# Compilation of Comments to ET/GA ED – Question 1

**Note to IESBA Meeting Participants**

This reference document includes the compilation of the comments from the 49 comment letters submitted in response to the following **Question 1** of Exposure Draft, *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* (ED):

*"Proposed Revised Definition of Engagement Team*

Do you agree with the proposed changes to the Code related to the revised definition of ET, including: (see Chapters 1, 4 and 6)

(a) The revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team;" and

(b) The explanatory guidance in paragraphs 400.A – 400.D?"

For the analysis of all significant comments and the Task Force's responses, please refer to Agenda Items 5-A and 5-B.

## Regulators and Oversight Authorities, Including MG members

### 1. Botswana Accountancy Oversight Authority (BAOA)

We agree with the proposed changes to the revised definitions of the terms "engagement team", "audit team", "review team" and "assurance team".

The revised definition seeks to incorporate all possible members who are involved as Engagement Team members in order to Increase accountability and ensure that all those involved understand the objective of the engagement quality control review and how their contribution may influence the outcome of the engagement.

The definition, also as explained in paragraph 400.A – 400.B is appropriate as it covers both the network firm and even those team members falling outside the network firm as long as they perform some audit work for the group audit purposes. It further recognises that some of these specialised service providers may be subscribing to different professional bodies outside the audit profession.

### 2. Committee of European Auditing Oversight Bodies (CEAOB)

Glossary

We suggest clarifying in the definition of the audit team for the group audit included in the glossary that the engagement quality reviewer and those who provide consultation at the component level, whether inside or outside the group auditor firm's network are members of the audit team for the group audit. This clarification may also be illustrated in the application material provided in paragraph 400.C.

### 3. International Forum of Independent Audit Regulators (IFIAR)

**Clarity and Understandability, Including Terminology Used**

We generally support the proposed revisions to the Code relating to the definitions of the terms "engagement team" and "group audit", due to the alignment with the IAASB's Quality Management standards (in particular, ISQM 1) and ISA 600 (Revised), respectively. With respect to clarity and understandability, we suggest that IESBA considers revising the amendments for the matters highlighted in the subsequent paragraphs.

We recommend that the requirements in proposed Section 405 of the Code should specify who at the component auditor firm is responsible for performance of the procedures required under paragraphs R405.7, R405.8, and R405.15 of the Code.

The ED would define a "component audit client:"

- When the component is a legal entity, as "the entity and any related entities over which the entity has direct or indirect control;" or
- When the component is a business unit, function or business activity (or some combination thereof), as "the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed."

This definition may result in complexities regarding the application of Code requirements, depending on whether or not the component audit client is a legal entity. We therefore suggest that IESBA considers addressing some of the envisioned complexities in the application paragraphs or through implementation guidance (for example, if a component audit client is a business unit, how will the Code's group audit requirements be practically applied?).

## 4. International Organization of Securities Commissions (IOSCO)

**Clarifying Edits**

Section 400. Applying the Conceptual Framework to independence for Audit and Review Engagements

Engagement Team and Audit Team

| Paragraph | Proposed Clarifying Edit | Explanation |
|---|---|---|
| 400.A | […]<br>(a) A network firm; or<br>(b) A firm that is not a network firm, or ~~another service provider~~<br>(c) Another service provider<br>[…] | We recommend separately presenting within paragraph 400.A the phrase "another service provider." This clarifying edit would avoid unnecessary conflation between non-network firms and service providers. |
| 400.C | • […]<br>• Individuals who are external experts[1] in fields other than accounting or auditing, | The third bullet in paragraph 400.C refers to individuals who are external experts in fields other than accounting or auditing and notes such individuals are neither engagement team members nor audit team members.<br>To avoid potential confusion regarding the interpretation of the third bullet, and because the exposure draft specifically references ISA 620 as a basis for excluding such external experts from both the engagement team and audit team, we recommend including a footnote (immediately after the term "external experts") with the following wording:<br>"As defined in ISA 620, *Using the Work of an Auditor's Expert*" (see such language included in footnote 1 herein). |

Chapter 6: Proposed Changes to the Glossary

| Term | Proposed Clarifying Edit | Explanation |
|---|---|---|

| | | |
|---|---|---|
| Component auditor firm | […]<br>(a) A legal entity, the entity and any related entities over which the entity has direct or indirect control, **and is subject to audit by the component auditor**; or<br>(b) […]<br>[…] | We recommend explicitly using the term "audit" in the actual definition of the term "Component auditor firm" by including the **text in bold.** |

## 5. Independent Regulatory Board for Auditors (South Africa) (IRBA)

The IRBA generally supports the proposed revisions to the IESBA Code relating to the definitions of "audit team", "review team" and "assurance team". This is due to their alignment with the IAASB's Quality Management standards (in particular, ISQM 1) and ISA 600 (Revised).

With respect to the definition of "engagement team", we propose that the IESBA consider additional context with the inclusion of ISA 610 (Revised 2013) and ISA 620 underneath the definition (i.e., ISA 610 link it to internal auditors and ISA 620 to external experts in line with definition).

We further recommend including in the definition of engagement team the wording "in fields other than accounting and auditing" (on page 49), so that it reads as follows:

"All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding –

- external experts ***in fields other than accounting and auditing***; and
- internal auditors who provide direct assistance."

This will also align the definition to the explanatory guidance in paragraph 400.C, third bullet point. Alternatively, noting that currently this definition is aligned to ISQM 1, the abovementioned proposed text may be included as a footnote to "external experts" in the definition of engagement team.

In addition, the IRBA supports the explanatory guidance in paragraphs 400.A to 400.D, except for the partial reference to ISQM 1's definition of a service provider in paragraph 400.B (page 30). We recommend that the ISQM 1 definition be included verbatim, as the phrase "system of quality management" has been left out. Paragraph 400.B should therefore read as follows: "In ISQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used ***in the system of quality management or*** in the performance of engagements. Service providers exclude the firm's ***network***, other network firms or other structures or organizations in the network."

## 6. National Association of State Boards of Accountancy (US) (NASBA)

(a) NASBA agrees with the proposed revised definitions of the terms "engagement team," "audit team," "review team," and "assurance team."

(b) NASBA believes that the explanatory guidance in paragraphs 400.A - 400.D will assist users in understanding and applying the Code.

## 7. United Kingdom Financial Reporting Council (UK FRC)

The FRC agrees with the proposed changes to definitions in the Code relating to the Engagement Team, ensuring alignment with the terminology used in ISQM 1. The explicit definition of who is a member of the Engagement Team to include individuals from component auditor firms as well as other service providers is a welcome change which supports the overall clarity of the Code. We also support the direction of travel with respect to the explanatory guidance included in paragraphs 400.A through to 400.D. We welcome the

alignment between paragraph 400.D and ISQM 2 paragraph 9, confirming that an Engagement Quality Reviewer is part of the Audit Team, but not the Engagement Team.

In paragraph 400.B we believe the drafting would be improved by stating the definition of a service provider and then confirming that this definition is aligned with ISQM 1. We also consider that the definition of external expert provided in the final bullet point of paragraph 400C would benefit from closer alignment with that set out in ISA 620, paragraph A12.

**Public Sector Organizations**

**8. United States Government Accountability Office (GAO)**

(a) The revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team;" and

We agree with the addition of "engaged by" to the definition of the teams. See our response to question 2, which provides our views on changes to the team definitions related to engagement quality review (EQR).

(b) The explanatory guidance in paragraphs 400.A—400.D?

We believe that the explanatory guidance can be improved by adding examples and modifying some of the existing examples. Specifically, additional examples in paragraph 400.A could include one related to a firm that is not a network firm and another for a service provider. We believe that examples for these type entities would be more useful than an example of a network firm. For the third example in paragraph 400.C, we believe it may create confusion with the second example as a firm can engage an external expert to provide technical or industry-specific issues. In addition, for paragraph 400.C we recommend adding an example that is specific to component auditor firm.

**Independent National Standard Setters**

**9. Accounting Professional & Ethical Standards Board (Australia) (APESB)**

APESB is generally supportive of the proposed changes to the Code relating to the revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team." APESB supports the alignment of terms between auditing and assurance standards and the professional and ethical standards. We also note that the proposed definition of "Engagement Team" aligns with the definition in ISQM 1 Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements. In practice, the term engagement is not restricted to audit or assurance work performed for clients and is applied to all engagements performed for clients (whether assurance or non-assurance). Therefore, the term "*Engagement Team*" should be universally used to refer to any engagement team who performs professional services for clients. We note that the proposed removal of the reference to assurance in the "engagement team" definition does broaden the definition to allow it to be relevant to any professional services engagement.

Accordingly, APESB recommend that IESBA add explanatory material to the "Engagement Team" definition to explain what an engagement team encompasses in Part 3 of the Code to address both assurance and non-assurance engagements. This approach will then mean that there is no necessity to use the undefined term "team" in Part 3 of the Code (for example, in Section 300 or Section 310). It is important to consider the broader application of the Code to non-assurance services. Where consistent terms are already used in practice, it is not advisable to redefine them.

In relation to the explanatory details (in italics) that support the engagement team definition, particularly the references to ISA 620 and ISA 610 (Revised 2013), APESB note that these references refer to the auditor's responsibilities when using the work of external experts or internal auditors. They do not assist the users of the Code in determining who is captured within the engagement team. The term 'External Experts' is already defined in the extant Code, and therefore, we do not think this term requires redirection to ISA 620 for further explanation.

Feedback from Australian stakeholders indicated support for the alignment of definitions but agreed that the references to ISA 610 and ISA 620 increase the definition's complexity rather than provide clarity.

APESB acknowledge that the changes to the definition of 'engagement team' may capture more individuals than the extant definition. Therefore, we support the inclusion of the proposed guidance in paragraphs 400.A to 400.D.

Further clarity could be provided in relation to the proposed application material on consulting in proposed paragraph 400.C. The long association provisions dealing with prohibited activities of an individual during a cooling-off period (paragraph R540.20 of the IESBA Code) list consulting with the engagement team with no reference to direct influence over the audit engagement. Direct influence is considered separately from consulting; therefore, it is not clear why proposed paragraph 400.C refers to these elements together.

We encourage the IESBA to consider the proposed guidance on consultation regarding technical or industry-specific issues, transactions or events and the scenario when an individual does not have direct influence over the outcome of the audit engagement.

The proposed paragraphs 400.A to 400.D highlight the need to distinguish between individuals being on the engagement team or the audit team. However, it is not clear from the proposed guidance why this is an important distinction and the implications for applying the relevant independence requirements. APESB encourage the IESBA to clarify the importance of this distinction within the proposed application material.

From an editorial perspective, APESB suggest the inclusion of the word 'the' before the phrase '… purposes of the group audit is a member of the engagement team for the group audit.,' in proposed paragraph 400.A.

Refer to question 2 below for APESB views on the definitions of 'audit team,' 'review team' and 'assurance team.'

Recommendations

- The engagement team definition should be developed in a manner that it applies to both assurance and non-assurance services in accordance with current professional practice and acknowledging the Code's broader application for all services;
- Additional guidance material should be provided that explains the importance of distinguishing whether an individual is part of the audit team or engagement team and the impact this has on determining their independence;
- Provide further clarity in proposed paragraphs 400.A - 400.D on individuals who consult with the engagement team, but may not have direct influence over the outcome of the audit;
- Consider the simplification of terms and language used in the revised provisions in Section 405 to enhance the ability of readers to easily understand, comprehend and interpret the provisions (refer to issues raised in Questions 1, 3, 4, 6, 7 and 8 in Appendix A)

## 10. New Zealand Auditing & Assurance Standard Board (NZAuASB)

The NZAuASB supports the objective of revising the definitions of engagement team, audit team, review team and assurance team to align with the IAASB standards. However, it is important that these definitions are clear so that it is easy to understand which individuals involved in an engagement are captured by each definition. The NZAuASB supports the inclusion of the explanatory guidance in paragraphs 400.A-400.D to achieve this.

The role of experts in an engagement and whether or not they are part of the engagement team is complex. We consider that the addition of further examples in 400.C would be helpful, along with clarity as to the implications of being an engagement team member or an audit team member. We consider that the explanatory guidance in paragraph 400.C could be enhanced by the use of a flowchart.

The NZAuASB is encouraged by the IESBA's consideration of the independence requirements for experts in an audit of financial statements. We urge the IESBA to consider further the impact of the use of experts in Part 4B of the Code dealing with assurance other than audit and review engagements, as it is our expectation that the use of experts is likely to increase with the increase in demand for reporting of ESG information.

## Professional Accountancy Organizations

### 11. Joint Submission -- Association of Chartered Certified Accountants/Chartered Accountants Australia and New Zealand (ACCA CAANZ)

Engagement team

We agree with the proposed changes to the Code related to the revised definition of the term engagement team given that this aligns with the definitions used in ISA 220 (Revised) and ISQM1, ensuring consistency between the IESBA code and ISAs.

Audit, review and assurance teams

We are generally supportive of the proposed changes to the definitions of the terms audit team, review team and assurance team, particularly in recognising that EQRs can be engaged both from inside and outside a firm, aligning these definitions with IAASB's ISQM2.

However, we are sceptical regarding the proposed paragraph 400.C as currently drafted, because it is not clear which other persons will be captured by this definition and that could lead to unintended consequences. For example, both ACCA and CA ANZ similar to other PAOs, have dedicated enquiry lines that our respective members can consult with on technical matters, including those related to audit and ethics. Would those individuals be considered to be part of the engagement team? We therefore suggest that IESBA provides further guidance to clarify this.

### 12. Accountancy Europe (AE)

Members agree that the definitions in the IAASB standards and the IESBA Code should be aligned to the maximum extent possible.

It may be helpful to have a visual to clarify the composition of the audit team and the engagement team based on proposed definitions.

Some members suggested providing examples for item d (any individual within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit) in the 'Audit team for the group audit' definition in the Glossary. Although this is expected to be rare, there are companies based in one jurisdiction with most of their operations performed elsewhere. In such cases, the component auditor may have a significant influence on the group audit (letter-box audits).

One of our members noted that using the word 'client' should be avoided in the Code, where possible.

One member found it confusing to define the engagement team both in the glossary and in the proposed paragraph 400A with different wording. Also, this member was unsure about the added value of references to various ISAs in the glossary.

### 13. American Institute of Certified Public Accountants' Professional Ethics Executive Committee (AICPA PEEC)

(a) The revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team"?

PEEC agrees with the changes proposed to the IESBA code related to the revised definitions of the terms "engagement team," "audit team," "review team," and "assurance team."

PEEC supports the exclusion of external "experts" from the revised definition of an engagement team and believes individuals who the group auditor firm does not direct, supervise, or assume responsibility for should either be excluded from the revised definition of an engagement team or specify their exclusion in nonauthoritative material. Examples of such individuals include:

- Engagement teams auditing service organizations and the report is used as an information source by the group auditor firm.
- Component auditors referred to in a group auditor firm's report.

(b) The explanatory guidance in paragraphs 400.A – 400.D?

PEEC agrees with the explanatory guidance in paragraphs 400.A – 400.D.

**14. Botswana Institute of Chartered Accountants (BICA)**

Yes, we agree with the proposed changes to the Code in relation to the revision of the above definitions, as this will ensure consistency in the definition for both the Code, ISQM1 and relevant ISAs.

Inclusion of the explanatory guidance in paragraphs 400.A- 400.D to clarify the nature of the various teams will also assist in ironing out any confusions that may arise when applying the terms. We recommend however that part (b) at paragraph 400A be divided into 2 by separating "another service provider" to be part (c). This change will ensure consistency in flow of the three categories and avoid any misinterpretation.

**15. Chartered Accountants Ireland (CAI)**

We agree with the revised definitions in respect of "engagement team" and "review team". However, clarification is needed in respect of "audit team" and "assurance team" definitions. "Audit team" and "assurance team" include those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement. Examples would be useful of those consultations that do not fall within this definition – for example, a consultation regarding an independence breach.

Further guidance should include what is meant by the term "engaged by the firm" and examples would help clarify different situations.

**16. CPA Australia (CPAA)**

(a)

CPA Australia agrees with the proposed revised definitions of the terms "audit team," "review team" and "assurance team".

However, we note that in the Glossary the term "engagement team" is defined to encompass engagement teams that perform any range of professional services, and not merely audit and assurance services. That is, it starts with "*All partners and staff performing the engagement, and ……*". This means that teams that are performing valuation services, forensic accounting services, and so on, would be (rightly) captured by this definition.

This term is then used in the proposed revisions to Parts 4A and 4B. However, the IESBA is proposing revisions in Sections 300, 310 and 320, which removes the word "engagement" and refers only to "teams". CPA Australia believes that the word "engagement" should be retained in these sections to ensure that the Code recognises the fact that professional service engagements, undertaken by professional accountants, extend beyond merely audit and assurance engagements.

If the IESBA was to retain the proposed wording in Sections 300, 310 and 320 (not our preference), at the very least it would need to separately define the term "team."

With respect to the definition of "audit team", we note that the ED refers to "audit team for the group audit", rather than "audit team". Moreover, the section title for proposed paragraphs 400.A – 400.D uses the term "audit team" in the title. However, that term is not used in the four paragraphs. This is confusing. While the paragraphs – based on the title of the section – would seem to be aiming to distinguish between the terms "engagement team" and "audit team", they do not do so. Indeed, the paragraphs refer to an "engagement team for the group audit".

(b)

Refer our response to question 1 (a).

Additionally, CPA Australia offers the following observations with respect to the explanatory guidance in paragraphs 400.A – 400.D.

To ensure greater clarity and prevent misunderstanding of the definition of engagement team, CPA Australia proposes the following wording revisions to paragraph 400.A.

*400.A An engagement team includes all partners and staff in the firm who perform audit procedures on the engagement, and any other individuals who perform such procedures who are from:*

*(a) A network firm; ~~or~~*

*(b) A firm that is not a network firm~~,~~; or*

*(c) A~~a~~nother service provider.*

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

The original proposed wording could be read in a way that sub point (b) was proposing that the team includes any other individuals who perform such procedures who are from a firm that is not a network firm or that is not another service provider. The revision above provides greater clarity.

Similarly, CPA Australia proposes the following wording revisions to provide greater clarity.

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

Alternatively, wording could be used that notes that "the definition of service providers do~~es~~ not include the firm, …….". The original proposed wording does not seem appropriate.

No comments with respect to paragraphs 400.C and 400.D.

## 17. Chartered Professional Accountants of Canada Public Trust Committee (CPAC)

(a) The revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team;" and

Overall, the PTC is supportive of the proposed changes to the Code related to the revised definition of engagement team (ET) because we agree that:

- All individuals who perform audit procedures on an engagement should be considered part of the engagement team, regardless of where they are located or how they are related to the group audit firm, and should therefore be subject to the same audit requirements; and
- It is necessary to align with the revised engagement team definition in ISA 220 (Revised), for consistency.

We note that the proposed explanatory guidance in the third bullet of paragraph 400.C seems to clearly exclude external experts if their expertise is in a field other than accounting or auditing.

However, we believe experts, external or internal, who have direct influence over the outcome of the audit engagement should be members of the audit team, even if they are experts in fields other than accounting or auditing.

Further, we note that the extant definition of audit engagement implies that its outcome is an "opinion on whether the financial statements are fairly presented, in all material respects, in accordance with an applicable framework". We believe that the proposed revised definition of audit team could, appropriately, be understood to capture external experts if they provide consultation regarding technical or industry specific transactions, issues or events, such as the valuation of geological assets or actuarial assumptions,

because such consultation could directly influence the outcome of the audit engagement, even if their expertise is other than in accounting and auditing.

We recommend that the IESBA considers permitting external experts in fields other than accounting and auditing to be included as members of the audit team by leaving this matter open to professional judgment. While we acknowledge that the IESBA may consider this as part of a future initiative, we think that it is important to address within these revisions, for completeness and clarity.

We do not think that this would require a change to the IESBA's proposed revised definition of an audit team. However, please see our response to Question 1. b), below.

The PTC also recommends that the IESBA considers adding a diagram to distinguish between engagement team, audit team, review team and assurance team to provide added clarity for Professional Accountants ("PAs") to better understand the application of the requirements.

Finally, we also note that the proposed revised definition of ET continues to refer to performing "audit procedures" versus "audit work", which is a term used in several of the new proposed definitions. We observe that it is not clear whether there is a deliberate distinction intended by IESBA, but we recommend that the IESBA clarify the distinction if this is the case. Without clarification, our members may assume that audit work is used in a more general sense, to capture any work related to the audit that is not an audit procedure.

(b) The explanatory guidance in paragraphs 400.A – 400.D?

While the PTC is supportive of the proposed explanatory guidance because we think that it provides useful information about the IESBA's intent, we observe that the explanatory guidance provided in the 3rd bullet of proposed paragraph 400.C seems to conflict with the guidance provided in the 2nd bullet of the same paragraph. We believe that the exercise of professional judgment in applying the guidance in the 2nd bullet could lead to a determination that an external expert who can directly influence the outcome of the audit engagement is a member of the audit team. However, the 3rd bullet specifically excludes external experts in fields other than accounting or auditing (please also see our response to Question 1. a), above).

In light of these observations and our response to Question 1. a), we recommend that the IESBA considers clarifying the 3rd bullet of proposed paragraph 400.C as follows:

- "Individuals who are external experts in fields other than accounting or auditing, and do not have direct influence over the outcome of the audit engagement, are neither engagement team nor audit team members."

**18. Compagnie Nationale des Commissaires aux Comptes (CNCC)**

(a) We struggled with the definitions which we find particularly complex and intricate.

It was first difficult to understand whether the engagement team was part of the audit team or whether it was the contrary. After thorough analysis we understand that the audit team is larger than the engagement team and therefore that the engagement team forms part of the audit team.

The complexity of these definitions may come from the fact that they do not stand alone and are not self-explanatory, since they require to be supplemented by application material 400.A to 400.D to be understood.

The intricacies of the definitions are clarified by the diagrams in the explanatory memorandum or in the various slide decks explaining the ED. Such diagrams should be included in the Code to help understand the definitions.

Understanding differences of rules that apply to engagement teams and audit teams or vice-versa are difficult to assess and should be more clearly referenced and explained.

(b) We have the following comments on application material 400.A to 400.D:

In 400.A (b), the drafting is unclear "another service provider" should be split from (b) to add a third bullet point (c);

In 400.B, the definition of service provider is too wide. The expression "that provides a resource that is used in the performance of engagements" should be replaced by "that directly contributes to the engagements under the direction and supervision of the auditor;" In 400 .C when defining which experts are part of the engagement team (or the audit team - here again it is difficult to understand what difference is implied in terms of independence), some flexibility should be introduced when the consultation of the expert was not significant (less than 10 hours for example}.

**19. European Federation of Accountants and Auditors for SMEs (EFAA)**

We have some concerns.

In Europe we are witnessing the rapid emergence of sustainability reporting and assurance. Hence, EFAA wonders whether these definitions sufficiently accommodate the provision of such sustainability services. EFAA urges the Board to carefully consider this issue on this project.

**20. Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE)**

We agree with the proposed changes

**21. Hong Kong Institute of Certified Public Accountants (HKICPA)**

We agree with the revised definitions to the terms set out in Question 1(a). In particular, we concur with the IESBA's approach to align the Code's definition of "engagement team" with the definition in ISQM 1 for consistency and to avoid confusion.

We also consider the explanatory guidance in paragraphs 400.A to 400.D has appropriately assisted users to differentiate "engagement team" and "audit team".

**22. Instituto dos Auditores Independentes do Brasil (Ibracon)**

We agree with the proposed changes to the Code related to this question. In addition, the Group Auditor (GA) should establish processes and controls to confirm that both ET and CA outside a firm and as part of its network comply with the necessary requirements to perform an appropriate audit or review work. Finally, we suggest clarifying in paragraph 400.A whether ET also includes all partners of a CA which is not part of the GA network firm.

**23. Institute of Chartered Accountants of Scotland (ICAS)**

**(a) Revised Definitions**

We are supportive of the proposed revised definitions of the above terms. We do, however, believe that the proposed wording in the Code, not of the definitions themselves, but specifically of the proposed revised paragraph 400.3, could be clearer. In that respect, we have set out our suggestions below which we believe are clearer.

**Paragraph 400.3**

Paragraph 400.3 states: "This Part applies to all audit team members, including individuals from a component auditor firm who perform audit work related to a component for purposes of a group audit. Section 405 sets out specific independence provisions applicable in a group audit."

We appreciate that the IESBA is seeking to highlight the new provisions in relation to component auditors in paragraph 400.3 however we note that this paragraph only mentions some members of the "Audit Team for a group audit" as defined in the Glossary - i.e. "including individuals from a component auditor firm who perform audit work related to a component for purposes of a group audit" - and therefore we believe this might cause some confusion. Users of the Code might reasonably ask does Part A then apply to, for example, an "individual within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit" who are included within the "Audit team for the group audit" definition?

We note that paragraph 45 of the Explanatory Memorandum clarifies IESBA's intention by stating the following:

"45. Therefore, given that the expanded definition of ET captures individuals from non-network CA firms and other service providers, the IESBA is proposing a single requirement that all members of the audit team (which includes the ET) for the group audit be independent of the group audit client in accordance with the requirements of Part 4A that are applicable to the audit team (see paragraph R405.3 in Chapter 1)."

We appreciate that it is a challenge to concisely articulate IESBA's intentions in paragraph 400.3 but, in order to try to avoid users of the Code inadvertently misunderstanding the scope of Part A, we suggest that paragraph 400.3 could say either of the following:

"This Part applies to all audit team members and, where applicable, the members of the audit team for the group audit, which includes individuals from a component auditor firm who perform audit work related to a component for purposes of a group audit. Section 405 sets out specific independence provisions applicable in a group audit".

Or, alternatively:

"This Part applies to all audit team members. In a group audit context, this includes individuals from a component auditor firm who perform audit work related to a component for purposes of a group audit and others within such a firm who can directly influence the outcome of the group audit."

**(b) Comments on Explanatory Guidance**

**(i) Paragraphs 400.A to 400.D – "Engagement Team and Audit Team"**

We note that this section is entitled "Engagement Team and Audit Team" and, whilst "Engagement Team" is essentially defined in paragraph 400.A, "Audit Team" is not defined. Given the purpose of these paragraphs appears to be to provide explanatory guidance, and to make it explicit who is a member of the Engagement Team versus the Audit Team, we suggest it would be easier for users to also include the definition of "Audit Team" within these paragraphs to provide context.

We appreciate that this point may not be as applicable for those using the eCode, as they will be able to access the definitions more easily, but it could be more difficult for those who are not using the eCode and would therefore have to refer back and forth to the definitions in the Glossary in conjunction with these paragraphs. The Code should be self-explanatory and users should easily be able to understand what is required of them.

**(ii) Paragraph 400.A - Engagement Team**

We note that the definition of Engagement Team in the Glossary is as follows:

"An engagement team includes all partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement. In Part 4A, the term "engagement team" refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.A."

Paragraph 400.A provides more detailed information about "any other individuals who perform procedures on the engagement" however it does not mention that this excludes "external experts and internal auditors who provide direct assistance on the engagement" as per the definition of "Engagement Team" in the Glossary. In addition, Paragraph 400.C then goes on to discuss "experts" without any context having been provided in the previous paragraphs. For consistency and context, we therefore suggest the following amendments to paragraph 400.A:

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

(a) A network firm; or

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

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

External experts and internal auditors who provide direct assistance on the engagement are not members of the engagement team."

**(iii) Paragraph 400.C - Experts**

*Definition of External Expert*

Paragraph 400.C discusses "Experts". We note that a "service provider" is defined in proposed paragraph 400.B and believe that there is merit in considering whether the term "external expert" (which is also included within the definition of Engagement Team) should also be defined in the Code of Ethics rather than just referring users to ISA 620 in the Glossary. We note ISA 620 defines "Auditor's expert" as below:

"Auditor's expert –An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert. (Ref: Para. A1–A3)"

*Experts from a component auditor firm*

We also note that whilst there is mention of "experts from a component auditor firm" in the introduction to paragraph 400.C, there is no further mention in the bullet point examples. In particular, the second bullet just mentions "individuals within or engaged by the firm" whilst the definition of "Audit Team for the Group Audit" also includes individuals in such circumstances. Could the bullet point examples be expanded to try to incorporate a component auditor firm situation which would also reflect the Glossary definition? For example, the second bullet could be amended to the following:

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

**(vi) Paragraph 400.D - Engagement quality review**

Paragraphs 32 and 33 of the Explanatory Memorandum state: "….The IESBA noted that the extant definitions of the terms "audit team," "review team," and "assurance team" scope in only EQRs within the firm or the network. In reviewing the extant definitions of those terms, the IESBA agreed that EQRs are individuals identified by the firm to perform engagement quality reviews, and such individuals can be sourced from within or outside the firm or its network…." The IESBA then proposed to incorporate the phrase "or engaged by" to clarify this in the respective definitions.

IESBA is therefore proposing to widen the scope of the definitions in relation EQRs but we believe that paragraph 400.D does not make this clear. We therefore suggest the following alternatives for paragraph 400.D to highlight this:

"400.D If the audit engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review, which includes individuals from within or outside the firm or its network, are audit team members but not engagement team members."

Or, alternatively:

"400.D If the audit engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review, are audit team members but not engagement team members. This includes individuals from both within the firm or its network and from a non-network component auditor firm".

**24. Institute of Chartered Accountants in England and Wales (ICAEW)**

We agree, in principle, with the revised definitions, but we do believe that they create a layer of additional complexity which may lead to confusion about what requirements apply to individuals and audit firms. We would therefore encourage IESBA to consider whether the inclusion of one or more diagrams might help provide greater clarity on the distinction between the terms, and their interaction. It would also be helpful if IESBA provided some illustrations.

The new definition of audit team for the group audit includes individuals 'within or engaged by the group auditor firm who have direct influence over the outcome of the group audit including those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit'. Our outreach suggests that there are some concerns about how easy it will be for firms to determine the scope of such individuals and that additional guidance would be helpful to support firms with this.

**25. Institute of Certified Public Accountants of Uganda (ICPAU)**

We agree with the proposed changes to the Code, including the revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team. For example, we agree with the revised definition of "engagement team" because it is in agreement with the principle embedded in ISA 220 (Revised) that excludes individuals whose role is limited to consultation from the engagement team. External experts and internal auditors are usually consulted to serve a specific purpose but not to perform procedures on the engagement.

**26. Institut der Wirtschaftsprüfer (Germany) (IDW)**

We agree that having different definitions of the same terms in the ISAs and the IESBA Code is unhelpful and thus support alignment.

The current IESBA proposals have, however, added complexity. We are concerned that the inclusion of a defined term within a definition makes the requirements especially difficult to follow in practice. We are also concerned that not all of the implications of the changes in the definitions have been adequately explored.

**27. Institute of Singapore Chartered Accountants (ISCA)**

**28. Japanese Institute of Certified Public Accountants (JICPA)**

We agree in principle with the proposed changes to the Code relating to the revised definitions of Engagement Team. Incidentally, we have the following comments on paragraph 400.B.

The Exposure Draft provides definitions of terms, "audit team," "review team," etc., ensuring the consistency with those of ISQM1. On the other hand, the term "service provider" included in the definition of "engagement team" is a newly adopted term, and paragraph 400.B describes the term as a term used in ISQM1. However, since "service provider" references ISQM1 but it is not defined as a term specific to the IESBA Code of Ethics, it is not very clear what it means specifically or what role it is expected to have in the context of the Code. Therefore, we suggest including in an application material of Section 405 an example of a "service provider" in order to help users of the Code understand the term. Specifically, please refer to our comments on Q3.

**29. Korean Institute of Certified Public Accountants (KICPA)**

(a) We generally agree with the revisions made to ensure alignment with the definition of engagement team in the revised ISA 220.

(b) We fully agree on the need to provide the explanatory guidance that helps determine who, as a member of audit team, should remain independent of audit clients considering evolving audit environments and diversity in how auditors perform work.

However, we propose considering provision of i) the definitions of engagement team and audit team in the glossary of the revised Code, and ii) the explanatory guidance on the glossary in the main body of the Code, which means that audience should refer both to the glossary and explanatory guidance to accurately understand the definitions of engagement team and audit team. In this regard, we believe that eliminating

the existing overlaps between the glossary and explanatory guidance (e.g., experts in technical or industry-specific issues, engagement quality reviewers) would help not only define the terms more efficiently but also make it easier for readers to understand.

**30. Malaysian Institute of Accountants (MIA)**

**(a) The revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team;" and**

We are supportive of the proposed changes to the revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team". However, with increasing demand for assurance services in ESG and sustainability reporting, it is also timely for IESBA to consider the possible implication of such changes in definition under Part 4B when finalizing this ED.

**(b) The explanatory guidance in paragraphs 400.A – 400.D?**

Distinction between "audit team" and "engagement team"

With respect to the explanatory guidance in paragraphs 400.A to 400.D, the need to distinguish between "audit team" and "engagement team" in the IESBA Code is not evident. It appears that the ethics and independence requirements applicable to members of the audit team and those applicable to the engagement team are almost the same.

To this end, we would suggest that the revised requirements clarify the need to distinguish between the "audit team" and "engagement team" and that paragraph 400.C is an appropriate place for this clarity to be included.

In continuing with the distinction between "audit team" and "engagement team", we noted that there may be a disconnect between the ISAs and the IESBA Code when considering the following:

*International Standards on Auditing*

i. ISA 220 (Revised) requires the engagement partner to take responsibility for determining whether the relevant ethical requirements, including those related to independence have been fulfilled (ISA 220 (Revised) paragraph 21). The related application material references to the requirement contained in ISA 700 (Revised) for the auditor's report to include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements and states that the steps outlined in paragraph 16 to 21 of ISA 220 (Revised) form the basis for including this statement in the auditor's report (ISA 220 (Revised) paragraph A47). Paragraphs 16 to 21 are focused on the "engagement team".

ii. ISA 600 (Revised) requires the group engagement partner to take responsibility for component auditors' awareness, understanding and compliance of the relevant ethical requirements, including independence that are applicable (ISA 600 (Revised) paragraph 25). These component auditors form part of the "engagement team".

*The IESBA Code*

i. Proposed paragraph 400.3 of the IESBA Code refers to "audit team members", resulting in the application of Part 4 being wider than that of the ISAs, which is focused on the members of the "engagement team". It is not clear who is responsible for ensuring that individuals not part of the "engagement team" but part of the "audit team" have complied with the relevant ethical requirements, including independence.

We suggest that the IESBA engage the IAASB to clarify the performance obligations or expectations of a group engagement partner, when a non-network component auditor is involved, to demonstrate compliance with paragraphs 16 – 21 of ISA 220 (Revised) and paragraph 25 of ISA 600 (Revised).

The ISAs explicitly state who is responsible for ensuring compliance with the relevant ethical requirements, including independence of the "engagement team". We suggest that the IESBA Code clarify who is responsible for ensuring compliance with the relevant ethical requirements, including independence of the "audit team".

Considerations relating to ISQM 1

ISQM 1 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with the relevant ethical requirements, including those relating to independence of the firm and its personnel as well as others (ISQM 1 paragraph 29). We note that there may be a gap between the firms and individuals covered by ISQM 1 and the IESBA Code.

In expanding on "others", ISQM 1 lists the network, network firms, individuals in the network or network firms, or service providers. It therefore appears that this requirement is aimed at component auditors within the group auditor firm's network. The significant changes proposed in section 405 of the ED, Group Audits – Engagement Team relates to component auditors outside of the group auditor firm's network, yet the quality objectives contained in ISQM 1 do not seem to be addressing these firms and individuals.

We suggest that the IESBA engage the IAASB in addressing any possible gaps in the application of ISQM 1 to the component auditor firms outside the group auditor firm's network, as well as component auditor individuals outside the group auditor firm's network.

Service providers

With respect to service providers, the explanatory memorandum (EM) to the ED states that the IESBA is proposing to make it explicit that the International Independence Standards (IIS) apply to individuals from service providers who perform audit procedures on an audit engagement, with reference then being made to paragraphs 400.A and 400.B (paragraph 30) of the ED. The EM then continues to state that it would be disproportionate to bring the service provider's organization into the scope of the IIS (paragraph 31).

Although reference is made to ISQM 1, paragraph 400.B specifically mentions that a service provider includes an individual or organization, creating the impression that the IIS applies to both individuals from service providers as well as the service provider's organization.

We believe that the intention for the IESBA Code to explicitly state that the IIS apply to individuals from the service providers who perform audit procedures on an audit engagement and not the service providers per se will be clearer by removing the reference to the organisation in paragraph 400.B.

**31. Royal Nederlandse Beroepsorganisatie van Accountants (NBA)**

**32. New York State Society of CPAs (NYSSCPA)**

**33. South African Institute of Chartered Accountants (SAICA)**

**(a)**

The definition of "Assurance team" has been revised to include "Engagement Quality reviewers". While we have no objection to this revision, it is important to note that there is increased global activity in the area of non-financial reporting. This means that in the future, it will not only be audits that would need to be considered but other assurance services as well, particularly in those instances where the group engagement team may be involved in the provision of other assurance services as well. Therefore, linkages with Part B of the Code may need to be considered and provided. This is particularly important given that the IAASB already has a framework and standards when it comes to the provision of assurance on non-financial information i.e., International Standards on Assurance Engagements on Assurance Engagements (ISAEs).

In South Africa, some of the Small and Medium Practices often make use of external consultants to obtain technical opinions on audit and accounting issues. These external consulting firms sometimes perform Engagement Quality Reviews (EQR) for the audit firms as well. The revised definitions also bring such consultants within the definition of the "audit team." We have no objection to this in the cases where the SMP firm making use of such consultants is responsible for the entire group audit or where they are responsible for the audit of a component that may have a significant impact on the audit outcome for the entire group audit. However, in those cases where the work performed by the SMP auditors does not have significant impact on the group audit outcome, it may have a negative impact as the consultants may be reluctant to get involved in the engagement due to the additional independence requirements that may apply. This could add to the audit market concentration challenge that South Africa is currently grappling with and further increase the dominance of the large firms that have the resources internally for EQR.

A new definition has been included for "Audit team for the group audit." This could cause some confusion with "Audit team." SAICA recommends that this definition be changed to "Group Audit Team" to avoid the confusion.

**(b)**

The definition of an "engagement team" is clarified in the Explanatory Guidance in paragraph 400.A. However, no clarification is provided with regards to the "audit team" in this particular section even though reference is made to the "audit team" in subsequent paragraphs within the Explanatory Guidance. SAICA proposes that clarification of the "audit team" is provided in paragraph 400.A initially prior to the definition of the "engagement team." This is because "engagement team" is included as one of the elements in the definition of the "audit team."

Paragraph 400.B provides an explanation of a "service provider" in terms of ISQM 1. However, no conclusion is made in this paragraph as to whether service providers should be included as part of the audit team or not. Such clarification should be included in this paragraph.

### 34. South African Institute of Professional Accountants (SAIPA)

The IESBA definition should align with the IAASB definitions, the definitions approved by the IAASB was used in the proposed changes to the definitions. The proposed definition aims to further emphasise the independence requirements considering the roles of all team members. The current definition only deals with individuals form the firm and network firm, the revised definition includes component auditors and service providers. We agree with the revised definition. We agree with IESAB view that individuals involved in the Engagement quality review should be subject to the same level of independence and should be members of the audit team. We agree with the inclusion of such individuals in the definition.

We agree with the explanatory guidance which will explain further that the standard define explicitly service providers. We agree that this is not a change in the existing standard as the current standard already define this in the standard. We agree that different types of individuals might be used in an audit engagement including individuals withs specialised skills and expertise in the auditing and assurance and or industry specific information. We agree with the explanation and guidance provided in paragraph 400.C which clearly stipulate the difference between engagement team and audit team.

### 35. Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We agree.

### 36. Federation of Accounting Professions, Thailand (TFAC)

Yes, we agree.

### 37. Wirtschaftsprüferkammer (Germany) (WPK)

The revised definition of engagement team is basically sound and in line with the provisions of the IAASB. However, in practice, it might be challenging for those individuals outside the „regular" audit to assess themselves being part of the engagement team or not.

Another aspect is that some individuals won't be comfortable with having both „Engagement Team" and „Audit Team", as it might create more complexity and confusion than clarity.

Moreover, there are three aspects that might be tricky:

- ESG Services:

We question, whether the proposed definitions will be sound in the future with regard to ESG and sustainability services (as part of the audit of financial statements). We believe the Board should evaluate this issue carefully as ESG and sustainability services will become increasingly common in practice.

- Involvement of Experts: Moreover, we question whether the involvement of Professional Accountancy Organizations (like WPK, whose task is – among others – to respond to professional issues and questions of our members) or other technical hotlines will be classified as "Involvement of Experts" (according to paragraph 400.C) which would include them into the definition of engagement team with all intended and unintended consequences.
- Individuals performing Taxation Services

Last but not least we question whether a taxation expert, who is only providing feedback or consulting services to the team, will be considered part of the engagement team or not.

We therefore urge the Board to clarify this issue or to provide additional application material.

## Firms

**38. Association of Italian Audit Firms (ASSIREVI)**

**39. BDO International Limited (BDO)**

Revised definitions

The BDO response letter to ISA 600 (Revised) [2] highlighted that we had concerns with including component auditors in the revised definition of engagement team set out in the proposed ISA 220 (Revised). Our view was that ED-600 correctly required group auditors to be satisfied with the independence, competence, time, due care, performance, and documentation of component auditors, and that the group auditor should adequately direct, supervise and review the component auditor's work. We did not believe the group auditor should be expected to force their quality management processes on component auditors that they have no legal jurisdiction over, which is what would be required if the component auditor is part of the engagement team.

Notwithstanding our previous concerns articulated in our response letter for ISA 600 (Revised), following finalisation of ISA 600 (Revised) BDO is supportive of the proposed changes to the revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team" on the basis that this should enable greater consistency and application between the professional standards issued by the IESBA and IAASB.

In light of the proposed changes to the revised definitions, BDO suggest the IESBA considers re-wording 400.1. The new definitions (400.A) rely on the fact that individuals, not firms, "perform" audit procedures, whereas 400.1 says that "professional accountants" (i.e., individuals and firms) "perform" audit and review engagements. There is the potential for confusion in how both the IESBA Code and IAASB's professional standards could be applied not least because the IAASB's definition of a professional accountant is only to that of an 'individual' and not a firm. Therefore, it would be clearer in 400.1 to state that professional accountants must be "independent from their audit and review clients".

Explanatory guidance in paragraphs 400.A – 400.D - Distinction between "audit team" and "engagement team"

With respect to the explanatory guidance in paragraphs 400.A to 400.D, the need to distinguish between "audit team" and "engagement team" in the IESBA Code is not immediately evident. It appears that the ethics and independence requirements applicable to members of the audit team, and those applicable to

the engagement team are the mostly the same, with the only difference identified in section 540, which references to the "engagement team" and not the "audit team".

To this end, BDO suggests that the revised requirements clarify the need to distinguish between the "audit team" and "engagement team" and that paragraph 400.C is an appropriate place for this clarity to be included.

In continuing with the distinction between "audit team" and "engagement team", BDO questions whether there is a disconnect between the international standards on auditing (ISAs) and the IESBA Code. BDO considered the following:

*International Standards on Auditing*

ISA 220 (Revised) requires the engagement partner to take responsibility for determining whether the relevant ethical requirements, including those related to independence have been fulfilled (ISA 220 (Revised).21). The related application material references to the requirement contained in ISA 700 (Revised) for the auditor's report to include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements and states that the steps outlined in paragraph 16 to 21 of ISA 220 (Revised) form the basis for including this statement in the auditor's report (ISA 220 (Revised). A47). Paragraphs 16 to 21 are focused on the "engagement team".

ISA 600 (Revised) requires the group engagement partner to take responsibility for component auditors' awareness, understanding and compliance of the relevant ethical requirements, including independence that are applicable (ISA 600 (Revised).25). These component auditors form part of the "engagement team".

ISQM 2 which highlights that the purpose of "…an engagement quality review is to provide an objective evaluation of the significant judgments made by the engagement team and the conclusions reach thereon." Further, ISQM 2 goes on to state explicitly that "…the engagement quality reviewer is not a member of the engagement team." An engagement quality review is an activity conducted at the engagement level but on behalf of the firm and it is not intended to be an evaluation of whether the entire engagement complies with professional standards and application legal and regulatory requirements, or with the firm's policies or procedures. By including the engagement quality reviewer as part of the "audit team" there is a danger that the objective nature of the engagement quality review is misconstrued by users of the IESBA Code and by implication engagement quality reviewers are perceived to be members of the engagement team.

*The IESBA Code*

Proposed paragraph 400.3 of the IESBA Code refers to "audit team members", resulting in the application of Part 4 being wider than that of the ISAs, which is focused on the members of the "engagement team". It is not clear who is responsible for ensuring that individuals not part of the "engagement team" but part of the "audit team" have complied with the relevant ethical requirements, including independence.

BDO recommends that the IESBA engage the IAASB to clarify the performance obligations or expectations of a group engagement partner, when a non-network component auditor is involved, to demonstrate compliance with paragraphs 16 – 21 of ISA 220 (Revised) and paragraph 25 of ISA 600 (Revised).

The ISAs explicitly state who is responsible for ensuring compliance with the relevant ethical requirements, including independence of the "engagement team". BDO further recommends that the IESBA Code clarify who is responsible for ensuring compliance with the relevant ethical requirements, including independence of the "audit team".

<u>Explanatory guidance in paragraphs 400.A – 400.D – Considerations relating to ISQM 1</u>

ISQM 1 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with the relevant ethical requirements, including those relating to independence of the firm and its personnel as well as others (ISQM 1.29). BDO questions whether there is a gap between the firms and individuals covered by ISQM 1 and the IESBA Code.

In expanding on "others", ISQM 1 lists the network, network firms, individuals in the network or network firms, or service providers. It therefore appears that this requirement is aimed at component auditors within the group auditor firm's network. The significant changes proposed in section 405, *Group Audits* (Section 405) relates to component auditors outside of the group auditor firm's network, yet the quality objectives contained in ISQM 1 do not seem to address these firms and individuals.

BDO recommends that the IESBA engage the IAASB in addressing any gaps in application of ISQM 1 to the component auditor firms outside the group auditor firm's network, as well as component auditor individuals outside the group auditor firm's network. Providing further guidance by way of group examples (with network and non-network firms being used as component auditors) would be very helpful to address these gaps.

Explanatory guidance in paragraphs 400.A – 400.D - Service providers

With respect to service providers, the explanatory memorandum (EM) to the ED states that the IESBA is proposing to make it explicit that the International Independence Standards (IIS) apply to individuals from service providers who perform audit procedures on an audit engagement, with reference then being made to paragraphs 400.A and 400.B (paragraph 30). The EM then continues to state that it would be disproportionate to bring the service provider's organization into the scope of the IIS (paragraph 31).

Although reference is made to ISQM 1, paragraph 400.B specifically mentions that a service provider includes an individual or organization, creating the impression that the IIS apply to individuals from service providers who perform audit procedures on an audit engagement as well as the service provider's organization.

BDO's view is that the intention for the IESBA Code to explicitly state that the IIS apply to individuals from service providers who perform audit procedures on an audit engagement has not been achieved and this has the potential to impact on application of IESBA Code by practitioners as well as understanding by those charged with governance and management of group engagements.

### 40. Deloitte Touche Tohmatsu Limited (DTTL)

Deloitte Global supports the Board's revisions to the definitions of "engagement team," "audit team," "review team" and "assurance team" to align the Code's definitions to the revised definitions in the International Standard on Auditing(ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements,* and 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*, as well as the proposed application guidance in paragraphs 400.A to 400.D.

As it relates to a group audit, Deloitte Global agrees an individual from a service provider who performs audit procedures is a member of the engagement team for the audit. However, we recommend clarifying that this is the case regardless of whether such individual from a service provider is engaged to assist with the audit by a network or non-network firm. This can be achieved by moving the phrase "or another service provider" in 400.A(b) to a new standalone bullet point (c).

Deloitte Global also supports the exclusion of external experts and internal auditors providing direct assistance on the engagement from the definition of "engagement team" aligned to the extant Code and the current view from the IAASB.

### 41. Grant Thornton International Ltd (GTIL)

**(a) The revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team;" and**

GTIL generally agrees with the revised definitions of the terms audit, review, and assurance teams. However, we believe that additional clarification is necessary with respect to which individuals are deemed to be members of the engagement team.

An audit, review, or assurance engagement may involve other auditors or practitioners in various facets, beyond a group audit. In this regard, it is essential to differentiate whether another auditor or practitioner is

a resource or an information source, which will depend on the particular circumstances. For example, a service provider that issues a service organization control report is an information source and not a resource (or an engagement team member), unless the service organization is requested to perform procedures for purposes of the engagement.

Similarly, information provided when using a completed engagement for which the auditor or practitioner did not direct or supervise is an information source, rather than a resource (or an engagement team member).

Ultimately, we believe the proposed definition of engagement team can be misinterpreted to inaccurately scope in certain auditors and practitioners that are deemed to be an information source (rather than a resource), subjecting them to the same independence requirements as engagement team members. The ramifications of not clarifying these situations could be extensive.

**(b) The explanatory guidance in paragraphs 400.A – 400.D?**

GTIL agrees with the explanatory guidance set out in paragraphs 400.A-400.D

### 42. Ernst & Young Global Limited (EY)

Yes, we agree with the revisions the Board has proposed related to the definitions of the engagement team, audit team and assurance team.

We agree with the Board's statement in paragraph 31 of the Explanatory Memorandum (EM) that the scope of the IIS should not be extended to cover the organization of an individual engaged as a service provider, but believe that this could be made clear in proposed paragraph 400.B since it includes both of the terms "individual" and "organization" in the reference to ISQM 1.

### 43. KPMG IFRG Limited (KPMG)

We agree with the revised definitions of these terms. However, the examples provided in paragraph 400.C include reference to "individuals with expertise in … auditing client information using automated tools and techniques." Under auditing standards, IT professionals who test automated controls are considered engagement team members. It is unclear if the phrase in paragraph 400.C is referring to these IT professionals or to another group, such as data analysts and individuals who are acquiring data. If the paragraph is referring to the latter group, is this intended to be a change in focus towards specialists who centrally operate data and analytics tools? At present, it is not common practice to consider data analysts who work on data extraction or prepare data for review by the engagement team as being part of the engagement team. Rather, it is the individuals who apply audit judgment to the data who are included as part of the engagement team. This may also be confusing when an external expert uses automated tools and techniques to generate audit evidence. Therefore, we believe there is a need to provide more explanation of 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.

### 44. Mazars Group (MAZARS)

- Included in the definition of Engagement team are those who provide consultation regarding technical or industry etc. We suggest adding a threshold based on a) the time spent on consultation; and/or b) the significance of the consulted issue. Resulting in the situation that consultations of minor or less importance can be ignored.
- The definition of Component auditor firm refers to 'performing audit work'. Normally audit includes review (and other assurance work). We advise that you make clear in the Code of Ethics that this definition is limited to audit work and does therefore not include other assurance work (as we assume this is meant).
- In our view the definition of Audit team for the group and Engagement team (Section 990) seems not in line with the (clear) explanation included in 400.C. We suggest giving a clearer explanation of both definitions.

- A definition of Engagement team for the group is missing. We suggest including such a definition in the final version of the adjustments to the Code of Ethics.
- Regarding Note 1 (page 14) we suggest clarifying in the Basis for conclusions that components related to proportionate consolidation or accounted for on the equity method are fully within the scope of a component audit client.

### 45. MNP LLP (MNP)

We support the proposed changes to the definitions of "engagement team", "audit team", "review team" and "assurance team" in the Code to align with the broader definition of ET in ISQM1.

We request further consideration by the IESBA as to whether further changes are required to the definition of "audit team" as it relates to those considered to be in the 'chain of command'. The extant definition of "audit team" under the Code includes "All others with a firm who can directly influence the outcome of the audit engagement, including: i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent)…".

Firms may have a board or other supervisory body that sits above the Chief Executive Officer. Therefore, we recommend that the IESBA clarify whether members of a supervisory body (including any external members) would also be included as part of the "audit team" as they may be involved in recommending compensation of the engagement partner.

Further, we recommend that the IESBA provide guidance as to whether those individuals who may impact audit quality after completion of the audit engagement would be considered part of the "audit team". For example, we recommend that the IESBA release explicit guidance as to whether individuals involved in a firm's internal quality management reviews and regulatory inspections are part of the "audit team" given their influence over a specific audit engagement occurs subsequent to its completion. We believe this is an area where there may be inconsistencies in interpretations between firms.

Finally, we agree with the explanatory guidance in paragraphs 400.A – 400.D. In particular, we approve of the guidance clarifying that while an individual from a service provider would be covered by the IIS, the scope of the IIS should not be extended to cover the individual's organization. With the increased shift in accounting firms sourcing talent from shared services and outsourcing firms, the guidance appropriately excludes such shared services and outsourcing firms from having to comply with the IIS.

### 46. PKF International Limited (PKF)

We agree with the proposed revisions in relation to 1 (a) and (b) above. However, in our view, the explanatory guidance could be further enhanced by inclusion of additional guidance on the relevance of the distinction between an "engagement team" and the "audit team", "review team" and "assurance team". While definitions of these revised terms are provided in the explanatory paragraphs 400.A – 400.D and in the Code's revised glossary, the definitions themselves may not be sufficient to provide clarity on why these separate terms have been included within the revised Code and on why the distinction between the terms is important. In our view, without a fuller explanation of the purpose and relevance of these revised definitions in the Code, a lack of understanding could arise with the risk that, in practice, the revised definitions are not consistently applied in the correct manner.

### 47. Pitcher Partners (PP)

(a) The revised definitions do not enhance the code as they add complexity to managing teams and independence. Given rotation is driven in part by the idea of auditor independence it is unclear what the relationship between the audit team definition and the rotation requirements are and whether they are consistent, consequently the audit team definition seems to be an overreach without consideration of practical matters.

(b) The explanatory guide paragraphs could be clearer in their use of the terms proposed by the revisions, and also there is likely to be practical considerations in explaining to other service lines that they must apply the independence protocols to work they may consider is not in relation to the audit, or which was done for another purpose but is being “used” by the auditor. Greater clarity on this would be beneficial to facilitate its implementation.

Some external non-binding guidance utilising “real” examples might provide more clarity and facilitate implementation.

**48. PricewaterhouseCoopers International Limited (PWC)**

Yes.

## Others

**49. IFAC Small and Medium Practices Advisory Group (IFAC SMPAG)**

There are aspects of these definitions that could be problematic. A key point for consideration is whether these definitions would stand the test of time with regard to Environmental, Social and Governance (ESG) and sustainability services and where those services might fit in with the current proposed definitions. For example, the ED does not include any information about the consequences of expanding the definition of ET to not only include audit engagements but also other kinds of assurance engagements and how they would apply Part 4B of the Code. The SMPAG believes the Board should consider addressing this issue in the current proposal since ESG and sustainability services are becoming more and more common in practice. For example, in the ESG reporting area, entities may assess the supply chain through supply chain due diligence. The auditors performing due diligence or assurance services over the supply chain could be considered as component auditors and member of the group engagement team.

Related to proposed 400.C, the SMPAG noted that at times, firms will consult with their local Professional Accountancy Organization (PAO) or other technical hotline service when they have questions related to application of the Code. In such cases, we question whether those responding to such requests might be brought into the definition of engagement team. An unintended consequence could be that PAOs and other related hotline services might become reluctant to answer such questions if they would then be considered part of the engagement team. We urge the Board to consider whether this definition needs to be refined or whether additional application material needs to be added to avoid this potential unintended consequence.

The SMPAG did find it a bit confusing with all these new teams being introduced and how they relate to each other. For example, we might suggest deleting the definition of "audit team for the group audit", since it only seems to be added to cover the very unusual situations that relate to item d) in the definition.

Another issue with 400.C relates to the complexity introduced when using all these different terms with slightly different definitions. For example, the first bullet that states that experts are within the engagement team. However, 400.C is about explaining the differences between engagement teams and audit teams, but at the same time engagement is one part of the definition of audit team, resulting in a bit of a circular reference. One suggestion would be to just delete this sentence in the introduction: "Depending on the role of the individuals, they might be engagement team or audit team members” to avoid any confusion., might create an intimidation threat to independence. We also concur with the Board that compliance with professional standards, including ethical requirements is an important factor that acts to mitigate the threat and firms might often conclude that the level of the self- interest threat is thus at an acceptable level.