

8 June 2022

Mr Ken Siong  
Program and Senior Director  
International Ethics Standards Board for Accountants (IESBA)  
International Federation of Accountants (IFAC)  
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By email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Mr Siong,

**IESBA's Exposure Draft *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits***

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the IESBA's Exposure Draft *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* (the Group Audit Exposure Draft).

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high-quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants). In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) and a range of professional and ethical standards that address non-assurance services.

**Overall comments**

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

In developing APESB's response to the IESBA's Group Audits Exposure Draft, we have considered local submissions to the APESB on this exposure draft and Australian stakeholders' feedback from a roundtable event conducted by APESB in May 2022. The stakeholders who attended the roundtables included standard setters, regulators, professional accounting bodies, accounting firms and public sector entities.

APESB's key recommendations are noted below. In addition, Appendix A provides APESB's responses to the IESBA's specific and general questions.

## **Recommendations**

APESB's key recommendations in relation to the Group Audits Exposure Draft for the IESBA's consideration are that:

- The engagement team definition should be developed in a manner that it applies to both assurance and non-assurance services in accordance with current professional practice and acknowledging the Code's broader application for all services;
- Additional guidance material should be provided that explains the importance of distinguishing whether an individual is part of the audit team or engagement team and the impact this has on determining their independence;
- Provide further clarity in proposed paragraphs 400.A - 400.D on individuals who consult with the engagement team, but may not have direct influence over the outcome of the audit;
- Consider the development of guidance or support for SMP audit practitioners who may be faced with implementation challenges by these proposals;
- Consider whether the component auditor should be involved in the communication with those charged with governance of the group audit client if the breach of independence relates to the component audit firm; and
- Consider the simplification of terms and language used in the revised provisions in Section 405 to enhance the ability of readers to easily understand, comprehend and interpret the provisions (refer to issues raised in Questions 1, 3, 4, 6, 7 and 8 in Appendix A)

## **Concluding comments**

We trust you find these comments helpful in your final deliberations. If you require additional information, please contact APESB's Principal, Ms. Jacinta Hanrahan, at [jacinta.hanrahan@apesb.org.au](mailto:jacinta.hanrahan@apesb.org.au).

Yours sincerely



Nancy Milne OAM  
**Chairman**

## APPENDIX A

### APESB's Specific Comments

APESB's responses to the request for specific comments by the IESBA on the proposals in the Group Audits Exposure Draft are as follows:

#### *Proposed Revised Definition of Engagement Team*

1. **Do you agree with the proposed changes to the Code related to the revised definition of Engagement Team (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?**

APESB is generally supportive of the proposed changes to the Code relating to the revised definitions of the terms "engagement team," "audit team," "review team" and "assurance team." APESB supports the alignment of terms between auditing and assurance standards and the professional and ethical standards. We also note that the proposed definition of "Engagement Team" aligns with the definition in ISQM 1 *Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements*.

In practice, the term engagement is not restricted to audit or assurance work performed for clients and is applied to all engagements performed for clients (whether assurance or non-assurance). Therefore, the term "*Engagement Team*" should be universally used to refer to any engagement team who performs professional services for clients. We note that the proposed removal of the reference to assurance in the "engagement team" definition does broaden the definition to allow it to be relevant to any professional services engagement.

Accordingly, APESB recommend that IESBA add explanatory material to the "Engagement Team" definition to explain what an engagement team encompasses in Part 3 of the Code to address both assurance and non-assurance engagements. This approach will then mean that there is no necessity to use the undefined term "team" in Part 3 of the Code (for example, in Section 300 or Section 310). It is important to consider the broader application of the Code to non-assurance services. Where consistent terms are already used in practice, it is not advisable to redefine them.

In relation to the explanatory details (in italics) that support the engagement team definition, particularly the references to ISA 620 and ISA 610 (Revised 2013), APESB note that these references refer to the auditor's responsibilities when using the work of external experts or internal auditors. They do not assist the users of the Code in determining who is captured within the engagement team. The term 'External Experts' is already defined in the extant Code, and therefore, we do not think this term requires redirection to ISA 620 for further explanation.

Feedback from Australian stakeholders indicated support for the alignment of definitions but agreed that the references to ISA 610 and ISA 620 increase the definition's complexity rather than provide clarity.

APESB acknowledge that the changes to the definition of 'engagement team' may capture more individuals than the extant definition. Therefore, we support the inclusion of the proposed guidance in paragraphs 400.A to 400.D.

Further clarity could be provided in relation to the proposed application material on consulting in proposed paragraph 400.C. The long association provisions dealing with prohibited activities of an individual during a cooling-off period (paragraph R540.20 of the IESBA Code) list consulting with the engagement team with no reference to direct influence over the audit engagement. Direct influence is considered separately from consulting; therefore, it is not clear why proposed paragraph 400.C refers to these elements together.

We encourage the IESBA to consider the proposed guidance on consultation regarding technical or industry-specific issues, transactions or events and the scenario when an individual does not have direct influence over the outcome of the audit engagement.

The proposed paragraphs 400.A to 400.D highlight the need to distinguish between individuals being on the engagement team or the audit team. However, it is not clear from the proposed guidance why this is an important distinction and the implications for applying the relevant independence requirements. APESB encourage the IESBA to clarify the importance of this distinction within the proposed application material.

From an editorial perspective, APESB suggest the inclusion of the word 'the' before the phrase '... purposes of the group audit is a member of the engagement team for the group audit.' in proposed paragraph 400.A.

Refer to question 2 below for APESB views on the definitions of 'audit team,' 'review team' and 'assurance team.'

### ***Independence Considerations for Engagement Quality Reviewers***

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

APESB agree with the changes to the definitions of "audit team," "review team" and "assurance team" to recognise that Engagement Quality Reviewers (EQRs) might be sourced from outside a firm and its network.

### ***Independence in a Group Audit Context***

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

As noted in APESB's response to question 1 above, APESB support the alignment of terms between standards and concur with the definitions from ISA 600 being replicated in the Code. APESB also support the other proposed definitions used in Section 405, addressing the independence considerations in a group audit.

From an editorial perspective, APESB notes that the defined term 'audit team for the group audit' has a slightly different naming convention to other group related definitions such as '*group audit client*.' Therefore, APESB encourages IESBA to consider if the name of the definition should be simplified to '*group audit team*' to be consistent with the existing proposed drafting.

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 component auditor firms (CA firms) within and outside the Group Auditor's (GA's) firm network?**

APESB support the overall proposed premise that consistent Independence principles be applied to all individuals and Firms engaged in a Group Audit, including component auditors, whether internal or outside the firm's network performing the group audit engagement. We are of the view that it will meet public expectations of the independence of all auditors involved in a group audit engagement.

Stakeholders in Australia have raised concerns about the practical challenges in implementing these proposals. For example, removing the concept of materiality for components means that firms may need to monitor the independence of immaterial components, with some stakeholders questioning whether the proposed changes will contribute to audit quality. There was also a concern about whether these changes would negatively impact SMP audit practitioners as, over time, the component audits may be pushed towards the larger network firms.

Refer to the comments at question 6 below in relation to the application of the non-assurance services provisions to component auditors.

From an editorial perspective, APESB suggest the removal of the sentence 'The ISAs apply to an audit of group financial statements.' from the start of proposed paragraph 405.2 A1, as ISAs apply to all audits.

APESB note that many provisions in Section 405 are difficult to easily interpret due to the repetition of defined terms. Therefore, APESB suggest that the IESBA should consider simplifying the drafting to ensure the purpose/intent of the relevant provision is clear. For example, proposed paragraph 405.13 A2 is difficult to interpret but could be simplified as follows:

*"In addressing the circumstances described in paragraph 405.13 A1, the component auditor firm might consider paragraphs 400.31 A2 and 400.31 A3 to assist in evaluating and addressing any threats to their independence."*

**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?**

APESB agree with the specific proposals in Section 405 regarding the application of the requirements relating to a financial interest in the group audit client and loans and guarantees by non-network component audit firms.

**Non-Assurance Services (NAS)**

**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?**

APESB questions whether the examples in paragraph 400.12 A1 are required. A better approach would be to delete the two examples and retain the general reference to Section 600, as many non-assurance services could create a threat to the component auditor's independence.

With respect to paragraph 405.12 A2, APESB encourages the IESBA to consider including a taxation services example as we are of the view it would be a typical non-assurance service that is provided which is likely to create a self-review threat.

**Changes in Component Auditor Firms**

**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?**

APESB agree that the proposed application material relating to the changes in the component audit firms during or after the period covered by the group financial statements is relevant and required. However, APESB are concerned that the current drafting of section 405 means it may not be easy for readers of the Code to interpret and understand certain provisions easily.

For example, in 405.13 A1, whether it applies to the new component audit firm or the previous firm should be clarified. Also, refer to APESB's response to question 4 above for suggested revisions to proposed paragraph 405.13 A2.

**Breach of Independence by a Component Auditor Firm**

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

APESB agrees with the proposals in Section 405 to address the breaches of Independence, and is supportive of the additional proposals to address component audit firms that are outside the group audit firm's network.

Feedback from stakeholders in Australia also showed support for the proposed revisions to address breaches of independence by a component firm. It was acknowledged that the group engagement partner is responsible for the overall Independence of the group audit engagement. However, when possible, it may be beneficial for the component auditor to be involved in the communication with those charged with governance to discuss any breaches of independence by the component firm.

From an editorial perspective, APESB have noted the following two matters for the IESBA's consideration:

- proposed paragraph R405.14 must be split into two separate provisions/paragraphs from an enforcement perspective. The proposed drafting has two sentences, with each sentence imposing requirements on two different parties (i.e., the component auditor firm and then the group engagement partner). It would have more impact if the requirement on each party were in a separate provision; and
- proposed paragraph R405.17 should include a cross-reference to proposed paragraph R405.16 rather than stating "this determination". For example, "*In making the determination in paragraph R405.16, the ...*"

### ***Proposed Consequential and Conforming Amendments***

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

Subject to APESB's comments noted above, particularly the definition of engagement team, we agree with the related proposed consequential and conforming amendments as detailed in Chapters 2 to 6.

### ***Effective Date***

#### **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 financial pronouncement in December 2023?**

APESB supports the IESBA's proposal to align the effective date of the final provisions for the definition of engagement team and group audits with the effective date of ISA 600 (Revised).

### **APESB's General Comments**

APESB's general comments on the Group Audits Exposure Draft for the IESBA's consideration are as follows:

#### **(a) *Small- and Medium-Sized Entities (SMEs) and SMPs***

Not applicable.

#### **(b) *Regulators and Audit Oversight Bodies***

Not applicable.

**(c) *Developing Nations***

Not applicable.

**(d) *Translations***

Not applicable.