Agenda Item 9-A

Engagement Team - Group Audits Independence

Update

Caroline Lee, Task Force Chair

IESBA Meeting
8 June, 2022
1) Update on Task Force’s (TF) activities since December 2021

2) Overview of early comments on the ED
   – Not an analysis; only an overview of certain conceptual comments received via outreach and public consultation until May 30

3) Proposed timeline
Activities Since December 2021

• Publication of the **Exposure Draft** on 28 February 2022
  – Comment period ended on 31 May 2022

• Two global webinars
  – April 11 & April 19, 2022

• Outreach with stakeholders, including
  – IFIAR SCWG
  – Accountancy Europe
  – APESB Global Roundtable

• Task Force met at the end of May to discuss observations from outreach and early comments submitted before May 30
Exposure Draft

• Revised definitions in line with changes to engagement team in ISA 220 (Revised) and ISQM 1

• New provisions to address independence considerations for individuals and firms involved in the audit of group f/s
  – Proposed revisions are in line with the approved ISA (600) (Revised)

• Additional process to address a breach of an independence provision at a component auditor firm

• Conforming amendments in line with IAASB’s QM standards
Global webinars

• Two interactive global webinars (April 11 and 19) covering the same content

• Presenters were TF members (Caroline Lee, Denise Canavan and Andrew Pinkney)

• 270 participants from over 50 jurisdictions
  – Most participants from the US, UK and Canada

• Recordings are available on the IESBA’s website

Participants by Stakeholder Groups

- Investors and Other Users of the F/S: 3
- Those charged with governance, including audit committees and board of directors: 2
- Regulators and other audit oversight authorities: 19
- Public sector organizations: 5
- Preparers and other professional accountants in business, including internal auditors: 6
- Others: 56
- National Standard Setters: 19
- IFAC Member Bodies: 23
- Accounting Firms, including Solo Practitioners: 124
- Academics and educators: 3
Overview of Early Comments

Generally supportive … have raised some concerns
Overview of Early Comments (1)

- Alignment and consistency with definitions in IAASB’s standards (IOSCO, CEAOB)
- EQR may be sourced from outside the group auditor firm or its network
- AM on NAS and Changes in component auditor firms
- Address a breach of independence by component auditor firm
- Alignment of effective date with that of ISA 600 (Revised)

Generally supportive
Overview of Early Comments (2)

Some concerns raised

• Might change perception of the value of local statutory audit vis-à-vis group audit (SMPAG, PAOs)

• Some SMPs might be forced out of the component auditor market since there is no de minimis exception, thereby exacerbating market concentration issues (SMPAG, PAOs)

• Might adversely impact choice of component auditor firm and use of smaller non-network component auditor firms (PAO, Firm)
  – Components may be scoped in on an unpredictable basis, which creates challenges as the component auditor needs to apply PIE independence requirements, which disrupts the group audit process and impacts the group auditor firm’s willingness to use non-network component auditors
  – Particularly in jurisdiction where there are few auditors in a certain sector or with specific skills
Some concerns raised

• **Complexity of the engagement team / audit team definitions**
  - Request for more guidance, for example on the determination of individuals in sub-paragraph (d) who “can directly influence the outcome of the audit engagement”
  - Questions about how other experts would fit into these definitions, for example in case of ESG assurance services, tax experts, consultations with PAOs on professional and technical issues

• **Definition of “group audit client”** include components that are not related entities
  - Will extend independence beyond related entities
  - Practical difficulties related to monitoring all components

• Whether all **members of the audit team for a group audit** should be subject to the same independence provisions
• A regulator commented that **component auditor firms** should be subject to the same independence requirements, regardless of whether they are part of the group auditor firm’s network or not

• Whether **all non-network component auditor firms** performing audit procedures on a component audit client that is not a PIE should be subject to PIE independence requirements because the group audit client is a PIE

  – Might be appropriate if the component auditor firm perform significant audit procedures, and can directly influence the outcome of the group audit

  – Recognizing the proportionate approach for independence of component auditor firms, but suggestions for developing a more scalable approach
Some concerns raised

• Whether there is **value in providing a “concession”** to apply non-PIE independence requirements if the non-network component auditor firm is required to apply more stringent PIE requirements for purposes of the statutory audit of the PIE component audit client.

• Where the group audit client is a non-PIE, adherence to non-PIE independence requirements might be required but this **should not preclude** adoption of more stringent PIE independence requirements where the component audit client is a PIE (e.g., long association, fees).

• A regulator commented that the component auditor firm should **adopt the most stringent** independence requirements for both the statutory audit and group audit to prevent complexity.

• Which PIE definition to apply where the component audit client exists in a **different jurisdiction** from the group audit client and the jurisdictional definitions of PIE differ.
Overview of Early Comments (5)

Other Issues

• Process for addressing breaches of component auditors
  – Question why the processes for network and non-network component auditor firms are different (IOSCO, UK FRC)
  – Suggestions for further guidance regarding the process for network component auditor firms

• A number of practical matters, e.g., timing of determination of components and changes in component auditor firms, changes in components
Project Timeline

- **September 2022 IESBA and CAG meeting**
  - Full review of key comments on the ED
  - First read of proposed revision

- **October and November**
  - Consultation on updated text with IESBA via email
  - Outreach to key stakeholders (IFIAR, IOSCO)

- **December 2022 IESBA meeting**
  - Second read of proposed revisions
  - Scheduled approval of the final text

Proposed effective date is in line with ISA 600 (Revised): For audits of financial statements for periods beginning on or after **December 15, 2023**
Any Questions or Comments?