

20 May 2022

Mr. Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY, 10017
USA

By email: KenSiong@ethicsboard.org

Dear Ken,

Exposure Draft (ED): Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

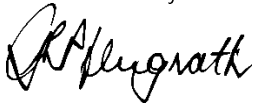
CPA Australia represents the diverse interests of more than 170,000 members working in 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

While generally supportive of the proposed revisions, in our responses to the questions posed in the ED (refer to the Attachment), we note several matters for further consideration.

These matters relate primarily to the impacts of differences, in the definition of the term "public interest entity" and of non-assurance services requirements, when component auditors are located in different jurisdictions.

If you have any questions about this submission, please do not hesitate to me on gary.pflugrath@cpaaustralia.com.au.

Yours faithfully



Dr Gary Pflugrath FCPA
Executive General Manager, Policy and Advocacy
Encl.

Proposed Revised Definition of Engagement Team

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?

(a)

CPA Australia agrees with the proposed revised definitions of the terms "audit team," "review team" and "assurance team".

However, we note that in the Glossary the term "engagement team" is defined to encompass engagement teams that perform any range of professional services, and not merely audit and assurance services. That is, it starts with "All partners and staff performing the engagement, and". This means that teams that are performing valuation services, forensic accounting services, and so on, would be (rightly) captured by this definition.

This term is then used in the proposed revisions to Parts 4A and 4B. However, the IESBA is proposing revisions in Sections 300, 310 and 320, which removes the word "engagement" and refers only to "teams". CPA Australia believes that the word "engagement" should be retained in these sections to ensure that the Code recognises the fact that professional service engagements, undertaken by professional accountants, extend beyond merely audit and assurance engagements.

If the IESBA was to retain the proposed wording in Sections 300, 310 and 320 (not our preference), at the very least it would need to separately define the term "team."

With respect to the definition of "audit team", we note that the ED refers to "audit team for the group audit", rather than "audit team". Moreover, the section title for proposed paragraphs 400.A – 400.D uses the term "audit team" in the title. However, that term is not used in the four paragraphs. This is confusing. While the paragraphs – based on the title of the section – would seem to be aiming to distinguish between the terms "engagement team" and "audit team", they do not do so. Indeed, the paragraphs refer to an "engagement team for the group audit".

(b)

Refer our response to question 1 (a).

Additionally, CPA Australia offers the following observations with respect to the explanatory guidance in paragraphs 400.A – 400.D.

To ensure greater clarity and prevent misunderstanding of the definition of engagement team, CPA Australia proposes the following wording revisions to paragraph 400.A.

400.A *An engagement team 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~~*

~~(c) Another service provider.~~

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

The original proposed wording could be read in a way that sub point (b) was proposing that the team includes any other individuals who perform such procedures who are from a firm that is not a network firm or that is not another service provider. The revision above provides greater clarity.

Similarly, CPA Australia proposes the following wording revisions to provide greater clarity.

400.B 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. The definition of sService providers excludes the firm, a network firm or other structures or organizations in the network.

Alternatively, wording could be used that notes that "the definition of service providers does not include the firm," The original proposed wording does not seem appropriate.

No comments with respect to paragraphs 400.C and 400.D.

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 may be sourced from outside a firm and its network (see Chapter 6)?

CPA Australia agrees with the changes to the definitions of "audit team," "review team" and "assurance team" to recognise that EQRs may be sourced from outside of 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 independence considerations in a group audit (see Chapters 1 and 6)?

CPA Australia is generally supportive of the new defined terms that are used in Section 405 in addressing independence considerations in a group audit.

Feedback from our members highlights the point that when discussing independence considerations for component auditors, the issue of materiality is not considered, other than with reference to holding of indirect financial interests. That is, our members question whether aspects of the materiality of the entity for which the component auditor is undertaking the audit, relative to the group entity in its entirety, needs to be addressed in this section.

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?

(a)

CPA Australia agrees with the principles the IESBA is proposing for independence in relation to individuals involved in a group audit.

(b)

CPA Australia believes that further consideration should be given to the wording of paragraph 405.9, which notes:

R405.9 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.

This wording seems to imply that even when a component audit client is a public interest entity, in its own right, then the component auditor need only comply with the independence requirements applicable to an audit client that is not a public interest entity. This does not consider the prospect that a component audit client may exist in a different jurisdiction to the group audit client, and that the respective jurisdictional definitions of public interest entity may differ. That is, a component audit client may not be considered a public interest entity according to the definition that exists in the group audit client's home jurisdiction but is considered to be one in the component auditor client's jurisdiction. In such situations, the component auditor would need to apply the appropriate independence requirements applicable to a public interest entity in the jurisdiction within which it operates.

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?**

(a)

CPA Australia agrees with the specific proposals regarding financial interests in the group audit client.

(b)

CPA Australia agrees with the specific proposals regarding loans and guarantees.

Non-Assurance Services

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?

While on the face of it paragraphs 405.12 A1 and 405.12 A2 appear to be appropriate, it is not clear whether these paragraphs consider different non-assurance services requirements in different jurisdictions, where component audit clients operate across different jurisdictions.

That is, to claim compliance with the International Code of Ethics (the "Code"), a jurisdiction may have requirements that are more stringent than the Code. Therefore, it may be prudent to include wording that clarifies that, in some circumstances, a component auditor may need to comply with requirements that are more stringent than the requirements imposed on the group auditor. Moreover, the component auditor should be cognisant of situations where the group auditor requirements are more stringent, and hence the component auditor may need to comply with more stringent requirements than those that apply in their own jurisdiction when performing work on a group audit.

Feedback from our members is that the two examples provided in paragraphs 405.12 A1 and A2 are not particularly helpful and focus on two quite specific independence threats. Consideration might be given to expanding this section of the proposed revisions to include further examples or removing these two paragraphs.

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?

CPA Australia is of the view that proposed paragraphs 405.13 A1 and 405.13 A2 are sufficiently clear and appropriate.

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?

CPA Australia agrees with the proposals in Section 405 to address a breach of independence by a component auditor firm.

Proposed Consequential and Conforming Amendments

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

With respect to the proposed revisions to Sections 300, 310 and 320 refer to our response to Question 1(a).

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 final pronouncement in December 2023?

CPA Australia is supportive of aligning 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.

Comments on the matters set out below

- *Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

Refer to the response provided to Question 4 (b). It is possible that proposed revisions may create issues where different definitions of public interest entity are used in different jurisdictions. Similar issues can arise where different jurisdictions have different non-assurance services requirements.

- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an audit inspection or enforcement perspective from members of the regulatory and audit oversight communities.

No comment.

- *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

No comment.

- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

CPA Australia is not aware of translation issues relating to the current proposed revisions.