Force suggests that the Board commission non-authoritative guidance to explain the application of the definitions in relation to experts in more detail.

33. With respect to the concerns about the interpretation of the phrase “individuals with expertise in auditing client information using automated tools and techniques”, the Task Force proposes an amendment to the first bullet of paragraph 400.C of the ED to clarify that this is referring to individuals with expertise in the application of automated tools and techniques to analyze client data. (See proposed paragraph 400.11 in Agenda Item 5-B.)

34. Regarding the suggestion for a more scalable approach to independence considerations applicable to experts who are consulted on the audit engagement, the Task Force highlights that the definitions of engagement team and audit team both already include an element of proportionality with respect to experts within a network firm or a component auditor firm outside the group auditor firm’s network who can directly influence the outcome of the audit engagement. The Task Force believes it be impracticable to establish quantitative thresholds to scope such individuals as suggested.

**Engagement Quality Reviewers (EQRs)**

35. Respondents expressed their support for the Code acknowledging that an EQR could also be sourced from outside the firm and the network firms, and that they should be subject to the same independence requirements as other audit team members. However, a few respondents suggested that the Code use more explicit wording to clarify this approach.

36. A commenter noted that small and medium practices (SMPs) often make use of external consultants to obtain technical opinions on audit and accounting issues. These external consulting firms sometimes perform engagement quality reviews. They pointed out that the proposal in paragraph 400.D in the ED may have a negative impact if the audit work performed by the SMP does not have a significant impact on the group audit outcome, as the consultants may be reluctant to get involved in the engagement due to the additional independence requirements that would apply.

**Task Force Responses**

37. The EM explains that the IESBA proposed to amend the definitions of “audit team,” “review team,” and “assurance team” by adding the phrase “or engaged by” to subparagraph (b) of those definitions to include individuals outside of the firm (within or outside the firm’s network) who can directly influence the outcome of the audit engagement, including an EQR. The Task Force believes that the intent of the proposed changes and the wording is sufficiently precise, and further amendments are

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30 ICAS, PKF
31 SAICA
not warranted in this regard, especially given that most respondents did not raise any concerns with the proposed amendment.

38. The application of bullet (d) of the definition of "group audit team" will be a matter of professional judgment regarding whether any individual within a component auditor firm outside the group auditor firm’s network can directly influence the outcome of the group audit. The Task Force is of the view that if the work performed by an SMP on a component does not have a significant impact on the group audit outcome, it is unlikely that there will be an individual within the SMP who can directly influence the outcome of the group audit.

Further Clarification and Specific Examples

39. Some respondents submitted questions and asked for clarification on whether specific individuals would be part of the engagement team or the audit team, for example, individuals participating in internal quality management reviews or regulatory reviews, supervisory bodies, component auditors referred to in the group auditor's report, auditors used as an information resource, taxation experts, etc.

Task Force Responses

40. The Task Force considered such queries. However, the Task Force does not believe that the Code needs to address such specific scenarios as, in most cases, the determination of whether such individuals are part of the engagement team or audit team will depend on the particular facts and circumstances. The Task Force suggests that the IESBA commission the development of Staff FAQs to address such questions.

B. New Defined Terms in relation to Independence Considerations

General

41. Respondents generally supported the new defined terms proposed in relation to the introduction of Section 405. Commenters, among others, raised the following general issues and areas for clarification:

- In relation to alignment with the terms in the ISAs, a few respondents questioned why the new definitions refer to "audit work" while the engagement team definitions in the Code and ISA 220 (Revised) refer to audit procedures. They asked whether "audit work" captures a broader range of activities. They suggested that the IESBA consider referring to "audit procedures," consistent with the ISA 220 (Revised).
- There were comments regarding the use of the word "client" in the new definitions since, ultimately, the audit is performed on behalf of the shareholders or owners of the entity rather than the entity or its management.

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32 AICPA, WPK, GTIL, MNP, KPMG
33 CPAC, ICAS, JICPA
34 UK FRC, AE
Concerning the definition of a component auditor firm, there was a question as to whether the "audit work" is limited to purely audit work and does not include review and other assurance work.

Task Force Responses

42. The Task Force notes that the reference to the audit work captures a broader range of activities than performing audit procedures. It includes, for example, technical consultation, engagement quality review, and reporting. For greater consistency, however, the Task Force is proposing to change "audit work" to audit procedures" in relation to the determination of members of the engagement team in paragraph 400.A of the ED and in bullet (a) of the definition of "audit team for the group audit" of the ED. (See paragraph 400.9 and the group audit team definition in the Glossary in Agenda Item 5-B.)

43. Concerning the comments raised on the use of the word "client," the Task Force is of the view that this is an issue of a more general nature, and it is outside the scope of this project. As part of the 2022 survey to the IESBA's Future Strategy and Work Plan, the Board included the topic of the "audit firm–audit client" relationship as a potential standard-setting project in the future. A potential project on this topic would consider whether the Code should address the inherent threats arising from the audit client relationship more broadly.

44. Regarding the involvement of review engagements, the Task Force notes that paragraph 400.2 of the Code states that the term "audit" in Part 4A applies equally to "review." However, in Section 405, the definition of the component auditor firm and other terms refer to "audit work" for purposes of the group audit in line with ISA 600. A group audit is further defined as the audit of group financial statements. Therefore, the newly defined terms, requirements, and application material in Section 405 are not applicable to review or other assurance engagements, only to an audit of group financial statements.

Component Audit Client and Group Audit Client

45. Two MG members suggested that the IESBA address some of the complexities related to the definition of a component audit client and whether or not the client is a legal entity.

46. Similarly, a few respondents asked for clarifications regarding the definition of a group audit client and the scope of related entities covered by the definition. A respondent suggested that the definition of group audit client be further aligned with the wording of used in ISA 600 (Revised) by referring, in relation to components other than related entities, to "components at which audit work is performed" instead of "components that are subject to an audit work."

Task Force Responses

47. The Task Force recognizes that there is some unavoidable complexity in the definition of component audit client because the definition needs to focus on legal entities for purposes of the Code’s

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35 Mazars
36 IOSCO, IFIAR
37 CEAOB, Ibracon
38 DTTL
independence provisions whereas ISA 600 (Revised) contemplates that a component might be not only a legal entity, but also a business unit, function or business activity. The Task Force believes that addressing some of this complexity would be best done as part of Staff FAQs.

48. In relation to the definition of group audit client, the EM explained that the IESBA proposed that the defined term include related entities according to extant paragraph R400.20 of the Code, and any other components that are subject to audit work. The Task Force does not propose any changes to this approach as it is conceptually sound. Nevertheless, in line with the approach taken in extant paragraph R400.20 (renumbered paragraph R400.22 as a result of the revised PIE provisions) to set out the scope of related entities included with an audit client, the Task Force proposes some clarification to the Glossary definition of group audit client. This now makes clear that 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. In addition, the Task Force proposes adding below the definition of audit client in the Glossary a reference to the definition of group audit client in the context of a group audit. The Task Force notes that despite the inclusion of related entities in the audit client definition, this term is applicable only in the context of audits of standalone financial statements. (See the proposed changes to the audit client and group audit client definitions in the Glossary in Agenda Item 5-B.)

49. Finally, the Task Force supports the editorial amendment to the group audit client definition suggested by a respondent to achieve further alignment with the wording used in ISA 600 (Revised). Accordingly, the Task Force proposes to change the reference to "components that are subject to an audit work" to "components at which audit work is performed" in the definition. (See the proposed changes to the group audit client definition in the Glossary in Agenda Item 5-B.)

Audit Team for the Group Audit

50. To be consistent with the existing drafting conventions, a few respondents asked if the term "audit team for the group audit" in the ED should be simplified to "group audit team."

51. The proposed definition of an audit team for the group audit includes individuals within a component auditor firm outside the group auditor firm’s network who can directly influence the outcome of the engagement. Some commenters asked the IESBA to provide further guidance with respect to determining individuals “who can directly influence the outcome of the group audit.” Some felt that clarification or examples to bullet (d) in the definition would be necessary as they felt it would be rare that there would be such individuals in a group audit.

52. It was also queried whether the wording of bullets (c) and (d) of the definition should refer to "any other individuals" within a network firm or component auditor firm outside the group auditor firm’s network, i.e., individuals beyond those captured in bullet (a), which would also be more consistent with the drafting construct of bullet (b) of the definition.

39 APESB, SAICA
40 ACCA CAANZ, CAI, HKICPA, WPK, IFAC SMP AG
41 AE, ISCA, DTTL, KPMG, BDO, PWC
42 PWC
Task Force Responses

53. The Task Force agreed with the suggestion to simplify the term "audit team for the group audit" and refer to "group audit team" instead. (See proposed changes to the Glossary in Agenda Item 5-B.)

54. Concerning the comments regarding individuals from a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit, the Task Force does not believe that it would be appropriate to provide specific examples of such individuals in the Code. The Task Force is of the view that whether there is direct influence on the outcome of the group audit will depend on the specific facts and consequences. Given that the existence of such individuals will be quite rare in practice, the Task Force believes that any examples that are not sufficiently high-level or general could be misleading. The Task Force suggests that the IESBA direct Staff to develop an FAQ on the matters in the future.

55. The Task Force supported the editorial suggestions on clarifying in the definition of group audit team that the individuals covered by bullets (c) and (d) are individuals captured beyond bullets (a) and (b). The Task Force proposes making the same change to bullet (c) of the audit team definition as a consequential amendment. (See proposed changes to the "audit team" and "group audit team" definitions of the Glossary in Agenda Item 5-B.)

C. Independence in a Group Audit Context

56. There was general support for addressing the independence considerations in a group audit in the IIS and aligning the proposed provisions to the requirements and application material in ISA 600 (Revised). Respondents raised issues and concerns mainly about the proposed independence considerations for component auditor firms outside the group auditor firm's network.

Monitoring Compliance and Responsibility for Independence at a Component Level

57. A few regulators, including a MG member, suggested that the Code clarify in Section 405 which individuals in the component auditor firm are responsible for compliance with the Code's provision.

58. In their responses, a few commenters suggested that the Code explicitly outline the responsibilities of the component auditor in complying with the relevant ethical requirements and how the group auditor should monitor and evaluate the component auditor's compliance.

59. A commenter pointed out that in order for individuals from outside the group auditor firm's network to comply with the independence provisions, the engagement team for the group audit will need to inform the non-network component auditor team of all related entities for which personal independence is required. This respondent suggested the Code include application material to explain the need for the group auditor firm to provide such information to the component auditor firm outside the group auditor firm's network.

60. In relation to monitoring compliance with the independence provisions, a few respondents, including a MG member, had concerns about the practical challenges related to the application of the proposed

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43 CEAOB, IFIAR, IRBA, UK FRC
44 HKICPA, Ibracon, MIA, BDO
45 EY
46 CEAOB, IOSCO, Assirevi
"reason to believe test" in paragraphs R405.7 and R405.8 in the ED. They suggested that the Code include a requirement for the component auditor firm outside the group auditor firm's network to perform inquiries or other procedures within that component auditor firm's network to identify whether a threat to its independence exists. Some respondents were of the view that a component auditor firm outside the group auditor firm's network should inform the group auditor/group engagement partner if the "reason to believe test" led to the identification of any threats to the component auditor firm's independence.

Task Force Responses

61. The Task Force notes that paragraph 400.4 (amended as a result of conforming amendments following the issuance of the IAASB's suite of quality management standards) explains that many of the provisions of Part 4A of the Code do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. This revised provision further states that a firm assigns operational responsibility for compliance with independence requirements to an individual(s) or a group of individuals in accordance with ISQM 1. This general provision regarding the allocation of responsibilities with respect to independence within a firm is also applicable to the allocation of the same responsibilities within a component auditor firm, given the applicability of paragraph 400.4 to component auditor firms pursuant to Section 405. Accordingly, the Task Force does not believe that the Code should specify detailed responsibilities for compliance with the Code's provisions for individuals in a component auditor firm, as this is a matter addressed under ISQM 1.

62. Regarding the suggestion that the Code specify responsibilities for compliance with the relevant ethical requirements at the component auditor level, the Task Force notes that paragraph 405.2 A1 in the ED refers to the requirement in ISA 600 (Revised) that the group engagement partner 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. Nevertheless, to better emphasize the group auditor firm's responsibility, the Task Force proposes adding a new section on communication between the group auditor firm and component auditor firms.

63. With reference to this specific responsibility of the group engagement partner under ISA 600 (Revised), the Task Force proposes adding a requirement in Section 405 calling on the group auditor firm to communicate the necessary information at appropriate times to enable the component auditor firm to meet its responsibilities under Section 405. Furthermore, the Task Force proposes application material to provide specific examples of matters the group auditor firm might communicate, including any related entities and components of the group audit client that are relevant to the independence considerations applicable to the component auditor firm and the audit team members within, or engaged by, that firm. (See proposed paragraphs R405.3 and 405.3 A1 in Agenda Item 5-B.)

64. Concerning the comments raised on monitoring compliance with the relevant ethical requirements at the component auditor level, the Task Force notes that 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. As part of the new subsection on communication between a group auditor firm and a component auditor firm, the Task Force proposes that the Code explicitly require that the component auditor firm’s communication of its compliance with the relevant ethical requirements to the group auditor firm include: (see proposed paragraph R405.4 in Agenda Item 5-B)

- Any independence matters that require significant judgment;
- The component auditor firm’s conclusion that the threats to its independence are at an acceptable level; and
- The rationale for that conclusion.

65. The Task Force believes that the proposed subsection on the two-way communication between the group auditor firm and the component auditor firm regarding the latter’s compliance with the relevant ethical requirements will address the concerns raised by the commenters above. The Task Force also believes this will support the appropriate application of the "reason to believe" test in paragraphs R405.10 and R405.11 in Agenda Item 5-B, and the communication about any threats to independence identified as a result.

66. Regarding the application of the "reason to believe test" in paragraphs R405.7 and R405.8 of the ED, the Task Force notes that this test is already used in the Code and well-established. The Task Force considers that requiring a non-network component auditor firm to perform further inquiries and other procedures within its network would create a significant administrative burden, especially for component auditor firms that are SMPs. More importantly, the Task Force is of the view that imposing such a requirement would be disproportionate relative to the likely significance of the threats created by relationships between the component auditor firm and its network firms and any other related entities of the group audit client beyond those scoped in with the component audit client. As it is in the public interest for standards to be balanced and proportionate, the Task Force believes it would not be appropriate to impose requirements beyond the approach proposed in the ED. (See also the Task Force Responses under the subsection on Independence Considerations for Individuals Involved in the Group Audit.)

National Laws and Regulations relevant to Group Audits

67. As many jurisdictions have added national requirements to their code of ethics, it was noted in the comment letters that it would be increasingly difficult for component auditor firms, especially those outside the group auditor firm’s network, to fully understand and use the ethical requirements applied by the group auditor firm. A few stakeholders\(^{50}\) were of the view that the proposals could be improved with guidance to consider cases where either the group auditor or component auditor is required to follow ethical standards other than the Code due to laws and regulations.

68. There were a couple of questions\(^{51}\) regarding the applicable ethical requirements when a group audit is performed across jurisdictions. Respondents felt that the Code should clarify which PIE requirements the component audit team should apply with respect to the group audit when both the group audit client and the component audit client are PIEs, and each resides in different jurisdictions. They suggested that if the component audit team is required to apply the PIE requirements of the

\(^{50}\) UK FRC, JICPA

\(^{51}\) CPAA, AICPA
group audit client's jurisdiction, either the IESBA or IAASB should consider requirements for the group auditor to communicate to the component auditor those PIE requirements to be able to achieve compliance with the different jurisdictions.

Task Force Responses

69. The Task Force notes that the paragraph 100.7 A1 of the Code (from the Role & Mindset provisions which are already effective) states that “[s]ome jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.” This general principle applies throughout the Code. Accordingly, if national laws and regulations set out different or more stringent requirements for a group audit than Section 405 of the Code, those national laws and regulations will prevail. The Task Force does not believe it is necessary to repeat this general principle in Section 405.

70. Concerning the applicable national laws and regulations in the context of the group audit, the Task Force refers to the general principle set out in the ED that the independence provisions applicable at the group level should apply throughout the group for the purposes of the group audit. Consequently, if the group audit client (the entity under group audit) is a PIE or non-PIE based on national laws, that distinction at the group level should flow to the component level for the group audit purposes, regardless of whether the entity at the component level would be regarded as a PIE by national laws in that entity’s jurisdiction. In addition, for group audit purposes, a component auditor firm is required to be independent of the component audit client following the Code’s relevant provisions, along with national requirements applicable to the group audit client (the entity under the group audit).

71. The Task Force underlines that the new proposed provisions on enhanced communication will assist the group auditor firm in making a component auditor firm aware of the relevant national requirements applicable in the group auditor firm’s jurisdiction. (See proposed paragraphs R405.3 and 405.3 A1 in Agenda Item 5-B.)

Period During Which a Non-network Component Auditor Firm’s Independence is Required

72. A respondent raised that it was not evident from the ED how a component auditor firm outside the group auditor firm’s network should apply the requirement in paragraph R400.30 of the Code with respect to a group audit client. The respondent queried whether the component auditor firm is required to be independent in accordance with the relevant ethical requirements until it issues its report to the group auditor firm or by reference to another date, such as when the group auditor firm issues its report. The commenter pointed out some practical challenges, such as knowledge about the relevant dates (the group audit report will be issued at some point in the following financial statement period), or in those scenarios where the component auditor firm is not aware of whether it will be asked to remain as the component auditor in a subsequent period (e.g., whether there is to be an on-going relationship).

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52 PWC
53 Paragraph R400.30 of the Code requires independence to be maintained during both (a) the engagement period, and (b) the period covered by the financial statements.
summary of significant comments on et/ga ed and task force proposals
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task force responses

73. the task force agrees that section 405 should clarify the period during which a non-network component auditor firm's independence is required. as a general principle, the task force believes that a component auditor firm should be independent during both the engagement period and the period covered by the group financial statements. in the context of a group audit, reflecting the guidance in paragraph 400.30 a1, the engagement period starts when the group audit team begins to perform the audit work and ends when the group audit report is issued. (see proposed paragraph 405.12 a1 in agenda item 5-b)

74. however, if the engagement of a component auditor firm is not of a recurring nature, the task force proposes that the group engagement partner could determine that the period during which the component auditor firm must be independent ends earlier. this is especially the case when the component auditor firm has finished its audit work at the component for the group audit purposes, and the group engagement partner does not anticipate that further consultation would be necessary about the component. in that case, the task force proposes that the group engagement partner may determine that the independence period ends either by the completion of the component auditor firm’s work for the purposes of the group audit or by the group auditor firm’s notification that the component auditor firm’s involvement in the group audit has ended, whichever comes later. (see proposed paragraph 405.12 a2 in agenda item 5-b.)

75. if the group engagement partner determines that the independence of a component auditor firm outside the group auditor firm’s network is no longer required, the group auditor firm should communicate this determination to the component auditor firm at an appropriate time. (see proposed paragraphs r405.3 and 405.3 a1 in agenda item 5-b.)

scalability of independence considerations applicable to non-network component auditors

76. respondents generally supported the ed's approach regarding the independence considerations applicable to the group auditor firm, its network firms, and individuals in the group audit team who are from, or engaged by, the group auditor firm or a network firm. however, regarding the proposed independence considerations applicable to component auditor firms outside the group auditor firm’s network, some respondents raised concerns about the proportionality of the approach and its overall impact on the market and audit quality.

77. a few respondents commented that when an smf acts as a component auditor firm for group audit clients that are not pies, it might be challenging to ensure the firm's independence, especially in jurisdictions where there are few auditors in a particular industry or with a specific specialty.54 there were some concerns55 that the proposals would negatively impact smfs as the component audits may be pushed towards the larger network firms. some commenters56 pointed out that this could lead to market concentration and could eventually impact audit quality. a few respondents57 raised for the iesba's consideration whether the additional cost and work effort in managing independence

54 efaa, scaak, wpk
55 apesb, ae, cncc, wpk, acca caanz, hkicpa, icaew
56 apesb, ae, cncc, wpk, acca caanz, hkicpa, icaew, gtil, pp
57 acca caanz, kicpa
at a component level would outweigh any uplift in audit quality for smaller entities and smaller component auditors.

78. To address such potential risks, respondents suggested that the IESBA consider better calibrating the independence considerations for component auditor firms outside the group auditor firm’s network and for individuals from such firms who are involved in the group audit. Respondents’ specific suggestions are discussed below.

Independence Considerations for Individuals Involved in the Group Audit

79. The ED proposed that the same independence provisions apply to all audit team members. Appendix 3 to this document includes a diagram illustrating the proposed approach for independence considerations for all audit team members in the ED.

80. Respondents pointed out that while the component auditor firm outside the group auditor firm’s network has to be independent only of the component audit client, the component auditor firm still has to monitor its individual audit team members at the group level. They felt that this is an inconsistent approach and overly burdensome. Although respondents did not question the principle, they pointed out\(^\text{58}\) the potential practical challenges. They asked the IESBA to consider a more balanced approach focusing only on relationships with entities more likely to threaten the individual’s independence.

81. In this regard, some respondents\(^\text{59}\) questioned whether it is necessary that individuals from component auditor firms outside the group auditor firm’s network who are involved in the group audit be independent of the related entities of the group audit client, especially parent and sister entities for a publicly traded group audit client.

82. There were concerns about the differences in the scope of independence requirements between a component auditor firm and individual members of the audit team at a component auditor firm. A few commenters\(^\text{60}\) suggested that the requirements for these individuals be more aligned with the proposed independence requirements for component auditor firms outside the group auditor firm’s network.

83. Similar concerns were raised in relation to service providers who are audit team members. A respondent\(^\text{61}\) was of the view that the independence considerations for service providers should be addressed separately, depending on whether they are engaged by the group auditor firm or a component auditor firm within or outside the group auditor firm’s network.

Task Force Responses

84. The Task Force considered the issues raised by respondents and acknowledges the potential practical challenges component auditor firms outside the group auditor firm’s network might face while ensuring the independence of individual audit team members from all related entities of a group audit client, especially in the case of publicly traded group audit clients. Upon due reflection, the Task Force is of the view that the cost of implementing a system that could support compliance with such

\(^{58}\) AE

\(^{59}\) AICPA, DTTL, Assirevi, KPMG, PWC

\(^{60}\) JICPA, GTIL

\(^{61}\) JICPA
independence requirements at a component auditor firm level, especially for SMPs, could be disproportionate relative to the likelihood of threats created. Besides the cost factor, the Task Force recognizes that this could become a significant compliance task that would take resources and time away from the component auditor firm’s focus on the audit work, potentially adversely impacting audit quality.

85. Furthermore, the Task Force considers that monitoring compliance with respect to all relevant related entities of the group audit client could raise some client confidentiality issues at the component auditor firm outside the group auditor firm's network. For example, there might be circumstances where an entity in the group would not allow the group auditor firm or a network firm to share information about such entity and the group’s structure with a firm outside the group auditor's firm network, potentially in another jurisdiction. Such a situation would make compliance difficult, especially in the case of a group audit client that is a private equity firm.

86. The Task Force is also mindful that such practical challenges could adversely impact a client's decisions on engaging component auditor firms outside the group auditor firm's network, leading to further market concentration. Given these potential negative outcomes, the Task Force believes that applying the same independence requirements to all audit team members, within and outside the group auditor firm's network, would not be in the public interest.

87. Consequently, irrespective of whether or not the group audit client is a publicly traded entity, the Task Force proposes that the Code does not require an individual from, or engaged by, a component auditor firm outside the group auditor firm's network who is involved in a group audit to be independent of the following related entities of the group audit client or other components in the group:

   - Any entity that has direct or indirect control over the group audit client.
   - Any sister entities of the group audit client (as defined in the “related entity” definition in the Glossary of the Code).
   - Any entities in which the group audit client, or its controlled entity, has a direct financial interest that gives it significant influence over such entities and the interest is material to the group audit client and its controlled entity.
   - Any components in the group that are not related entities.

88. As a proportionate approach, the Task Force believes that audit team members within, or engaged by, a component auditor firm outside the group auditor firm’s network need to be independent of the component audit client (as defined), and the entity on whose group financial statements the group auditor firm expresses an opinion. The Task Force considers that those are the entities where the greatest threat to independence lies with respect to these audit team members. (See proposed Option 3 for paragraph R405.6 in Agenda Item 5-B.)

89. However, the Task Force acknowledges that any relationship between an audit team member from, or engaged by, a non-network component auditor firm and a controlled entity of the group audit client could also compromise the audit team member’s independence with respect to the component audit client. Therefore, while still recognizing the practical challenges highlighted by respondents in relation to proportionality and the potential undue burden of monitoring compliance, the Task Force has also considered the following approaches for scoping in any controlled entities of the group audit client:
• Under one option, independence would also be required in relation to all entities that are directly or indirectly controlled by the group audit client. (See proposed Option 1 for paragraph R405.6 in Agenda Item 5-B.)

• Under another possible option, the scope would additionally capture only the controlled entities connected with the component audit client, i.e., entities that also have direct or indirect control over the component audit client. (See proposed Option 2 for paragraph R405.6 in Agenda Item 5-B.)

90. During the September 2022 IESBA meeting, the Task Force will ask for Board members' views on which option would be more appropriate, should the Board agree to take a more proportionate approach to the independence considerations for audit team members at a non-network component auditor firm. (See Options 1-3 for R405.6 in Agenda Item 5-B.). Appendix 4 to the document includes diagrams illustrating the options for the proposed independence considerations for audit team members within, or engaged by, a component auditor firm outside the group auditor firm's network.

91. The Task Force notes that even if independence is not required of all entities within a group, this does not mean that a component auditor firm outside the group auditor firm's network should not consider and address any significant threats created by any relationship or circumstance involving an audit team member at the component auditor firm with any entity in the group. Paragraph R405.10 in Agenda Item 5-B requires the component auditor firm to apply the "reason to believe test" and include such a relationship or circumstance when identifying, evaluating, and addressing threats to the firm's independence.

92. The Task Force also highlights that the different approaches to the independence considerations would apply only in the context of individuals from, or engaged by, non-network component auditor firms and not individuals from another service provider who are involved in the group audit. An individual from another service provider engaged by the group auditor firm or its network firm is still required to be independent of the group audit client according to provisions applicable to other audit team members, i.e.: audit team members within, or engaged by, the group auditor firm and its network firms.

Independence Considerations for Component Auditor Firms

93. Most respondents supported the proposed proportionate approach regarding the independence considerations for component auditor firms outside the group auditor firm's network (see paragraph R405.6 of the ED). However, many respondents commented on the application of the relevant provisions depending on whether the group audit client (the entity under the group audit) is a PIE or a non-PIE.

94. In relation to the non-network component auditor firm's independence of the group audit client, a few respondents raised that the component auditor firm should be independent of the group audit client (including the relevant related entities) regardless of whether it is part of the group auditor firm's network.

62 IRBA, UK FRC, ICAS
95. A respondent noted that the term "on whose group financial statements the group auditor firm expresses an opinion" needs to be clarified to relate to the ultimate parent group auditor or at least the top company in the group to prepare group financial statements.

96. Regarding the prohibition from holding a direct or material indirect financial interest in the entity on whose group financial statements the group auditor firm expresses an opinion, there were some questions about whether the relevant requirements and application material on financial interests in Section 510 apply and how component auditor firms should determine material and immaterial indirect financial interests.

97. When the group audit client is a non-PIE, the ED includes a requirement for component auditor firms outside the group auditor firm's network to apply the independence provisions applicable to a non-PIE audit client with respect to the component audit client, for the purpose of the group audit, regardless of whether the component audit client is a PIE (see paragraph R405.9 of the ED).

98. For ease of applicability, a few regulators were of the view that the independence considerations for PIE components within non-PIE groups should be in accordance with those ethical requirements which are most stringent for both the audit of the standalone financial statements of the PIE components and the performance of group audit. They had reservations about reverting to the conceptual framework for evaluating threats for cases where the component auditor firm performs audit work at a PIE component within a non-PIE group. Another respondent suggested reconsidering the proposal, given that the non-network component auditor firm, as a statutory auditor, would already be subject to PIE provisions in such situations. The respondent felt that there is no compelling reason to provide a "concession" for the non-network component auditor firm to apply the non-PIE independence rules for purposes of the group audit.

99. A few commenters suggested revisiting the wording of paragraphs R405.9 in the ED so as not to imply that it is unacceptable for a component auditor of a PIE component to apply independence rules for PIEs when the group is a non-PIE. They argued that it should still be possible to apply more stringent provisions.

100. Based on the provisions in the ED, when the group audit client is a PIE and the component audit client is not a PIE, the independence provisions that apply to the component auditor firm in relation to the component audit client are the PIE provisions (see paragraph R405.10 in the ED).

101. In relation to this requirement, a few commenters were of the view that if non-PIE independence rules are considered adequate to allow a component auditor to issue a statutory opinion on standalone financial statements of the component, these rules should also be sufficient for purposes of the group audit of the PIE group audit client. Others raised that the proposed requirements do not consider any aspects regarding the size, complexity, or extent of work performed by the non-network component auditor firm. They believed that removing the concept of materiality for

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63 KPMG
64 MIA, SAICA, WPK, HKICPA, IFAC SMP AG
65 IRBA, UK FRC
66 ISCA
67 IDW, MIA, IFAC SMP AG
68 AE, CNCC, NBA
69 APESB, CPAA, WPK, Assirevi
components means that firms may need to monitor independence with respect to immaterial components. There were concerns\(^70\) that applying PIE requirements could raise practical challenges, such as timing in relation to providing a NAS.

102. Given such practical challenges, several respondents\(^71\) were of the view that requiring the application of PIE independence rules by non-PIE component auditor firms outside the group auditor firm’s network is unduly burdensome. They suggested that the IESBA consider a proportionate approach that recognizes the relative significance of the component to the group audit combined with the relative ability of procedures performed by a non-network component auditor firm to directly influence the outcome of the group audit.

103. It was also raised\(^72\) that the Code should clearly state which PIE-related requirements apply to a non-network component auditor firm at a non-PIE component audit client where the group audit client is a PIE. These would include the prohibition of certain NAS and the long association provisions. However, it was argued that the Code should also explicitly state which PIE requirements would not extend to non-network component auditor firms, such as obtaining the concurrence of TCWG with respect to NAS, or fee disclosure, both of which are focused on a firm and its network firms.

Task Force Responses

104. The Task Force reiterates that the IESBA previously agreed that in the case of component auditor firms outside the group auditor firm’s network, the greatest threats lie with respect to the entity on whose group financial statements the group auditor firm expresses an opinion. The Task Force notes the IESBA’s general view that it would be disproportionate and potentially unduly limit the supply of firms able to act as component auditor firms if the prohibitions with respect to financial interests and loans and guarantees would apply to all other entities within the group. Furthermore, the conceptual framework would continue to apply with respect to other related entities. The Task Force does not believe there were any compelling reasons put forward by respondents suggesting the need for the Board to reconsider this approach. (Appendices 5 and 6 in this document include diagrams illustrating the proposed independence considerations for firms involved in the group audit.)

105. Concerning the prohibition from holding a financial interest in an entity on whose group financial statements the group auditor firm expresses an opinion, the Task Force considered whether further guidance would be necessary to support the application of the requirement. The Task Force is of the view that there would be benefit in more explicitly aligning this requirement to the extant requirements in Section 510 applicable to audit clients. Therefore, the Task Force proposes that Section 405 be more specific and require that a non-network component auditor firm complies with the requirements in Section 510 relevant to firms holding a financial interest in an audit client, financial interest held as a trustee, and financial interest received unintentionally with respect to the entity on whose group financial statements the group auditor firm expresses an opinion. (See proposed paragraph R405.9(b) in Agenda Item 5-B.)

106. The Task Force refers to the Board’s previous discussions regarding the relevant independence provisions applicable throughout the group. Given that the focus of the group audit is reporting on the group financial statements, the IESBA previously agreed, as a general principle, that the

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70 ACCA CAANZ, CPAC
71 ACCA CAANZ, CPAC, HKICPA, KICPA, IDW, MIA, SAICA, BDO, IFAC SMP AG
72 HKICPA, DTTL, Mazars
independence provisions that apply at the group level should apply throughout the group, including to component auditor firms outside the group auditor firm's network. The Task Force does not believe it would be necessary to change this general principle.

107. If the group audit client is a non-PIE, the Task Force believes it is appropriate to expect a component auditor firm of a PIE component to comply with the provisions applicable to non-PIE audit clients. Nevertheless, this does not imply that a component auditor firm needs to apply the non-PIE provisions if the firm also performs an audit engagement for the PIE component for reasons other than the group audit, for example, a statutory audit. In such instances, the component auditor firm is required to apply the provisions relevant to such other audit engagement. The Task Force proposes guidance in paragraph 405.13 A1 in Agenda Item 5-B to clarify this point.

108. The Task Force notes that the provisions in the ED are in line with ISA 600 (Revised), which requires the group auditor to determine the components at which audit work will be performed. Once components have been identified under ISA 600 (Revised) as warranting audit work for purposes of the group audit, the same independence requirements should apply to firms carrying out the audit work at those components. Based on the principled approach to identifying components in ISA 600 (Revised), the Task Force reiterates its view that Section 405 should not set out different independence requirements based on the significance of the component to the group audit or the complexity of the procedures performed by a non-network component auditor firm. The Task Force does not believe the IESBA should revisit the approach in the ED in this regard.

109. However, if the group audit client is a PIE, the Task Force agreed that a non-network component auditor firm of a non-PIE component does not need to comply with all the independence requirements applicable to a PIE in order to maintain independence at the group level. Therefore, instead of the general requirement in R405.10 of the ED, the Task Force proposes that Section 405 specify which PIE independence provisions the component auditor firm outside the group auditor firm's network is required to apply for the group audit purposes if the group audit client is a PIE. The Task Force proposes that such independence provisions only include (see proposed paragraphs R405.14 and R405.15 (b) in Agenda Item 5-B):

- The requirements and application material relevant to the permissibility of a NAS to an audit client, excluding the provisions addressing communication with TCWG on the provision of a NAS; and
- The requirements and application material relevant to key audit partners and partner rotation.

**Non-Assurance Services**

110. A substantial body of respondents supported the inclusion of application material on the provision of NAS by a component auditor firm outside the group auditor firm's network to a component audit client, aligned to the revised Section 600. They found the proposed application material sufficiently clear and appropriate.

111. A few respondents, including a MG member, noted that it was not evident in the ED whether the application material is applicable to PIE or non-PIE clients. They also suggested that the header to the application material clarify that it is relevant only to component auditor firms outside the group.

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73 Paragraph 22(a) of ISA 600 (Revised)
74 CEAOB, IFIAR, SAICA, GAO
auditor firm’s network. In line with that, they asked that the IESBA assess whether the distinction between the provisions applicable to component auditor firms within and outside the group auditor firm’s network could cause unintended consequences.

112. There were a few comments that the application material in paragraphs 405.12 A1 and A2 in the ED is not sufficiently explicit in outlining that the requirements of Section 600 are applied from the perspective of the component audit client and not the group audit client. A respondent suggested that more guidance be provided for situations where a non-network component auditor firm provides or provided NAS to the group audit client.

113. Some commenters noted that the examples of prohibited NAS in paragraph 405.12 A1 of the ED only focused on two independence matters. They were of the view that the list of examples should be either expanded or the examples removed while keeping only a general reference to Section 600. They also questioned whether the specific examples would be better suited for non-authoritative guidance.

114. Concerning the identification and evaluation of the level of the self-review threats in paragraph 405.12 A2 in the ED, a few regulators suggested clarifying that a component auditor firm should not only consider the threat in terms of the services provided by the component auditor firm in relation to the accounting parts that are subject to the component auditor firm’s audit, but also the overall significance of the financial statement line item in the group financial statements.

115. A few respondents also raised that:

- The application material in paragraph 405.12 A2 of the ED should be elevated to a requirement.
- The guidance could also be strengthened by encouraging the component auditor firm to consult with the group engagement partner on these matters.
- The Code should provide transitional provisions to address any NAS provided by non-network component auditor firms that may become prohibited under the revised requirements.

Task Force Responses

116. As explained above, the Task Force proposes some amendments to the structure of the subsection on "Independence Considerations Applicable to Component Auditor Firms Outside a Group Auditor Firm’s Network" in Section 405. These amendments emphasize that in the case of a PIE group audit client, the component auditor firm performing audit work at a non-PIE component has to apply the PIE provisions of Section 600 for the group audit purposes (except for the requirements on communication with TCWG). If the group audit client is not a PIE, per the proposed requirements in

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75 CEAOB, IFIAR
76 MIA, BDO
77 GTIL
78 APESB, CPAA, MIA, AICPA, BDO, DTTL
79 IRBA, UK FRC
80 IFAC SMP AG
81 UK FRC
82 MIA, BDO
paragraphs R405.9 (a) and R405.13 in Agenda Item 5-B, the component auditor firm must apply the provisions of Section 600 for non-PIE audit clients. The Task Force believes that this new structure will address the comments regarding the clarity of the application material.

117. The Task Force notes that the application material on the provision of NAS by a non-network component auditor firm is applicable with respect to the component auditor firm. In line with paragraph R405.6 in the ED (paragraph R405.9 in Agenda Item 5-B), a non-network component auditor firm is not required to be independent of the group audit client with respect to Section 600. However, the proposed Section 405 still requires the component auditor firm to apply the "reason to believe test" when that firm or its network firm provides any NAS to the group audit client (see paragraphs R405.10 and R405.11 in Agenda Item 5-B).

118. The Task Force also emphasizes that, in accordance with the proposed paragraph R405.5 in the ED (R405.8 in Agenda Item 5-B), if a component auditor firm within the group auditor firm's network provides a NAS either to the component audit client or the group audit client, that network firm has to apply the provisions of Section 600 relevant to a network firm with respect to the group audit client.

119. In relation to the distinction between the component auditor firm within and outside the group auditor firm's network, the Task Force highlights that the IESBA previously discussed this issue. Given the nature of the engagement and the fact that the non-network component auditor firm's system of quality management will be different from the group auditor firm's system of quality management, the IESBA agreed that it would not be appropriate to require that the component auditor firm outside of the group auditor firm's network be subject to the same independence requirements as the group auditor firm and its network firms.

120. The Task Force believes that the specific examples of the application of Section 600 by a non-network component auditor firm with respect to a component audit client is helpful guidance and does not support the removal of such guidance, all the more so given that most respondents were supportive of it or did not fundamentally object to it. Further, although the examples address only two specific NAS, they reflect the overall approach component auditor firms should follow for the provision of any other NAS.

121. Regarding the application material on the evaluation of the self-review threat, the Task Force notes that the purpose of the guidance in paragraph 405.12 A2 in the ED (proposed paragraph 405.14 in Agenda Item 5-B) is to help support the application of the relevant requirements in Section 600, especially the self-review threat prohibition, in the context of work performed by a non-network component auditor firm for purposes of the group audit. Therefore, the Task Force does not believe that it would be appropriate to elevate the application material to a requirement.

122. The Task Force also notes that in line with the provisions in Section 600, a component auditor firm would not be able to identify and evaluate a self-review threat that might be created by the provision of a NAS in relation to the group financial statements, and it is unlikely that such NAS would impact the level of a self-review threat that might be created at the component level. Therefore, the Task Force does not believe that it would be appropriate to state in the application material that a component auditor firm outside the group auditor firm's network should consider the overall impact of the self-review threat in the context of the group financial statements.

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83 See paragraph R600.14 of the Code effective from December 2022.
123. Concerning the comments suggesting consultation or communication between the group auditor firm and the non-network component auditor firm on these matters, the Task Force points out that under the new proposed requirement on communication between a group auditor firm and a component auditor firm in Section 405, the component auditor firm might communicate any threats created by providing NAS to a component audit client.

124. Finally, the Task Force will propose in due course, prior to submitting the final proposals for IESBA consideration with a view to final approval, transitional provisions to address any NAS provided by non-network component auditor firms that may become prohibited under the revised requirements.

D. Key Audit Partners at Component Level

125. Respondents supported that the Code addresses the independence considerations applicable to audit partners at a component auditor firm and the relevant proposed changes to the definition of a key audit partner in the Glossary.

126. Regarding the new proposed application material in paragraph 405.11 A1 in the ED, a few respondents\(^{84}\) suggested that the Code include a requirement instead for the group engagement partner to assess whether any engagement partners at the component level can make key decisions and, should this be the case, qualify them as key engagement partners and give them proper notice in this respect.

127. On the other hand, a few other commenters\(^{85}\) were of the view that the proposed application material is not in line with the extant Code’s provisions since the extant Code does not require the determination of who is a key audit partner. They suggested instead that the Code include a determination of a key audit partner in a group audit context and require that individual to comply with the relevant provisions in the Code.

128. In relation to the changes to the key audit partner definition, a commenter asked\(^{86}\) that the Code include examples of situations where a partner at a component auditor firm would be able to directly influence the outcome of the group audit, and so, be identified as a key audit partner. The commenter suggested that the IESBA should remove the application material in paragraph 405.11 A1 of the ED if specific examples cannot be identified.

Task Force Responses

129. The Task Force is of the view that only the group engagement partner has the necessary information to determine whether an audit partner at a component auditor firm who performs audit work for purposes of the group audit is a key audit partner for the group audit. In that context, the determination differs from the determination of a key audit partner for an audit of standalone financial statements where the audit firm has the necessary information to apply the definition of a key audit partner. Consequently, the Task Force proposes elevating the application material to a requirement and explicitly stating that determining a key audit partner at a component level for the group audit purposes, and communicating that determination to the relevant individual, are the engagement partner’s responsibility. (See paragraph R405.15(a) in Agenda Item 5-B.)

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\(^{84}\) CPAC, Assirevi

\(^{85}\) MIA, BDO

\(^{86}\) AICPA
130. In line with the changes proposed regarding communication between a group auditor firm and a component auditor firm, the Task Force proposes that the Code also require the group engagement partner to indicate the specific independence requirements applicable to the key audit partner at a component auditor firm for the purposes of the group audit. In this regard, if the group audit client (the entity under audit) is a PIE, the key audit partner will need to apply the provisions applicable to a PIE, regardless of whether the component audit client is a PIE. (See paragraph R405.15(b) in Agenda Item 5-B.)

131. The Task Force highlights that the key audit partner definition already sets out that apart from the engagement partner and the individual responsible for the engagement quality review, other audit partners could also qualify as key audit partners if they 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. The proposed change to the definition clarifies that 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. The Task Force does not believe that specific examples would be necessary as actual determinations will depend on the exercise of professional judgment, considering the specific facts and circumstances of the group audit.

132. The proposed paragraphs also clarify that a key audit partner at a component auditor firm performs audit procedures for the group audit purposes as an “other key audit partner.” Therefore, in the case of a group audit client that is a PIE, the key audit partner needs to consider paragraphs R540.5 (c) and R540.20, and by reference, all the other relevant provisions in Section 540. (See paragraph R405.15(b)(ii) in Agenda Item 5-B.)

E. Changes in Component Auditor Firms and Components

Changes in Component Auditor Firms

133. Respondents generally supported the proposed application material relating to changes in component auditor firms during or after the period covered by the group financial statements. However, commenters raised a few more scenarios for the IESBA's consideration that they felt the Code should also explicitly address.

134. A respondent suggested that the application material clarify that the same provisions can also apply where there is a change in component auditor as a result of a client merger or acquisition.

135. A few respondents suggested that the Code provide application material similar to the provisions in paragraphs R400.32 and 400.32 A1, coming into effect in December 2022, that would address cases when a component auditor firm provided a NAS to a component audit client prior to the appointment as component auditor.

136. There were a few comments that section 405 should address the situation where a PIE group audit client acquires a non-PIE entity during or after the period covered by the group financial statements,
and the current statutory auditor of the acquired entity is appointed as a component auditor firm and is now required to apply the PIE provisions to its component audit client.

Task Force Responses

137. The Task Force accepted the suggestion to clarify that the application material in paragraph 405.13 A1 of the ED also applies when a firm becomes a component auditor firm as a result of a client merger or acquisition. (See proposed paragraph 405.17 A1 in Agenda Item 5-B.)

138. The Task Force supported the suggestions to include further scenarios related to changes in component auditor firms in the application material. Accordingly, the Task Force proposes that Section 405 give more guidance regarding how to apply the provisions in Section 400 in the context of a group audit when:

- A firm has provided a NAS to a component audit client prior to the period covered by the group financial statements. (See proposed paragraph 405.17 A3 in Agenda Item 5-B.)
- A firm has provided a NAS to a component audit client prior to becoming the component auditor firm in a PIE group. (See proposed paragraph 405.18 A1 in Agenda Item 5-B.)
- The group audit client later becomes a PIE. (See proposed paragraph 405.18 A2 in Agenda Item 5-B.)

Changes in Components

139. A commenter pointed out that there may be a situation where the group auditor firm determines – after the period during which independence is required has commenced – that audit procedures are required to be performed at a component that is not a related entity. It was argued that the proposal did not include any mechanism for addressing a situation when an entity that is not a related entity is scoped in as a component (because it is subject to audit work) and therefore included in the definition of a group audit client.

Task Force Responses

140. The Task Force agrees with the respondent in this regard and proposes that, when dealing with an entity becoming a component, the group auditor firm apply the same process as the process set out in the extant Code regarding an entity becoming a related entity because of a merger or acquisition. (See proposed paragraph R405.16 in Agenda Item 5-B.)

F. Breaches at a Component Auditor Firm

141. Many respondents supported the proposals on breaches in Section 405 and agreed that it is appropriate to address a breach of independence by a component auditor firm. The comments on the proposed subsection mainly highlighted practical challenges regarding the application of the provisions.

142. Some respondents, mainly regulators, were concerned that the differentiation in the consequences of a breach between component auditor firms within and outside the group auditor firm’s network is

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90  DTTL
91  IFIAR, IRBA, UK FRC, ICAEW
not appropriate and could have unintended consequences. They argued that the provisions for a component auditor firm within the network (in paragraph R405.14 in the ED) on how to identify and address a breach are less restrictive than the provisions for non-network component auditor firms (in paragraph R405.15 in the ED), as the former would allow the group engagement partner to determine what action to take in accordance with the provisions of paragraphs R400.80 to R400.89 of the extant Code.

143. A few commenters\textsuperscript{92} were of the view that the proposals related to a breach of independence by a component audit or firm may not be workable in some jurisdictions as laws and regulations may prohibit component auditor firms from communicating internal information to a group auditor firm located overseas.

144. A few respondents,\textsuperscript{93} including a MG member, raised that allowing the component audit or firm to perform remedial work on areas of the engagement that are affected by its own breach may not be appropriate. They suggested that the IESBA consider providing guidance on other actions, such as the component audit client engaging another firm to review or re-perform the affected audit work to the extent necessary, or the group auditor firm evaluating or re-performing the affected audit work or engaging another firm to evaluate the results of the non-assurance service or re-performing the non-assurance service, to the extent necessary. A MG member\textsuperscript{94} also suggested that the Code provide examples of the circumstances in which the group engagement partner may determine whether or not additional actions are required and what those could be.

145. A respondent\textsuperscript{95} commented that a component auditor firm should communicate the breach in writing to the group auditor firm. Regarding the group engagement partner’s actions upon the receipt of the component auditor firm’s communication, it was noted that the group engagement partner should not be required to assess the component auditor firm’s objectivity but instead review the component auditor firm’s assessment of the impact of the breach on that firm’s objectivity.

146. Regarding the communication of breaches at the component auditor firm level to TCWG of the group audit client, some respondents\textsuperscript{96} noted that it was not clear why the proposed requirement for the group auditor firm to communicate breaches by a component auditor firm outside the group auditor firm’s network is not the same as the provisions applicable for other breaches in extant paragraph R400.84 of the Code (i.e., discussion versus written communications as per extant paragraph R400.84).

147. Regarding the information communicated by the group auditor firm on breaches by a component auditor firm, a respondent suggested that the Code clarify that the group engagement partner’s communication should focus on “the component auditor firm’s assessment of” the significance of the breach and not the engagement partner’s evaluation. In addition, a respondent\textsuperscript{97} suggested that the discussion with TCWG on the breach by a component auditor firm include whether the group auditor

\textsuperscript{92} SAICA, IFAC SMP AG
\textsuperscript{93} IOSCO, CEAOB
\textsuperscript{94} IOSCO
\textsuperscript{95} DTTL
\textsuperscript{96} CEAOB, IFIAR, IRBA, MIA, BDO
\textsuperscript{97} JICPA
firm may use the work of the component auditor firm or whether it will use other means to obtain the necessary audit evidence on the component audit client's financial information.

148. There were a few comments\(^{98}\) that the diagram in Appendix 2 of the ED distinguished between a "significant breach" and a "very significant breach," yet the proposed Section 405 did not include such a concept.

**Task Force Responses**

149. The Task Force reiterates that the purpose of the proposed guidance related to a breach of independence by a component auditor firm is to assist a component auditor firm in addressing the breach and, ultimately, to enable the group auditor firm to make a determination on whether it would be able to use the component auditor firm's work. The focus of the component auditor firm's and the group auditor firm's assessment is to determine the significance and the impact of the breach on the component auditor firm's objectivity and not to reassess or review the group auditor firm's objectivity or ability to issue the group audit report. Paragraphs R400.80 to R400.89 in the extant Code set out provisions for breaches of independence provisions that could compromise the group auditor firm's objectivity. The Task Force proposes amendments to the introductory paragraph of the subsection to clarify this point. (See proposed paragraphs 405.19 A1 and A2 in Agenda Item 5-B.)

150. The Task Force agrees with commenters who were of the view that there should be no difference in the provisions in Section 405 applicable to breaches identified by a component auditor firm within or outside the group auditor firm's network, as the objective of the guidance is the same. However, as mentioned above, in the case of a breach at a component auditor firm within the network, the group auditor firm also applies paragraphs R400.80 to R400.89 in relation to the group audit, as applicable.

151. Consequently, the Task Force proposes that component auditor firms within or outside the group auditor firm's network apply the same process to address a breach of an independence provision. The actions required of a component auditor firm when it identifies a breach follow the extant Code's requirements in paragraph R400.80. However, Section 405 only includes the actions appropriate in the context of a component auditor firm. (See proposed paragraph R405.20 in Agenda Item 5-B.)

152. The Task Force also proposes additional application material in line with the extant Code's provisions to help a component auditor firm evaluate the significance and the impact of the breach. (See proposed paragraph 405.20 A1 in Agenda Item 5-B.)

153. The amendments also include a requirement for component auditor firms to communicate their assessment of the significance of the breach and any actions proposed or taken to the group engagement partner in writing. (See proposed paragraph R405.20(d) in Agenda Item 5-B.)

154. Responding to the comments raising potential confidentiality issues related to the communication of the component auditor firm's breach, the Task Force notes that ISA 600 (Revised)\(^{99}\) requires that in establishing the overall group audit strategy and group audit plan, the group engagement partner evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor. The relevant application material\(^{100}\) specifies that in evaluating whether the group auditor will be able to be sufficiently and appropriately involved in the work of the

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\(^{98}\) MIA BDO, PWC

\(^{99}\) Paragraph 23 of ISA 600 (Revised)

\(^{100}\) Paragraph A57 of ISA 600 (Revised)
component auditor, the group auditor may obtain an understanding of whether the component auditor is subject to any restrictions that limit communication with the group auditor, including with regard to sharing audit documentation with the group auditor. Because of this upfront requirement in ISA 600 (Revised) in the context of establishing the group audit strategy and group audit plan, the Task Force does not believe that confidentiality issues regarding a component auditor firm's communication on a breach to the group auditor firm should cause any difficulty in practice.

155. In line with the extant Code's approach to breaches, the Task Force believes that it is appropriate to allow a component auditor firm to take actions to satisfactorily address the consequences of a breach. Nevertheless, the Task Force proposes adding application material, in line with the extant Code's relevant provisions, to assist a component auditor firm in considering any actions that might be taken to address the breach. (See proposed paragraph 405.20 A1 in Agenda Item 5-B.)

156. In addition, the ED proposal requires the group engagement partner to review any actions proposed or taken by a component auditor firm to address the consequences of the breach. 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. As the group engagement partner's determination will depend on the specific facts and circumstances, the Task Force does not believe that it would be appropriate for the Code to provide specific examples of the circumstances in which the group engagement partner may determine that such additional actions are required.

157. Regarding the group engagement partner's action upon receipt of a component auditor firm's communication, the Task Force agreed with commenters who felt that the group engagement partner cannot evaluate the impact of the breach on the component auditor firm's objectivity. Based on the available information, the group engagement partner would only be able to review the component auditor firm's assessment of the significance of the breach and its impact on the component auditor firm's objectivity. The Task Force therefore proposes a few amendments to the proposed provisions to clarify this approach. (See proposed paragraph R405.21 in Agenda Item 5-B.)

158. Regarding the communication of breaches by a component auditor firm to TCWG of the group audit client, the Task Force considered the significance of breaches at a component auditor firm and whether it is necessary that TCWG of the group audit client be informed of all the details of such breaches in writing. The Task Force believes there is a difference between breaches at a component auditor firm within the group auditor firm's network and those at a component auditor firm outside the network. In the former case, the Task Force believes that TCWG must be informed since the policies and procedures of the group auditor firm's network are relevant to the considerations of TCWG regarding the group auditor firm's independence. (See proposed paragraph 405.23 A1 in Agenda Item 5-B.)

159. However, if a breach has occurred at a component auditor firm outside the group auditor firm's network, the quality management system addressing breaches at the component auditor firm will be different compared with in-network. Therefore, in the case of a breach at a non-network component auditor firm, the Task Force believes that the discussion with TCWG of the group audit client should only focus on the actions proposed or taken to satisfactorily address the consequences of the breach,
or whether the group auditor firm will use other means to obtain the necessary audit evidence on the
component audit client's financial information.

160. The Task Force believes that requiring the communication of the same information, in the same way,
regarding all breaches by in-network and out-of-network component auditor firms would be
disproportionate in the context of the relative impact of the breaches on the group auditor firm's
objectivity.

161. Regarding the reference to the "very significant breach" in the diagram in Appendix 2 of the ED, the
Task Force notes that the ED proposal did not differentiate between significant or not significant
breaches. The Task Force will correct the diagram accordingly.

G. Other Issues

Introductory paragraphs

162. A respondent101 raised that paragraph 400.3 in the ED only mentioned individuals from a component
auditor firm as being included as audit team members. The respondent was of the view that this could
be confusing.

163. The Task Force agreed that the introductory paragraph in Section 400 that brings in the concepts of
a group audit and a group audit team should take a more general approach and be more clearly
linked to other sections in Part 4A of the Code. (See proposed changes to paragraph 400.6 and
proposed paragraph 400.8 in Agenda Item 5-B.)

Determination of "Team"

164. A few respondents102 suggested retaining the reference to "engagement team" in Parts 1 to 3 in the
Code. Alternatively, they suggested that the Code define the term "team."

165. The Task Force notes that the reference to "team" (and not "engagement team") in Parts 1 and 3 is
intentional to avoid confusion with the defined term "engagement team," which is used in the IIS. The
Task Force believes that the ordinary dictionary meaning of the word "team" is sufficiently clear in
the context of the Code, and no specific definition is necessary. (See also the clarification under
Section A, Determination of Engagement Team and Audit Team in this document.)

Proposed Changes to Section 360

166. Some respondents103 commented that it is unclear why "legal entities or business units" are included
in paragraphs R360.16 to R360.18 in addition to the pre-existing reference to "components" since
the proposed definition of a "component" comprises both business units and legal entities.

167. The Task Force points out that the relevant provisions in Section 360 are also applicable to a legal
entity or a business unit that is not determined to be a component but is otherwise part of a group for
purposes of an audit other than a group audit. Nevertheless, the Task Force agreed that the
amendments could be clearer, and accordingly, proposes some minor refinements to the conforming

101  ICAS
102  CPAA, KPMG
103  CAI, CPAC, ICAS, JICPA, PWC
amendments. (See the proposed changes to paragraphs R360.16 and R360.18 in Agenda Item 5-B.)

Conforming Amendments to Part 4B

168. It was noted that it would be beneficial to add similar introductory language to Part 4B as has been added to Part 4A in paragraphs 400.A – 400. D.

169. The Task Force notes that this project is aimed at aligning the Code’s provisions with the requirements in ISA 600 (Revised) which only apply to group audit engagements. The Task Force believes that the changes to the “assurance team” definition already sufficiently address the necessary consequential amendments, and that the IESBA might consider in future whether further changes are needed in relation to the involvement of experts or other individuals in an assurance engagement.

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104 KPMG
### List of Respondents to ET/GA ED

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105 NSS that have a mandate to set national ethics standards, including independence requirements, in their jurisdictions and which do not belong to PAOs are categorized as “Independent National Standard Setters.” The IESBA has a liaison relationship with a group of NSS (both independent NSS and organizations that hold dual NSS-PAO roles) that share the common goal of promulgating high-quality ethics standards, including independence requirements, and seeking convergence for those standards.

106 For purposes of this categorization, a PAO is a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to IFAC member bodies. PAOs that have full, partial or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions are indicated with a “d”.
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107 Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform transnational audits.
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Definitions of Engagement Team and Group Audit Team—A Visual Summary

The diagram below sets out who is included in the engagement team and the group audit team. Terms in italics are defined in the Glossary.

**THE GROUP AUDIT TEAM**

- Partners and Staff from the group auditor firm performing the engagement
- Other individuals who perform procedures on the engagement
  - Individuals from a network firm
  - Individuals from a non-network firm or another service provider

**THE ENGAGEMENT TEAM**

- Individuals within, or engaged by, the *group auditor firm*

**OTHERS WHO CAN DIRECTLY INFLUENCE THE OUTCOME OF THE GROUP AUDIT**

- Individuals 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 *group audit*
- Individuals who provide consultation regarding technical or industry-specific issues, transactions or events for the *group audit*
- Individuals who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the *group audit*
- Any other individuals within a *network firm* of the *group auditor firm*’s network
- Any other individuals within a *component auditor firm* outside the *group auditor firm*’s network

**Excluding:**

- *External experts* (as defined in the Glossary)
- Internal auditors who provide direct assistance on the engagement
- Individuals who *cannot directly influence* the outcome of the *group audit*, even if they can influence the component audit
Independent Considerations in the ED for Individuals Involved in the Group Audit

When Group Audit Client is a Publicly Traded Entity

- Parent “H”
  - Sister “B”
  - Group Audit Client “A”
    - Significant Interest “E”
    - Controlled “D1, D2, ....”
    - Controlled “C”
      - (……...)  
      - Other Components
        - Component Audit “F”
        - Controlled “G”

When the Group Audit Client is not a Publicly Traded Entity

- Parent “H”
  - Sister “B”
  - Group Audit Client “A”
    - Significant Interest “E”
    - Controlled “D1, D2, ....”
    - Controlled “C”
      - (……...)  
      - Other Components
        - Component Audit “F”
        - Controlled “G”

In addition to the component audit client, independence is required in accordance with provisions in Part 4A applicable to audit team members.

The firm is required to consider when applying the “reason to believe test”
Appendix 4

Proposed Independence Considerations for Individuals from a Component Auditor Firm Outside the Group Auditor Firm’s Network who are Involved in the Group Audit

For All Group Audit Clients

Option 1

- Parent “H”
  - Sister “B”
    - Significant Interest “E”
    - Controlled “D1, D2, ….”
    - Component Audit “F”
    - Controlled “G”

Option 2

- Parent “H”
  - Sister “B”
    - Significant Interest “E”
    - Controlled “D1, D2, ….”
    - Other Components
    - Component Audit “F”
    - Controlled “G”

In addition to the component audit client, independence is required in accordance with provisions in Part 4A applicable to audit team members.

The component auditor firm is required to consider when applying the “reason to believe test”
Appendix 4 (Continued)

Proposed Independence Considerations for Individuals from a Component Auditor Firm Outside the Group Auditor Firm’s Network who are Involved in the Group Audit (Continued)

For All Group Audit Clients

Option 3

Independence is required in accordance with provisions in Part 4A applicable to audit team members

The component auditor firm is required to consider when applying the “reason to believe test”
Appendix 5

Proposed Independence Considerations for Firms Involved in the Group Audit

- Independence in accordance with provisions in Part 4A relevant to a firm (Paragraph R405.7)
- Independence in accordance with provisions in Part 4A relevant to a network firm (Paragraph R405.8)
- Independence in accordance with provisions in Part 4A relevant to a firm (Paragraph R405.9(a))
- Prohibition from holding certain financial interests, and loans or guarantees (Paragraph R405.9(b)-(c))
- Application of “reason to believe test” (Paragraph R405.11)
Proposed Independence Consideration for Firms Involved in the Group Audit

Independence in accordance with provisions in Part 4A relevant to a firm (Paragraph R405.7)

Independence in accordance with provisions in Part 4A relevant to a network firm (Paragraph R405.8)

Independence in accordance with provisions in Part 4A relevant to a firm (Paragraph R405.9(a))

Prohibition from holding certain financial interests, and loans or guarantees (Paragraph R405.9(b)-(c))

Application of “reason to believe test” (Paragraph R405.11)