Compilation of Comments to ET/GA ED – Question 7

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

"Changes in Component Auditor Firms

Is the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 sufficiently clear and appropriate*?"*

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. The Botswana Accountancy Oversight Authority (BAOA)

Yes, we agree that the proposed paragraph is clear and appropriate.

The application material is appropriate as it explains in detail the circumstances which may result in a threat to the independence of a CA. The fact that the periods which the CA needs to consider includes those before accepting to perform the work for the group auditor is also appropriate.

2. Committee of European Auditing Oversight Bodies (CEAOB)

3. International Forum of Independent Audit Regulators (IFIAR)

4. International Organization of Securities Commissions (IOSCO)

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

Yes, the IRBA agrees that the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in paragraphs 405.13 A1-405.13 A2 is sufficiently clear and appropriate.

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

NASBA believes that the application materials relating to changes in CA firms during or after the period covered by the group financial statements are sufficiently clear and appropriate.

7. United Kingdom Financial Reporting Council (UK FRC)

The FRC is broadly supportive of the proposed guidance, and also considers the use of extant guidance within the Code is appropriate. However, we believe that the guidance could be improved by noting that it may be appropriate to communicate and consult with the Group Auditor on these specific matters. The FRC also considers that the guidance could be enhanced to consider specific circumstances when an entity is acquired by the group. For example, scenarios where the firm acting as the auditor of a component has been providing non-audit services to the group prior to the acquisition of the component may create issues which could be construed as impinging upon auditor independence. Further application guidance on this matter would improve the overall clarity and force of the Code.

Public Sector Organizations

8. United States Government Accountability Office (GAO)

We believe that paragraph 405.13 A1 is sufficiently clear and appropriate for a component auditor firm. However, for paragraph 405.13 A2 we believe that reference to 400.31 A1 through A3 does not provide

sufficient detail for the component auditor firm. We suggest adding application guidance paragraphs that focus on component auditor firms for a group audit, including examples of how to address threats.

Independent National Standard Setters

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

APESB agree that the proposed application material relating to the changes in the component audit firms during or after the period covered by the group financial statements is relevant and required. However, APESB are concerned that the current drafting of section 405 means it may not be easy for readers of the Code to interpret and understand certain provisions easily.

For example, in 405.13 A1, whether it applies to the new component audit firm or the previous firm should be clarified. Also, refer to APESB's response to question 4 above for suggested revisions to proposed paragraph 405.13 A2.

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 considers the proposed application material to be sufficiently clear and appropriate.

Professional Accountancy Organizations

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

We find the paragraphs to be sufficiently clear, however, as noted in our response to Q4 we have concerns regarding the unintended consequences that may be caused such as the market concentration issues.

12. Accountancy Europe (AE)

Finally, some members believe that there should be transitional provisions for the cases where the group audit client acquires a non-PIE entity which is audited by a statutory auditor in compliance with non-PIE independence rules. Otherwise, the acquisition would mean that the statutory auditor cannot perform the engagement anymore.

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

PEEC supports proposed paragraphs in 405.13 A1 – 405.13 A2 of the IESBA code when a group audit firm requires a component audit firm to perform additional work during or after the period covered by the group financial statements. PEEC does recommend addressing situations that could change the independence requirements of the component auditor as it applies to mergers or acquisitions by the group audit client such as when a PIE group audit client acquires a non-PIE entity during or after the period covered by the group financial statements.

14. Botswana Institute of Chartered Accountants (BICA)

Yes, the guidance proposed in paragraph 405.13 A1 – 405.13 A2 is sufficiently clear and appropriate.

15. Chartered Accountants Ireland (CAI)

The proposed application material is sufficiently clear and appropriate.

16. CPA Australia (CPAA)

CPA Australia is of the view that proposed paragraphs 405.13 A1 and 405.13 A2 are sufficiently clear and appropriate.

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

The PTC is supportive of application material that clarifies the IESBA's intent, however we recommend that some additional clarity and context be added to this proposed application material to enhance its usefulness.

Specially, regarding proposed paragraph 405.13 A1, it is not clear why these threats are unique to "Changes in Component Auditor Firms" versus the initial appointment of a component auditor.

We also think that it is not clear why the IESBA has proposed paragraph 405.13 A1 as application material, while paragraph R400.31 in the extant Code, which addresses the same threats, is a requirement.

Finally, we think that illustrative examples in non-authoritative guidance highlighting how the concept proposed in paragraph 405.13 A2 can be implemented with some examples of dates, would be useful in more clearly articulating this proposal.

18. Compagnie Nationale des Commissaires aux Comptes (CNCC)

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

Yes.

However, as we state in our 'General Comments' above we are concerned about the adverse impact on SMPs.

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

The material is clear and appropriate.

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 application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2. The paragraphs are sufficiently clear and appropriate.

However, there might be instances where an existing service or relationship will no longer be permissible and the completion or transitioning to another service provider might not be possible in a timely manner when a firm is nominated as CA, without causing significant disruption to the audit client. In these cases, we understand that the Code should consider to grant an appropriate time (e.g., no more than six months) to the CA to complete or transfer the service or relationship to another service provider, taking into consideration appropriate safeguards, the circumstances of relationships, existent procedures, and controls of the CA among others.

23. Institute of Chartered Accountants of Scotland (ICAS)

Yes – we agree the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 is sufficiently clear and appropriate.

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

Yes.

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

The proposed application material relating to changes in component auditor firms during or after the period covered by the group financial statements in proposed paragraphs 405.13 A1- 405.13 A2 is sufficiently clear and appropriate.

26. Institut der Wirtschaftsprüfer (Germany) (IDW)

Yes, subject to our suggestions that the IESBA prescribe a proportionate approach.

27. Institute of Singapore Chartered Accountants (ISCA)

28. Japanese Institute of Certified Public Accountants (JICPA)

We have no objection with respect to the application material relating to changes in component auditor firms.

29. Korean Institute of Certified Public Accountants (KICPA)

We believe that the proposed application material provides sufficiently clear and appropriate guidance to address the relevant situation as it requires application of the general principles of the Code that are applicable to such situation (paragraphs 400.31 A1 to A3)

30. Malaysian Institute of Accountants (MIA)

We are of the view that the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 is sufficiently appropriate.

31. Royal Nederlandse Beroepsorganisatie van Accountants (NBA)

32. New York State Society of CPAs (NYSSCPA)

33. South African Institute of Chartered Accountants (SAICA)

The proposed application material is sufficiently clear and appropriate.

34. South African Institute of Professional Accountants (SAIPA)

We believe the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 is sufficiently clear and appropriate

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

Yes.

However, as we state in our ‘General Comments’ above we are concerned about the adverse impact on SMPs.

36. Federation of Accounting Professions, Thailand (TFAC)

Yes, it’s clear and appropriate.

37. Wirtschaftsprüferkammer (Germany) (WPK)

We agree that the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements are sufficiently clear. However, we do have concerns related to how this could force SMPs out of the component auditor market.

Firms

38. Association of the Italian Audit Firms (ASSIREVI)

We believe the introduction of paragraphs 405.13 A1 - 405.13 A2 is helpful in providing guidelines that can be applied by CA firms in case of requests for audit work by the GA firm during or after the period covered by the group financial statements.

We observe that par. 405.13 A1 is similar to the requirement already contained in the extant par. R400.31 of the Code, while par. 405.13 A2 refers to the application material in the version updated as a result of the non-assurance services project.

We suggest to take into account the following elements:

1. par. 405.13 A2 does not consider the application material set out in par. 400.31 A4. In our opinion this paragraph could be applicable in case of services provided in previous years to the CA client, so we suggest to include it as a reference in par. 405.13 A2;

2. par. 405.13 A2 does not address the situation of previous services provided by a CA firm to a CA client belonging to a PIE group client. Given the more restrictive rules concerning PIE group clients (as stated in R405.10), including a reference to paragraphs R400.32 and 400.32 A1 could help the clarity of provisions applicable in these cases.

In the analysis of the new paragraphs proposed and the paragraphs referred to above, we observed that the situation described in par. 400.31 A2 ("*A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion*") appears to be too generically described. We believe that there is a real risk that many of the services provided by the auditor may ultimately turn out to be considered as included in the above definition. We suggest a clarification to the application of such provision.

39. BDO International Limited (BDO)

BDO is of the view that the proposed application material relating to changes in component auditor firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 is sufficiently appropriate.

40. Deloitte Touche Tohmatsu Limited

Deloitte Global supports the application material in the proposed paragraphs on the basis that it is appropriate for the respective circumstances and is consistent with other similar requirements in the Code applicable to firms.

Additionally, Deloitte Global recommends specifically addressing a situation where a PIE group audit client acquires a non-PIE entity during or after the period covered by the group financial statements, and the current statutory auditor of the acquired entity is appointed as a CA firm and is now required to apply the PIE rules to its component audit client. A transition period to deal with the new applicable PIE rules will be needed for the CA firm similar to the approach in paragraph R600.25 of the revised non-assurance standard provisions.

41. Grant Thornton International Ltd (GTIL)

GTIL believes the proposed application material relating to changes in component audit firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 is clear and appropriate.

However, as discussed in Q6 above, we would ask IESBA to provide additional guidance and application material in situations where a non-network component audit firm provided NAS for the group audit client in order to sufficiently aid the component auditor in performing their independence analysis for the audit engagement.

42. Ernst & Young Global Limited (EY)

We note that proposed paragraph 405.13 A2 does not reference paragraphs R400.32 and 400.32 A1[1], which will be applicable to audit clients that are PIEs starting 15 December 2022. We believe the Board should consider adding application material that addresses how a component auditor firm outside the group auditor firm's network should address a self-review threat that arises when proposed paragraph R405.10 is applicable to the component auditor firm's audit of the non-PIE component. We believe that either the application material in paragraphs 400.31 A1 – A3 should be applied also to self-review threats for a

component audit client that is treated as a PIE, or that the application material in paragraph 400.32 A1 be referenced, in particular that the group auditor firm could perform the review noted in the second bullet point of 400.32 A1.

43. KPMG IFRG Limited (KPMG)

We agree with the application material and have no comments on its clarity.

44. Mazars Group (MAZARS)

In paragraph 400.31.b it is mentioned that previous services provided to the audit client by the firm or network firm are to be considered as potential threats to independence. It is not clear is what term should be considered in assessing this potential threat.

45. MNP LLP (MNP)

46. PKF International Limited (PKF)

In our view, the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 is sufficiently clear and appropriate.

47. Pitcher Partners (PP)

The guidance is not clear or easy to follow.

48. PricewaterhouseCoopers International Limited (PWC)

Yes. However, we recommend that the Board be clear that the same provisions can also apply where there is a change in component auditor as a result of a client merger or acquisition.

Others

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

While the SMPAG feels these proposed paragraphs are clear, we do have concerns as stated earlier in this letter related to how this could force SMPs out of the component auditor market.