Compilation of General and Overall Comments to ET/GA ED

Note to IESBA Meeting Participants

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

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)

2. Committee of European Auditing Oversight Bodies (CEAOB)

General comments

We welcome the IESBA's initiative aimed at aligning the definition of engagement team and related language with ISQM 1, Revised ISA 220 and Revised ISA 600.

The CEAOB supports the standard setting boards efforts to improve alignment, consistency, and compatibility between the International Standards on Auditing and the Code. We believe that it is important that the IESBA strengthens the relevant independence considerations that apply in a group audit, whether the component auditor (firm) is part of the group auditor firm's network or not.

The CEAOB continues to consider that it is important to facilitate further convergence between the concepts used in Code and in the European Union ("EU") regulations. To this end, the CEAOB encourages the IESBA to pursue its benchmarking initiative comparing its International Independence Standards against the independence rules of the EU regulations to provide information to stakeholders about the similarities and key differences.

Other comments

We note that the explanatory memorandum is clearer on certain topics than the proposed revised Code. For example, we note that the Explanatory Memorandum provides more insight than the draft standard with respect to the issue mentioned in paragraphs 10 and 11 of this letter regarding paragraphs 405.12 A1 and 405.12 A2.

Even though we have noted that the language in paragraph 400.A (b) of the Code is aligned with that of paragraph A17 in ISA 220, we believe the terminology used in paragraph 400.A (b) could cause confusion. We suggest replacing it by '(b) a firm that is not a network firm, or (c) another service provider' and to liaise with IAASB to align ISA 220. Also, we wonder whether this definition makes it sufficiently clear that all team members for every component audit are included as well.

3. International Forum of Independent Audit Regulators (IFIAR)

Overarching comments

We welcome IESBA's initiative aimed at enhancing the requirements in the Code to address auditors' independence in a group audit context. We also support the alignment of a number of provisions in the Code to conform to changes in the International Auditing and Assurance Standards Board's (IAASB's) Quality Management standards and ISA 600 (Revised), Special Considerations – *Audits of Group Financial Statements (Including the work of Component Auditors)*. These efforts represent a step-forward to enhancing confidence and public trust in the audit profession. Nonetheless, we are of the view that the proposed requirements should be enhanced in light of the comments below.

We support the direction of the ED to:

- Establish new defined terms and revise a number of existing terms, including for application with respect to independence in a group audit context;
- Clarify and enhance the independence principles that apply to individuals involved in a group audit and firms engaged in the group audit, including firms within and outside the group auditor firm's network; and
- More explicitly set out the process to address a breach of an independence provision at a component auditor firm, including reinforcing the need for appropriate communication between the relevant parties and with those charged with governance of the group audit client.

However, as noted by our comments in this letter, we believe there are areas where: (1) requirements could be strengthened; (2) terminology and definitions could be clarified; and (3) application material could be added to further improve the Code, thereby driving consistent application with the ultimate goal of enhancing audit quality.

We strongly recommend that IESBA aims to finalize the proposed revisions to the Code in order to align the effective date of the final provisions with the effective date of ISA 600 (Revised) - i.e., for audits of financial statements for periods beginning on or after December 15, 2023.

4. International Organization of Securities Commissions (IOSCO)

Overall Comments

General

We appreciate the IESBA's initiative to take on this project which includes the important tasks of (1) aligning the definition of the term "engagement team" in the Code with the revised definition of the same term in ISA 220 (Revised); and (2) revising the International Independence Standards (IIS) so that they are robust, comprehensive, and clear when applied in a group audit context, including independence for non-network component auditors (CAs).

In reconciling the proposed revisions of the definition of the engagement team in the Paper with ISA 220 (Revised) and ISA 600 (Revised), we believe the definitions appear to be consistent. We support the cooperation between IESBA and the IAASB in order to provide consistency in definitions between the Code and the IAASB's quality management and performance standards. In addition, the proposed revisions related to the application of the IIS in a group audit context, including independence for non-network CAs, provide helpful clarity. In our view, applying consistent independence requirements to all individuals involved in an audit engagement, regardless of their location or employment status, promotes high quality audits and investor confidence in financial reporting.

We have included below certain matters, including observations and clarifying edits, for your consideration that we believe would further strengthen the Code and enhance understandability.

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

Introduction

We welcome the IESBA's initiative aimed at developing more robust requirements in the IESBA Code to address auditors' independence in a group audit context. We also support the alignment of a number of provisions in the Code to conform to changes in the International Auditing and Assurance Standards Board's (IAASB) Quality Management standards and International Standard on Auditing (ISA) 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*. These efforts represent a step forward with regard to enhancing confidence and public trust in the auditing profession.

We also support the direction of the IESBA's Proposed Revisions to:

- Establish new defined terms and revise a number of existing terms, including for application with respect to independence in a group audit context;

- Clarify and enhance the independence principles that apply to the individuals and firms that are respectively involved and engaged in a group audit, including firms within and outside the group auditor firm's network; and
- More explicitly set out the process to address a breach of an independence provision at a component auditor firm, including reinforcing the need for appropriate communication between the relevant parties and with those charged with governance (TCWG) of the group audit client.

However, our opinion is that there are areas where: (1) requirements could be strengthened; (2) terminology and definitions could be clarified; and (3) application material could be added to further improve the IESBA Code. Addressing these concerns would help drive consistent application, with the ultimate goal of enhancing audit quality.

The IRBA highlights that the IESBA's Proposed Revisions contain some principles that may have possible unintended consequences, as the practical application may vary in practice. For example, the proposed revisions define a "component audit client" in the following terms:

- 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 the IESBA Code requirements, depending on whether the component audit client is a legal entity or not. We therefore suggest that the 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?

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

7. United Kingdom Financial Reporting Council (UK FRC)

The FRC supports the IESBA's aim of ensuring more robust requirements in the Code to protect the auditor from threats to independence arising within the context of group audits. We generally support several specific measures included in the Exposure Draft, but we do have concerns on some of the specific proposals.

We especially welcome the co-ordination between the IESBA and the IAASB on the use of common definitions based on ISA 220 (Revised) and ISA 600 (Revised). We also support the alignment of the Code's definition of Engagement Team with that set out in ISA 220 (Revised). Additionally, the close interaction between the proposed revisions and relevant ethical requirements set out in ISA 600 (Revised) is welcome, including the requirements for the Group Engagement Partner to take responsibility for understanding and complying with relevant ethical requirements. In our view, the proposed independence requirements for group audits also help clarify and strengthen the Code. The procedures for communicating a breach of independence requirements for component auditors will also form an important addition to the Code.

Our principal concerns relate to the proposed treatment of Component Auditors. As set out in our response to Question 5, we do not consider it appropriate for the Component Auditor to possess any financial interest in any part of the group entity to which the component belongs. We also have concerns around alternating between specific requirements and the conceptual framework for considering similar independence risks, for example as set out in paragraphs 50 and 59 of the Explanatory Memorandum. This approach could result in different responses to the same threat driven by whether the Component Auditor is a member of the same network as the Group Auditor or not. We do not believe that outcomes for Component Auditors should differ simply based on whether they are or are not included within the Group Auditor's network.

We also have concerns around alternating between specific requirements and the conceptual framework for considering similar independence risks, for example as set out in paragraphs 50 and 59 of the

Explanatory Memorandum. This approach could result in different responses to the same threat driven by whether the Component Auditor is a member of the same network as the Group Auditor or not. We do not believe that outcomes for Component Auditors should differ simply based on whether they are or are not included within the Group Auditor's network.

Public Sector Organizations Public Sector Organizations

8. United States Government Accountability Office (GAO)

We support the IESBA's efforts to revise its standards to reflect group audits. In our responses, we identify several areas where improvements and clarifications are necessary. In particular, we believe the explanatory guidance in paragraphs 400.A through 400.D can be improved by adding examples and modifying some of the existing examples. In addition, we believe the definitions can be improved to clearly identify that an engagement quality reviewer can come from outside the network.

We also believe that additional application materials with examples will improve the clarity of the definitions and proposed changes to the standards related to group audits and how to address independence breaches.

Independent National Standard Setters

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

Overall comments

APESB is supportive of the IESBA's project to revise the definition of engagement team and address independence consideration for group audits in the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code). In particular, we are supportive of the clarification that consistent independence provisions apply to all members involved in a group audit engagement. We believe this position reflects the public's expectations of an auditor's independence concerning group financial statements.

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

The NZAuASB supports the IESBA's objective to align the definition of engagement team with the International Standards on Auditing and to revise the International Independence Standards so that they are robust, comprehensive and clear in a group context.

We agree with the proposals in principle. However, the proposals are complex and very technical, and we found a number of them difficult to understand. We encourage the IESBA to simplify the drafting through use of shorter sentences in the Code. To assist readers to better engage with revisions, we also encourage the IESBA to develop illustrative examples and/or flowcharts in non-authoritative material. Our detailed responses to questions 1 to 10 are included in the attachment.

In formulating this response, the NZAuASB held a webinar to gather the views of New Zealand stakeholders where in general we heard support for the proposals. The NZAuASB also received a submission from a professional body that expressed support for the proposed changes to align the Code with recent changes made by the IAASB, recognising that independence is a fundamental principle of audit. However, the professional body highlighted that there may be some practical and unintended consequences from these proposals e.g., expanding the independence requirements may drive some firms to not undertake component work or from utilising component auditors outside of their network. The submitter also encouraged the IESBA to field test the changes, to fully understand what the consequences may be, and we support that suggestion.

Professional Accountancy Organizations

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

Proposed definitions

We welcome the opportunity to comment on the IESBA's ED Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits. We commend the IESBA for engaging closely with the IAASB in ensuring that the proposed changes are consistent with the ISAs.

We generally agree with the proposed changes to the Code related to the revised definition of the term engagement team given that this aligns with the definitions used in ISA 220 (Revised) and ISQM1, ensuring consistency between the IESBA code and ISAs. We are also generally supportive of the proposed changes to the definitions of the terms audit team, review team and assurance team, particularly in recognising that EQRs can be engaged both from inside and outside a firm, aligning these definitions with IAASB's ISQM2. We are sceptical regarding the current drafting of paragraph 400.C, as it is not clear which other persons will be captured by the definition, which could lead to unintended consequences.

Independence in group audit context

While we agree that firms and members of the engagement team should ideally be subject to the same level of independence requirements, we do have some reservations regarding some of the proposed revisions, in particular, as they relate to component auditors outside the group auditor's network having to comply with the PIE international independence standards irrespective of whether the component is a PIE or not. This could lead to unintended consequences. Firms outside the group audit firm network, such as local SMPs, are often engaged because they provide the statutory audit service to the component, and they bring local expertise. Having to comply with the PIE independence requirements when the component is not a PIE could therefore disincentivise such firms, particularly SMPs, to be engaged as component auditors, exacerbating market concentration issues, at a time where audit reforms taking place in various countries are trying to find ways to enhance competition in the audit profession. Furthermore, this could have an impact on audit quality given that priority may be given to using component auditors from within the group audit firm's network over component auditors that are outside the group auditor firm's network, losing the local expertise that component auditors from outside the group audit firm's network could bring.

We therefore suggest the IESBA should consider whether the binary approach of following the PIE independence requirements is indeed the right approach, taking into consideration our concerns. Instead, we suggest exploring whether following the PIE independence requirements should be based on the significance of the component to the group audit rather than a binary approach. This would ensure that in cases where the risk is high and the component is considered significant, component auditors are complying with the PIE independence requirements and where it is not, they are not required to do so, although they may be encouraged to do so.

12. Accountancy Europe (AE)

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

14. Botswana Institute of Chartered Accountants (BICA)

15. Chartered Accountants Ireland (CAI)

16. CPA Australia (CPAA)

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

Our views

We commend the IESBA for its efforts to establish provisions that comprehensively address independence considerations for firms and individuals involved in an engagement to perform an audit of group financial statements. We are broadly supportive of the proposed revisions to address the independence implications

of the change in the definition of an engagement team in the International Auditing and Assurance Standards Board's (IAASB) International Standard on Auditing (ISA) 220, Quality Management for an Audit of Financial Statements and appreciate the coordination efforts undertaken with the IAASB in the development of the proposals.

Notwithstanding our overall support for these proposals and our responses to your specific questions, where we have recommended clarification or additional guidance to encourage consistency in the interpretation and application of the proposals, we encourage the IESBA to also consider our comments below related to the consultation process more broadly.

Comment periods for IESBA Exposure Drafts

As outlined in our previous communications with the IESBA, the PTC would like to reemphasize that a 90-day comment period is highly challenging, especially in a multi-jurisdictional country such as Canada. The challenge of responding within a relatively short time frame is even more acute in our particular circumstances, as our due process for providing comments includes the exposure of IESBA proposals to revise the International Independence Standards for public comment in Canada. It is also noteworthy that the IESBA has released more than one set of proposed revisions for public comment, with tight deadlines for responding.

As the IESBA continues its important work in encouraging and promoting global adoption of the Code, we recommend it consider whether longer public consultation periods would result in more comprehensive and considered input and lead to a more rigorous standard-setting process in the public interest. This is particularly important in jurisdictions such as Canada where the proposals must be considered in the context of local laws and regulation and may require translation for public exposure. We are concerned that a 90-day comment period does not allow sufficient time to coordinate and prioritize the resources required for robust consultation in all jurisdictions and request that the IESBA increase the length of comment periods going forward.

Webinars and other resources related to IESBA Exposure Drafts

The IESBA's webinars are found by our committees to be extremely helpful in understanding the IESBA's process in developing its proposals in the public interest, as well as the substance and implications of the proposals to the Code itself. Given the IESBA's short comment periods and the usefulness of these webinars to our committees in responding to the IESBA's proposals, we request that going forward the IESBA provide webinar dates on the same date as the relevant exposure draft is published if at all possible. This would greatly assist our committees in understanding the proposals and providing feedback to the IESBA.

Other Comments

- The PTC observes that proposed paragraph 405.11 A1 states "The group engagement partner "**might"** determine that an engagement partner who performs audit work related to a component for the purpose of the group audit is a key audit partner…" We are of the view that the group engagement partner should be **required** to determine whether or not an engagement partner for the component audit is a key audit partner and, if they are, communicate that in writing to them. We recommend that the IESBA redraft this determination and communication in writing to be a specific requirement, followed by the application material in 405.11 A1 as it is currently drafted.
- We also observe that the numbering of the application material for the proposed section 405 is different from the other sections of the Code. Typically, the application material has the same number as the requirement to which it relates but is differentiated by dropping the "R" before the number and followed by "A". For example, R511.5 has application material 511.5 A1, 511.5 A2 and 511.5 A3. In the proposed section 405 it is unclear which requirement the application material is providing guidance on. For example, 405.11 A1, 405.12 A1, 405.13 A 1, 405.13 A2 – do not have corresponding requirements and is unclear which requirement they are explaining. We recommend that the IESBA reconsider the numbering of the application material in section 405, to make it consistent with the other sections to the extent possible.

- Finally, the PTC recommends that the IESBA ensure that they have conducted sufficient consultation with small and medium-sized practitioners to appropriately evaluate the impact of these proposals in that space.

18. Compagnie Nationale des Commissaires aux Comptes (CNCC)

Although we recognise that the ED provides some clarifications as to the applicable independence rules in the case of a group audit, we have two issues of major concerns:

1. Overall complexity of the proposals:

We consider that the proposals remain overly complex especially with respect to the various definitions of audit team and engagement team, and the implications of being a member of one or the other, in terms of which independence rules to be applied. The complexity of the ED is such, due to the many interactions with ISA 600 and with the other parts of the IESBA Code, that, even though we formed a group of highly knowledgeable practitioners to draft the response, we could not get a clear view as to which independence rules apply to a non-network firm and where it applies. Does the non-network firm need to be independent from the group, including its related entities? or does it need to be independent from the component? Is it different in the case where the group is listed, etc.? As presently drafted, we believe that the practitioners in non-network firms will have great ·difficulties to understand what applies to them.

2. Major concern on the application of the PIE independence rules to the non-network component auditor of a non-PIE component:

We have a major concern with the application of the PIE independence rules to the non- network component auditor of a non-PIE component when the Group is a PIE.

We consider that the necessity for imposing such an important change in requirement is not proven in terms of expected increase in audit quality. We also consider that this change would impose an unnecessary burden to non-network SMPs and would be detrimental to the audit market by further increasing market concentration.

Prior to imposing such a change in the code, the board should demonstrate that it is either necessary for the quality of the group audit or for the independence in fact or in appearance of the group auditor.

If the non-PIE independence rules are considered fit for purpose to allow the component auditor to issue an audit opinion on those financial statements to the Public, had they been single financial statements of the component, why would such non-PIE rules not be enough for the group auditor to rely on the work of the component auditor? In other words, why are the non-PIE independence rules sufficient for the Public and not for the group auditor?

The non-network component auditor does not have the same role and responsibility as the group auditor or its network firms. The non-network component auditor does not have access to the management or the governance of the group and is therefore unable to influence the positions taken either on the group financial statements or on the opinion on the group financial statements. It is therefore acceptable that a non-network component auditor may not be subject to the same independence rules as the network auditor.

A non-network auditor of a non-PIE component may be unable to apply PIE independence rules such as partner rotation and EQCR on the component. It may be an SMP which may not have any PIE client and therefore not be equipped accordingly.

In addition, not all components are material to the group audit. There can be groups with many components none of which are material (public parkings, retirement houses, hotels, etc.) and components may be scoped-in by the group auditor to have sufficient audit coverage of the group, even though they are not material. The new rule may therefore apply on immaterial components.

Therefore, we consider that the application of that new rule would have major implications on the audit market since it would lead to further market concentration in the audit by chasing non- network auditors away from the audit of non-PIE components in PIE Groups.

This would also have impacts on statutory audits for these entities since it would most likely irrevocably lead to the group asking for a change of the statutory auditor in the component to replace it by a network firm of the group auditor. In France, it is rather frequent to have non- network auditors in non-PIE components of a group. It can be the case, for example, as a consequence of external growth, when a group acquires existing entities which already have a statutory auditor that can be a non-PIE SMP. It is also linked to the fact that the statutory auditor in France has, by law, a 6-year engagement and is not allowed to resign during its 6-year engagement unless there is a proper justification anticipated by the law (change of group auditor is not considered as a proper justification). It is therefore not a rare occurrence to have non-network component auditors in a PIE Group.

It can also be the case in larger pan European groups, due to the different duration applicable to audit firm rotation.

Because we consider that this proposal is not necessary to drive the quality of group audits and because of the practical implications which would irrevocably lead to further concentration in the audit market at a time when the legislator is seeking to increase choice in the audit market everywhere, the CNCC cannot support this proposal.

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

GENERAL COMMENTS

EFAA is concerned to ensure that professional standards and regulation is proportionate to the capacities of small- and medium-sized accountancy practices (SMPs) and their small- and medium-sized entity (SMEs) clients and tailored to the needs and characteristics of SMPs and SMEs. This project is integral to the scalability of the *International Code of Ethics for Professional Accountants* (the Code).

EFAA raised concerns to IAASB in our comment letter on the ISA 600 Exposure Draft, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Consequential and Conforming Amendments*. In that letter we expressed concern that the proposals might have the unintended consequence of adversely impacting the perceived value of the statutory audit (clients may have to pay for work on components during group audits and again for (separate) statutory audits of components), resulting in fewer audits being required by local laws. This may have a significant impact on the audit market in certain jurisdictions, potentially to the detriment of SMPs who would lose the statutory audits and may ultimately even exit the market. There may also be a public interest issue concerning the impact on the audit market – especially since the top-down approach to direction, supervision and review may adversely impact the use of SMPs from outside networks for work on components. Professional standards should not adversely impact the audit market. The European Commission has often expressed concerns about the concentration and lack of choice in the audit market.

While we recognize that the primary objective of this project is to make conforming amendments arising from ISA 600 (Revised), expanding the scope of the definitions to the Code widens the net to all professional accountants and, furthermore, expands the scope to address when independence would be required in group audit situations. EFAA has similar concerns to those we expressed in relation to ISA 600 that is, SMPs finding it challenging to apply in practice and risk being driven out of the component auditor market. EFAA strongly urges the Board to carefully examine this matter as there is a risk the IESBA proposals will exacerbate audit market concentration.

EFAA is especially concerned about the provisions in R405.9 regarding group audits that are not public interest entities (PIEs). Oftentimes SMPs act as component auditors for group audit clients that are not PIEs, and in some jurisdictions ensuring firm independence can be difficult, especially in jurisdictions where there are a few auditors in a certain industry or with a certain specialty.

EFAA is concerned that SMPs will be most impacted by these proposed changes, yet they may be least likely to respond to this proposal for various reasons ranging from lack of awareness as well as time and resources. There is a risk they simply view this proposal as primarily being consequential and conforming amendments and so pay little attention to it. Therefore, EFAA strongly encourages targeted outreach to the SMP community and awareness raising educational initiatives to ensure they fully understand the potential

impact of these amendments on their practice. IESBA might wish to convene a focus group of SMPs or issue a short survey specifically addressed to SMPs. EFAA is happy to help the Board obtain further SMP input.

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

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

Overall, we support the IESBA's proposed revised definition of engagement team and other proposed new terms for purposes of specifying independence provisions for group audits. However, we have concerns on the proposed independence principles for non-network component audit (CA) firms that when the group audit client is a public interest entity (PIE), the PIE independence provisions would apply to the non-network CA firm with respect of its audit of the component even if the component audit client is not itself a PIE. The proposal would also prohibit non-network CA firms from performing non-assurance services to a component audit client (which itself is not a PIE) when the group audit client is a PIE. The consequences altogether could limit corporates' choice of auditors, intensify the concentration of audit market etc.

Accordingly, we recommend the IESBA to re-consider the applicability of PIE independence requirements to the non-network CA firm of a non-PIE entity component by applying indicative factors or providing exemption in particular circumstances, rather than adopting a one-size-fit-all criteria. Any such concessions would need to be clear to avoid misinterpretation and inconsistent application.

22. Instituto dos Auditores Independentes do Brasil (Ibracon)

23. Institute of Chartered Accountants of Scotland (ICAS)

Key Points

Overall, we are generally supportive of IESBA's proposals outlined in the above Exposure Draft and believe that the new provisions will be beneficial to users of the Code. We suggest below a few amendments which we believe will improve clarity for users of the Code and, on a specific matter, question whether the proposals are sufficiently comprehensive.

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

Key Points

We welcome the opportunity to comment on IESBA's proposed changes to the International Code of Ethics for Professional Accountants (the Code). Given the publication of the new Quality Management standards and ISA 600 (Revised), we believe that it is important to align definitions and requirements in ISAs and the Code in order to provide greater clarity in relation to the independence requirements for group audits.

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

26. Institut der Wirtschaftsprüfer (Germany) (IDW)

Support for the Initiative

We support this initiative and agree that the IESBA should both align certain definitions with those of the IAASB in ISA 220 (Revised) and ISA 600 (Revised) and ISQM 1, where appropriate, and stipulate specific independence requirements in order to clarify what the term "relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement" as used in ISA 600 (Revised) 25 and 27 and 45 means for component auditors in a group audit.

Issues for Sustainability-Related Assurance – Independence

We note that IESBA has not discussed the issue of sustainability-related assurance as part of the audit of group financial statements in its consideration of this initiative. We would therefore urge the IESBA to fully investigate the implications in considering how the Code might need to change to address this, bearing in mind the following:

Potential Impact on the Audit/Assurance Market

In this context, we are concerned that further changes relating to ESG assurance as part of the audit of group financial statements – should they reflect a stance similar to that of the Proposal – can potentially have a significant impact on the audit/assurance markets, when assurance procedures need to be performed on ESG information stemming from a reporting entity's supply chains that the entity has to report and that thus becomes subject to assurance.

In our comment letter to the IAASB dated May 26, 2021 relating to the ED "Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New Revised Quality Management Standards", we noted that the impact of the change in IAASB's definition of "engagement team" on engagements performed in accordance with ISAE 3000 (Revised) and in particular those engagements that encompass information from supply chains outside of corporate groups demands thorough investigation by the IAASB together with the IESBA prior to the incorporation of this new definition in ISAE 3000 (Revised). Below is a quote from the afore-mentioned comment letter, which explains our concerns as to independence requirements more fully:

"In the short run, this issue will be substantially exacerbated by laws in the process of being developed within some EU member states that make entities over a certain size responsible for the compliance of suppliers outside of the EU with national social responsibility requirements, and by the current draft of the EU directive that will make assurance (using ISAE 3000, for example) on corporate social responsibility reports mandatory for entities over a certain size as part of the statutory financial statement audit. It is unclear to us at this stage of analysis what the implications are of the engagement team definition to the application of independence requirements for statutory financial statements as set forth by EU law for PIEs (including the "blacklist") to practitioners assuring information in the upstream supply chain for the purposes of the statutory financial statement audit, but not otherwise involved in assuring information within a group. It is not unthinkable that the extension of these independence requirements to all firms in the supply chain may accelerate a movement towards audit-only (or at least, assurance-only) firms internationally, which we believe is not the intention of the change in the definition of engagement team."

For example, in a group audit situation, the parent entity may have control of (or at least have significant influence over) components, whose financial information is subject to consolidation, which facilitates access to their financial information needed for financial reporting purposes and to component auditors whose work is needed for the group audit. This is not the case when ESG information from outside the group or entity is required to be reported together with the group financial statements but needs to be obtained from potentially a multitude of different entities within the upstream and downstream supply chain, where management is unlikely to be in a similarly strong position to access such information or direct a supply-chain entity's management to ensure that the group auditor has access to another assurance practitioner performing procedures on supply chain information as part of the audit of the group financial statements. Our concern is that an extension of independence requirements to those performing procedures on supply chain information could be unworkable in practice and thus serve to accelerate a movement towards audit-only (or assurance-only firms).

Considerations as to the Scope of the Code

As the IESBA is aware, there are currently significant developments in the pipeline both at an international level and, of most relevance to our members, in the EU where various issues are currently under discussion, including whether others (including e.g., environmental engineers, consultancy practitioners etc.) than professional accountants may be permitted to provide assurance services in respect of sustainability-related reporting, the scope of entities required to report on sustainability-related information, the content of their reporting as well as the placement of that information.

We therefore also support the IESBA considering its own role in this arena, i.e., how the IESBA Code could be amended so as to apply to those individuals who play a significant role in both preparation and assurance of sustainability-related information who are not already required to adhere to the IESBA Code. This would include both preparers of sustainability reporting that are not professional accountants in business, and those performing assurance engagements on corporate sustainability reporting beyond those who are members of the professional accountancy profession.

The Need for a Proportionate Approach

As we discuss in our responses in the appendix to this letter, we suggest that IESBA reconsider its proposals to require the most stringent PIE independence requirements to be required for all work performed by a component auditor on every component that is itself not a PIE but within a group whose parent company is a PIE and instead prescribe a proportionate approach. In respect of group audit or assurance work involving assurance practitioners outside the group performing procedures on supply chain information, we would similarly urge IESBA instead to develop a proportionate approach recognizing the relative level of significance of the work performed

Potential Impact of the Proposals relating to Component Auditor Independence on the Audit Market

A further concern – especially amongst, but not limited to, SMPs in our jurisdiction – is that that the proposals, if adopted, may have significant consequences in the audit market as we discuss in our responses in the appendix to this letter and outlined below.

Proposed R405.19 of the IESBA's proposal would exacerbate the concern, which the IDW had noted in responding to the IAASB's ED ISA 600. In the context of ISA 600, our concern was that the change to the definition of "engagement team" would have a significant practical impact in a group audit because it results in a requirement for the group auditor to direct, supervise and review the work all component auditors. For example, a non-group auditor network firm may perform a statutory audit of a component that is a non-PIE and thus apply the provisions of the Code appliable to non-PIEs (in practice, for SMEs the fee related provisions could be an issue as could the client's request for permissible non-audit services that would be of benefit to that (often SME) component), whereas if the parent entity is a PIE the proposals would require that firm perform group audit procedures under PIE-requirements of the Code to be used by the group auditor. Thus, in the event that the non-network has performed such a statutory audit, it is possible that none or little of the work done by this firm could be used for group audit purposes and thus may have to be duplicated. Of course, a group auditor could instruct such a component auditor to perform all work under the Code's PIE independence requirements, but this could be difficult for some smaller firms (fee thresholds) or prevent the client benefiting from the provision of (non-PIE permissible) NAS.

We therefore urge the IESBA to prescribe a proportionate approach that recognizes the relative significance of the component to the group audit combined with the relative ability of procedures performed by a non-network component auditor to directly influence the outcome of the group audit, rather than to require all audit work on the financial information of that component performed by a non-network component auditor on the group audit be performed under the PIE ethical requirements because the parent company is a PIE.

Excessive Complexity will hinder the Application of the Code in Practice

In responding to questions 1 and 2 we note unhelpful complexities that impact the understandability of the Code. We also believe that the incidence of cross references to "relevant" but unspecified material elsewhere in the Code e.g., in proposed paragraphs R405.3, R405.4 and R405.5, is unhelpful and will lead to considerable difficulty in practice in the context of understanding the practical application of such requirements.

In our opinion, the Code needs to be drafted in a clear and concise manner in order for it to be easy to understand and apply.

27. Institute of Singapore Chartered Accountants (ISCA)

Overall, we are supportive of the proposed revisions to the Code, given that they were developed in close coordination with the International Auditing and Assurance Standards Board to be consistent and interoperable with the International Standards on Auditing ("ISAs") and International Standards on Quality Management ("ISQMs").

28. Japanese Institute of Certified Public Accountants (JICPA)

29. Korean Institute of Certified Public Accountants (KICPA)

30. Malaysian Institute of Accountants (MIA)

31. Royal Nederlandse Beroepsorganisatie van Accountants (NBA)

32. New York State Society of CPAs (NYSSCPA)

The proposed amendments appear reasonable and represent a desirable effort by the IESBA to conform international ethics standards and audit standards, thereby avoiding confusion and uncertainty.

The proposed changes seek to harmonize standards, including independence standards, which sometimes vary among supervisory bodies. In particular, the maintenance of independence, both real and apparent, is critical in avoiding unacceptable influence on attest engagements.

The International Auditing and Assurance Standards Board (IAASB) recognized that, under current practice, engagement teams may be organized in many ways, including being in one physical location or in several different geographic areas. In seeking to assign the best qualified personnel for an engagement, firms often draw from their staff in many separate locations. The IAASB also recognized that individuals involved in the audit engagement may not necessarily be engaged or employed directly by the firm. Thus, the IAASB proposed that assigned personnel would be considered part of the Engagement Team (ET) regardless of their location or employment status if the individuals perform audit procedures on the engagement. As members of the ET, such personnel can be appropriately directed, supervised, and reviewed.

These recognitions of IAASB have been appropriately incorporated in the proposed changes. We applaud the IESBA's efforts to harmonize audit and ethical standards and, very importantly, to recognize changed and evolving practices in staffing, supervising, and reviewing attest engagements.

33. South African Institute of Chartered Accountants (SAICA)

OVERALL COMMENTS

1. SAICA welcomes the efforts of the International Ethics and Standards Board for Accountants (IESBA) in issuing the Exposure Draft. We agree with the approach to align the definitions in the Exposure Draft to the definitions in the International Auditing and Assurance Standards Board (IAASB) pronouncements. In our comment letter to the IAASB on the Exposure Draft on ISA 600, SAICA had raised the following as some of the concerns:

   a. Situations where statutory audits have been performed by other auditors on components and how the group auditor should assess and document the considerations made to rely on the work performed by the other auditor. For example, the group engagement team may not be able to evaluate whether the component auditors have fulfilled the ethical requirements that are relevant to the group audit engagement, including those related to independence.

   b. Cases where some of the components in a group structure relate to equity investments that the group does not exercise control over. Such components may have component auditors from different auditing firms and the group engagement team may not necessarily have access to information and people.

2. The two scenarios highlighted above could result in situations where there are different Codes of Ethics that apply due to different jurisdictional requirements. This places a responsibility on IESBA to engage with those regulators in jurisdictions that apply different Codes to ensure that there is some alignment at a global level.

3. The business environment is evolving rapidly, and such evolution poses a multitude of challenges on the performance of group audits. The efforts to improve the Code should lead to greater consistency in the application of the Code and should have a positive impact on audit quality. South Africa is the gateway to the rest of the African continent when it comes to business. As such, there are companies whose

headquarters are in South Africa with business interests across the continent and the rest of the world. Performing group audits on these companies can be challenging and may give rise to a vast array of complexities. Such audits bring to the spotlight differences in culture and languages, codes of ethics, as well as laws and regulations. Therefore, it is in this context that SAICA welcomes the revisions to the Code.

4. In South Africa, mandatory audit firm rotation (MAFR) will become effective on 1 April 2023. This will likely give rise to audit engagements where the group auditors for multi-national entities and component auditors come from different auditing firms and the need becomes greater to ensure that the Code contains sufficient guidance to allow practitioners from different firms working on the same group engagement to perform consistent and high-quality audits. If there were a lack of sufficient guidance in the Code in this regard, it could possibly lead to a situation where audit firms apply ethical principles that differ significantly and there could be a lack of consistency in how group audits are performed. This also highlights the importance of the IESBA working closely with the IAASB on projects going forward.

5. As part of the solutions used in South Africa to address the challenge of market concentration in the auditing profession, shared audits are often used to enhance the competencies of Small and Medium Practices (SMPs) so that they gain exposure to audits of large entity audits. This could involve auditors performing audit procedures on specific sections of the audit files relating to components and such procedures may not necessarily have a significant impact on the group audit opinion. Applying Public Interest Entity (PIE) independence requirements on the SMPs that perform these shared audits may not necessarily be in the interest of addressing the market concentration challenges.

34. South African Institute of Professional Accountants (SAIPA)

The proposed revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) establish provisions that comprehensively address independence considerations for firms and individuals involved in an engagement to perform an audit of group financial statements. The proposals also address the independence implications of the change in the definition of an engagement team—a concept central to an audit of financial statements—in the International Auditing and Assurance Standards Board's (IAASB) International Standard on Auditing (ISA) 220, Quality Management for an Audit of Financial Statements.

Among other matters, the proposals:

- Establish new defined terms and revise several existing terms, including for application with respect to independence in a group audit context.
- Clarify and enhance the independence principles that apply to:
    - Individuals involved in a group audit.
    - Firms engaged in the group audit, including firms within and outside the group auditor firm's network.
- More explicitly set out the process to address a breach of an independence provision at a component auditor firm, including reinforcing the need for appropriate communication between the relevant parties and with those charged with governance of the group.
- Align several provisions in the Code to conform to changes in the IAASB's Quality Management standards.

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

36. Federation of Accounting Professions, Thailand (TFAC)

37. Wirtschaftsprüferkammer (Germany) (WPK)

General Comments

We very much support all efforts to improve audit quality and independence in the public interest. However, we would like to recall some of our key concerns we addressed in our comment letter regarding the Exposure Draft ISA 600[1] two years ago, which is closely linked to the ED we are commenting here:

- we have expressed our concerns, that the **competition-distorting disadvantages** of non-network-related component auditors will increase even further,

- we have expressed our concerns, that the lack of minimum requirements regarding the involvement in the work performed at component level will result in a **greater inconsistency of the involvement** approaches applied by different audit firms or networks, again in particular with regard to complex international groups. This will also reduce the ability of users of future group audits, including audit committees or any readers of group audit reports, to evaluate the effectiveness and persuasiveness of group audit engagements and
- we have expressed our concerns, that ED 600 may result in **several competitive disadvantages** in particular in situations when smaller and medium sized audit firms that are not related to larger networks act as component auditors. Also, in this regard, ED-600 falls short of extant ISA 600 which – due to our experience – successfully avoided such a distortion of competition within the audit profession

Against that background we elaborated that ISA 600 (Revised) in connection with the changes in ISA 220 (Revised) will have a noticeable and painful **impact especially on SMP component auditors**. It is to be expected, that group auditors will choose "own-network" firms due to the requirement to supervise and review the work of component auditors (ISA 600 (Revised), e.g. paragraphs 8, 28, 43). Therefore, non-network SMPs will increasingly be squeezed out of group audits.

Even if the ED predominantly proposes conforming amendments to the Code of Ethics, we fear that the expansion of the scope of the proposed definitions to the Code **extends the applicability to all professional accountants** and expands the scope to address when independence would be required in group audit situations.

We realise that applying all relevant independence rules for group audits are even yet complex in practice. Audit firms spend considerable amounts of time and resources on this. The proposed requirements of this ED **will even increase existing independence requirements** for group audits, EQRs and component auditors, therefore the board should carefully consider and evaluate the input (costs of monitoring and compliance) vs. output (improvement in audit quality) ratio, especially for SMPs

It would be helpful if IESBA **tested** the proposed changes with a variety of firms to understand the work involved **before making a final decision** on whether or not materiality of a component should be considered in applying the requirements.

WPK has concerns that some SMPs might be **forced to leave the component auditor market**. This is relevant especially in cases, were SMPs are engaged as component auditors within a group audit for group audit clients that are not PIEs.

Firms

38. Association of Italian Audit Firms (ASSIREVI)

General Comments

Our Association fully agrees on the aim of strengthening the independence rules applicable to a group audit, with particular reference to the ethical and independence requirements applicable to component auditors. The Code in force does not fully address the requests of ISA 600 (Revised) and auditors need more detailed guidelines.

However, we wish to bring beforehand to the IESBA's attention a specific issue arising from the Exposure Draft. In fact, the inclusion of component auditors in the definition of Engagement Team (hereinafter "ET") and the application to component auditors outside a group auditor firm's network of the same independence requirements which apply to the group auditor could result in a completely unbalanced trade-off for the component audit firms. This would be true both with respect to the nature of the activities required to them and in relation to the economics of the audit activity on the financial statements of the component. Accordingly, it is highly probable that, due to the new independence requirements proposed in Section 405, audit firms outside the group auditor firm's network may prefer not to pursue and/or accept a component audit engagement rather than bearing the cost to implement complex procedures aimed at monitoring the expanded independence requirements envisaged in the Exposure Draft. This does not appear to be in line

with the overall aim – currently pursued in the EU and other jurisdictions - to discourage market concentration, as the revised framework would facilitate the choice of a sole group auditor. Therefore, Assirevi would respectfully suggest that the IESBA should consider more balanced requirements, as further detailed in the following comments.

39. BDO International Limited (BDO)

General comments

1. BDO supports the collaboration between the International Auditing and Assurance Standards Board (IAASB) and the IESBA in revising the definition of *Engagement Team* as well as developing Section 405, *Group Audits* (Section 405) and ensuring that the requirements are consistent and capable of interoperation.
2. As an international network of firms providing a range of audit and assurance services to national and transnational groups, BDO welcomes and is generally supportive of the introduction of Section 405 into the IESBA Code in setting out the independence requirements in the context of group audits. We do, however have some concerns, as well as suggestions to clarify the proposed revisions. Refer to our responses to the specific questions for these comments.
3. BDO is of the view that the practical application of certain of the requirements may prove to be difficult and we encourage the IESBA to consider providing practical guidance on Section 405 in the form of application material as well as IESBA Staff Guidance material.

40. Deloitte Touche Tohmatsu Limited (DTTL)

We support the efforts by the Board to strengthen the Code and coordinate with the International Auditing and Assurance Standards Board (the "IAASB") to ensure the standards issued by the IESBA and IAASB are consistent where necessary. We support the overall proposals presented in the ED and consider they meet the objectives in the explanatory memorandum of updating Part 4A and the glossary of the Code to make the definition of "engagement team" consistent with International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements,* and International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and to revise the International Independence Standards ("IIS") in Part 4A when applied in a group audit context under ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* including with respect to independence for non-network component auditors.

Deloitte Global encourages the Board to consider certain clarifications in the proposed definitions and to introduce additional guidance for situations when circumstances may change to ensure effectiveness and consistent interpretation of the proposed revisions by the professional accountants within practical application of ISA 600 (Revised).

41. Grant Thornton International Ltd (GTIL)

We thank the Board for their continued efforts to serve the public interest and acknowledge the challenges they face to set high-quality standards that will enhance the profession. However, we do have some important concerns regarding the proposed revisions to the Code Relating to the Definition of Engagement Team and Group Audits, which we discuss in our comment letter.

42. Ernst & Young Global Limited (EY)

43. KPMG IFRG Limited (KPMG)

Overall, we are supportive of the Board's objective to coordinate with the International Auditing and Assurance Standards Board and clarify the independence requirements that apply to individuals on the engagement team. We also welcome the Board's efforts toward providing clear guidance concerning the independence of non-network component auditors. However, we do have a significant concern with the extent of the requirement for individuals from a non-network component auditor firm to be independent of the related entities of the group audit client. We believe that the risk of threats being at an unacceptable

level for individuals from a non-network component auditor firm due to relationships with, financial interests in or access to confidential information at these related entities is very low. We are concerned that there is little perceived value practically to the public interest or to the improvement of audit quality, yet the requirement will result in overly complicated processes and procedures to ensure compliance at the component team that may not be practicable to implement.

44. Mazars Group (MAZARS)

General Comments

- In general, we strongly agree with the adjustments proposed by the IESBA in the definition of engagement team especially regarding group audits. We are of the opinion that the proposed changes will create a more robust and comprehensive set of independence rules for audit firms, component audit firms and their respective teams which is important for the public interest.
- The scheme which is presented on page 17 is very useful. We suggest including this scheme in the Basis for Conclusions when finalising the adjustments in the Code of Ethics.

45. MNP LLP (MNP)

46. PKF International Limited (PKF)

We welcome the opportunity to comment to the International Ethics Standards Board for Accountants (IESBA) on the proposed revisions to its International Code of Ethics for Professional Accountants (including International Independence Standards) (the "Code"). Specifically, this letter comments on the proposed revisions to the Code relating to the definition of the engagement team and group audits. We are supportive of the revisions proposed by the IESBA.

47. Pitcher Partners (PP)

In its current form we do not believe the proposed revisions overall have sufficient clarity or consideration of practical issues with the implementation of them, but would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

48. PricewaterhouseCoopers International Limited (PWC)

Introduction

We appreciate and thank you for the opportunity to comment on the IESBA's Exposure Draft (ED) regarding proposed revisions to the Code relating to the definition of engagement team and group audits.

These proposed revisions are important to ensure the ongoing interoperability of the Code and the IAASB's standards, in particular ISA 220 (Revised) and ISA 600 (Revised).

We are largely supportive of the proposed changes. However, in our responses to the Board's request for specific comments, included in Appendix 1 to this letter, we provide some substantive suggestions on certain matters that we believe require further consideration, together with a few observations on matters where additional clarity or guidance might be useful. Appendix 2 includes additional editorial and other comments for consideration in finalising the revisions.

General Comment

We are aware that one potential unintended consequence of a requirement for non-network component audit firms to comply with the independence requirements relevant to the group audit of a listed entity or PIE is a risk that smaller and medium practitioners are unable or unwilling to act in such a capacity, which may exacerbate market concentration issues in certain jurisdictions. For example, the component audit firm's systems or policies may not be sufficient to manage compliance with the requirements established in the Standard including those applicable to the provision of non-assurance services or that there will be impacts on the range of services that have to date been provided to non-PIE clients. There will likely be some change management issues for SMPs.

In relation to individuals, ISA 220 (Revised) established a principle that treats all engagement team members equally and the proposals reasonably impose new requirements for individuals within component audit firms outside the group audit network. We do not believe, in principle, that there are valid arguments to support creating differential independence requirements for different classes of individuals within the engagement team or component auditor firms. To set out to apply a lower threshold of independence solely on competition grounds is clearly, in our view, not in the public interest. However, we believe that the refinement to the requirements set out in response to Q4 above may alleviate some of the likely issues for SMPs, particularly in cases where they have difficulty gaining access to relevant client information on related entities of the group audit client. It would provide for the application of the conceptual framework and should not be seen as a lower standard.

Appendix 2: Other comments

Paragraph	Comment
R405.2. A1	Para 405.2.A1 states: "The independence requirements referred to in ISA 600 (Revised), or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised), are those specified in this section." While it is true that the independence requirements referred to in ISA 600 (Revised) are those in the Code, other national standards that are equivalent to ISA 600 (Revised) may or may not refer explicitly to the ethical requirements of the Code. The above statement reads like a statement of fact. We assume the intent is to make a statement of equivalence in terms of the nature and extent of the relevant ethical requirements that are required to be followed under those other relevant auditing standards. We suggest this statement be clarified.
R300.16 & R360.17(b)	While we understand the rationale for the proposed additional words, there is a risk of confusion given that a legal entity or business unit may also be a component (part of the definition of a component). For absolute clarity we suggest that the lead-in and part (b) include the additional words "legal entity or business unit that is not determined to be a component but is otherwise part of a group".
Application of R400.30	This provision in the Code sets out when independence shall be maintained. It is not evident how this requirement should be applied by a component auditor outside the Network in relation to the group audit client. Is the component auditor required to be independent in accordance with the relevant ethical requirements until it issues its report to the group audit firm or by reference to another date, such as when the group audit firm issues its report? We recommend that this is addressed. There may be some practical challenges, such as knowledge about the relevant dates (the group audit report will be issued at some point in the following financial statement period) or in those scenarios when the component audit firm is not aware as to whether it will be asked to remain as as the component auditor in a subsequent period (e.g whether there is to be an on-going relationship).
Explanatory Memorandum Appendix 2	Although not forming part of the proposed changes to the Code itself, we observe that Appendix 2 includes separate references to a "significant" breach and a "very significant" breach. It is unclear what differentiating factors result in a significant breach becoming "very significant". Provisions in R405.15 and R405.16 require a determination of significance and whether the breach can be satisfactorily addressed, and that the auditor's objectivity has not been compromised. The critical factor that seems most relevant is therefore whether the breach can or

	cannot be satisfactorily addressed and/or whether a determination is reached that objectivity has been compromised. It may be more helpful, if the flowcharts are to be used going forward, to reflect these two thoughts in boxes I and J within the flowchart and simply refer to "significant breaches" in both cases, avoiding the arbitrary references to significant and very significant.

Others

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

GENERAL COMMENTS

The SMPAG agrees that aligning the IAASB and IESBA definitions and clarifying what the term "the relevant ethical requirements" means in the context of the group auditor's responsibilities under ISA 600 (Revised) as explained in proposed 405.2A1 is helpful.

However, the SMPAG raised concerns to IAASB in our comment letter on the ISA 600 Exposure Draft, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Consequential and Conforming Amendments*, including the following in the introduction to that letter:

> "The proposals may also unintentionally lead to a change in perception of the value of the statutory audit (in practical terms, clients may have to pay for work on components during group audits and again for (separate) statutory audits of components), possibly leading to less audits being required by local laws (where there are options) and thus have a significant impact on the audit market, potentially to the detriment of SMPs who would lose the statutory audits and may ultimately even exit the market – although this could be jurisdiction specific. There may also be a public interest issue concerning the impact on the audit markets – especially since the top-down approach to direction, supervision and review may adversely impact the use of SMPs from outside networks for work on components. Auditing standards should not drive anticompetitive behavior. In this context, we note that the EU Commission has expressed firm views on audit market concentration issues."

While we understand that some of IESBA's proposals represent conforming amendments as a consequence of the recent proposed changes to the group auditing standards in ISA 600 (Revised)[1], expanding the scope of the proposed definitions in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "Code") now widens the net to all individual professional accountants involved in group audits and also expands the scope to address when independence would be required for firms in group audit situations. The SMPAG has similar concerns that we raised with the related IAASB ED, whereby ISA 600 (Revised) will impact the use of SMPs and especially non-network SMPs in practice, as since there is no de minimis exception in the proposal, this could force some SMPs out of the component auditor market. The SMPAG believes the Board should strongly consider the SMP view on this matter as there is a risk the IESBA proposals could exacerbate market concentration issues, which are already of concern in some jurisdictions.

The proposed requirement of R405.10 regarding group audits that are public interest entities is also particularly concerning for SMPs. In many cases, SMPs who are not part of the group auditor's network perform a required statutory audit for a group company that is not a PIE in their jurisdiction and may also act as component auditors for group audits involving procedures on the financial information of these components. Requiring such component auditors to adhere to independence requirements applicable to public interest entities may be appropriate only when such auditors perform significant audit procedures such that their work can directly influence the outcome of the group audit. We believe this requirement should not be extended to be applied as broadly as proposed as we outline further in our response to question 4.

CONCLUDING COMMENTS

The SMPAG urges the IESBA to consider a scalable approach in revising proposed R405.10. We are concerned that SMPs who are not within the group auditor's network will be most impacted by these proposed changes, yet they may be least likely to respond to this proposal due to the fact that they have limited resources and may also view this proposal as mainly being consequential and conforming amendments. As such, we suggest the IESBA also consider additional outreach to the SMP community and education to ensure they understand the impact these amendments could have on their practice. Perhaps IESBA could offer a roundtable for SMPs to participate in or send an informal survey that does not involve developing a formal response. The SMPAG is happy to support IESBA in obtaining additional feedback.