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Mr. Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue
New York, New York 10017
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06 June 2022

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

Dear Mr. Siong,

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, is pleased to comment on the International Ethics Standards Board for Accountants' (the "IESBA" or the "Board") Exposure Draft, *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* (the ED).

Ten specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

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:
 - a) The revised definitions of the terms "engagement team," "audit team," "audit team and assurance team;" and
 - b) The explanatory guidance in paragraphs 400.A – 400.D?

Yes, we agree with the revisions the Board has proposed related to the definitions of the engagement team, audit team and assurance team.

We agree with the Board's statement in paragraph 31 of the Explanatory Memorandum (EM) that the scope of the IIS should not be extended to cover the organization of an individual engaged as a service provider, but believe that this could be made clear in proposed paragraph 400.B since it includes both of the terms "individual" and "organization" in the reference to ISQM 1.

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?

Yes, we agree with the changes to the definition of audit team, review team and assurance team to include EQRs that are 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 independence considerations in a group audit?

Yes, we agree with the proposed new defined terms used in Section 405.

4. In relation to the proposals in Section 405, 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?

We agree with the principles being proposed for the independence in relation individuals involved in a group audit and to firms engaged in a group audit, including component auditor firms within and outside the group auditor firm's network.

With regard to the independence of individuals involved in a group audit, in order for individuals from outside the group auditor firm's network to comply with the independence provisions that are applicable to individuals from the group auditor firm and its network, the engagement team for the group audit will need to inform the non-network component team of all related entities for which personal independence is required. We note that this is currently not addressed in the IESBA's proposals and is not required under International Standard on Auditing 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (ISA 600R). We suggest that application material be included to explain the need for the group auditor firm to provide such information to the component auditor firm outside the group auditor firm's network.

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?

We agree with the specific proposals in Section 405 regarding financial interests in, and loans and guarantees with, the group audit client. We believe an illustrative chart would provide additional clarity and assist the PA in complying with these provisions.

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?

Yes, we believe the application material in proposed paragraphs 405.12 A1 through 405.12 A2 is sufficiently clear and appropriate.

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?

We note that proposed paragraph 405.13 A2 does not reference paragraphs R400.32 and 400.32 A1¹, which will be applicable to audit clients that are PIEs starting 15 December 2022. We believe the Board should consider adding application material that addresses how a component auditor firm outside the group auditor firm's network should address a self-review threat that arises when proposed paragraph R405.10 is applicable to the component auditor firm's audit of the non-PIE component. We believe that either the application material in paragraphs 400.31 A1 – A3 should be applied also to self-review threats for a component audit client that is treated as a PIE, or that the application material in paragraph 400.32 A1 be referenced, in particular that the group auditor firm could perform the review noted in the second bullet point of 400.32 A1.

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

Yes, we agree 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?

Yes, we agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6 of the EM.

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?

Yes, we are supportive of the IESBA's proposed effective date.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Tone Maren Sakshaug (tonemaren.sakshaug1@qa.ey.com) or John Neary (john.neary1@ey.com).

Yours sincerely,

Ernst + Young Global Limited

¹ See Final Pronouncement – Revisions to the Non-Assurance Services Provisions of the Code.