30 May 2022

Mr Ken Siong
IESBA Program and Senior Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017
USA

Dear Sir,

RESPONSE TO THE INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (“IESBA”) EXPOSURE DRAFT (“ED”) – PROPOSED REVISIONS TO THE CODE RELATING TO THE DEFINITION OF ENGAGEMENT TEAM AND GROUP AUDITS

For this ED, the Institute of Singapore Chartered Accountants (ISCA) sought views from its members through a one-month public consultation and discussed the ED with members of the ISCA Ethics Committee.

Overall, we are supportive of the proposed revisions to the Code, given that they were developed in close coordination with the International Auditing and Assurance Standards Board to be consistent and interoperable with the International Standards on Auditing (“ISAs”) and International Standards on Quality Management (“ISQMs”).

Our comments to selected questions in the ED are as follows:

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)?

We note that the proposed definition of “audit team for the group audit” is based on the definition of “audit team” but adapted to a group audit context. In developing this definition, the IESBA is proposing to scope in individuals within a non-network component auditor (“CA”) firm who are not part of the engagement team for the group audit but can directly influence the outcome of the group audit. These individuals would be captured under subparagraph (d) of the proposed definition even though IESBA has recognised that it would be rare in practice for such individuals to be able to directly influence the outcome of the group audit.

We believe it would be useful for IESBA to clarify within the Code that the above situation is expected to be rare and provide examples of such rare situations.
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?

Non-network CA firms

When the component audit client is a public interest entity (“PIE”) but the group audit client is not a PIE, the non-network CA firm shall apply the independence provisions that are applicable to non-PIEs for purposes of the group audit (proposed paragraph R405.9).

The proposed paragraph 405.2 A2 clarifies that a CA firm (both within and outside the network) that participates in a group audit engagement might separately issue an audit opinion on the financial statements of the component audit client. 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.

Hence, given that the non-network CA firm would already be subject to PIE rules in such situations, it does not appear that there is a strong reason to provide a “concession” for the non-network CA firm to apply the non-PIE independence rules for purposes of the group audit. In practice, we believe that the non-network CA firm would apply PIE rules consistently as it would be impractical for the firm to subject itself to a lower independence threshold for purposes of the group audit.

We are uncertain of the value in providing such a “concession” and whether it will have any impact at all on the non-network CA firm. We urge the IESBA to reconsider the proposed paragraph R405.9.

Proposed Consequential and Conforming Amendments

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

We note the IESBA’s proposals set out in Chapter 4 on how references to the terms, “teams” and “engagement team” (ET), would be used in the Code. However, we would like to seek clarification in situations where IESBA refers broadly to “teams” in the Code, whether this term would refer to ET or the audit team and/or assurance team, which would be wider in scope than ET.
Should you require any further clarification, please feel free to contact Ms Alice Tan at alice.tan@isca.org.sg or Ms Ng Shi Zhen at shizhen.ng@isca.org.sg.

Yours faithfully,

Mr Wai Geat, KANG
Divisional Director
Professional Standards