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

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (GTIL) appreciates the opportunity to comment on the exposure draft, Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits, approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

GTIL is an umbrella organisation that does not provide professional services to clients. Professional services are delivered by GTIL member firms around the world. Representative GTIL member firms have contributed to and collaborated on this comment letter with the public interest as their overriding focus.

We thank the Board for their continued efforts to serve the public interest and acknowledge the challenges they face to set high-quality standards that will enhance the profession. However, we do have some important concerns regarding the proposed revisions to the Code Relating to the Definition of Engagement Team and Group Audits, which we discuss in our comment letter.

May 31, 2022
Request for Specific Comment

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

GTIL generally agrees with the revised definitions of the terms audit, review, and assurance teams. However, we believe that additional clarification is necessary with respect to which individuals are deemed to be members of the engagement team.

An audit, review, or assurance engagement may involve other auditors or practitioners in various facets, beyond a group audit. In this regard, it is essential to differentiate whether another auditor or practitioner is a resource or an information source, which will depend on the particular circumstances. For example, a service provider that issues a service organization control report is an information source and not a resource (or an engagement team member), unless the service organization is requested to perform procedures for purposes of the engagement.

Similarly, information provided when using a completed engagement for which the auditor or practitioner did not direct or supervise is an information source, rather than a resource (or an engagement team member).

Ultimately, we believe the proposed definition of engagement team can be misinterpreted to inaccurately scope in certain auditors and practitioners that are deemed to be an information source (rather than a resource), subjecting them to the same independence requirements as engagement team members. The ramifications of not clarifying these situations could be extensive.

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

GTIL agrees with the explanatory guidance set out in paragraphs 400.A-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)?

GTIL agrees 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.

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)?

GTIL agrees with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit.
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

We believe the independence requirements applicable to individuals at a component audit firm outside the group audit firm’s network should not be the same personal independence requirements as applied to individuals from the group audit firm and within the group audit firm’s network.

While a component auditor may be key to a group audit engagement, they generally do not have access (or professional working relationships with) other management teams or audit committees outside of the component entity (e.g., group audit client or sister entities) for which they are performing procedures for purposes of the group audit. Furthermore, they are not involved in the planning or determining the group audit strategy for purposes of providing an opinion on the group financial statements. Since it is the group auditor that takes responsibility for the overall group audit strategy and the audit evidence to support the group audit opinion, including the work performed by the component auditor, it is expected that the independence requirements for the engagement team of the group audit firm are higher. This is an important distinction, particularly with respect to independence, regulatory, and other legal considerations that may exist across the globe.

The proposed provisions to the Code in this area may make it increasingly difficult for component auditors from a firm other than the group audit firm’s network to be used on the audit engagement and/or even operationalize the proposed revisions. The consequence of this may be that group audit engagements will increasingly be performed only by the larger firms and such a concentration of the market we believe is not in the public interest.

We believe the requirements for these individuals should be more aligned with the proposed independence requirements for component audit firms outside the group audit firm’s network, in that the conceptual framework would be applied when evaluating relationships that are known or have been identified with certain related entities within the group. We believe the application of the conceptual framework when analyzing independence matters with these related entities is more appropriate because:

- component audit teams of non-listed PIEs will be unaware of certain related entities, such as brother-sister entities, of their component audit client since they don’t meet the IESBA related entity definition for these entities, and

- component audit firms can operationalize a conceptual framework approach across their firm which would allow the firm to incorporate the appropriate procedures to monitor the engagement teams’ personal compliance with respect to the relevant entities. This approach will better enable component audit engagement teams to report their independence with these entities to the group audit engagement partner.

We would encourage IESBA to better understand the impact these proposed provisions may have on firms today while taking into consideration the level of independence risk that exists with component audit engagement team members and identified or known instances of non-compliance by component audit engagement team members that has impacted the issuance of a group audit report by the group auditor due to independence.

(b) Independence in relation to firms engaged in a group audit, including CA firms within and outside the GA firm’s network?

GTIL agrees with the principles the IESBA is proposing in Section 405 regarding independence in relation to firms engaged in a group audit, including CA firms within and outside the GA 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?

As it pertains to non-network component audit firms, GTIL agrees with the proposals in Section 405 regarding financial interest in the group audit client and 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?

GTIL believes the proposed application material relating to a non-network component audit firm’s provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 is clear and appropriate.

However, we believe the IESBA could provide more guidance and application material in situations where a non-network component audit firm provides/provided NAS to the group audit client to ensure consistent application of the rules.

In accordance with section R400.20 of the Code, unless a client is a listed entity, reference to audit client will only include related entities over which the client has direct or indirect control, excluding the group audit client as a related entity of the component. If the non-network component firm were to provide or has provided a prohibited NAS to the group audit client, it would not be prohibited under section R400.20 of the Code because the group audit client would not be a related entity of a non-listed component entity.

Alternatively, if the non-network component auditor is expected to apply the requirements in section 600 on NAS of the Code to the group audit client, would the exception in Section 600.10, Consideration for Certain Related Entities, be applicable in these situations because the non-network component firm’s audit client is the component entity and not the group entity? If applicable, then providing prohibited NAS to an entity that has direct or indirect control over the component audit client (the group audit) would be permissible under section R600.10 (a).

Accordingly, we believe it would be beneficial for the IESBA to provide guidance for non-audit services performed for the group audit client by a component audit firm so that there is consistent application of the Code in these situations, which we feel is in the public interest.

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?

GTIL believes the proposed application material relating to changes in component audit firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 is clear and appropriate.
However, as discussed in Q6 above, we would ask IESBA to provide additional guidance and application material in situations where a non-network component audit firm provided NAS for the group audit client in order to sufficiently aid the component auditor in performing their independence analysis for the audit engagement.

**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?

GTIL supports the proposals in section 405 to address a breach of independence by a component audit firm.

**Proposed Consequential and Conforming Amendments**

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

GTIL agrees with the proposed consequential and confirming amendments as detailed in Chapters 2 to 6.

**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?

GTIL supports 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.

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GTIL would like to thank the IESBA for this opportunity to comment. As always, we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek, Director - Global Independence at gina.maldonado-rodek@gti.gt.com

Sincerely,

Kim Gibson

GTIL Global head – Risk Management and Independence

cc:  Gina Maldonado-Rodek