

Ms. Gabriela Figueiredo Dias
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Submitted electronically

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Dear Gabriela,

Response to the International Ethics Standards Board for Accountants (IESBA) Exposure Draft: Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

EFAA appreciates the opportunity to provide our comments to the [IESBA Exposure Draft: Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#). Our response has been prepared with input from our Assurance Expert Group.

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA currently represents 12 national accounting, auditing, and tax advisor organisations with more than 350,000 individual members.

GENERAL COMMENTS

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

EFAA raised concerns to IAASB in [our comment letter](#) on the ISA 600 Exposure Draft, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Consequential and Conforming Amendments*. In that letter we expressed concern that the proposals might have the unintended consequence of adversely impacting the perceived value of the statutory audit (clients may have to pay for work on components during group audits and again for (separate) statutory audits of components), resulting in fewer audits being required by local laws. This may have a significant impact on the audit market in certain jurisdictions, potentially to the detriment of SMPs who would lose the statutory audits and may ultimately even exit the market. There may also be a public interest issue concerning the impact on the audit market – especially since the top-down approach to direction, supervision and review may adversely impact the use of SMPs from

outside networks for work on components. Professional standards should not adversely impact the audit market. The European Commission has often expressed concerns about the concentration and lack of choice in the audit market.

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

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

EFAA is concerned that SMPs will be most impacted by these proposed changes, yet they may be least likely to respond to this proposal for various reasons ranging from lack of awareness as well as time and resources. There is a risk they simply view this proposal as primarily being consequential and conforming amendments and so pay little attention to it. Therefore, EFAA strongly encourages targeted outreach to the SMP community and awareness raising educational initiatives to ensure they fully understand the potential impact of these amendments on their practice. IESBA might wish to convene a focus group of SMPs or issue a short survey specifically addressed to SMPs. EFAA is happy to help the Board obtain further SMP input.

QUESTIONS IN ED

- 1. Do you agree with the proposed changes to the Code related to the revised definition of ET, including: (see Chapters 1, 4 and 6) (a) The revised definitions of the terms “engagement team,” “audit team,” “review team” and “assurance team;” and (b) The explanatory guidance in paragraphs 400.A – 400.D?**

We have some concerns.

In Europe we are witnessing the rapid emergence of sustainability reporting and assurance. Hence, EFAA wonders whether these definitions sufficiently accommodate the provision of such sustainability services. EFAA urges the Board to carefully consider this issue on this project.

- 2. Do you agree with the changes to the definitions of “audit team,” “review team” and “assurance team” to recognize that EQRs may be sourced from outside a firm and its network (see Chapter 6)?**

We agree.

- 3. Do you agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit (see Chapters 1 and 6)?**

We agree.

- 4. In relation to the proposals in Section 405 (Chapter 1), do you agree with the principles the IESBA is proposing for: (a) Independence in relation to individuals involved in a group audit; and (b) Independence in relation to firms engaged in a group audit, including CA firms within and outside the GA firm's network?**

We do not agree.

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

- 5. Concerning non-network CA firms, do you agree with the specific proposals in Section 405 regarding: (a) Financial interest in the group audit client; and (b) Loans and guarantees?**

We agree.

- 6. Is the proposed application material relating to a non-network CA firm's provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 sufficiently clear and appropriate?**

Yes.

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

Yes.

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

- 8. Do you agree with the proposals in Section 405 to address a breach of independence by a CA firm?**

We agree.

- 9. Do you agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6?**

We agree.

- 10. Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISA 600 (Revised) on the assumption that the IESBA will approve the final pronouncement in December 2023?**

We support aligning the effective date.

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



CONCLUDING COMMENTS

We trust that the above is clear, but should you have any questions on our comments, please do not hesitate to contact us.

Yours faithfully,

Salvador Marin
President

Paul Thompson
Director