Note to IESBA

The Task Force is considering the following definitions for purposes of this new Section. The Task Force will determine the most suitable location(s) for these definitions (including the Glossary) to propose to the Board in due course.

- As defined in the Exposure Draft of proposed ISA 600 (Revised):¹
  - “Component” – A location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit.
    [With regard to a component, the term “related entity” only applies when the component is a legal entity.]
  - “Component auditor” – An auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit. A component auditor is a part of the engagement team.
  - “Group audit” – The audit of group financial statements.
  - “Group engagement team” – The group engagement partner and other members of the engagement team who are responsible for:
    (a) Establishing the overall group audit strategy and audit plan;
    (b) Directing and supervising component auditors and reviewing their work; and
    (c) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.
  - “Group financial statements” – Financial statements that include the financial information of more than one entity or business unit through a consolidation process.
- “Component audit client” – The component and, where applicable, any controlled related entities of the component.
- “Component auditor firm” – The firm carrying out audit procedures on the component.
  [Where the component is a legal entity, this term refers to the entity and not its related entities.]
- “Group audit client” – An entity in respect of which a firm conducts an audit engagement on the group financial statements. The group audit client includes its related entities as specified in paragraph R400.20 [and any other components scoped in under proposed ISA 600 (Revised)].

¹ Proposed International Standard on Auditing (ISA) 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
SECTION 405

GROUP AUDITS

Introduction

405.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

405.2 Section 400 requires professional accountants to be independent when performing audit engagements. This section sets out specific requirements and application material relevant to applying the independence provisions in Part 4A to group audit engagements.

Requirements and Application Material

General

405.3 A1 The International Standards on Auditing (ISAs) apply to an audit of group financial statements. ISA 600 (Revised) deals with special considerations that apply to an audit of group financial statements, including in those circumstances when component auditors are involved. ISA 600 (Revised) requires the group engagement partner to take responsibility for determining that component auditors have been made aware of relevant ethical requirements, including independence requirements, that are applicable given the nature and circumstances of the group audit engagement.

405.3 A2 Pursuant to ISA 220 (Revised), an engagement team for a group audit comprises individuals who perform audit procedures on the group audit. This includes the group engagement team and component auditors, whether from within or outside the firm’s network.

405.3 A3 The requirements and application material below address the relevant independence considerations that apply in a group audit engagement, including with respect to component auditors and component audit firms.

Engagement Team Members

R405.4 All members of the engagement team shall be independent of the group audit client.

R405.5 A1 The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 apply to all members of the engagement team, their immediate family members and, where applicable, close family members.

Firms and Component Auditor Firms

R405.6 A firm issuing the audit opinion on the group financial statements, and its network firms, shall be independent of the group audit client, its related entities [and any other components scoped in under proposed ISA 600 (Revised)].

405.6 A1 The related entities from which the firm and its network firms are required to be independent are those specified in paragraph R400.20.

Component Auditor Firms Outside the Firm’s Network

R405.7 The group engagement partner shall take responsibility for determining that component auditor

Commented [CV1]: For future consideration: The Task Force to consider providing guidance on what a Related Entity is for a component within the scope of ISA 600.

Commented [CV2]: For future consideration: The Task Force to consider flagging independence requirements for statutory audits

Commented [CV3]: For future consideration: - Depending on how ISA 600 settles the issue of components, there may be other changes. - Consideration will also be given to whether to include the “chain of command” at component auditor firms outside the network.
firms have been made aware of relevant ethical requirements, including independence requirements, that are applicable given the nature and circumstances of the group audit engagement.

All Group Audit Clients

**R405.8**  A component auditor firm shall be independent of the component audit client in accordance with the requirements set out in Part 4A.

**R405.9**  When a component auditor firm knows, or has reason to believe, that a relationship or circumstance involving any related entity of the component audit client other than controlled related entities is relevant to the evaluation of the component auditor firm’s independence from the component audit client, the component auditor firm shall include that related entity when identifying, evaluating and addressing threats to independence.

**R405.10**  When a component auditor firm knows, or has reason to believe, that interests or relationships of a firm within its network with the component audit client create a threat to the component auditor firm’s independence, the component auditor firm shall evaluate and address any such threat.

Group Audit Clients that are Public Interest Entities

**R405.11**  When the group audit client is a public interest entity, the component auditor firm shall also comply with the independence provisions that apply to public interest entities with respect to the component audit client.