31 May 2022

BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO THE EXPOSURE DRAFT - PROPOSED REVISIONS TO THE CODE RELATING TO THE DEFINITION OF ENGAGEMENT TEAM AND GROUP AUDITS

Introduction

The Botswana Institute of Chartered Accountants (“BICA”) is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The Institute’s mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards the Exposure Draft, Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits. We have provided our comments to each specific question as per the Exposure Draft. Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

Signed electronically

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RESPONSES TO SPECIFIC QUESTIONS

Question 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?

Response:
Yes, we agree with the proposed changes to the Code in relation to the revision of the above definitions, as this will ensure consistency in the definition for both the Code, ISQM1 and relevant ISAs.

Inclusion of the explanatory guidance in paragraphs 400.A- 400.D to clarify the nature of the various teams will also assist in ironing out any confusions that may arise when applying the terms. We recommend however that part (b) at paragraph 400A be divided into 2 by separating “another service provider” to be part (c). This change will ensure consistency in flow of the three categories and avoid any misinterpretation.

Independence Considerations for Engagement Quality Reviewers

Question 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)?

Response:
We agree with the changes to the above definitions as the previous definitions only referred to EQRs within the firm or the network. This change will therefore not only align with the requirements of ISQM 2 but will also ensure that the EQRs who are engaged outside of the firm or the network are also subject to some kind of independence and thus promoting quality audits as stipulated in paragraph B of significant matters of the Exposure Draft.

Amending the definitions of “audit team,” “review team,” and “assurance team” by adding the phrase “or engaged by” is consistent with the proposal to have EQRs outside the firm.

Independence in a Group Audit Context

Question 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)?.
Response:
We agree with the proposed new defined terms used in Section 405 (Group Audits) in addressing independence considerations in a group audit, as this will ensure alignment to group audit requirements in ISA 600 (Revised). Placing this set of new defined terms in the Glossary of the Code is also appropriate for visibility and can be readily accessible to users.

Question 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?

Response:
We agree with the above-proposed principles in order to differentiate and reflect the different independence requirements of the individuals and firms engaged in a group audit.

Paragraph R405.9 provides for component auditor firms outside the group auditor firm’s network to apply independence requirements for audit clients that are not public interest entities where a group audit client is not a public interest entity.

While this provision appears under the Group Audits section, it is worth concluding at the paragraph, that the provision only applies for purposes of the group audit. This would make it clear to the component audit firm to apply the relevant independence provisions where the component audit client is a public interest entity.

Question 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?

Response:
We agree with the introduction of an explicit prohibition on non-network CA firms from holding a direct or material indirect financial interest in the entity on whose group financial statements the GA firm expresses an opinion as per paragraph R405.6(b)) in respect of both PIE and non-PIE group audit clients. This will reduce any potential threats and ensure consistency to paragraph R510.6 that prohibits a firm and its network firms from holding a direct or material indirect financial interest in an entity that controls the audit client, regardless of whether the audit client is a PIE.

We further agree with the Board’s view for loans and guarantees between the non-network CA firm and an intermediate holding entity or any other related entities of the group audit
client, to have a robust, principles-based approach to identify, evaluate and address any threats that might be created in such situations. Applying the prohibitions in Section 511 on loans and guarantees only with respect to the group audit client as per paragraph R405.6(c)) is therefore reasonable.

We note, however, that paragraph R405.6(b) prohibits component auditor firm outside the group auditor firm’s network from holding a direct or material indirect financial interest in the entity on whose group financial statements the group auditor firm expresses an opinion.

It may appear from this requirement that component clients (subsidiaries) whose financial statements are included in the group financial statements are excluded from the prohibition. It may also be interpreted, however, that the prohibition applies to the entire group as the audit opinion is expressed on the group as a whole. This varied interpretation will create application conflicts.

It is therefore worthwhile to make the prohibition clear to apply to the entire group including the component clients. As the opinion is expressed on the group, it is important for the component auditors to not have any direct or material indirect financial interest on component clients.

**Non-Assurance Services**

**Question 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?

**Response:**
The proposed application material in paragraph 405.12 A1 – 405.12 A2 is sufficiently clear and appropriate especially because the guidance includes some illustrations of this principle in a NAS context, which makes it even easier to understand.

**Changes in Component Auditor Firms**

**Question 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?

**Response:**
Yes, the guidance proposed in paragraph 405.13 A1 – 405.13 A2 is sufficiently clear and appropriate.
Breach of Independence by a Component Auditor Firm

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

Response:
Yes, we agree with the proposed requirements and guidance in Section 405 to deal with circumstances where a breach is identified at the CA firm level. The process that a firm should follow when it concludes that a breach of a requirement of the International Independence Standards (IIS) has occurred as set out in Appendix 1 is also sufficiently clear.

Proposed Consequential and Conforming Amendments

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

Response:
Yes, we agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6 as this will assist in aligning these with terminologies and concepts used ISA 600 (Revised) and the quality management standards.

ISA 600 (Revised) defines a component as “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.”

This definition has been adopted as is into the ED. That notwithstanding, Chapter 2, adds description of “…legal entity or business unit…” to follow reference to “component” despite these being already included in the definition of a component.

It is not clear why these are stated separately given that reference is made to a Professional Accountant in a group audit setting.

Effective Date

Question 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?

Response:
We support the Board’s proposal to coordinate the effective date for the final provisions from this project with the effective date of ISA 600 (Revised).