

31 May 2022

Submitted electronically to:

- <https://www.ethicsboard.org/exposure-draft/submit-comment?exposure-draft=292492>

Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants (IESBA)
529 5th Avenue, New York

Dear Ken

Comments on the Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits (the IESBA's Proposed Revisions)

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national audit and ethics standard setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic.

The IRBA adopted Parts 1, 3, 4A and 4B of the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). This was prescribed in November 2018 as the Code of Professional Conduct for Registered Auditors (the IRBA Code) in South Africa, with certain additional national requirements. The IRBA Code, with its Rules Regarding Improper Conduct, provides the basis for disciplinary action against registered auditors.

We appreciate this opportunity to comment on the IESBA's Proposed Revisions.

Our response has been prepared by a Committee for Auditor Ethics Task Group, which comprised technical staff representatives from auditing firms.

The comments are presented under the following sections:

- Introduction;
- Request for Specific Comments and Responses; and
- General Comments.

If further clarity is required on any of our comments, kindly e-mail us at imtegha@irba.co.za. Alternatively, phone us directly on +27 10 496 0600.

Yours faithfully,

Signed electronically

Imran Vanker
Director: Standards

Ian Mtegha
Professional Manager: Standards

A. INTRODUCTION

1. We welcome the IESBA's initiative aimed at developing more robust requirements in the IESBA Code to address auditors' independence in a group audit context. We also support the alignment of a number of provisions in the Code to conform to changes in the International Auditing and Assurance Standards Board's (IAASB) [Quality Management](#) standards and International Standard on Auditing ([ISA 600 \(Revised\)](#), [Special Considerations – Audits of Group Financial Statements \(Including the Work of Component Auditors\)](#)). These efforts represent a step forward with regard to enhancing confidence and public trust in the auditing profession.
2. We also support the direction of the IESBA's Proposed Revisions to:
 - Establish new defined terms and revise a number of existing terms, including for application with respect to independence in a group audit context;
 - Clarify and enhance the independence principles that apply to the individuals and firms that are respectively involved and engaged in a group audit, including firms within and outside the group auditor firm's network; and
 - More explicitly set out the process to address a breach of an independence provision at a component auditor firm, including reinforcing the need for appropriate communication between the relevant parties and with those charged with governance (TCWG) of the group audit client.
3. However, our opinion is that there are areas where: (1) requirements could be strengthened; (2) terminology and definitions could be clarified; and (3) application material could be added to further improve the IESBA Code. Addressing these concerns would help drive consistent application, with the ultimate goal of enhancing audit quality.
4. The IRBA highlights that the IESBA's Proposed Revisions contain some principles that may have possible unintended consequences, as the practical application may vary in practice. For example, the proposed revisions define a "component audit client" in the following terms:
 - When the component is a legal entity, as "the entity and any related entities over which the entity has direct or indirect control;" or
 - When the component is a business unit, function or business activity (or some combination thereof), as "the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed".

This definition may result in complexities regarding the application of the IESBA Code requirements, depending on whether the component audit client is a legal entity or not. We therefore suggest that the IESBA considers addressing some of the envisioned complexities in the application paragraphs or through implementation guidance. For example, if a component audit client is a business unit, how will the Code's group audit requirements be practically applied?

B – REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

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 “assurance team;” and
- b) The explanatory guidance in paragraphs 400.A – 400.D?

5. The IRBA generally supports the proposed revisions to the IESBA Code relating to the definitions of “audit team”, “review team” and “assurance team”. This is due to their alignment with the IAASB’s Quality Management standards (in particular, ISQM 1) and ISA 600 (Revised).
6. With respect to the definition of “engagement team”, we propose that the IESBA consider additional context with the inclusion of ISA 610 (Revised 2013) and ISA 620 underneath the definition (i.e., ISA 610 link it to internal auditors and ISA 620 to external experts in line with definition).
7. We further recommend including in the definition of engagement team the wording “in fields other than accounting and auditing” (on page 49), so that it reads as follows:

“All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding –

- external experts ***in fields other than accounting and auditing***; and
- internal auditors who provide direct assistance.”

This will also align the definition to the explanatory guidance in paragraph 400.C, third bullet point. Alternatively, noting that currently this definition is aligned to ISQM 1, the abovementioned proposed text may be included as a footnote to “external experts” in the definition of engagement team.

8. In addition, the IRBA supports the explanatory guidance in paragraphs 400.A to 400.D, except for the partial reference to ISQM 1’s definition of a service provider in paragraph 400.B (page 30). We recommend that the ISQM 1 definition be included verbatim, as the phrase “system of quality management” has been left out. Paragraph 400.B should therefore read as follows: “In ISQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used ***in the system of quality management or*** in the performance of engagements. Service providers exclude the firm’s ***network***, other network firms or other structures or organizations in the network.”

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)?

9. Yes, that principle is in line with the QM standards (specifically ISQM 1). As a result, the IRBA agrees with the changes to the definitions of “audit team”, “review team” and “assurance team”, in recognition of the fact that EQRs may be sourced from outside a firm and its network.

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)?

10. Yes, the IRBA agrees with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit. In this regard, we note the following terms that are aligned with ISA 600 (Revised):
- Component;
 - Group;
 - Group Engagement Partner; and
 - Group Financial Statements.
11. We propose that “business unit”, which is used to define “component”, also be defined. The IESBA could further consider defining a business unit as “branches or divisions of an entity and/or business”.
12. In addition, the IRBA agrees with the following new terms and definitions, as proposed by the IESBA:
- Audit team for the group audit;
 - Component audit client;
 - Component auditor firm;
 - Group audit client; and
 - Group auditor firm.

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?

13. The IRBA agrees with the proposals in relation to individuals involved in a group audit.
14. While we appreciate the efforts of the component auditor to follow the group audit client independence requirements, we are of the the opinion that the principle of applying the most stringent requirement for the group audit should prevail and is in the public interest. This proposal is aligned to where the group audit client is a PIE, and the component audit client is a non-PIE as currently envisioned in the proposals.
15. In this regard we would like to highlight a possible unintended consequence where the group audit client is a non-PIE, the independence provisions that apply to the component auditor firm in relation to the component audit client, for the purpose of the group audit, are the non-PIE provisions, regardless of whether the component audit client is a PIE. Paragraph R405.9 applies this principle to a component auditor outside the group auditor firm's network and states that: "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." We do not agree with these proposals.
16. There needs to be consideration for the practical application of this principle on the standalone audit file of the component audit client (where the component audit client is a PIE and the IESBA Code documentation will therefore be in compliance with PIE requirements), as compared to the component auditor working papers that are for the purposes of the group audit file (where the group audit client is a non-PIE and the IESBA Code documentation will therefore be in compliance with non-PIE requirements).
17. Further, paragraph 405.2.A2 provides a way out in the scenario of a statutory audit at a component audit client by indicating that if a component auditor firm is engaged separately to issue an audit opinion on the financial statements of the component audit client for statutory, regulatory or other reasons, the component auditor firm might need to comply with independence requirements that are different from those that would apply for the purposes of a group audit. For example, if the component audit client is a PIE and is subject to a statutory audit, the PIE independence requirements would apply for the statutory audit of the component audit client, even if the group audit client is a non-PIE.
18. The IRBA proposes that the principle to be applied rather be that regardless of whether the group audit client or component audit client is a PIE or non-PIE, the most stringent requirements must be applied for the purposes of the group audit, i.e., where the component audit client is a PIE, but the group audit client is a non-PIE, PIE requirements should be applied at a group level.

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?

19. In general, the IRBA agrees with the specific proposals in Section 405 regarding financial interest in the group audit client as well as loans and guarantees. However, we recommend that:
- Paragraph R405.6b be applicable to the component auditor who has a direct or material indirect financial interest **in any** entity within the group whose financial information is included in the group financial statements.
 - Paragraph R405.6c be applicable to the component auditor who has material loans and guarantees from **any** entity within the group whose financial information is included in the group financial statements.
20. Further, the IRBA proposes that the group engagement partner and/or group auditor firm should monitor compliance with proposed paragraph R405.6 by a component auditor firm outside the group auditor firm's network through an independence confirmation.

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?

21. The IRBA agrees that the application material is appropriate but considers it not to be sufficiently clear. With respect to evaluating threats resulting from non-assurance services, paragraphs 405.12 A1 and A2 provide the relevant context. We would still suggest that the IESBA clarifies that a component auditor should not only consider the threat in terms of the services provided by the component auditor's firm in relation to the accounting parts that are subject to the component auditor's non-assurance services. Rather, the overall significance of the financial statement line item in the overall financial statements at group level should be a consideration as well.
22. Further, the application material may benefit from adding the following: *"There might be circumstances in which the group auditor firm requests the component auditor firm to perform non-assurance services on specific items, transactions, or balances in the component audit client's financial information. A self-review threat might be created by the component auditor firm's provision of a non-assurance service on that specific item, transactions, or balance in the financial information."*

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?

23. Yes, the IRBA agrees that the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in paragraphs 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?

24. The IRBA recommends that the requirements in Section 405 be clarified to state who in the component auditor firm is responsible for the performance of the procedures required in paragraphs R405.7, R405.8 and R405.15.
25. We further propose that the IESBA considers including a requirement for firms outside of the group auditor firm's network to inform the group auditor of any relationships and circumstances that are being evaluated for threats (R405.7) – whether these lead to a threat to the component auditor firm's independence (R405.8). Paragraph R405.8, regarding the threat to the component auditor firm's independence, leaves the independence threat evaluation to the component auditor firm. We propose that the component auditor firm must communicate all independence threats and the appropriate safeguards taken to the group auditor firm. This will assist with applying the IESBA Code consistently across the group.
26. Paragraph R405.14 on component auditor firms within the network is less restrictive in the event of breaches (by allowing a decision by the group engagement partner) than paragraph R405.15 on component auditor firms outside of the group auditor firm's network. In the latter case, the relationship causing the breach must be ended, eliminated or suspended. We think that a differentiation in the consequences between component firms within and outside of the network is not appropriate and does not align with the network neutral character envisaged by ISA 600 (Revised).
27. In addition, we suggest that paragraphs R405.16 and R405.17, regarding the group engagement partner's responses to any communication about a breach at a component auditor firm, should also apply to reported breaches by component auditor firms outside of the group auditor firm's network. Currently, these read as though they only encompass a scenario where a component auditor firm within the group auditor firm's network identifies a breach.
28. Lastly, it is unclear why the requirement in paragraph R405.19 to communicate breaches by a component auditor firm outside the group auditor firm's network to TCWG is different from the provisions applicable for other breaches in paragraph R400.84 (i.e., discussion as per R405.19 versus written communication as per 400.84). Additionally, it would seem helpful to clarify that the communication should be with TCWG of the group audit client. We therefore suggest that all breaches, regardless of the component in which they occur, require similar information and discussion/decision-making at the TCWG level.

Proposed Consequential and Conforming Amendments

Question 9

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

29. Yes, the IRBA agrees with the proposed consequential and conforming amendments, as detailed in Chapters 2 to 6.

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?

30. Yes, the IRBA strongly recommends that the IESBA's finalisation of the proposed revisions to the Code be aligned with the effective date of ISA 600 (Revised), that is, for audits of financial statements for periods beginning on or after 15 December 2023.

C – REQUEST FOR GENERAL COMMENTS

In addition to the request for specific comments above, the IESBA is also seeking 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.
- 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.
- 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.
- Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comments on potential translation issues respondents may note in reviewing the proposals.

31. We have no general comments to add, other than what is already addressed elsewhere in this letter.
