

Agenda Item 1-B.2

Sustainability – Drafting Option 2 (MARK-UP FROM EXTANT)

Option 2 – Based on extant model – the term “audit” is extended to include “sustainability assurance engagements” in addition to “review” engagements.

Note to Meeting Participants

This document includes proposed revisions to extracts of Part 4A (i.e., extant Section 400, updated for the PIE revisions¹ that come into effect at the end of 2024 and the September 2022 draft of Proposed Section 405). It is provided for information purposes and is intended to assist in determining the approach to be used in drafting independence provisions for Sustainability Assurance Engagements.

The sustainability-related revisions will be made to the most up-to-date version of the Code and will incorporate IESBA-approved revisions as of December 2022. This will include the revised PIE definition and the soon to be finalized ET-GA revisions.² The ED will also incorporate the technology-related revisions provided that they are finalized by March 2023.

INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A AND 4B)

PART 4A – INDEPENDENCE FOR AUDIT, REVIEW AND SUSTAINABILITY ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements. It is also in the public interest that practitioners performing sustainability assurance engagements to provide assurance on sustainability information designed to meet the common needs of a wide range of users be independent.

Commented [KB1]: Need to define. E.g. An assurance engagement conducted in accordance with International Standards on Sustainability Assurance or equivalent.

Commented [KB2]: Exclude if covered by the definition of a 'sustainability assurance engagement'; or in due course align with how IAASB decides to describe the scope of its ISSAs.

¹ The revised **PIE definition related revisions are shaded in yellow and** will become effective for audits of financial statements for periods beginning on or after December 15, 2024

² The September 2022 draft of the **ET-GA revisions are shaded in turquoise** and are subject to change.

400.2 This Part applies to ~~both audit, and review~~ and sustainability assurance engagements unless otherwise stated. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, ~~/ sustainability assurance, review team / sustainability assurance team, review engagement / sustainability assurance engagement, review client / sustainability assurance client, and review engagement report / sustainability assurance engagement report.~~

400.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms. The term “practitioner” refers to other individuals and their firms conducting sustainability assurance engagements who are not professional accountants.

400.4 ISQM 1 requires a firm to design implement and operate a system of quality management for audits or reviews of financial statements, ~~or other assurance or related services engagements~~ performed by the firm. As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under ISQM 1, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm’s engagements are subject. ISAs, ~~and ISREs and ISSAs~~ establish responsibilities for engagement partners ~~/ leaders~~ and engagement teams at the level of the engagement for audits, ~~and reviews and sustainability assurance engagements,~~ respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with ISQM 1. In addition, an individual professional accountant ~~or practitioner~~ remains responsible for compliance with any provisions that apply to that accountant’s ~~or practitioner’s~~ activities, interests or relationships.

400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit team member’s, integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

400.6 When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110. Section 405 sets out specific requirements and application material applicable in a group audit.

Commented [KB3]: Align in due course with IAASB definition when known.

Commented [KB4]: Align in due course with IAASB position on ISQM 1 when known.

Commented [KB5]: Align in due course with IAASB position when known.

400.7 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Engagement Team and Audit Team

400.8 This Part applies to all audit team members, including engagement team members.

400.9 An engagement team for an audit engagement includes all partners and staff in the firm who perform audit procedures on the engagement, and any other individuals who perform such procedures who are from:

- (a) A network firm; or
- (b) A firm that is not a network firm, or another service provider.

For example, an individual from a component auditor firm who performs audit procedures on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit.

400.10 In ISQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organizations in the network.

400.11 An audit engagement might involve experts within, or engaged by, the firm, a network firm, or a component auditor firm outside a group auditor firm's network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit team members. For example:

- Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in the application of automated tools and techniques to analyze client data.
- Individuals within, or engaged by, the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit team members but not engagement team members.
- Individuals who are external experts are neither engagement team nor audit team members.

400.12 If the audit engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are audit team members but not engagement team members.

Public Interest Entities

400.8 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements and sustainability assurance engagements of public interest entities, reflecting significant public interest in the financial condition and

sustainability related factors of these entities due to the potential impact of their financial well-being and approach to sustainability on stakeholders.

400.9 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

Factors to consider in evaluating the extent of public interest in the sustainability related factors of an entity include:

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Commented [KB6]: O/s to include examples.

400.10 Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition and sustainability related factors of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

Reports that Include a Restriction on Use and Distribution

400.11 An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

Commented [KB7]: This could also apply in theory to sustainability assurance engagements but might be unlikely?

Assurance Engagements other than Audit and Review Engagements

400.12 Independence standards for assurance engagements that are not audit, ~~or~~ review or sustainability assurance engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit, ~~and~~ Review and Sustainability Assurance Engagements*.

Requirements and Application Material

General

R400.13 A firm performing an audit engagement shall be independent.

R400.14 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

Prohibition on Assuming Management Responsibilities

- R400.15** A firm or a network firm shall not assume a management responsibility for an audit client.
- 400.15 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- 400.15 A2 When a firm or a network firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.
- 400.15 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:
- Setting policies and strategic direction.
 - Hiring or dismissing employees.
 - Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
 - Authorizing transactions.
 - Controlling or managing bank accounts or investments.
 - Deciding which recommendations of the firm or network firm or other third parties to implement.
 - Reporting to those charged with governance on behalf of management.
 - Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - The preparation and fair presentation of the sustainability related information in accordance with the applicable sustainability reporting framework
 - Designing, implementing, monitoring or maintaining internal control.
- 400.15 A4 Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.
- R400.16** When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:
- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
- (i) The objectives, nature and results of the activities; and
 - (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-

perform the activities.

- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

Public Interest Entities

R400.17 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10.

400.17 A1 When terms other than public interest entity are applied to entities by law, regulation or professional standards to meet the purpose described in paragraph 400.10, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as "public interest entities" for reasons unrelated to the purpose described in paragraph 400.10, that designation does not necessarily mean that such entities are public interest entities for the purposes of the Code.

R400.18 In complying with the requirement in paragraph R400.17, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.17 (a) to (c).

400.18 A1 The categories set out in paragraph R400.17 (a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to more explicitly define these categories by, for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
- Setting size criteria for certain types of entities.

400.18 A2 Paragraph R400.17 (d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

- Pension funds.
- Collective investment vehicles.

- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

400.19 A1 A firm is encouraged to determine whether to treat other entities as public interest entities for the purposes of this Part. When making this determination, the firm might consider the factors set out in paragraph 400.9 as well as the following factors:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, a predecessor firm has applied independence requirements for public interest entities to the entity.
- Whether in similar circumstances, the firm has applied independence requirements for public interest entities to other entities.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional standards.
- Whether the entity or other stakeholders requested the firm to apply independence requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.

Public Disclosure – Application of Independence Requirements for Public Interest Entities

R400.20 Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

R400.21 As an exception to paragraph R400.20, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Related Entities

R400.22 As defined, an audit client that is a publicly traded entity in accordance with paragraphs R400.17 and R400.18 includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 400.23 to 400.29 are intentionally left blank]

Period During which Independence is Required

R400.30 Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) In the case of an audit or review engagement, the period covered by the financial

statements; or

(c) In the case of a sustainability assurance engagement, throughout any period over which, or from the time at which the sustainability related information is measured or evaluated in connection with the engagement and throughout any subsequent period until the engagement has been completed.

Commented [KB8]: Need to consider what an appropriate period for sustainability related information would be. This is just a first thought suggestion .

400.30 A1 The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

R400.31

If an entity becomes an audit client during or after the period covered by the financial statements or sustainability related information on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements or sustainability related information but before accepting the audit engagement; or
- (b) Services provided to the audit client by the firm or a network firm in prior financial statement periods or, in relation to sustainability related information, services provided prior to the period described in R400.30 (c).

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period covered by the financial statements or the period described in R300.30 (c) for sustainability related information, but before the audit team begins to perform the audit, and the service would not be permitted during the engagement period.

400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, the data records underlying the sustainability related information, the internal controls over financial or sustainability reporting, or the financial statements or sustainability related information on which the firm will express an opinion.

400.31 A3 Examples of actions that might be safeguards to address threats independence include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the audit work or non-assurance service as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the audit engagement period or prior to the period covered by the financial statements or sustainability related information on which the firm will express an opinion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited by another firm.

Audit Clients that are Public Interest Entities

R400.32 A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the financial statements or sustainability related information on which the firm will express an opinion unless:

- (a) The provision of such service ceases before the commencement of the audit engagement period;
- (b) The firm takes action to address any threats to its independence; and
- (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment as auditor of that entity include:

- The results of the service had been subject to auditing procedures in the course of the audit of the prior year's financial statements or sustainability related information by a predecessor firm.
- The firm engages a professional accountant or practitioner, who is not a member of the firm expressing the opinion on the financial statements or sustainability related information, to perform a review of the first audit engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
 - (i) Evaluate the results of the non-assurance service; or
 - (ii) Re-perform the service,to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

Communication with those Charged with Governance

400.40 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

[Paragraphs 400.41 to 400.49 are intentionally left blank]

Network Firms

- 400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.
- R400.51** A network firm shall be independent of the audit clients of the other firms within the network as required by this Part.
- 400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.
- R400.52** When associated with a larger structure of other firms and entities, a firm shall:
- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
 - (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
 - (c) Apply such judgment consistently throughout such a larger structure.
- R400.53** When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:
- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
 - (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
 - (c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 400.53 A4);
 - (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
 - (e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or
 - (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).
- 400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

Commented [KB9]: The definition would also work for firms providing sustainability assurance services that are not firms of professional accountants.

It is important to retain this concept for non-accountancy firms providing sustainability assurance services. As the market matures it is possible that networks of such firms could further develop.

Also, ISQM 1 has requirements applicable to networks.

- 400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)).
- 400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53(b)).
- 400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R400.53(c)).
- 400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service. (Ref: Para. R400.53(d)).
- 400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a partner of the firm signs an audit report. (Ref: Para. R400.53(e)).
- 400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R400.53(e)).
- 400.53 A8 Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records.
 - Partners and other personnel.
 - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
 - Audit methodology or audit manuals.
 - Training courses and facilities. (Ref: Para. R400.53(f)).
- 400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:
- The shared resources might be limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor.
 - The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.53(f)).

R400.54 If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 400.55 to 400.59 are intentionally left blank]

General Documentation of Independence for Audit and Review Engagements

R400.60 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

400.70 A1 An entity might become a related entity of an audit client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue an audit engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R400.71 In the circumstances set out in paragraph 400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition; and
- (b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R400.72 As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and
 - (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.
- 400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.
- 400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:
- The nature and significance of the interest or relationship.
 - The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
 - The length of time until the interest or relationship can reasonably be ended.
- R400.73** If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor, the firm shall do so only if:
- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
 - (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality review; and
 - (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.
- 400.73 A1 Examples of such transitional measures include:
- Having a professional accountant or practitioner review the audit or non-assurance work as appropriate.
 - Having a professional accountant or practitioner, who is not a member of the firm expressing the opinion on the financial statements or sustainability related information, perform a review that is consistent with the objective of an engagement quality review.
 - Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.
- R400.74** The firm might have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and might be able to complete the remaining audit procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:
- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;

- (b) Complies with the requirements of paragraph R400.73(b) to (c); and
- (c) Ceases to be the auditor no later than the date that the audit report is issued.

If Objectivity Remains Compromised

R400.75 Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the auditor.

Documentation

R400.76 The firm shall document:

- (a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Breach of an Independence Provision for Audit and Review Engagements

When a Firm Identifies a Breach

R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i) Comply with those requirements; and
 - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement partner / leader;
 - (ii) The individual with operational responsibility for compliance with independence requirements;
 - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and

ability to issue an audit report; and

- (e) Depending on the significance of the breach, determine:
- (i) Whether to end the audit engagement; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

400.80 A1 A breach of a provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the audit engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit engagement.
- Whether an audit team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit team member or another individual for whom there are independence requirements.
- If the breach relates to an audit team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements, or on the sustainability related information, on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the audit team.
- Using different individuals to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary.
- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary.
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements, or the sustainability related information, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent

necessary to enable the other firm to take responsibility for the service.

R400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit report;
- (d) The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of:
 - (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
 - (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit engagement in accordance with paragraph R400.81.

Breaches Before the Previous Audit Report Was Issued

R400.86 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period.

R400.87 The firm shall also:

- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports; and
- (b) Discuss the matter with those charged with governance.

Documentation

R400.88 In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made;
- (d) All the matters discussed with those charged with governance; and
- (e) Any discussions with a professional or regulatory body or oversight authority.

R400.89 If the firm continues with the audit engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

SECTION 405

GROUP AUDITS

Introduction

405.1 Section 400 requires a firm to be independent when performing an audit engagement, and to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing group audit engagements.

Requirements and Application Material

General

405.2 A1 The ISAs apply to an audit of group financial statements. ISA 600 (Revised) deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. ISA 600 (Revised) requires the group engagement partner to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit. The independence requirements referred to in ISA 600 (Revised), or other relevant auditing standards

Commented [KB10]: Add a paragraph describing the ISSAs.
First need to see how ISSAs address group engagements.

applicable to group audits that are equivalent to ISA 600 (Revised), are those specified in this section.

- 405.2 A2 A component auditor firm that participates in a group audit engagement might separately issue an audit opinion on the financial statements, or sustainability assurance opinion on the sustainability related information, of the component audit client. Depending on the circumstances, the component auditor firm might need to comply with different independence requirements when performing audit work for a group audit and separately issuing an audit opinion on the financial statements, or sustainability assurance opinion on the sustainability related information, of the component audit client for statutory, regulatory or other reasons.

Communication between a Group Auditor Firm and a Component Auditor Firm

- R405.3** ISA 600 (Revised) [and the ISSA] requires the group engagement partner to take responsibility to make a component auditor aware of the relevant ethical requirements that are applicable given the nature and the circumstances of the group audit engagement. When making the component auditor firm aware of those requirements, the group auditor firm shall communicate at appropriate times the necessary information to enable the component auditor firm to meet its responsibilities under this section.

Commented [KB11]: Need to see how the ISSAs address this.

- 405.3 A1 Examples of matters the group auditor firm might communicate include:
- Whether the group audit client is a public interest entity and the relevant ethical requirements applicable to the group audit client.
 - The related entities and other components of the group audit client that are relevant to the independence considerations applicable to the component auditor firm and the group audit team members within, or engaged by, that firm.
 - The period during which the component auditor firm is required to be independent.
 - Whether an audit partner who performs work at the component for purposes of the group audit is a key audit partner for the group audit.

- R405.4** ISA 600 (Revised) [and the ISSA] also requires the group engagement partner to request the component auditor to communicate whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement. Such request shall include the communication of

Commented [KB12]: Need to see how the ISSAs address this.

- (a) Any independence matters that require significant judgment, and
- (b) In relation to those matters, the component auditor firm's conclusion that the threats to its independence are at an acceptable level, and the rationale for that conclusion.

Independence Considerations Applicable to Individuals

Members of the Group Audit Team Within, or Engaged by, a Group Auditor Firm and Its Network Firms

- R405.5** Members of the group audit team who are within, or engaged by, the group auditor firm and its network firms shall be independent of the group audit client in accordance with

the requirements of this Part that are applicable to the audit team.

Other Members of the Group Audit Team

Option 1:

R405.6 Members of the group audit team within, or engaged by, a component auditor firm outside of the group auditor firm's network shall be independent of:

- (a) The component audit client;
- (b) The entity on whose group financial statements or group sustainability related information the group auditor firm expresses an opinion; and
- (c) Any other entities over which the entity in subparagraph (b) has direct or indirect control,

in accordance with the requirements of this Part that are applicable to the audit team.

Option 2:

R405.6 Members of the group audit team within, or engaged by, a component auditor firm outside of the group auditor firm's network shall be independent of:

- (a) The component audit client;
- (b) The entity on whose group financial statements or group sustainability related information the group auditor firm expresses an opinion; and
- (c) Other entities over which the entity in subparagraph (b) has direct or indirect control, provided that such entities have direct or indirect control over the component audit client,

in accordance with the requirements of this Part that are applicable to the audit team.

Option 3

R405.6 Members of the group audit team within, or engaged by, a component auditor firm outside of the group auditor firm's network shall be independent of:

- (a) The component audit client; and
- (b) The entity on whose group financial statements or group sustainability related information the group auditor firm expresses an opinion,

in accordance with the requirements of this Part that are applicable to the audit team.

Independence Considerations Applicable to a Group Auditor Firm

R405.7 A group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a firm.

Independence Considerations Applicable to Network Firms of a Group Auditor Firm

R405.8 A network firm of the group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a network firm.

Independence Considerations Applicable to Component Auditor Firms outside a Group Auditor Firm's Network

All Group Audit Clients

R405.9 A component auditor firm outside the group auditor firm's network shall:

- (a) Be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all audit clients;
- (b) Apply the relevant requirements in paragraphs R510.4 (a), R510.7 and R510.9 with respect to financial interests in the entity on whose group financial statements or group sustainability related information the group auditor firm expresses an opinion; and
- (c) Apply the relevant requirements in Section 511 with respect to loans and guarantees involving the entity on whose group financial statements or group sustainability related information the group auditor firm expresses an opinion.

R405.10 When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance involving the group audit client, beyond those addressed under paragraph R405.9(b) and (c), is relevant to the evaluation of the component auditor firm's independence from the component audit client, the component auditor firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

R405.11 When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance of a firm within the component auditor firm's network with the component audit client or the group audit client, beyond those addressed under paragraph R405.9(b) and (c), creates a threat to the component auditor firm's independence, the component auditor firm shall evaluate and address any such threat.

Period During Which Independence is Required

405.12 A1 The references to the financial statements and the audit report in paragraphs R400.30 and 400.30 A1 mean the group financial statements and audit report on the group financial statements when applied in this section. The references to the sustainability related information in paragraph R400.30 mean the group sustainability related information when applied in this section, and the references to the audit report in paragraph 400.30 A1 include the sustainability assurance report on the group sustainability related information when applied in this section.

405.12 A2 If the engagement of a component auditor firm outside the group auditor firm's network is not of a recurring nature, the group engagement partner might determine that the period during which the component auditor firm is required to be independent ends at the later

of the completion of the work of the component auditor firm for the purposes of the group audit or the notification by the group auditor firm that the component auditor firm's involvement in the group audit has ended, irrespective of when the audit report on the group financial statements or group sustainability related information is issued..

Group Audit Clients that are Not Public Interest Entities

R405.13 When the group audit client is not a public interest entity, a component auditor firm outside the group auditor firm's network shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to audit clients that are not public interest entities for the purposes of the group audit.

405.13 A1 Where a component auditor firm outside the group auditor firm's network also performs an audit engagement for component audit client that is a public interest entity for reasons other than the group audit, for example, a statutory audit, the independence requirements that are relevant to audit clients that are public interest entities apply to that engagement.

Group Audit Clients that are Public Interest Entities

Non-Assurance Services

R405.14 When the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network shall comply with the provisions in Section 600 that are applicable to public interest entities with respect to the component audit client, except paragraphs R600.21 to R600.24.

405.14 A1 Where the group audit client is a public interest entity, a component auditor firm is prohibited from, for example:

- Acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court, regardless of whether the amounts involved are material to the financial or sustainability related information of the component audit client.
- Designing or implementing the information technology systems of a component audit client that is not a public interest entity where such information technology systems generate information for the component audit client's accounting records or financial statements or sustainability related information as such a non-assurance service creates a self-review threat.

405.14 A2 The financial or sustainability information on which a component auditor firm performs audit work is relevant to the evaluation of the self-review threat that might be created by the component auditor firm's provision of a non-assurance service, and therefore the application of Section 600. For example, if the component auditor firm's audit work is limited to a specific item such as inventory, the results of any non-assurance service that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory are relevant to the evaluation of the self-review threat.

Key Audit Partners

R405.15 The group engagement partner shall determine whether an audit partner who performs audit work at a component for purposes of the group audit is a key audit partner for the group audit. If so, the group engagement partner shall:

- (a) Communicate that determination to that individual; and
- (b) Indicate:
 - (i) In the case of all group audit clients, that the individual is subject to paragraph R411.4, and
 - (ii) In the case of a group audit client that is a public interest entity, that the individual is also subject to paragraphs R524.6, R540.5 (c) and R540.20.

405.15 A1 A key audit partner makes key decisions or judgments on significant matters with respect to the audit of the group financial statements or group sustainability related information on which the group auditor firm expresses an opinion in the group audit.

Changes in Components

All Group Audit Clients

R405.16 When an entity that is not a related entity becomes a component of the group audit client, the group auditor firm shall apply paragraphs R400.71 to R400.76.

Changes in Component Auditor Firms

All Group Audit Clients

405.17 A1 There might be circumstances in which the group auditor firm requests another firm to perform audit work as a component auditor firm during or after the period covered by the group financial statements or group sustainability related information, for example due to a client merger or acquisition. A threat to the component auditor firm's independence might be created by:

- (a) Financial or business relationships of the component auditor firm with the component audit client during or after the period covered by the group financial statements or group sustainability related information but before the component auditor firm agrees to perform the audit work; or
- (b) Previous services provided to the component audit client by the component auditor firm.

405.17 A2 Paragraphs 400.31 A1 to A3³ set out application material that is applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client during or after the period covered by the group financial statements or group sustainability related information, but before the component auditor firm begins to perform the audit

³ The numbering for paragraphs 400.31 A1-A3 will be updated when the revised NAS provisions become effective.

work for the purposes of the group audit, and the service would not be permitted during the engagement period.

- 405.17 A3 Paragraph 400.31 A4 sets out application material that is applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client prior to the period covered by the group financial statements or group sustainability related information.

Group Audit Clients that are Public Interest Entities

- 405.18 A1 Paragraphs R400.32 and 400.32 A1 are applicable when a component auditor firm agrees to perform audit work for group audit purposes in relation to a group audit client that is a public interest entity if the component auditor firm has previously provided a non-assurance service to the component audit client.
- 405.18 A2 Paragraphs R600.25 and 600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component auditor firm to a component audit client and the group audit client subsequently becomes a public interest entity.

Breach of an Independence Provision at a Component Auditor Firm

- 405.19 A1 A breach of a provision of this section might occur despite a component auditor firm having a system of quality management designed to address independence requirements. Paragraphs R405.19 to R405.24 are relevant to a group auditor firm's determination as to whether it would be able to use a component auditor firm's work if a breach has occurred at the component auditor firm.
- 405.19 A2 In the case of a breach at a component auditor firm within the group auditor firm's network, paragraphs R400.80 to R400.89 also apply to the group auditor firm in relation to the group audit, as applicable.

When a Component Auditor Firm Identifies a Breach

- R405.20** If a component auditor firm concludes that a breach of this section has occurred, the component auditor firm shall:
- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
 - (b) Evaluate the significance of the breach and its impact on the component auditor firm's objectivity and ability to perform audit work for the purposes of the group audit;
 - (c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and
 - (d) Promptly communicate in writing the breach to the group engagement partner, including the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

405.20 A1 Paragraphs 400.80 A2 and A3 set out application material relevant to the component auditor firm's evaluation of the significance and impact of the breach on the component auditor firm's objectivity and ability to issue an opinion or conclusion on the audit work performed at the component for purposes of the group audit, and its consideration of any actions that might be taken to address the breach satisfactorily.

R405.21 Upon receipt of the component auditor firm's communication of the breach, the group engagement partner shall:

- (a) Review the component auditor firm's assessment of the significance of the breach and its impact on the component auditor firm's objectivity, and any actions proposed or taken to address the consequences of the breach;
- (b) Evaluate the group auditor firm's ability to use the work of the component auditor firm for the purposes of the group audit; and
- (c) Determine the need for any further action.

R405.22 In applying paragraph R405.21, the group engagement partner shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component auditor firm's objectivity is compromised, and therefore, the group auditor firm is unable to use the work of the component auditor firm for the purposes of the group audit.

405.22 A1 If the group engagement partner determines that the breach has been satisfactorily addressed by the component auditor firm and does not compromise the component auditor firm's objectivity, the group auditor firm may continue to use the work of the component auditor firm for the group audit. In certain circumstances, the group engagement partner might determine that additional actions are needed to satisfactorily address the breach in order to use the component auditor firm's work. Examples of such action include the group auditor firm performing specific procedures on the areas impacted by the breach or requesting the component auditor firm to perform appropriate remedial work on the affected areas.

405.22 A2 ISA 600 (Revised) [and the ISSA] sets out that if there has been a breach by a component auditor and the breach has not been satisfactorily addressed, the group auditor cannot use the work of that component auditor. In those circumstances, the group engagement partner might find other means to obtain the necessary audit evidence on the component audit client's financial information or sustainability related information. Examples of such means include the group auditor firm performing the necessary audit work on the component audit client's financial information or sustainability related information or requesting another component auditor firm to perform such audit work.

Commented [KB13]: Need to see how the ISSA addresses this.

Discussion with Those Charged with Governance of the Group Audit Client

405.23 A1 With respect to breaches by a component auditor firm within the group auditor firm's network, paragraph R400.84 applies.

R405.24 With respect to breaches by a component auditor firm outside the group auditor firm's network, the group auditor firm shall discuss with those charged with governance of the

group audit client:

- (a) The component auditor firm's assessment of the significance and impact of the breach on the component auditor firm's objectivity, including the nature and duration of the breach, and the actions proposed or taken; and
- (b) Whether
 - (i) The actions proposed or taken would satisfactorily address the consequences of the breach; or
 - (ii) The group auditor firm will use other means to obtain the necessary audit evidence on the component audit client's financial information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

R405.25

If those charged with governance do not concur that the actions proposed or taken satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm shall not use the work performed by the component auditor firm for the purposes of the group audit.

Definitions

As considered by IESBA at its September 2022 board meeting (Agenda Item 5). Extended to also cover sustainability.

- Assurance Team
- (a) All members of the engagement team for the assurance engagement;
 - (b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.

Audit Client

An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity in accordance with paragraphs R400.22 and R400.23, audit client will always include its related entities. When the audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.22.)

In Part 4A, the term “audit client” applies equally to “review client” and “sustainability assurance client”.

In the case of a group audit, see the definition of group audit client.

- Audit Team
- (a) All members of the engagement team for the audit engagement;
 - (b) All others within, or engaged by, the firm who can directly influence the outcome of the audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);

- (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
- (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

In Part 4A, the term “audit team” applies equally to “review team.” and sustainability assurance team”. In the case of a group audit, see the definition of group audit team.

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

Component audit client A component in respect of which a group auditor firm or component auditor firm performs audit work for purposes of a group audit. When a component is:

- (a) A legal entity, the component audit client is the entity and any related entities over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

In Part 4A, the term “component audit client” applies equally to “component sustainability assurance client” - A component in respect of which a group sustainability assurance firm or component sustainability assurance firm performs sustainability assurance work for purposes of a group sustainability assurance engagement. When a component is:

- (a) A legal entity, the component sustainability assurance client is the entity and any related entities over which the entity has direct or indirect control: or*
- (b) A business unit, function or business activity (or some combination thereof), the component sustainability assurance client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.*

Component auditor firm	<p>The firm performing audit work related to a component for purposes of a group audit.</p> <p><i>In part 4A, the term “component auditor firm” applies equally to “component sustainability assurance firm” - The firm performing sustainability assurance work related to a component for purposes of a group sustainability assurance engagement.</i></p>
Engagement team	<p>All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement.</p> <p><i>In Part 4A, the term “engagement team” refers to individuals performing audit, or review or sustainability assurance procedures on the audit, or review or sustainability assurance engagement, respectively. This term is further described in paragraph 400.A.</i></p> <p><i>ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.</i></p> <p><i>ISA 620 defines an auditor’s expert as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ISA 620 deals with the auditor’s responsibilities relating to the work of such experts.</i></p> <p><i>ISA 610 (Revised 2013) deals with the auditor’s responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.</i></p> <p><i>In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.</i></p>
Group	<p>A reporting entity for which group financial statements <u>or group sustainability information</u> are prepared</p>
Group audit	<p>The audit of group financial statements</p> <p><i>In Part 4A, the term “group audit” applies equally to “group sustainability assurance engagement” - The performance of a sustainability assurance engagement to report on group sustainability information.</i></p>
Group audit client	<p>The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a publicly traded entity, the group audit client will always include its related entities and any other</p>

Commented [KB14]: Align with IAASB in due course.

components at which audit work is performed. When the entity is not a publicly traded entity, the group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

In Part 4A, the term “group client” applies equally to “group sustainability assurance engagement client” - The entity on whose group sustainability information the group sustainability assurance firm conducts an sustainability assurance engagement. When the entity is a publicly traded entity, the group sustainability assurance client will always include its related entities and any other components at which sustainability assurance work is performed. When the entity is not a publicly traded entity, the group sustainability assurance client includes related entities over which such entity has direct or indirect control and any other components at which sustainability assurance work is performed.

See also paragraph R400.22.

Group auditor firm The firm that expresses the opinion on the group financial statements

In Part 4A, the term “group auditor firm” applies equally to “group sustainability assurance firm” - The firm that expresses the opinion on the group sustainability information.

Commented [KB15]: Definition of “firm” to be updated to encompass the types of practitioner / organisations that may undertake such work.

- Group audit team
- (a) The engagement team for the group audit, including individuals from component auditor firms who perform audit procedures related to components for purposes of the group audit;
 - (b) All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;
 - (c) Any other individuals within a network firm of the group auditor firm’s network who can directly influence the outcome of the group

audit; and

- (d) Any other individuals within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit.

In Part 4A, the term "group audit team" applies equally to "group sustainability assurance team" -

(a) The engagement team for the group sustainability assurance engagement, including individuals from component sustainability assurance firms who perform sustainability assurance procedures related to components for purposes of the group sustainability assurance engagement;

(b) All others within, or engaged by, the group sustainability assurance firm who can directly influence the outcome of the group sustainability assurance engagement, including:

(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement leader in connection with the performance of the group sustainability assurance engagement, including those at all successively senior levels above the group engagement leader through to the individual who is the firm's Chief Executive or equivalent;

(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group sustainability assurance engagement; and

(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group sustainability assurance engagement;

(c) Any other individuals within a network firm of the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement; and

(d) Any other individuals within a component sustainability assurance firm outside the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement.

Group
engagement
partner

The engagement partner who is responsible for the group audit

In Part 4A, the term "group engagement partner" applies equally to "group engagement leader" - The engagement leader who is responsible for the

group sustainability assurance engagement.

Group financial statements Financial statements that include the financial information of more than one entity or business unit through a consolidation process

Group sustainability information Sustainability statements that include the sustainability information of more than one entity or business unit.

Key audit partner The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, engagement partners for certain components in a group audit such as significant subsidiaries or divisions.

In Part 4A, the term “key audit partner” applies equally to “key engagement leader” - The engagement leader, the individual responsible for the engagement quality review, and other persons, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the sustainability assurance of the sustainability information on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the sustainability assurance engagement, “other persons” might include, for example, engagement leaders for certain components in a group sustainability assurance engagement such as significant subsidiaries or divisions.

Review team

- (a) All members of the engagement team for the review engagement; and
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the review engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and

- (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.