Compilation of Comments to ET/GA ED – Question 9

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

"Proposed Consequential and Conforming Amendments

Do you agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 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)

The proposed consequential and conforming amendments as detailed in chapters 2 to 6 would result in improved audit quality as some aspects of the audit work that would have been otherwise been critical to the audit work of the Group Audit would have been excluded, i.e., the broadening of component to include business units.

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 with the proposed consequential and conforming amendments, as detailed in Chapters 2 to 6.

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

NASBA believes that for ease of consistency, it is important that the Code align with ISA 600 (Revised) terminology and, accordingly, agrees with the proposed conforming amendments.

NASBA understands IESBA's views related to the proposed consequential amendments to the Code that result from the finalization of IAASB's suite of quality management standards and agrees that simply replacing the term "quality control" with "quality management" would unnecessarily broaden the scope of those impacted by the change.

7. United Kingdom Financial Reporting Council (UK FRC)

We are generally supportive of the proposed consequential and conforming amendments as set out in Chapters 2 to 6, and we have no specific observations to make on these items.

Public Sector Organizations

8. United States Government Accountability Office (GAO)

We reviewed and agree with the proposed consequential and conforming amendments detailed in chapters 2 through 6.

Independent National Standard Setters

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

Subject to APESB's comments noted above, particularly the definition of engagement team, we agree with the related proposed consequential and conforming amendments as detailed in Chapters 2 to 6.

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 -- Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants (ACCA-CAANZ)

Yes, we agree with the proposed consequential and conforming amendments given that they aligned with the ISA 600 (Revised) definitions.

12. Accountancy Europe (AE)

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

PEEC supports the proposed consequential and conforming amendments as detailed in Chapter 2 to 6 of the exposure draft.

14. Botswana Institute of Chartered Accountants (BICA)

Yes, we agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6 as this will assist in aligning these with terminologies and concepts used ISA 600 (Revised) and the quality management standards.

ISA 600 (Revised) defines a component as "An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit."

This definition has been adopted as is into the ED. That notwithstanding, Chapter 2, adds description of "…*legal entity or business unit*…" to follow reference to "*component*" despite these being already included in the definition of a component.

It is not clear why these are stated separately given that reference is made to a Professional Accountant in a group audit setting.

15. Chartered Accountants Ireland (CAI)

In Section 360: we feel that application guidance would be helpful to illustrate the requirements for components as newly defined.

We note that the extant section R360(b) refers to components, the proposed revisions refer to legal entity or business unit but not component. Is the intention to exclude component in this section unlike section R 360(a)?

16. CPA Australia (CPAA)

With respect to the proposed revisions to Sections 300, 310 and 320 refer to our response to Question 1(a).

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

Overall, the PTC agrees with the proposed consequential and conforming amendments in Chapters 2 to 6. However, in proposed paragraphs R360.16 to R360.18 it is unclear why "legal entities or business units" are included in the paragraphs given that definitions of "component" and "component audit client" in the glossary include both business unit and legal entity.

We are also unclear why the IESBA has proposed striking the word components in paragraph R360.18 and replacing it with legal entities or business units.

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)

Yes. We believe that the proposed amendments detailed in Chapters 2 to 6 are necessary to align the wording of the international standards and the amended text of the Code of Ethics. We have not identified other amendments that are necessary in addition to those indicated

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 consequential and conforming amendments as detailed in Chapters 2 to 6.

23. Institute of Chartered Accountants of Scotland (ICAS)

Section 360

We note the proposed changes to paragraph R360.16:

R360.16 Where a professional accountant becomes aware of non-compliance or suspected noncompliance in relation to a component or a legal entity or business unit that is part of a group in either of the following two situations, the accountant shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

(a) The accountant is, for purposes of an audit of the group financial statements, requested by the group engagement team to performs audit work on financial information related to a the component for the purposes of the group audit; or (b) The accountant is engaged to perform an audit of the financial statements of a legal entity or business unit that is part of a group for purposes other than the group audit, for example, a statutory audit.

This is explained in Paragraph 84 of the Explanatory Memorandum as follows:

“84. The proposed conforming amendments to Section 360 address the provisions that deal with communication of non-compliance or suspected non-compliance with laws and regulations in the context of groups. The amendments are intended to recognize that ISA 600 (Revised) does not limit the definition of a component to a legal entity only but also includes, among others, a business unit. Thus, a professional accountant in public practice may be engaged to perform an audit of financial statements of a business unit that is part of a group. Some of the proposed amendments are also to align with terminology used in ISA 600 (Revised).”

We note that a definition of “component” is included in the Glossary as follows: “An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit”.

We therefore believe that by stating at paragraph R360.16 “Where a professional accountant becomes aware of non-compliance or suspected noncompliance in relation to a component or a legal entity or business unit that is part of a group…” that this additional wording could lead to some confusion because the definition of component in the Glossary already states that it could be an entity or business unit. Indeed, the sentence including these additional words could be read as implying that a component itself would not be a legal entity or business unit which we do not believe is IESBA’s intention.

If there is a wish to make clear in this paragraph that a component could be a legal entity or business unit that is part of a group we suggest the following could be stated instead:

"R360.16 Where a professional accountant becomes aware of non-compliance or suspected noncompliance in relation to a component, such as a legal entity or business unit, that is part of a group…"

Or, alternatively:

"R360.16 Where a professional accountant becomes aware of non-compliance or suspected noncompliance in relation to a component, including a legal entity or business unit, that is part of a group…"

We further note that this change in wording is repeated throughout the proposed conforming amendments to Section 360 and may need to be re-considered throughout this Section.

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

Yes.

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

We agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6.

26. Institut der Wirtschaftsprüfer (Germany) (IDW)

We have no specific issues with the Proposal's approach to conforming amendments other than our comments above as to the complexity of having so many defined terms and some definitions including defined terms themselves.

27. Institute of Singapore Chartered Accountants (ISCA)

We note the IESBA's proposals set out in Chapter 4 on how references to the terms, "teams" and "engagement team" (ET), would be used in the Code. However, we would like to seek clarification in situations where IESBA refers broadly to "teams" in the Code, whether this term would refer to ET or the audit team and/or assurance team, which would be wider in scope than ET.

28. Japanese Institute of Certified Public Accountants (JICPA)

We agree with the proposed consequential and conforming amendments as described in Chapters 2 to 6, except for the following

In paragraph R360.16, the clause "or a legal entity or business unit that is part of" is added after "a component." The clause "one or more components" is added in subparagraph R360.17 (a) and the clause "one or more legal entities or business units that are part of the group and" is added in subparagraph R360.17 (b). However, these inserted clauses are not consistent with the proposed definition of component, "An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit." Since paragraphs R360.16 and R360.17 are requirements, we suggest that the scope should be clarified.

29. Korean Institute of Certified Public Accountants (KICPA)

We agree with the proposed amendments.

30. Malaysian Institute of Accountants (MIA)

We agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6.

31. Royal Nederlandse Beroepsorganisatie van Accountants (NBA)

32. New York State Society of CPAs (NYSSCPA)

33. South African Institute of Chartered Accountants (SAICA)

SAICA agrees with the consequential and conforming amendments included in Chapters 2-6.

34. South African Institute of Professional Accountants (SAIPA)

We agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6. Some of the proposed amendments are also to align with terminology used in ISA 600 (Revised)

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 agree with the related proposed consequential and conforming amendments if the other proposed amendments proceed as outlined in the ED.

Firms

38. Association of Italian Audit Firms (ASSIREVI)

39. BDO International Limited (BDO)

BDO agrees with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6.

40. Deloitte Touche Tohmatsu Limited (DTTL)

Deloitte Global does not have any comments with respect to these amendments and supports the changes as proposed by the Board.

41. Grant Thornton International Ltd (GTIL)

GTIL agrees with the proposed consequential and confirming amendments as detailed in Chapters 2 to 6.

42. Ernst & Young Global Limited (EY)

Yes, we agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6 of the EM.

43. KPMG IFRG Limited (KPMG)

Section 300

Removing the identifying adjective “engagement” before the use of the word “teams” in Part 3 (e.g., 300.8 A2, 310.8 A3, R310.12, 320.3 A3, etc.) results in some confusion, especially in translation, in understanding which specific team the Code is referring to. For example, in 300.8 A2, it is unclear whether the safeguard is only effective when the entire audit team is separate, or if separating the engagement teams is sufficient. Similarly, in 320.3 A3, removing “engagement” leaves uncertainty as to which team is being referenced and we disagree that the resulting statement would apply to the entirety of an audit team. We recommend leaving the word “engagement” in place consistent with the extant Code in Part 3.

Part 4B

We believe it would be beneficial to add similar introductory language to Part 4B as has been added to Part 4A in paragraphs 400.A – 400.D. Assurance engagements, similarly to audit engagements, involve the use of engagement quality reviewers, external experts and team members with expertise in specific areas of assurance and accounting. The addition of the explanatory language, which would be based on the revised glossary definitions of assurance team and engagement team (for an assurance engagement), will aid in a more fulsome understanding of these terms and the independence requirements applicable to each team.

In addition, while ISA 200 (Revised) and ISA 600 specifically apply to audit engagements, these standards may be applied, with modifications as needed, to assurance engagements. With the growth of assurance on environmental, social and governance (ESG) disclosures, entities may use their group reporting structures and systems to prepare ESG information, and the assurance provider may adopt a group audit approach to providing assurance on that information. It would be helpful for IESBA to add considerations on the group concept and how to consider the component auditor independence requirements in relation to an assurance engagement that applies ISA 600, particularly in relation to non-network firms.

44. Mazars Group (MAZARS)

A definition of Engagement team for the group is missing. We suggest including such definition in the final version of the adjustments to the Code of Ethics.

Yes. The ultimate outcome that is of most relevance is that if those charged with governance do not concur with the group auditor firm's assessment that the actions proposed or taken satisfactorily address the consequences of the breach, the group auditor firm will be precluded from using the work of the CA firm. That is consistent with the principle and guidance established in ISA 600 (Revised).

45. MNP LLP (MNP)

46. PKF International Limited (PKF)

We agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6.

47. Pitcher Partners

That the code should be consistent is appropriate, however, the proposed changes are not as currently defined ones which we would support.

48. PricewaterhouseCoopers International Limited (PWC)

Yes. See additional editorial suggestion in Appendix 2.

Others

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

We believe additional clarification is needed as to what it means to expand the definition of engagement team to include all types of assurance engagements. For example, will other PAs now be included in the new definition and do they have to apply other independence requirements compared to now.