Compilation of Comments to ET/GA ED – Question 3

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

"Independence in a Group Audit Context

Do you agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit (see Chapters 1 and 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 proposed new defined terms. The new terms have expanded the definition of Group audit client in relation to the Code. These new definitions will remove some ambiguity and misinterpretations.

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.

The glossary provides the definition of the group audit client. However, from this definition and paragraph 50 of the explanatory memorandum it is not clear what triggers the group audit client to classify as a PIE. We suggest clarifying whether the group audit client classifies as a PIE when a related entity or any other component that is subject to audit work classifies as a PIE, even when the entity on whose group financial statements the group auditor firm conduct an audit engagement itself is not a PIE.

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

Chapter 6: Proposed Changes to the Glossary

Term	Proposed Clarifying Edit	Explanation
Component auditor firm	[…] (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 (b) […] […]	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)

Yes, the IRBA agrees with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit. In this regard, we note the following terms that are aligned with ISA 600 (Revised):

- Component;
- Group;
- Group Engagement Partner; and
- Group Financial Statements.

We propose that "business unit", which is used to define "component", also be defined. The IESBA could further consider defining a business unit as "branches or divisions of an entity and/or business".

In addition, the IRBA agrees with the following new terms and definitions, as proposed by the IESBA:

- Audit team for the group audit;
- Component audit client;
- Component auditor firm;
- Group audit client; and
- Group auditor firm.

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

NASBA agrees with the newly defined terms used in Section 405. Aligning the Code with ISA 600 (Revised) provides a necessary linkage between the Code and International Auditing Standards.

7. United Kingdom Financial Reporting Council (UK FRC)

The FRC generally agrees with the proposed new defined terms used in Section 405. We consider the cross-referencing between the IESBA Code and the relevant auditing standards to be appropriate. We do however note our discomfort with the use of the word "client" with respect to certain of the definitions, since ultimately the audit is performed on behalf of the shareholders or owner of the entity, rather than the entity itself.

We welcome the attempt to align the definition of Component Audit client in the Code with that provided by ISA 600 (Revised). However, the absence of application guidance here may make it harder for practitioners to navigate the practical implementation of the Code. While the definition is aligned with that provided by ISA 600 (revised), the proposed drafting could be improved by reference to specific examples, such as that provided for independence considerations around inventory testing provided in paragraph 405.12 A2 in the proposed revisions.

The FRC also believes that the proposed amendments to the Code could be improved with the provision of application guidance to consider cases where either the Group Auditor or Component Auditor is required to follow ethical standards other than the Code due to laws and regulations. It would be helpful to set out practical considerations for where the relevant ethical requirements set by the Group Auditor are different from those set out by the Code. This could cross-reference paragraphs 25(b), 27, 45(c) and related application material included within ISA 600 (Revised). This guidance could also refer to the practical suggestions included within paragraph A40 of ISA 220 (Revised).

Public Sector Organizations

8. United States Government Accountability Office (GAO)

We believe that the new defined terms used in section 405 and listed in the glossary are reasonable.

Independent National Standard Setters

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

As noted in APESB's response to question 1 above, APESB support the alignment of terms between standards and concur with the definitions from ISA 600 being replicated in the Code. APESB also support the other proposed definitions used in Section 405, addressing the independence considerations in a group audit.

From an editorial perspective, APESB notes that the defined term 'audit team for the group audit' has a slightly different naming convention to other group related definitions such as *'group audit client.'* Therefore, APESB encourages IESBA to consider if the name of the definition should be simplified to *'group audit team'* to be consistent with the existing proposed drafting.

Recommendation

- 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)

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)

Some of our stakeholders raised concerns as it relates to those individuals 'who can directly influence the outcome of the group audit', questioning whether IESBA can provide further guidance via application

material as to who these individuals could be. We understand that the intention might be for example, to capture professional practice directors, however, further guidance would be helpful.

12. Accountancy Europe (AE)

Refer to Q4 comments.

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

PEEC is supportive of the proposed new defined terms that are used in Section 405. While the information on "key audit partner" is under the subheading "Group Audit Clients that are Public Interest Entities", PEEC recommends clarifying in 405.11 A1 that a "key audit partner" is only applicable to PIE engagements.

To ensure the proper application of 405.11 A1, PEEC recommends including examples of situations where a component auditor would be identified as a key audit partner and be able to directly influence the outcome of the group audit. If specific examples cannot be identified, PEEC recommends excluding paragraph 405.11 A1.

If paragraph 405.11 A1 is included, guidance on how to address disagreements between a group auditor and component auditor that can directly influence the outcome of the group audit would be needed. However, PEEC is unsure if this should be provided by IESBA or by the IAASB.

14. Botswana Institute of Chartered Accountants (BICA)

We agree with the proposed new defined terms used in Section 405 (Group Audits) in addressing independence considerations in a group audit, as this will ensure alignment to group audit requirements in ISA 600 (Revised). Placing this set of new defined terms in the Glossary of the Code is also appropriate for visibility and can be readily accessible to users.

15. Chartered Accountants Ireland (CAI)

We feel that the notes from Paragraph 40 of the Explanatory Memorandum for the Exposure Draft would be useful if included in the application guidance.

The proposed definition for "audit team for the group audit" includes "individuals within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit". It is unclear who this is intended to include, application guidance on this point would be welcomed.

Regarding the terms "component auditor firm" and "group auditor firm", the terms used in ISA 600 (Revised) are "component auditor" and "group auditor". It is unclear why the terms have been slightly changed in the proposed amendments and we believe consistency between standards is helpful.

16. CPA Australia (CPAA)

CPA Australia is generally supportive of the new defined terms that are used in Section 405 in addressing independence considerations in a group audit.

Feedback from our members highlights the point that when discussing independence considerations for component auditors, the issue of materiality is not considered, other than with reference to holding of indirect financial interests. That is, our members question whether aspects of the materiality of the entity for which the component auditor is undertaking the audit, relative to the group entity in its entirety, needs to be addressed in this section.

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

While the PTC is broadly supportive of the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit, we believe that some of the proposed definitions could be further clarified with regard to the IESBA's intent. Specifically, the proposed definitions of:

- "Audit team for the group audit", we think that it is not clear why individuals within, or engaged by, a non-network component auditor firm who can directly influence the outcome of the component audit are not included; and
- "Component audit client", we note that it is not clear in the IESBA's proposed definition why other related entities are not considered part of the component audit client unless they are directly or indirectly controlled. The IESBA has provided rationale in its explanatory memorandum that such other related entities are further removed from the audit of the component. However, we are of the view that the definition of a component audit client is not consistent with the definition of a group audit client with respect to related entities, and that this may not be clear in the final revisions.

Overall, we do agree with IESBA's exclusion of specific relationships and parties in the definitions of the above terms, which eliminates further prohibitions for non-network component auditor (CA) firms. However, we are of the view that explicit clarification of the IESBA's intent in developing these definitions would be helpful within the Code. We also recommend that, in clarifying their intent, the IESBA considers emphasizing the application of the conceptual framework in such circumstances.

Accordingly, we think that additional application material in proposed Section 405, including examples, would help to clarify that the IESBA did consider extending the definitions and related prohibitions to other related entities and relationships but decided that the conceptual framework should apply in such circumstances. Please also see our recommendation for this additional application material in our response to Question 4. b), specifically, the IESBA's proposed paragraphs 405.6 (b) and (c), regarding related entities of the group audit client.

Regarding the proposed revision to the definition of "Key audit partner", the PTC observes that the IESBA has already proposed to define a component, and therefore it would be clearer to simply replace "subsidiaries and divisions" in the extant definition with "components" in the revised definition. For example, "…'other audit partners' might include, for example, ~~audit~~ engagement partners ~~responsible~~ for **significant** ~~certain~~ components in a group audit ~~such as~~ ~~significant~~ ~~subsidiaries and divisions~~". As proposed, we think the definition seems to apply the significance criteria to subsidiaries or divisions, rather than to any significant component.

18. Compagnie Nationale des Commissaires aux Comptes (CNCC)

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

We agree.

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

We agree, this definition covers all those who can directly influence the results of the group Audit

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

We generally agree with the proposed new defined terms which align with the existing defined terms in the Code and those in ISA 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

We note that the proposed definition of "Audit team for the group audit" includes, among others,

(c) all those within a network firm of the group auditor (GA) firm's network who can directly influence the outcome of the group audit; and

(d) any individual within a component auditor (CA) firm outside the GA firm's network who can directly influence the outcome of the group audit.

It could be helpful if the IESBA could clarify the personnel "who can directly influence the outcome of the group audit" in the context of (c) and (d), for example, whether the personnel set out in (b)(i) within or engaged by the GA firm who can directly influence the outcome of the group audit applies to (c) and (d).

22. Instituto dos Auditores Independentes do Brasil (Ibracon)

We agree with the new proposed defined terms that are used in Section 405 in addressing independence considerations in a group audit. In addition to the proposed new defined terms, the "Group Audit Client" (GAC) includes "its related entities as specified in paragraph R400.20 and any other components that are subject to audit work." There might be other components (entities) that could be considered in the audit work for the Group audit, however, those components could not be considered "related parties" of the audit client taking into consideration the definition of audit client determined in the Code (e.g. an investee that is neither material nor audit client has control over it – it means that it not a related party and therefore independence would not be required -, but the GA decides to perform any audit procedures based on its judgement). We suggest the inclusion of examples related to any other components that are subject to audit work and that might be created a misleading on the definition of the audit client as determined in the Code. In addition, given the definition of Public Interest Entity may be slightly different among the firms due to their judgement (in accordance with paragraph 400.8 of the Code), the Code should clarify that the GA is the primary responsible for defining whether the GAC is a PIE or a non-PIE and communicate the CA on this definition.

23. Institute of Chartered Accountants of Scotland (ICAS)

"Audit procedures" versus "Audit work"

We appreciate that the IESBA has gone to some considerable lengths to be as consistent as possible with ISA 220 (Revised) with its proposals in this Exposure Draft. We note that ISA 220 (extract noted below for reference), and proposed paragraph 400.A (noted above), refer to auditors performing "audit procedures" while the new definitions of "Audit team for the group audit", "Component auditor firm" and "Group audit client" (noted below for reference) refer to "audit work" rather than "audit procedures". We therefore suggest that IESBA should consider using the term "audit procedures" rather than "audit work" in these new definitions for consistency with ISA 220.

For reference:

Section 405 – new definitions

"Audit team for the group audit: (a) The engagement team for the group audit, including individuals from component auditor firms who perform audit work related to components for purposes of the group audit;

Component auditor firm: The firm performing audit work related to a component for purposes of the group audit

Group audit client: The entity on whose group financial statements the group auditor firm conducts an audit engagement. The group audit client includes its related entities as specified in paragraph R400.20 and any other components that are subject to audit work."

Extract from ISA 220

"A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement.

A17. Engagement teams include personnel and may also include other individuals who perform audit 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 another firm may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count or inspect physical fixed assets at a remote location.

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

Refer to Q4 comments.

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

We agree with the proposed new defined terms used in Section 405 in addressing independence considerations in a group audit as these will serve to align the Code with the requirements stipulated in ISA 600 (Revised).

26. Institut der Wirtschaftsprüfer (Germany) (IDW)

See above. An explanation of what is meant by “all others who can directly influence the outcome of the group audit” would be helpful. Does “directly influence outcome” refer to an ability to cause a modification of the group auditor’s opinion, influence the group auditor’s decision as to the inclusion or wording of an EoM or KAM or other matters paragraph? Or does the IESBA intend this to have a different meaning in practice?

27. Institute of Singapore Chartered Accountants (ISCA)

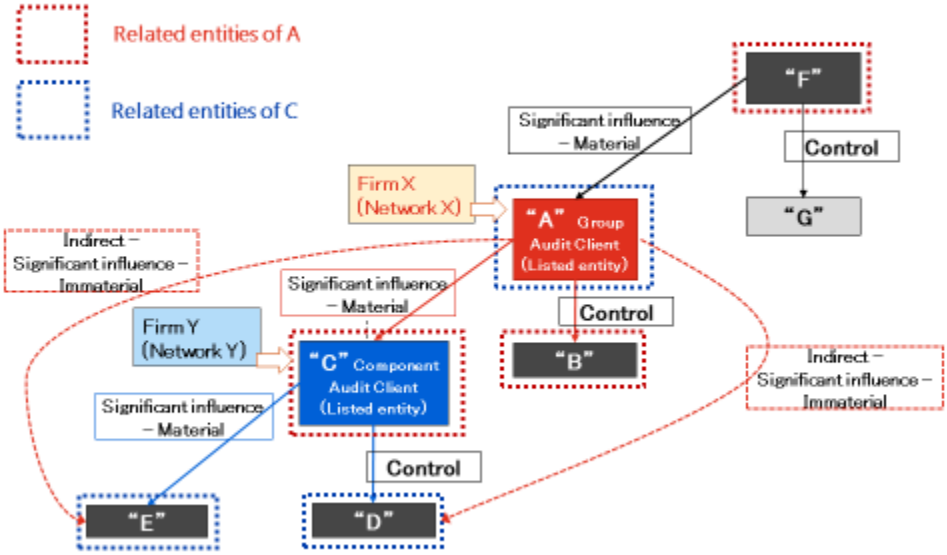
We note that the proposed definition of “audit team for the group audit” is based on the definition of “audit team” but adapted to a group audit context. In developing this definition, the IESBA is proposing to scope in individuals within a non-network component auditor (“CA”) firm who are not part of the engagement team for the group audit but can directly influence the outcome of the group audit. These individuals would be captured under subparagraph (d) of the proposed definition even though IESBA has recognised that it would be rare in practice for such individuals to be able to directly influence the outcome of the group audit.

We believe it would be useful for IESBA to clarify within the Code that the above situation is expected to be rare and provide examples of such rare situations.

28. Japanese Institute of Certified Public Accountants (JICPA)

We basically agree with the new defined terms related to group audits, except for the following issues.

We use the diagram set out below to illustrate the issues. Entity A is a listed group audit client and Firm X audits the entity as a group auditor firm (the financial statements is prepared in accordance with IFRS, audited in accordance with ISAs and IESBA Code of Ethics). Entity C is an affiliate of Entity A and a listed entity, and an equity method is applied to its financial information for the group reporting purpose. Firm Y audits the entity for group audit purposes as a component auditor firm outside Firm X’s network (the financial information is prepared in accordance with IFRS, audited in accordance with ISAs and IESBA Code of Ethics). Entity A has a direct financial interest in Entity C that gives it significant influence over Entity C and the interest is material. Therefore, Entity C is a related entity for the purpose of Entity A's group audit under paragraph R400.20. Entity C has a subsidiary Entity D and an affiliate Entity E. Entity C has a direct financial interest in Entity E that gives it significant influence over Entity E and the interest is material. For the purpose of Entity A's group audit, neither Entities D nor E are in the scope of the group audit, or they are not related entities under paragraph of R400.20. On the other hand, for the purpose of Entity C’s separate group audit, Entities D and E are within the scope of the group audit and are related entities under paragraph R400.20.



1. Concerns that there are differences in the scopes of independence requirements between component auditor firm and individual members of an audit team of a component auditor firm.

The diagram above illustrates our understanding of the scope of entities of which firms shall be independent in the Exposure Draft. The proposed subparagraph R405.6 (a) requires Firm Y, the component auditor firm, to be independent of Entity C, component audit client and Entity D, an entity controlled by Entity C for the purpose of the group audit of Entity A. In addition, Firm Y is prohibited from holding a financial interest, and loans and guarantees with respect to Entity A, the group audit client, in accordance with paragraphs R405.6 (b) and (c).

On the other hand, individual members of the audit team of Firm Y, the component auditor firm that audits Entity C, as members of the audit team for group audit of Entity A, are required to be independent of Entity A, the group audit client, and its related entities in accordance with paragraph R405.3. The entities are those surrounded by red dotted lines in the diagram above.

In other words, the scope of entities of which Firm Y is required to be independent for the purpose of the group audit of Entity C is different from the scope of entities of which the members of the audit team of Firm Y, the component auditor firm that audits Component Entity, are required to be independent.

Under the extant Code of Ethics, members of the audit team of Firm Y, the component auditor firm that audits Entity C, are required to be independent of Entities A, C, D and E. However, under the Exposure Draft, the members are required to be independent of Entities B and F as well as Entity A in accordance with paragraph R405.3. Therefore, for members of the audit team of Firm Y that audits Entity C, the scope of related entities of which the members are required to be independent is broader than the requirements in the extant Code of Ethics, and the individual member's independence of the entities that they audit may not be balanced in relation to the audit of Entity C. When the members of the audit team of Firm X, the group auditor firm that audits Entity A are not required to be independent of Company G, a subsidiary of Entity F which is an upstream related entity of Entity A, it is not reasonable that the members of the audit team of Firm Y, component auditor firm that audits Entity C are required to be independent of Entity B, a subsidiary of Entity A which is an upstream related entity of Entity C.

Therefore, in order to maintain the balance, we propose that the same requirements as in paragraph R405.6, which apply to the component auditor firm, be applied to individual members of the audit team of the component auditor firm outside the group auditor firm's network. We also propose that Entity A and components within the Entity A's group be included in the scope of the "reason to believe" test as described in paragraph R405.7. We propose specifically including subsidiaries of the component audit client in the scope of the related entities of which independence is required in accordance with subparagraph R405.6 (a), and, with respect to other related entities of the component audit client, in addition to the requirements in subparagraphs R405.6 (b) and (c), we propose including the components within Entity A's group in the scope of the "reason to believe" test described in paragraph R405.7, thereby establishing the provision that would effectively maintain independence.

The practical imperatives behind these proposals include the following.

The Exposure Draft would make it difficult for an individual member of the audit team of a component auditor firm outside the network to always be required to confirm information regarding changes (due to acquisitions, mergers, etc.) in the components of the group audit client prior to the effective date of such changes, i.e., such transactions. Individuals of component auditor firm outside of the network will not have access to the database in a timely manner which is maintained by the group auditor firm that records the related entities of the group audit client. In addition, it will be almost impossible for other professional accountants, such as those who provide consultation and those in the so-called chain of command of the component auditor firm outside the group auditor firm's network, to be independent of the group audit client and its related entities if the related entities of the group audit client are not controlled through a database recording the group audit client and its related entities. In implementing in practice the proposed provisions in the Exposure Draft, it may be physically possible to take technical measures including preparing a program to overcome these practical difficulties, but it is also necessary to address issues such as control over the information about related entities of the audit client and restrictions on the disclosure of confidential information.

The above practical difficulties may result in the group auditor firm's networks being forced to replace component auditor firms outside the network. The proposal in the Exposure Draft may disproportionately broaden the independence of only individuals of a component auditor firms outside the network.

2. Concerns that there are difference in the scope of independence for a component auditor firm within the group auditor firm's network and a component auditor firm outside the network.

We believe it should be considered whether or not a group auditor firm and its network firms shall be independent of the related entities within the scope required for a component auditor firm outside the network.

Therefore, we propose adding "reason to believe" test to paragraphs R405.4 and R405.5 in order to consider whether the members of audit team of the group auditor firm and its network firms shall be independent of Entities D and E, related entities of Entity C, which are not included in the scope of the related entities of the group audit client for the purpose of the group audit,

3. Newly introduced independence requirements applicable to service providers

With respect to service providers, we propose that we should discuss separately (a) service providers that the group auditor firm uses (excluding a component auditor firm outside the network and service providers the component auditor firm uses), (b) a component auditor firm outside the network and (c) service providers that a component auditor firm uses. Specifically, we propose that the same independence requirements as those required for the group auditor firm in paragraphs 400.B and R405.3 be applied to service providers that the group auditor firm uses (excluding a component auditor firm outside the network and service providers the component auditor firm uses).

We also propose that the same requirements as those applies to component auditor firm outside the network be applied to a component auditor firm outside the network and service providers that a component auditor firm uses by including them in the paragraphs R405.6 and R405.7 as described in our proposal in 1 above.

Furthermore, paragraph A105 of ISQM1 states that commercial off-the-shelf IT applications used in audit engagements are an example of resources from a service provider. It should be clarified whether a vendor providing such commercial IT applications used in the audit engagement is included in "an individual or organization external to the firm that provides a resource that is used in the audit engagement" as described in paragraph 400.B of the Exposure Draft. If such a clarification is not established, the application material should clarify that a breach by a service provider (as an audit team member of the component auditor firm) that is detected during the course of a local audit will not be subject to communication with those charged with governance for the purpose of group audits.

4. Definition of Audit team for the group audit

In (a) of the definition "Audit team for the group audit," it is stated that "including individuals from component auditor firms who perform audit work related to components." On the other hand, the "engagement team" included in (a) of the definition "audit team" is defined as "all partners and staff performing the engagement, and any other individuals who perform procedures on the engagement." In Part 4A, the term "engagement teams" refers to individuals performing audit or review procedures." Though the term "audit work" is not defined, it is generally considered to encompass "audit procedures." Therefore, (a) of definition "audit team for the group audit" and the definitions "audit team" and "engagement team" seem to differ in terms of their scopes. We propose clarifying this point.

5. Ethical rules to be applied in group audits

Paragraph 405.2 A1 of the Exposure Draft states that ISA 600 requires the group engagement partner to confirm the component auditor firm's compliance with the relevant ethical requirements applicable to the group audits. However, each jurisdiction has added to its code of ethics its own requirements with regard to relevant laws and regulations. And, therefore, it will be increasingly difficult for component auditor firms, especially those outside the network, to fully understand and apply the ethical requirements applied by the group auditor firms. In addition, it will be difficult to develop a system for the component auditor firms to comply with the specific ethical requirements of other jurisdictions. The extant IESBA Code of Ethics does not provide specific guidance in this regard. We believe that it is necessary to provide practical guidance to assist the component auditor firms in applying the requirements of ethics applied by the group auditor firms.

29. Korean Institute of Certified Public Accountants (KICPA)

We agree with the proposed new terms as they are either the terms already defined in ISA 600 or the extension of existing terms to cover group audits, such as audit team.

However, we suggest that non-authoritative guidance should be provided to illustrate the examples concerning the scope of group audit client, how PIEs are identified by GA (group auditor) and whom CA (component auditor) must be independent of in the context of group audit, among others, to ensure that firms and professional accountants have accurate understanding of the terms associated with group audit and comply with independence requirements.

30. Malaysian Institute of Accountants (MIA)

We agree with the proposed new defined terms that are used in Section 405.

31. Royal Nederlandse Beroepsorganisatie van Accountants (NBA)

32. New York State Society of CPAs (NYSSCPA)

33. South African Institute of Chartered Accountants (SAICA)

With the exception of the item identified in paragraph 9 of this comment letter, we agree with the proposed new defined terms used in section 405.

34. South African Institute of Professional Accountants (SAIPA)

We agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit. We agree that the individuals from component auditor firms who perform

audit work related to components for purposes of the group audit should form part of the audit team for the group audit.

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)

We don't agree. In our understanding the term "directly influencing the outcome of the group audit" is not sufficiently clear and may be interpreted in various ways. A precise description of this term is necessary so that all potentially affected individuals can be clearly identified as members of the audit team.

In the following we would like to give some examples where it is not clear, if the individual could directly influence the outcome of the group audit:

- observing the stock taking,
- reviewing the audit report,
- suggesting changes to the wording in the audit report,
- suggesting changes to the type of audit opinion,
- etc.

Firms

38. Association of Italian Audit Firms (ASSIREVI)

With regard to the new definitions used in Section 405 in relation to group audits, Assirevi has no particular comments since they are almost completely aligned to the provisions of ISA 600 (Revised).

However, it is worth focusing on the definition of "audit team for the group audit". This definition includes under lett. (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". As clarified in the explanatory memorandum (see page 14): "it would be rare in practice for such individuals to be able to directly influence the outcome of the group audit if they are not otherwise performing audit work at a component".

The situation described under lett. (d) would be rare and difficult to be ascertained.

Furthermore, in Assirevi's view, the qualification of "*a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit*" is not fully consistent with the rule under ISA 600 (Revised), para. 16(b), which clearly states that the outcome of the group audit is all up to the group auditor engagement partner. In effect, "*the group engagement partner shall* […] *be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement*".

Therefore, Assirevi suggests excluding lett. (d) from the definition.

The definition of "key audit partner" according to the revised version does deserve another comment: ""other audit partners" might include, for example, engagement partners for certain components in a group audit such as significant subsidiaries or divisions". This definition is supplemented by the new paragraph 405.11 A1: "The group engagement partner might determine that an engagement partner who performs audit work related to a component for purposes of the group audit is a key audit partner for the group audit because that individual makes key decisions or judgments on significant matters with respect to the audit of the group financial statements on which the group auditor firm expresses an opinion".

Assirevi believes that the wording of the guideline could be improved by explicitly specifying the steps to be followed by the group engagement partner. The guideline could clarify that the group engagement

partner is required to (i) firstly, assess whether there are any component engagement partners who can make key decisions and, should this be the case, (ii) qualify them as key engagement partners and give them proper notice in this respect. Once they have been made aware of such circumstance, they will be subject to the provisions applicable to a key audit partner. The use of the expression "*might determine*" proposed in the guideline does not make it clear what the obligations of the group engagement partner are.

39. BDO International Limited (BDO)

BDO agrees with the proposed new defined terms that are used in Section 405, with the exception of "Audit team for the group audit", as explained below.

With respect to part (d) of the proposed definition of "audit team for the group audit", note 2 to paragraph 40 of the EM recognises it will be rare in practice for individuals within a non-network component auditor firm to be able to directly influence the outcome of the group audit if they are not otherwise performing audit work at the component. BDO cannot conceive a situation when this will happen in practice and the inclusion of part (d) in the proposed definition may result in misinterpretation and misapplication of this element of the definition.

BDO recommends that IESBA deletes part (d) of the proposed definition of "audit team for the group audit".

If the IESBA decides to retain this element, BDO recommends that the IESBA Code provide practical examples of how (d) might be relevant in practice. Component auditors performing audit procedures on behalf of the group engagement team could be performing a spectrum of audit procedures from performance of a single audit procedure through to conducting a full audit. As a result, it will be helpful to explain how users of the IESBA Code should consider the concept of individuals being able to 'directly influence' a component auditor based on the nature of the work that is being performed on behalf of the group engagement team rather than automatically scoping them into the 'audit team for the group audit' definition.

Furthermore, it would be helpful to understand in the context of a group engagement when a component auditor has been engaged to perform audit procedures on behalf of the group engagement team:

(a) 'who' the IESBA anticipates will likely be covered by part (d)

(b) Whether part (d) also covers those individuals within component firms who:

i. recommend the compensation of component auditors in connection with performance of the component audit (such as a senior or managing partner of the component firm)

ii. provide consultation regarding technical or industry-specific issues, transactions or events which are then used or considered by the group engagement team

40. Deloitte Touche Tohmatsu Limited (DTTL)

Conceptually, Deloitte Global agrees with the proposed definitions used in Section 405. That said, we believe there might be unintended consequences and potential inconsistencies in applying the new definitions of "group audit client" and "component audit client" within practical application of ISA 600, as follows:

1. Under the extant definition of an "audit client," the firm and network firms are required to be independent of the audit client including its related entities. The new definition of "group audit client" includes related entities as well as *any other components that are subject to audit work*. There may be a situation where the group auditor determines - after the period requiring independence has commenced - that audit procedures are required to be performed at a component that is not a related entity (e.g., a material investee of a non-listed audit client.) Under the proposal, the group auditor ("GA") firm and its network firms would now need to be independent of that entity (the component subject to audit work) under R405.4 and R405.5, even though it would not be considered a related entity as defined under the Code, thereby requiring the firm to assess its independence of this component after the period requiring independence has commenced.

The proposal does not include any mechanism for addressing a situation when an entity which is not a related entity is scoped in as a component (because it is subject to audit work) and therefore included in the definition of a group audit client after the period requiring independence has commenced. The Board recognized that in practice there might be circumstances in which the GA firm requests another firm to perform audit work as a component auditor ("CA") firm during or after the period covered by the group financial statements and proposed guidance for these types of circumstances in 405.13 A1 – A2. We recommend that the Board considers including similar guidance as it did for changes in CA firms for these circumstances.

2. Further, Deloitte Global believes that the definition of "group audit client" should be revised to more closely align to the wording from ISA 600, paragraph 22, which includes a requirement to "determine the components at which audit work will be performed." We suggest amending the definition as follows:

   "Group audit client - The entity on whose group financial statements the group auditor firm conducts an audit engagement. The group audit client includes its related entities as specified in paragraph R400.20 and any other components ~~that are subject to~~ at which audit work is performed."

3. Finally, Deloitte Global believes it would be beneficial to provide further guidance and/or examples for part (d) of the definition of the "audit team for the group audit" as to when an individual within a CA firm outside of the GA firm's network would be considered to *directly influence the outcome of the group audit*. It is our understanding that such circumstances would be extremely rare, and the individual would generally not be considered to influence the outcome of the *group audit* solely through their influence on the outcome of the *component audit*.

41. Grant Thornton International Ltd (GTIL)

GTIL agrees with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit.

42. Ernst & Young Global Limited (EY)

Yes, we agree with the proposed new defined terms used in Section 405.

43. KPMG IFRG Limited (KPMG)

In relation to the definition of "audit team for the group audit," the IESBA recognizes that it would be rare for a situation to occur where an individual in a non-network component auditor firm who is not a part of the engagement team could directly influence the group audit. However, the Board has determined that such individuals should be retained in the definition. It would be useful to be clear within the standard itself that this is expected to be rare and provide examples of what these rare circumstances might be.

We agree with the other definitions of the new terms used in Section 405.

44. Mazars Group (MAZARS)

45. MNP LLP (MNP)

46. PKF International Limited (PKF)

We agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit.

47. Pitcher Partners (PP)

The audit team definition is potentially going to make firms less inclined to perform audit as the complexity of remaining independent increases. The potential ramifications are a reduction in competition and the number of audit firms, which will reduce quality.

48. PricewaterhouseCoopers International Limited (PWC)

Yes. While we agree with the IESBA assessment that the circumstances may be rare, there may be challenges in identifying individuals within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit. Furthermore, when such individuals are

identified, there may be disagreement between the group auditor firm and component auditor firm over any such designation. This would appear to be an area where additional guidance is warranted, including clarifying that this is intended only to encompass individuals who are not on the engagement team but who do influence the outcome of the group audit, perhaps through involvement in direct discussions with the group audit team. This would help address any confusion between parts (a) and (d) of the group audit team definition.

It may also be helpful to amend parts (c) and (d) of the group audit team definition to refer to "Any other individuals within…." i.e., individuals beyond those captured in (a), which would also be consistent with the drafting construct of part (b) of the definition.

We believe the proposed definition of "component audit client" is a pragmatic solution that accommodates the new concept of a component as defined in ISA 600 (Revised). We recognise that the ISA does not allow for any differentiation between components (in relation to the independence and ethical requirements applicable to the group audit) on grounds of materiality of the component to the group financial statements, and that components include related entities and other components.

Others

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

The SMPAG was not clear as to what is meant by "all others who can directly influence the outcome of the group audit". For example, would an ability to directly influence the outcome include those who can effect changes to the wording of any KAMs communicated in the audit report, or perhaps those who can cause the group auditor to make changes to the type of audit opinion to be issued or is it far broader? We believe that modifying this language and adding additional application guidance and examples will be helpful to understand what is meant by this term as used in the ED. There is a vast difference in the degree of influence individual members of the engagement team will have depending on their exact role and work performed in the group audit.