

Meeting: IESBA CAG

Meeting Location: Virtual

Meeting Date: March 7 and 31, 2022

Agenda Item

D-3

Engagement Team-Group Audits Independence

Objective of Agenda Item

1. To report back on the discussions at the September 2021 CAG meeting relating to the Task Force's proposals addressing the revision to the definition of an engagement team in the Code and independence provisions in the context of a group audit.

Background, Project Status and Timeline

1. At its March 2020 meeting, the IESBA approved a [project proposal](#) to:
 - (a) Provide clear and consistent guidance in the International Independence Standards (IIS) with respect to independence for the various parties within the scope of the revised definition of the term “engagement team” in proposed ISA 220 (Revised), especially in a group audit context; and
 - (b) Revise the IIS so that they are robust, comprehensive and clear when applied in a group audit context, including with respect to independence for non-network component auditors.
2. The CAG considered and provided feedback on the project proposal at its [March 2020](#) meeting.
3. At the [September 2020](#), [May 2021](#) and [September 2021](#) CAG meetings, the CAG considered the Task Force's preliminary views and proposed approach to addressing some of the identified issues with respect to the revised definition of “engagement team” and independence in a group audit context.
4. The IESBA approved the exposure draft of proposed changes to the Code at its [November-December 2021](#) meeting.
5. Throughout the project, the Task Force has liaised with the IAASB's ISA 600¹ Task Force in accordance with the established framework for coordination between the two Boards.

Report Back on September 2021 CAG Discussion

2. Below are extracts from the draft minutes of the September 2021 CAG meeting² and an indication of how the Task Force or the IESBA has responded to the CAG's comments.

¹ International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

² The draft September 2021 minutes will be approved at the March 2022 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
NEW DEFINITIONS	
<p>With respect to the role of a group auditor (GA), Mr. Hansen queried if a GA can take on the dual role of a CA at the same time.</p>	<p>During the meeting, Ms. Soulier explained that audit work on a component can be done by three different types of firms: the GA firm, a network firm of the GA firm, and a firm outside the GA firm's network. She added that the GA firm will have the highest independence expectations. In the extant Code, the GA firm and its network firms are subject to the independence requirements in carrying out audit engagements in a group audit context. With the proposed revisions, there will be greater clarity as to the independence requirements that apply to CA firms outside of the GA firm's network as part of the group audit.</p>
<p>Referencing the partner in charge of the group audit engagement, Ms. Manabat wondered whether the term "lead audit partner" on the group audit engagement could be introduced.</p>	<p>During the meeting, Ms. Soulier indicated that the correct terminology is group engagement partner. There is only one group engagement partner on a group audit engagement as defined in ISA 600 (Revised).</p>
<p>As noted at a previous IAASB CAG meeting, Mr. Yurdakul highlighted some confusion around the definition of a CA. As per proposed ISA 600 (Revised), the definition states that the CA is engaged at the request of the GA to perform work on the group audit engagement. In practice, he pointed out that this may be an exception as the norm would be for the group audit client or the component audit client to engage the CA. He suggested that the definition of the CA should be updated to reflect these circumstances in practice. Mr. Hansen also shared a similar observation regarding the selection of CAs by component audit clients.</p>	<p>During the meeting, Ms. Soulier explained that where the audit of a component is performed by a firm within the GA firm's network, the GA firm is responsible for the engagement of the individuals to carry out the audit procedures on the group audit engagement. In practice, there may be situations where the component audit client engages a CA firm outside of the GA firm's network to perform the local statutory audit of the component audit client. In this instance, the component audit client may choose to engage the same CA firm to carry out audit procedures on the group audit engagement to avoid using multiple audit firms. For the purposes of the group audit engagement, the GA firm will be communicating the group audit instructions to the CA firm.</p> <p>Ms. Jackson, IAASB correspondent member on the Task Force and member of the ISA 600 Task Force, recapped the proposed ISA 600 (Revised) communication requirements with respect to component auditors carrying out audit procedures in</p>

Matters Raised	Task Force/IESBA Response
	<p>the audit of group financial statements. She added that proposed ISA 600 (Revised) has application material acknowledging that the audit of statutory financial statements may still be in process and could be relevant to the group audit. She noted that other ISA requirements would address the requirements for CAs on a statutory audit engagement.</p> <p>Mr. Jui, IAASB Deputy Chair and Chair of the ISA 600 Task Force, acknowledged the queries from CAG representatives, especially nuances where there is a group of investees to be taken into account in the audit of group financial statements. He noted that an important concept in proposed ISA 600 (Revised) is that there has to be direction, supervision and review of CAs. He added that both the Engagement Team – Group Audits Independence and ISA 600 Task Forces are working closely to ensure that comments raised by representatives are being duly considered.</p>
<p>Mr. Cela noted that, operationally, the inclusion of CAs outside the GA firm's network on the group audit team might impact the independence of the group audit team.</p>	<p>During the meeting, Ms. Soulier explained that the inclusion of CAs in the group audit team is driven by the revision to the definition of engagement team in ISA 220 (Revised) as approved by the IAASB. The individuals performing audit procedures on the group audit engagement are considered part of the engagement team for the group audit and now include individuals outside of the GA firm's network.</p> <p>Ms. Lee, IESBA Deputy Chair and member of the Task Force, provided further clarification that the independence of individuals within the firm and its network firms is already addressed in the extant Code. The Task Force's work is to clarify the independence requirements for all other individuals carrying audit procedures on the group audit engagement, including individuals outside of the GA firm's network.</p>

Matters Raised	Task Force/IESBA Response
INDEPENDENCE CONSIDERATIONS	
<p>Concerning the independence considerations applicable to CA firms outside a GA firm's network as per paragraph R405.7, Mr. Hansen sought clarification as to whether other restrictions in the extant Code, such as employment and business relationships, would apply to CA firms outside a GA firm's network as well.</p>	<p>During the meeting, Ms. Soulier confirmed that the proposed requirements in paragraph R405.7 apply to all group audit clients, both PIEs and non-PIEs. She noted that the explicit prohibition in paragraph R405.7(b) on holding a financial interest in the parent entity, even if the component audit client is a non-PIE, is based on that in the extant Code. With respect to business relationships, Ms. Soulier explained that there is already a prohibition on close business relationships with respect to the audit client in the extant Code. However, for the parent entity and above, the Task Force is proposing a requirement via paragraph R405.9 to capture them through the application of the conceptual framework.</p>
<p>Mr. Yurdakul wondered whether the group engagement partner should themselves be a key audit partner (KAP) given that they are signing off on the group audit report.</p>	<p>Reflecting on the requirements under the Long Association provisions, Ms. Soulier clarified during the meeting that the concept of a KAP is relevant to the partner rotation requirements in the Code. These requirements apply to the "lead audit partner," i.e., the group engagement partner, in addition to the engagement quality reviewer and other KAPs on the group audit engagement.</p>
BREACHES OF INDEPENDENCE REQUIREMENTS	
<p>In the case of a breach of independence by the CA, Mr. Yurdakul observed the emphasis on the objectivity of the CA in the draft text. He was of the view that there should be consideration of the other fundamental principles, especially integrity and professional competence and due care.</p>	<p>During the meeting, Ms. Soulier confirmed that compliance with the five fundamental principles is the baseline for compliance with the Code. In the draft text for the section on breaches of independence requirements, the emphasis on objectivity is really on the ability of the group engagement partner to use the CA's work. In that context, therefore, objectivity is the critical fundamental principle. She added that the fundamental principles of integrity and professional competence and due care are already addressed by the Code and within proposed ISA 600 (Revised).</p>
<p>Mr. Ishiwata wondered about the Task Force's thinking regarding a CA's finding of a breach and</p>	<p>During the meeting, Ms. Soulier responded that paragraph R405.20 is a requirement for the group</p>

Matters Raised	Task Force/IESBA Response
<p>the reporting requirements. He queried if the Task Force would include consideration of reporting other matters to TCWG so that all matters relevant to the group audit engagement are reported and all needed responses from the GA are considered. Ms. Manabat echoed a similar observation and wondered whether the Task Force intends to cover reporting of all instances of breaches to TCWG.</p>	<p>engagement partner to communicate independence breaches to TCWG. The key message to take away from the proposed provisions on breaches is the ability of the group engagement partner to issue an opinion on the group financial statements. In the event of a breach by the CA, the group engagement partner will need to perform an assessment of the breach before deciding the next course of action, i.e., if the group engagement partner can use the work performed by the CA for the purposes of the audit of the group financial statements. This assessment also involves discussion with TCWG to ensure that they agree with the group engagement partner's assessment of the breach.</p>
<p>Mr. Hansen requested the Task Force to reexamine the drafting in paragraph 405.10 A1, which references NAS. He queried the specific mention of inventory as an example and was concerned about the example being read in isolation and opening up the notion of "partial independence."</p>	<p>Point considered.</p> <p>The Task Force has used the example of inventory to illustrate the application of the self-review threat prohibition in the NAS provisions in the context of a group audit. There is no implication of partial independence because all component audit firms will need to comply fully with Section 405.</p>
<p>Ms. Meng highlighted the importance of coordination with the IAASB, especially on aligning the definitions and addressing the related implications for independence with the ISA 600 Task Force.</p>	<p>Point noted.</p>