



PROPOSED REVISIONS TO THE CODE RELATING TO THE DEFINITION OF ENGAGEMENT TEAM AND GROUP AUDITS

Issued 30 May 2022

ICAEW welcomes the opportunity to comment on the Proposed Revisions to the Code relating to the definition of Engagement Team and Group Audits published by IESBA on 28 February 2022, a copy of which is available from this [link](#).

For questions on this response please contact our Audit and Assurance Faculty at tdaf@icaew.com quoting REP 45/22.

This response of 30 May 2022 has been prepared by the ICAEW Audit and Assurance Faculty and reflects consultation with ICAEW's Ethics Standards Committee. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has around 7,500 members drawn from practising firms and organisations of all sizes in the private and public sectors. The Ethics Standards Committee includes representatives from public practice and the business community and is responsible for ICAEW policy on ethics issues and related submissions to legislators, regulators and other external bodies.

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KEY POINTS

1. We welcome the opportunity to comment on IESBA's proposed changes to the International Code of Ethics for Professional Accountants (the Code). Given the publication of the new Quality Management standards and ISA 600 (Revised), we believe that it is important to align definitions and requirements in ISAs and the Code in order to provide greater clarity in relation to the independence requirements for group audits.

DEFINITIONS

2. We agree, in principle, with the revised definitions but we do believe that they create a layer of additional complexity which may lead to confusion about what requirements apply to individuals and audit firms. We would therefore encourage IESBA to consider whether the inclusion of one or more diagrams might help provide greater clarity on the distinction between the terms, and how they interact. It would also be helpful if IESBA provided some illustrations.

INDEPENDENCE REQUIREMENTS

3. As a matter of principle, we believe that where a group auditor firm is reliant on the work of other audit firms, the same level of independence should generally be applied to the other firms (whether within or outside the group auditor firm's network) as to the group auditor firm.
4. However, our members have expressed concerns that the proposed independence requirements in the Exposure Draft (ED) might adversely impact the choice of component auditor, and in particular, the use of smaller component auditor firms that are not within a group auditor firm's network. This is in the context of the requirements in R405.10 in relation to PIE group audit clients and situations where a group has components in jurisdictions where the group wishes the local component auditors to have more flexibility with regards to the provision of non-audit services, than is afforded to the auditor of the PIE group. Extending the requirements in line with R405.10 might inadvertently reduce the choice available to groups to source local component auditors as a result of audit firms providing non-audit services. We provide an illustration in paragraph 10 below in our answers to the specific questions.
5. We also consider that it is vital that group audit entities take responsibility for ensuring that they are aware of relevant independence requirements in relation to the audit of their financial statements to help avoid disruptions to the audit process as the audit progresses. In this respect, we would encourage IESBA to ensure that they engage widely with these stakeholders to communicate changes in relation to auditor independence and explain the ethical responsibilities placed on audit firms.

ANSWERS TO SPECIFIC QUESTIONS

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?

6. We agree, in principle, with the revised definitions, but we do believe that they create a layer of additional complexity which may lead to confusion about what requirements apply to individuals and audit firms. We would therefore encourage IESBA to consider whether the inclusion of one or more diagrams might help provide greater clarity on the distinction

between the terms, and their interaction. It would also be helpful if IESBA provided some illustrations.

7. The new definition of audit team for the group audit includes individuals 'within or engaged by the group auditor firm who have direct influence over the outcome of the group audit including those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit'. Our outreach suggests that there are some concerns about how easy it will be for firms to determine the scope of such individuals and that additional guidance would be helpful to support firms with this.

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)?

8. Yes.

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)?

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?***

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?***

9. As a matter of principle, we believe that where a group auditor firm is reliant on the work of other audit firms, the same level of independence should generally be applied to the other firms (whether within or outside the group auditor firm’s network) as to the group auditor firm.
10. However, we do have concerns that the proposed independence requirements in the ED might adversely impact the choice of component auditor, and in particular, the use of smaller component auditor firms that are not within a group auditor firm’s network. This is in the context of the requirements in R405.10 in relation to PIE group audit clients and situations where a group has components in jurisdictions where the group wishes the component auditor to also engage in certain non-audit services that would be prohibited for auditors of the PIE group. For example, a PIE group audit client might have immaterial components that are not considered within the scope of the group audit and the group audit client therefore employs local auditors because it is cost effective to do so and because the ethical restrictions provide greater flexibility over providing non-audit services. Sometimes, however, those immaterial components may then be scoped in on an unpredictable basis which creates challenges for the group auditor firm as the component auditor firm would then need to apply the PIE auditor independence requirements. This could disrupt the group audit process and is likely to impact a group auditor firm’s willingness to use component auditor firms outside of their network.
11. We consider that it is also vital that group audit entities take responsibility for ensuring that they are aware of relevant independence requirements in relation to the audit of their financial statements to help avoid disruptions to the audit process as the audit progresses. In this respect, we would encourage IESBA to ensure that they engage widely with this

stakeholder group to communicate changes in relation to auditor independence and explain the ethical responsibilities placed on audit firms.

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?

12. Yes.

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?

13. Yes.

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

14. We are generally supportive of the proposals though we do not think that it is entirely clear what the practical differences will be with the proposed slightly different treatment between network component auditor firms and non-network component auditor firms (which has led to the separate non-network requirements in R405.15 – 20).
15. The table in Appendix 2 illustrates the process to address breaches but the distinction between significant and very significant breaches is not entirely clear and might not be necessary. It also does not appear to distinguish between the resulting actions based on whether the component auditor firm is within or outside the Network.

Proposed Consequential and Conforming Amendments

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

16. Yes.

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?

17. Yes, we support the proposal to align the effective date given that the changes proposed are prompted by revisions to ISA 220 and ISA 600. We understand that IAASB plans to issue some "bridging guidance" to explain how ISA 220 can be applied with extant ISA 600 for periods beginning on or after 15 December 2022, but before 15 December 2023 (before ISA 600 (Revised) becomes effective). Further bridging guidance might therefore be needed from IESBA to explain how the matters addressed in this exposure draft are to be addressed in that 'transition' period too.

Request for General Comments

- Small- and Medium-sized Entities (SMEs) and 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 comment on potential translation issues respondents may note in reviewing the proposals
18. Please see paragraph 10 above in relation to the impact on SMPs.