

May 31, 2022

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

Re: *Exposure Draft, Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*

Dear Mr. Siong:

Deloitte Global appreciates the opportunity to provide comments on the exposure draft “Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits” (the “ED”) issued in February 2022 by the International Ethics Standards Board for Accountants (the “IESBA” or “Board”).

We support the efforts by the Board to strengthen the Code and coordinate with the International Auditing and Assurance Standards Board (the “IAASB”) to ensure the standards issued by the IESBA and IAASB are consistent where necessary. We support the overall proposals presented in the ED and consider they meet the objectives in the explanatory memorandum of updating Part 4A and the glossary of the Code to make the definition of “engagement team” consistent with International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*, and International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and to revise the International Independence Standards (“IIS”) in Part 4A when applied in a group audit context under ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* including with respect to independence for non-network component auditors.

Deloitte Global encourages the Board to consider certain clarifications in the proposed definitions and to introduce additional guidance for situations when circumstances may change to ensure effectiveness and consistent interpretation of the proposed revisions by the professional accountants within practical application of ISA 600 (Revised).

Please find below our comments in response to the specific questions in the explanatory memorandum for the Board’s consideration.

## Specific Comments

### *Proposed Revised Definition of Engagement Team*

**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

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**“assurance team;” and**

**(b) The explanatory guidance in 400.A – 400.D?**

Deloitte Global supports the Board’s revisions to the definitions of “engagement team,” “audit team,” “review team” and “assurance team” to align the Code’s definitions to the revised definitions in the International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*, and International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, as well as the proposed application guidance in paragraphs 400.A to 400.D.

As it relates to a group audit, Deloitte Global agrees an individual from a service provider who performs audit procedures is a member of the engagement team for the audit. However, we recommend clarifying that this is the case regardless of whether such individual from a service provider is engaged to assist with the audit by a network or non-network firm. This can be achieved by moving the phrase “or another service provider” in 400.A(b) to a new standalone bullet point (c).

Deloitte Global also supports the exclusion of external experts and internal auditors providing direct assistance on the engagement from the definition of “engagement team” aligned to the extant Code and the current view from the IAASB.

***Independence Considerations for Engagement Quality Reviews***

**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)?**

Deloitte Global supports the addition of “or engaged by” to these definitions to include any EQRs sourced from outside the firm or network firm.

***Independence in a Group Audit Context (new section 405)***

**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)?**

Conceptually, Deloitte Global agrees with the proposed definitions used in Section 405. That said, we believe there might be unintended consequences and potential inconsistencies in applying the new definitions of “group audit client” and “component audit client” within practical application of ISA 600, as follows:

1. Under the extant definition of an “audit client,” the firm and network firms are required to be independent of the audit client including its related entities. The new definition of “group audit client” includes related entities as well as *any other components that are subject to audit work*. There may be a situation where the group auditor determines - after the period requiring independence has commenced - that audit procedures are required to be performed at a component that is not a related entity (e.g., a material investee of a non-listed audit client.) Under the proposal, the group auditor (“GA”) firm and its network firms would now need to be independent of that entity (the component subject to audit work) under R405.4 and R405.5, even though it would not be considered a related entity as defined under the Code, thereby requiring the firm to assess its independence of this component after the period requiring independence has commenced.

The proposal does not include any mechanism for addressing a situation when an entity which is not a related entity is scoped in as a component (because it is subject to audit work) and therefore included in the definition of a group audit client after the period requiring independence has commenced. The Board recognized that in practice there might be circumstances in which the GA firm requests another firm to perform audit work as a component auditor (“CA”) firm during or after the period covered by the group financial statements and proposed guidance for these types of circumstances in 405.13 A1 – A2. We recommend that the Board considers including similar guidance as it did for changes in CA firms for these circumstances.

2. Further, Deloitte Global believes that the definition of “group audit client” should be revised to more closely align to the wording from ISA 600, paragraph 22, which includes a requirement to “determine the components at which audit work will be performed.” We suggest amending the definition as follows:

"Group audit client - The entity on whose group financial statements the group auditor firm conducts an audit engagement. The group audit client includes its related entities as specified in paragraph R400.20 and any other components ~~that are subject to~~ at which audit work is performed."

3. Finally, Deloitte Global believes it would be beneficial to provide further guidance and/or examples for part (d) of the definition of the “audit team for the group audit” as to when an individual within a CA firm outside of the GA firm’s network would be considered to *directly influence the outcome of the group audit*. It is our understanding that such circumstances would be extremely rare, and the individual would generally not be considered to influence the outcome of the *group audit* solely through their influence on the outcome of the *component audit*.

**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?

While Deloitte Global is in general agreement with the proposal to extend the application of independence requirements to individuals from a non-network firm who are carrying out the audit work at the component level, the current proposal is too extensive in some respects.

In Deloitte Global’s view, individuals from a non-network CA firm should be required to be independent only of the component audit client and the entity on whose group financial statements the group auditor expresses an opinion. We do not consider that any real threats to the independence of an individual at the non-network CA firm are created from relationships with other related entities of the group audit client, such as a sister entity of the component audit client. Placing independence requirements on individuals from a non-network CA firm (as well as their immediate and close family members in certain cases) would be administratively onerous given the need to remain apprised of changes to the broader group structure, and we believe without level benefit. We encourage the Board to consider a more balanced approach in this area that would focus independence requirements on relationships with those entities that are more likely to threaten the individual’s independence.

As it relates to independence of firms engaged in a group audit, Deloitte Global agrees that both the GA firm and the CA firm within the GA firm’s network should be independent of the group audit client (subject to our comments above with respect to the definition of group audit client) as specified in the extant Code.

We also support the general principle that the group audit client’s PIE or non-PIE status would determine whether the CA firm outside of the GA firm’s network is required to be independent of the component audit client under the PIE or non-PIE rules, as well as the principle of applying the conceptual framework to any other related entity of the component audit client, aligned to the extant provision in R400.20.

Notwithstanding the above, Deloitte Global believes the Code should clearly state which PIE-related requirements apply to a non-network CA firm at a non-PIE component audit client where the group audit client is a PIE. These would include the prohibition of certain non-assurance services and the long association requirements (if the CA engagement partner were determined to be a Key Audit Partner with respect to the group audit). The Code should also explicitly state the requirements that would not extend to non-network CA firm, such as concurrence of those charged with governance under the new non-assurance standard or the fee disclosure under the new fees standard, both of which are focused on a firm and its network firms.

**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?

Deloitte Global agrees with the explicit restriction on non-network CA firms having a financial interest in the entity on whose group financial statements the group auditor expresses an opinion, irrespective of materiality of the component to the group audit client. We also agree with the Board's view that the restriction should not be extended to other entities in the group such as an intermediate holding company. However, we do not see a need for the specific reference to the applicable paragraphs on loans and guarantees in paragraph R405.6(c) and believe the restrictions are already sufficiently addressed under the requirements to apply the conceptual framework in R405.7 and R405.8

#### ***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?

While Deloitte Global is in agreement with the content of the two paragraphs on non-assurance services, we question whether the specific examples are better suited for non-authoritative guidance such as "frequently asked questions" or similar.

#### ***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 paragraphs 405-13 A1 – 405.13 A2 sufficiently clear?

Deloitte Global supports the application material in the proposed paragraphs on the basis that it is appropriate for the respective circumstances and is consistent with other similar requirements in the Code applicable to firms.

Additionally, Deloitte Global recommends specifically addressing a situation where a PIE group audit client acquires a non-PIE entity during or after the period covered by the group financial statements, and the current statutory auditor of the acquired entity is appointed as a CA firm and is now required to apply the PIE rules to its component audit client. A transition period to deal with the new applicable PIE rules will be needed for the CA firm similar to the approach in paragraph R600.25 of the revised non-assurance standard provisions.

#### ***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?

*When a CA firm within the GA firm's network identifies a breach:*

Deloitte Global agrees that identification of a breach by a CA firm within the GA firm's network should prompt the application of the provisions in paragraphs R400.80 to R400.89, as per the extant Code. We note that the responsibilities in the proposal are placed on the group engagement partner, while the breach provisions in the extant Code are focused on activities of the firm and the proposal requires immediate communication instead of prompt communication. We recommend aligning the proposed language with the extant Code as follows:

R405.14 If a component auditor firm within the group auditor firm's network concludes that a breach of this section has occurred, the component auditor firm shall promptly communicate the breach ~~immediately~~ to the

group engagement partner including actions proposed to address the consequences of the breach. ~~Based on the assessment of the component auditor firm's breach, the~~ The group engagement partner shall determine what action to take in accordance with the provisions of paragraphs R400.80 to R400.89.

*When a CA firm outside the GA firm's network identifies a breach:*

Deloitte Global generally supports the approach proposed by the Board to address breaches that occur at a CA firm outside the GA firm's network. However, we propose certain amendments to the provisions to better reflect the respective roles of the CA firm and the GA firm engagement partner in the process. In particular, ISA 600 requires the group engagement partner to take responsibility for the CA firm having been made aware of relevant ethical requirements that are applicable and for confirming whether the CA firm understands and will comply with such requirements. If there has been a breach by a CA firm of the relevant ethical requirements, including those related to independence, and the breach has not been satisfactorily addressed, the group auditor cannot use the work of that CA firm. The group engagement partner should not, however, be required to assess the CA firm's objectivity, but rather the CA firm's assessment of the impact of the breach on their objectivity. We suggest the language could be revised as follows:

R405.15

(...)

- (d) Promptly communicate the breach to the group engagement partner in writing, including the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

R405.16 Upon receipt of the component auditor firm's communication of the breach, the group engagement partner shall:

- (a) Review the component auditor firm's assessment of the significance of the breach and of the impact of the breach on the component auditor firm's objectivity and any actions proposed or taken to address the consequences of the breach;
- (b) Evaluate ~~the impact of the breach on the component auditor firm's objectivity~~ and the group auditor firm's ability to use the work of the component auditor firm for purposes of the group audit; and
- (c) Determine the need for any further action.

*Communication with those charged with governance of the group audit client:*

Deloitte Global supports the new requirement for the GA firm to discuss any breaches that occur at a CA firm outside its network with those charged with governance of the group audit client, including the actions proposed or taken to address the consequences of the breach. As per our comment above, we also recommend that the wording of the provision is amended to emphasize that the assessment of the significance of the breach is performed by the CA Firm, as follows:

R405.19 With respect to breaches by a component auditor firm outside the group auditor firm's network, the group auditor firm shall discuss with those charged with governance:

- (a) The component auditor firm's assessment of the significance of the breach at the component auditor firm, including its nature and duration; and

- (b) Whether actions proposed or taken would satisfactorily address the consequences of the breach to enable the group auditor firm to use the work of the component auditor firm for the purposes of the group audit.

Such discussion shall take place as soon as possible unless the breach is considered to be less significant and an alternative timing is specified by those charged with governance for reporting less significant such breaches.

***Proposed Consequential and Conforming Amendments***

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

Deloitte Global does not have any comments with respect to these amendments and supports the changes as proposed by the Board.

**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 2022?

Deloitte Global supports the proposed effective date to align with the effective date of ISA 600 (Revised).

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We would be pleased to discuss our comments with members of the IESBA or its Staff. If you wish to do so, please feel free to contact Ms. Marisa Orbea via email (maorbea@deloitte.com.au) or at +61 2 9322 5258.

Sincerely,

*Deloitte Touche Tohmatsu Limited*

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