

IESBA PROPOSED REVISIONS TO THE IESBA CODE ON THE DEFINITION OF THE ENGAGEMENT TEAM AND GROUP AUDITS: COMMENTS FROM ACCOUNTANCY EUROPE PROFESSIONAL ETHICS AND COMPETENCES AND IAASB & PCAOB WORKING PARTIES

INTRODUCTION

The IESBA [proposed revisions to the Code of Ethics](#) on the definition of the engagement team and group audits. Due to the current EU Agenda with the initiatives on corporate reporting and sustainability, the standard Accountancy Europe's due process could not be followed to have a formal comment letter finalised/approved by the deadline (31 May 2022).

Therefore, a different approach was applied to this consultation. Members of the Accountancy Europe Professional Ethics and Competences (PEC) and the IAASB & PCAOB Working Parties (WPs) (hereafter referred to as members) had a call with the relevant IESBA Task Force on 09 May 2022, 13:00 – 14:15 (CET). Members of both WPs had the opportunity to ask questions and provide their comments during this call.

This memo summarises the comments made by members on selected matters and does not include Accountancy Europe positions.

COMMENTS ON SELECTED MATTERS

PROPOSED REVISED DEFINITION OF THE ENGAGEMENT TEAM

Members agree that the definitions in the IAASB standards and the IESBA Code should be aligned to the maximum extent possible.

It may be helpful to have a visual to clarify the composition of the audit team and the engagement team based on proposed definitions.

Some members suggested providing examples for item d (any individual within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit) in the 'Audit team for the group audit' definition in the Glossary. Although this is expected to be rare, there are companies based in one jurisdiction with most of their operations performed elsewhere. In such cases, the component auditor may have a significant influence on the group audit (letter-box audits).

One of our members noted that using the word 'client' should be avoided in the Code, where possible.

One member found it confusing to define the engagement team both in the glossary and in the proposed paragraph 400A with different wording. Also, this member was unsure about the added value of references to various ISAs in the glossary.

INDEPENDENCE PRINCIPLES FOR INDIVIDUALS

Members understand the rationale to have the same independence rules for all component auditors (CA) regardless of whether they are from the same network as the group auditor or not.

However, in practice it will not be workable for the CA firm outside the network to monitor individuals since the firm will not have access to the group's structure. Additionally, it is inconsistent to require that the CA firm outside the network has to be independent from just the component audit client at firm-level, but it has to monitor the independence of their employees, who fall under the definition of the group engagement team, for the entire group structure. This seems too onerous and unnecessary, given it is very difficult to see why such individuals would need to be independent from e.g., a sister entity of their component audit client.

In addition, the language used in paragraph 76 of the Explanatory Memorandum creates the risk of undermining the quality of work done by non-network component auditors. In many jurisdictions, it is common to have non-network firms auditing certain components of the group.

INDEPENDENCE PRINCIPLES FOR FIRMS

According to proposed paragraph R405.10, in cases where the group audit client is a Public Interest Entity (PIE), and the component audit client is not itself a PIE, the independence provisions that apply to the CA firm in relation to the component will be the PIE provisions.

This requirement is a major concern for our members as it does not seem to improve the quality of group financial statements audit and may lead to further concentration in the audit market.

Non-PIE independence rules are considered adequate to allow the CA to issue a statutory opinion on "standalone" financial statements of the component. Hence these rules should also be sufficient for the group auditor to rely on the work of the component auditor.

Members are not fully convinced that the non-PIE auditor needs to apply the requirements relating to partner rotation, obtaining the concurrence of those charged with governance, fee disclosure and Engagement Quality Reviewer as well as the requirements relating to the provision of non-audit services.

Such treatment would lead to further concentration in the audit market as it is probable that some small- and medium-sized practitioners (SMPs), who are not in the PIE market and thus not familiar with PIE-specific provisions on independence, would be forced out of the market.

Finally, some members believe that there should be transitional provisions for the cases where the group audit client acquires a non-PIE entity which is audited by a statutory auditor in compliance with non-PIE independence rules. Otherwise, the acquisition would mean that the statutory auditor cannot perform the engagement anymore.