



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

17 June 2022

Mr Ken Siong  
Program and Senior Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, 10017 USA

Dear Ken Siong,

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

The Ethics Standards Board (“ESB”) of the Malaysian Institute of Accountants (“MIA or the Institute”) welcomes the opportunity to provide its comments on the IESBA Exposure Draft (“ED”), *Proposed Revisions to the Code relating to the Definition of Engagement Team and Group Audits*.

We enclose in Appendix 1, our response to the questions contained in the ED.

We hope our comments would contribute to the IESBA’s deliberation in finalising the ED. If you have any queries or require clarification of this submission, please contact Simon Tay Pit Eu at +603 2722 9271 or email at [simontaypiteu@mia.org.my](mailto:simontaypiteu@mia.org.my).

Thank you.

Yours sincerely,

**MALAYSIAN INSTITUTE OF ACCOUNTANTS**

**DR. WAN AHMAD RUDIRMAN WAN RAZAK**  
Chief Executive Officer

## APPENDIX 1

### **PART A: SPECIFIC COMMENTS**

We have outlined our responses to each question in the ED below.

#### Proposed Revised Definition of Engagement Team

**Q1. 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,” “review team” and “assurance team;” and**

We are supportive of the proposed changes to the revised definitions of the terms “engagement team,” “audit team,” “review team” and “assurance team”. However, with increasing demand for assurance services in ESG and sustainability reporting, it is also timely for IESBA to consider the possible implication of such changes in definition under Part 4B when finalizing this ED.

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

#### Distinction between “audit team” and “engagement team”

With respect to the explanatory guidance in paragraphs 400.A to 400.D, the need to distinguish between “audit team” and “engagement team” in the IESBA Code is not evident. It appears that the ethics and independence requirements applicable to members of the audit team and those applicable to the engagement team are almost the same.

To this end, we would suggest that the revised requirements clarify the need to distinguish between the “audit team” and “engagement team” and that paragraph 400.C is an appropriate place for this clarity to be included.

In continuing with the distinction between “audit team” and “engagement team”, we noted that there may be a disconnect between the ISAs and the IESBA Code when considering the following:

#### *International Standards on Auditing*

- i. ISA 220 (Revised) requires the engagement partner to take responsibility for determining whether the relevant ethical requirements, including those related to independence have been fulfilled (ISA 220 (Revised) paragraph 21). The related application material references to the requirement contained in ISA 700 (Revised) for the auditor’s report to include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements and states that the steps outlined in paragraph 16 to 21 of ISA 220 (Revised) form the basis for including this statement in the auditor’s report (ISA 220 (Revised) paragraph A47). Paragraphs 16 to 21 are focused on the “engagement team”.

- ii. ISA 600 (Revised) requires the group engagement partner to take responsibility for component auditors' awareness, understanding and compliance of the relevant ethical requirements, including independence that are applicable (ISA 600 (Revised) paragraph 25). These component auditors form part of the "engagement team".

#### *The IESBA Code*

- i. Proposed paragraph 400.3 of the IESBA Code refers to "audit team members", resulting in the application of Part 4 being wider than that of the ISAs, which is focused on the members of the "engagement team". It is not clear who is responsible for ensuring that individuals not part of the "engagement team" but part of the "audit team" have complied with the relevant ethical requirements, including independence.

We suggest that the IESBA engage the IAASB to clarify the performance obligations or expectations of a group engagement partner, when a non-network component auditor is involved, to demonstrate compliance with paragraphs 16 – 21 of ISA 220 (Revised) and paragraph 25 of ISA 600 (Revised).

The ISAs explicitly state who is responsible for ensuring compliance with the relevant ethical requirements, including independence of the "engagement team". We suggest that the IESBA Code clarify who is responsible for ensuring compliance with the relevant ethical requirements, including independence of the "audit team".

#### Considerations relating to ISQM 1

ISQM 1 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with the relevant ethical requirements, including those relating to independence of the firm and its personnel as well as others (ISQM 1 paragraph 29). We note that there may be a gap between the firms and individuals covered by ISQM 1 and the IESBA Code.

In expanding on "others", ISQM 1 lists the network, network firms, individuals in the network or network firms, or service providers. It therefore appears that this requirement is aimed at component auditors within the group auditor firm's network. The significant changes proposed in section 405 of the ED, Group Audits – Engagement Team relates to component auditors outside of the group auditor firm's network, yet the quality objectives contained in ISQM 1 do not seem to be addressing these firms and individuals.

We suggest that the IESBA engage the IAASB in addressing any possible gaps in the application of ISQM 1 to the component auditor firms outside the group auditor firm's network, as well as component auditor individuals outside the group auditor firm's network.

#### Service providers

With respect to service providers, the explanatory memorandum (EM) to the ED states that the IESBA is proposing to make it explicit that the International Independence Standards (IIS) apply to individuals from service providers who perform audit procedures on an audit engagement, with reference then being made to paragraphs 400.A and 400.B (paragraph 30) of the ED. The EM then

continues to state that it would be disproportionate to bring the service provider's organization into the scope of the IIS (paragraph 31).

Although reference is made to ISQM 1, paragraph 400.B specifically mentions that a service provider includes an individual or organization, creating the impression that the IIS applies to both individuals from service providers as well as the service provider's organization.

We believe that the intention for the IESBA Code to explicitly state that the IIS apply to individuals from the service providers who perform audit procedures on an audit engagement and not the service providers per se will be clearer by removing the reference to the organisation in paragraph 400.B.

### Independence Considerations for Engagement Quality Reviewers

**Q2. 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?**

We are supportive of 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.

As outlined in preceding paragraphs, since the EQR is a member of the “audit team”, it is not sufficiently clear who is ultimately responsible for ensuring that the EQRs comply with the relevant ethical requirements, including independence.

Guidance on how firms should be monitoring compliance by an EQR outside of the group auditor firm's network of firms will be very helpful.

### Independence in a Group Audit Context

**Q3. Do you agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit?**

We agree with the proposed new defined terms that are used in Section 405.

**Q4. 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 agree with the principles proposed in Section 405 (Chapter 1) addressing independence in relation to individuals involved in a group audit.

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

### Monitoring and Evaluating Compliance

We are of the view that the proposed new section lacks clarity and guidance relating to monitoring and evaluation of compliance with the proposed new requirements.

We suggest that the IESBA Code should explicitly outline the responsibilities of the component auditor in complying with the relevant ethical requirements and how the GA should monitor and evaluate the component auditor's compliance. This should include:

- a. the period that the group auditor is required to monitor and evaluate the component auditor's compliance with the relevant ethical requirements (i.e., before and during the engagement, as well as prior to the group auditor issuing the group auditor's report),
- b. the component auditor's responsibilities in relation to the minimum acceptable communication with the group auditor (i.e., before and during the engagement, as well as prior to the group auditor issuing the group auditor's report), and
- c. the minimum information that the group auditor is required to obtain to evidence the component auditor's compliance.

#### Key Audit Partner

Paragraph 405.11 A1 is proposed as application material to highlight that the group engagement partner might determine that an engagement partner who performs audit work related to a component for the purposes of the group audit is a key audit partner. Our understanding is that this was included as an application material instead of a requirement because the group engagement partner applies professional judgment to identify key audit partners from a group perspective based on the facts and circumstances. This may have unintended consequences and result in inconsistent application by group engagement partners.

The IESBA Code currently includes a definition for Key Audit Partner and requirements to which the Key Audit Partner must comply. However, there is no requirement or application material for a specific individual or body to determine who the Key Audit Partners are. Proposed paragraph 405.11 A1 therefore appears to be out of line, in aligning the independence considerations in a group context to the existing requirements of Part 4 of the IESBA Code.

We suggest that Section 405 follow the same approach as the extant IESBA Code:

- a. Define a Key Audit Partner from a group audit perspective, and
- b. Include a requirement for all Key Audit Partners engaged in the group audit and their firms to comply with the requirements set out in paragraphs R411.4 and R524.6, as well as section 540.

#### Scalability of Requirement For a PIE/Non-PIE Engagement

We are of the view that there may be difficulties for component auditors to adhere to the broader independence requirements as currently proposed. To elaborate, a component auditor would generally perform the statutory audit for a non-PIE component company in conjunction with any other procedures required for reporting purposes to the group auditor. The component auditors would have performed the statutory audit in accordance with non-PIE independence requirements (which could mean providing certain allowed non-assurance services). This would then possibly introduce complexities if required by the group

auditors to then adhere to PIE independence requirements instead since the parent company is a PIE. The reverse situation is less of an issue.

We note that it would be impractical to apply such stringent requirements to a component auditor who is eligible to perform the statutory audit in their respective jurisdiction but not procedures for a group audit. This could possibly lead to duplication of work and questions regarding the necessity of such work if the group auditor must approach a separate component auditor to perform the procedures required for the group audit or perform such work themselves.

Rather than strictly require all work by the component auditor to be performed under PIE independence requirements in R405.9 -10, we would therefore, suggest introducing a scalable approach for the group auditor to consider the qualitative and quantitative significance of the work performed on a component to influence the outcome of a group audit, such as the consideration of:

- a. the materiality of the component audit client to the group audit client, and
- b. the level of influence that the component auditor firm can exert on the group audit opinion.

Such an approach will also be in line with how breaches to the Code is to be evaluated and dealt with under paragraph R405.15 (b) and (c) while paragraph R405.17 espouse on the need to exercise professional judgement, using the reasonable and informed third party (RITP) test.

We believe the wording of R405.9 should also be revised so as to be clear that it does not imply that it would be unacceptable for a component auditor of a PIE component in a non-PIE group to apply independence rules for PIE entities when the group is a non-PIE. It should be possible to apply more stringent rules (e.g., where these apply to the statutory audit) but not the other way around. As potentially implied by the wording – an outright prohibition would be counterintuitive. The component auditor firm should be given the flexibility to decide in such a situation.

**Q5. 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 that the possible threats created by financial interest in the group audit client and loans and guarantees should specifically be considered. However, how this will be practically implemented and monitored is not clear.

In addition, we are of the opinion that item (b) of paragraph R405.6 may not be clear as to whether a non-network component auditor firm who does not hold a direct interest but has an indirect financial interest will be required to dispose of these financial interests. It appears that a direct interest is outright prohibited but not indirect interest unless it is “material”. Better clarity is needed on the reason for the distinction.

From a practical point of view, we would encourage the IESBA to provide practical guidance on how group auditor firms monitor financial interests and loans and guarantees held by component auditor firms outside the group auditor firm’s network in the group audit client.

## Non-Assurance Services

### **Q6. 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?**

#### Applicability of proposed paragraphs 405.12 A1 – A2

The proposed application material relating to a non-network component auditor firm's provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 is appropriate when the component auditor firm outside the group auditor firm's network is not engaged by the component audit client for statutory, regulatory, or other reasons. However, in many jurisdictions, it is rather common for the component auditors to be engaged for statutory audit and other regulatory filings.

The prohibitions on performing certain non-assurance services for a non-PIE audit client that is part of a non-audit client PIE group may result in the unintended consequence of reducing the pool of auditors willing to engage with a group auditor firm that is outside of the component auditor firm's network. This will force the group auditor to obtain sufficient appropriate audit evidence to support the group audit opinion through other means, resulting in increased costs for the group.

Hence, we would urge the IESBA to consider the impacts as set out in our suggestions in the preceding paragraphs on the "Scalability of Requirement For a PIE/Non-PIE Engagement".

The group auditor firm develops the group audit plan and determines the work to be performed by the component auditor at component level. The requirement should be proportionate to the self-review threat that is being addressed. With further refinement, we believe 405.12 A2 of the ED can really bring out this important principle.

#### Clarity of proposed paragraphs 405.12 A1 – A2

Proposed paragraphs 405.12 A1-A2 are not sufficiently clear in outlining that the requirements of Section 600 are applied from the perspective of the component audit client and not the group audit client. The perspective that the requirements are applied from will result in inconsistent applications of the prohibitions and should therefore be further clarified.

We support the inclusion of examples, in the IESBA Code to illustrate the requirements and related application material. Although labelled as examples, the information contained in paragraph 405.12 A1 is a repeat of the requirements and therefore does not achieve the desired effect of illustrating the requirements. Furthermore, the inclusion of these two requirements creates the impression that these are the only two prohibitions that apply and not all those contained in Section 600 of the IESBA Code.

We would suggest that the examples be removed from proposed paragraph 405.12 A1 and that it will be more useful in this case for the IESBA to develop further non-authoritative materials depicting various Group structures (and business lines) while illustrating the application of R405.9 and R405.10 to the related entities from the perspective of the component auditor firm outside of the group auditor firm's network.

#### Transitional arrangements

In finalising the proposed revisions, we suggest that the IESBA include transitional arrangements to address non-assurance services currently being provided by component auditors that may become prohibited under the revised requirements.

#### Changes in Component Auditor Firms

**Q7. 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 are of the view that 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 is sufficiently appropriate.

#### Breach of Independence

**Q8. Do you agree with the proposals in Section 405 to address a breach of independence by a CA firm?**

We agree with the proposals contained in paragraph R405.14 relating to a breach identified by a component auditor firm with the group auditor firm's network.

With respect to the proposals relating to a breach identified by a component auditor firm outside the group auditor firm's network, we are of the view that a necessary step for the component auditor firm is missing, namely, to consider whether, and appropriately respond to any legal or regulatory requirements. We would recommend that the following additional step be added as requirement R405.15(e):

- i. Comply with those requirements, and
- ii. Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction.

With respect to proposed paragraph R405.19, we have concerns as the group audit firm's communication with those charged with governance is not required to be in writing.

The illustrative diagram of the proposed process to address breaches of independence at the component auditor firm contained in Appendix 2 is inconsistent with the proposed requirements relating to breaches contained in Section 405:

- a. Proposed paragraphs 405.18 A1 and A2 address the group engagement partner's determination of whether the breach has been satisfactorily addressed by the component auditor or not before determining whether further action is needed, and the breach is communicated with those charged with governance. The illustrative diagram includes an additional step not contained in Section 405 for the group engagement partner to assess the significance of the breach prior to communicating the breach with those charged with governance.
- b. The illustrative diagram distinguishes between a "significant breach" (block I) and a "very significant breach" (block J), yet proposed section 405 does not include the concept of a "very significant breach".

#### Proposed Consequential and Conforming Amendments



**Q9. Do you agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6?**

We agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6.

Effective Date

**Q10. 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?**

The revision to the definition of the engagement team in ISA 220 (Revised), making all component auditors part of the engagement team and the resultant implications concerning the application of the IIS in Part 4A of the IESBA Code, make it necessary to align the effective date of ISA 600 (Revised) and the IESBA's final pronouncement.

On the assumption that the IESBA will approve the final pronouncement in December 2022 (as indicated in paragraph 92 of the Explanatory Memorandum), we support the proposal to align the effective date of the final pronouncement with the effective date of ISA 600 (Revised).

**PART B: Request for General Comments**

In addition to the request for specific comments above, the Institute 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.

We have no further comments from the perspective of SMEs and SMPs.

- ***Regulators and Audit Oversight Bodies*** – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

Not applicable.

- ***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.

We do not foresee difficulties in applying these proposals in the Malaysian 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.

Not applicable.