Compilation of Comments to ET/GA ED – Question 2

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 2** of Exposure Draft, *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* (ED):

"Independence Considerations for Engagement Quality Reviewers

Do you agree with the changes to the definitions of "audit team," "review team" and "assurance team" to recognize that EQRs may be sourced from outside a firm and its network (see Chapter 6)?"

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)

Yes, we agree with the changes to the definitions of audit team, review team and assurance team to recognise that EQCRs may be sourced from outside a firm and its network.

The change recognises that an EQCR not only includes others within the firm who can directly influence the outcome of the assurance/audit engagement but also others engaged outside the firm and network who can equally directly influence the outcome of the assurance/audit engagement by performing an engagement quality review consistent with the objective of an engagement quality review. This would help in defining all key members as part of the engagement team even if they are from outside the firm.

2. Committee of European Auditing Oversight Bodies (CEAOB)

3. International Forum of Independent Audit Regulators (IFIAR)

Refer to *Overarching comments*.

4. International Organization of Securities Commissions (IOSCO)

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

Yes, that principle is in line with the QM standards (specifically ISQM 1). As a result, the IRBA agrees with the changes to the definitions of "audit team", "review team" and "assurance team", in recognition of the fact that EQRs may be sourced from outside a firm and its network.

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

NASBA agrees with the proposed change to add the phrase "or engaged by" to the definitions of "audit team," "review team," and "assurance team" and agrees that the independence rules should apply to engagement quality reviewers (EQRs) whether that individual comes from within or outside of the firm or its network,

7. United Kingdom Financial Reporting Council (UK FRC)

We agree with this proposed change, and welcome explicit provision for the sourcing of Engagement Quality Reviewers from outside a firm and its network within the Code. By way of comparison, the FRC's *Ethical Standard* requires external engagement quality reviews in several circumstances. These include instances include where the total fees for services rendered to an audited entity which is not a public interest entity is between 10% and 15% of the firm's total fee income (paragraph 4.31), and the provision external quality reviews for new firms (paragraph 4.32).

Public Sector Organizations Public Sector Organizations

8. United States Government Accountability Office (GAO)

We do not agree that the changes to the team definitions recognize that EQR may be sourced from outside a firm and its network, as the definitions are silent regarding EQR sourcing.

Independent National Standard Setters

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

APESB agree with the changes to the definitions of "audit team," "review team" and "assurance team" to recognise that Engagement Quality Reviewers (EQRs) might be sourced from outside a firm and its network.

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

Yes, the NZAuASB supports the proposals and does not have any further comments.

Professional Accountancy Organizations

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

Yes, we agree with the changes to the definitions of audit, review and assurance teams recognising that EQRs may be sources from inside and outside a firm and its network as noted in our response to Q1

12. Accountancy Europe (AE)

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

PEEC supports the changes to recognize that engagement quality reviewers (EQRs) may be sourced from outside a firm and its network.

14. Botswana Institute of Chartered Accountants (BICA)

We agree with the changes to the above definitions as the previous definitions only referred to EQRs within the firm or the network. This change will therefore not only align with the requirements of ISQM 2 but will also ensure that the EQRs who are engaged outside of the firm or the network are also subject to some kind of independence and thus promoting quality audits as stipulated in paragraph B of significant matters of the Exposure Draft.

15. Chartered Accountants Ireland (CAI)

We agree with revised definitions.

16. CPA Australia (CPAA)

CPA Australia agrees with the changes to the definitions of "audit team," "review team" and "assurance team" to recognise that EQRs may be sourced from outside of a firm and its network.

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

The PTC is supportive of the changes to the definitions of "audit team," "review team" and "assurance team" to recognize that EQRs may be sourced from outside a firm and its network. We agree that this role is integral to audit, and it is helpful to clarify that they are members of the audit team regardless of whether they are sourced from outside the firm.

18. Compagnie Nationale des Commissaires aux Comptes (CNCC)

We agree that the EQRs may be sourced from outside a firm and its network.

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

We agree.

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

Yes, we agree with the changes in the definitions, aligned with ISQM1 and ISQM2 and the recognition that EQRs can come from inside or outside the firm.

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

We do not have any comments to this question.

22. Instituto dos Auditores Independentes do Brasil (Ibracon)

We agree with the proposed changes to the Code related to this question. However, it is important to include in the Code that the firms should confirm that the EQRs sourced from outside a firm and its network comply with all required conditions determined in the Code. The GA should establish processes and controls to confirm that the EQRs sourced from outside a firm and its network comply with the required conditions determined in the Code to perform an appropriate audit or assurance work.

23. Institute of Chartered Accountants of Scotland (ICAS)

Yes - we agree with the changes to the definitions of “audit team,” “review team” and “assurance team” to recognise that EQRs may be sourced from outside a firm and its network. As noted above, we note that this change in definition could be highlighted in proposed paragraph 400.D.

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

Yes.

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

We agree with the changes to the definitions of “audit team,” “review team” and “assurance team” to recognize that EQRs may be sourced from outside a firm and its network.

26. Institut der Wirtschaftsprüfer (Germany) (IDW)

Whilst we agree that it is necessary to clarify the independence requirements for EQRs, we question the rational for the Code to include such complex terms. Having numerous definitions including definitions within definitions unnecessarily adds complexity to the Code and may be detrimental to its understandability.

27. Institute of Singapore Chartered Accountants (ISCA)

28. Japanese Institute of Certified Public Accountants (JICPA)

We agree with the proposed changes to those definitions as it relates to the EQRs.

We also recognize that not only EQRs but also any other individuals engaged by the firm, who perform the roles described in subparagraphs (b)(i) through (iii) in the definitions of "audit team," "review team," and "assurance team" should be included in the "audit team," "review team," and "assurance team." Accordingly, we agree with the addition of the phrase, "or engaged by," in subparagraph (b) of the definitions of terms “audit team,” “review team” and “assurance team, respectively,” in the Exposure Draft.

We also note that a "service provider," as described in Q1 above, may be used in the role of "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 engagement partner" described in subparagraph (b)(i). Nevertheless, such role is considered to be a proprietary function normally equipped within a firm. Therefore, we expect that it should be clarified in the Basis for Conclusions to facilitate users of the Code to understand the situation where a firm "engages" an individual from outside the firm to play the role described in subparagraph (b)(i).

29. Korean Institute of Certified Public Accountants (KICPA)

Engagement quality review is designed to perform an objective review on any material decisions or judgments made by an engagement team for their appropriateness, contributing to enhancing engagement quality. Thus, it is essential for the engagement quality reviewer to remain independent of the audit client. In this regard, we agree to make the engagement quality reviewer a member of audit team, review team, and assurance team even when the reviewer is sourced from outside the firm and its network.

Amending the definitions of "audit team," "review team," and "assurance team" by adding the phrase "or engaged by" is consistent with the proposal to have EQRs outside the firm.

30. Malaysian Institute of Accountants (MIA)

We are supportive of the changes to the definitions of "audit team," "review team" and "assurance team" to recognize that EQRs may be sourced from outside a firm and its network.

As outlined in preceding paragraphs, since the EQR is a member of the "audit team", it is not sufficiently clear who is ultimately responsible for ensuring that the EQRs comply with the relevant ethical requirements, including independence.

Guidance on how firms should be monitoring compliance by an EQR outside of the group auditor firm's network of firms will be very helpful.

31. Royal Nederlandse Beroepsorganisatie van Accountants (NBA)

32. New York State Society of CPAs (NYSSCPA)

33. South African Institute of Chartered Accountants (SAICA)

We agree with the proposed changes to the definition. As mentioned above, in our jurisdiction, some of the SMPs often outsource the EQR function to consulting firms due to a lack of capacity and resources within their own firms. Therefore, there is quite a large section of the profession that focuses on providing monitoring, training and EQR services to audit firms operating in the SMP sector.

While it is important that the Exposure Draft acknowledges the existence of EQR providers that may be sourced outside the firm and its network, the independence requirements should not be applied based on a blanket approach, particularly where the firm is a component auditor. Consideration should be given to the nature of the involvement of the component auditor and the potential that the component auditor's involvement could have on the group opinion.

There have been no requirements included in the Exposure Draft relating to outsourced EQRs. Our assumption is that these have been identified as service providers according to paragraph 400.B. The Exposure Draft needs to clarify the independence requirements for the service providers in Section 405.

34. South African Institute of Professional Accountants (SAIPA)

We agree with the changes to the definitions of audit team and review team and assurance team to include and recognize that those performing Engagement quality reviews might be form outside the firm or the network firm and they should be included in the definitions.

35. The 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)

We would appreciate a clarification regarding the use of other service providers within the definitions of "audit team," "review team" and "assurance team", as it is not clear who the other service providers would encompass (e.g. borrowed staff from other firms).

Firms

38. Association of Italian Audit Firms (ASSIREVI)

39. BDO International Limited (BDO)

BDO is supportive of the changes to the definitions of "audit team," "review team" and "assurance team" to recognize that EQ Reviewers may be sourced from outside a firm and its network.

As outlined in paragraphs 9 to 11 above, since the EQ Reviewer is a member of the "audit team", it is not clear who is ultimately responsible for ensuring that the EQ Reviewers comply with the relevant ethical requirements, including independence. ISQM 2 indicates that it is for the firm to establish policies or procedures that set forth the criteria for eligibility of individuals to be appointed as an EQ Reviewer and that these criteria must include compliance with relevant ethical requirements (including in relation to objectivity and independence of the EQ Reviewer)[3]. It would be helpful for the IESBA to provide additional practical guidance to highlight the distinction between the various responsibilities of the group engagement partner and the (group) audit firm when determining 'who' within the "audit team" has complied with relevant ethical requirements.

BDO also encourages the IESBA to provide practical guidance on how firms should be monitoring compliance by an EQ Reviewer outside of the group auditor's immediate network of firms as this may give rise to practical challenges – not least when a component audit firm is subject to an engagement quality review and that component firm has itself sourced an engagement quality reviewer from outside their own firm or network. This has the potential to place the group engagement team (and their firm) with a near impossible set of circumstances in order to determine compliance with relevant ethical requirements.

Given the increased use of assistant EQ Reviewers – particularly as group entity structures continue to evolve – it would also be helpful for the group's section of the IESBA Code to explicitly reference whether or not the requirements placed on EQ Reviewers as part of the "audit team" also apply to assistant EQ Reviewers.

40. Deloitte Touche Tohmatsu Limited (DTTL)

Deloitte Global supports the addition of "or engaged by" to these definitions to include any EQRs sourced from outside the firm or network firm.

41. Grant Thornton International Ltd (GTIL)

GTIL agrees with the changes to the definitions of "audit team", "review team" and "assurance team" to recognize that EQRs may be sourced from outside a firm and its network.

42. Ernst & Young Global Limited (EY)

Yes, we agree with the changes to the definition of audit team, review team and assurance team to include EQRs that are sourced from outside a firm and its network.

43. KPMG IFRG Limited (KPMG)

We agree the changes appropriately recognize the potential sourcing of EQRs.

44. Mazars Group (MAZARS)

45. MNP LLP (MNP)

46. PKF International Limited (PKF)

We are supportive of making these proposed changes to the definitions of "audit team", "review team", and "assurance team" to recognize that EQRs may be sourced from outside a firm and its network. However, we believe that the wording used in the revised definitions may not be sufficiently explicit on this point. We recommend that the IESBA should consider if more explicit wording could be used within the respective definitions to make it clearer that EQRs can be sourced from outside a firm and its network.

47. Pitcher Partners (PP)

The fact that an EQR may be sourced from outside a firm is a matter of necessity in some instances. The definitions recognise this, however, we do not agree that the complexity of a definition of audit team and a definition of engagement team is facilitating compliance or independence in any way. The additional definitions is adding complexity without adding clarity.

48. PricewaterhouseCoopers International Limited (PWC)

Yes.

Others

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

The SMPAG did not see use of an other service provider addressed here and perhaps it should be. In the explanatory memo, it was not clear who the other service providers would encompass. For example, what if you borrow staff from another firm? Would they be considered an other service provider? Clarification on this issue would be helpful.