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Ref: KLB/TN

26 May 2022

International Ethics Standards Board for Accountants (IESBA)

Dear IESBA,

**SUBMISSION – PROPOSED REVISION TO THE DEFINITION OF ENGAGEMENT TEAM  
AND GROUP AUDITS**

We appreciate the opportunity to provide comment to the International Ethics Standards Board for Accountants (IESBA) on *Proposed revision to the Code relation to the definition of engagement team and group audits*.

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, and small to medium sized enterprises.

We support the IESBA's efforts to facilitate greater communication of and engagement in the standard setting process.

Our detailed responses to the questions contained in *Proposed revision to the Code relation to the definition of engagement team and group audits* are attached to this letter. In its current form we do not believe the proposed revisions overall have sufficient clarity or consideration of practical issues with the implementation of them, but would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

Please contact either myself or Tim Nesbitt, Director - Audit & Accounting Technical (03 8612 9596 or [tim.nesbitt@pitcher.com.au](mailto:tim.nesbitt@pitcher.com.au)), in relation to any of the matters outlined in this submission.

Yours sincerely,



K L Byrne  
Partner



T Nesbitt  
Director, Audit & Accounting Technical

**Adelaide Brisbane Melbourne Newcastle Perth Sydney**

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<b>Proposed revisions relating to the definition of engagement team and group audits</b>
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**Specific matters for 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
- (b) The explanatory guidance in paragraphs 400.A – 400.D?

**Feedback**

- a) The revised definitions do not enhance the code as they add complexity to managing teams and independence. Given rotation is driven in part by the idea of auditor independence it is unclear what the relationship between the audit team definition and the rotation requirements are and whether they are consistent, consequently the audit team definition seems to be an overreach without consideration of practical matters.
- b) The explanatory guide paragraphs could be clearer in their use of the terms proposed by the revisions, and also there is likely to be practical considerations in explaining to other service lines that they must apply the independence protocols to work they may consider is not in relation to the audit, or which was done for another purpose but is being “used” by the auditor. Greater clarity on this would be beneficial to facilitate its implementation.  
Some external non-binding guidance utilising “real” examples might provide more clarity and facilitate implementation.

*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)?

**Feedback**

The fact that an EQR may be sourced from outside a firm is a matter of necessity in some instances. The definitions recognise this, however, we do not agree that the complexity of a definition of audit team and a definition of engagement team is facilitating compliance or independence in any way. The additional definitions is adding complexity without adding clarity.

*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)?

**Feedback**

The audit team definition is potentially going to make firms less inclined to perform audit as the complexity of remaining independent increases. The potential ramifications are a reduction in competition and the number of audit firms, which will reduce quality.

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?

**Feedback**

The extension of the independence requirements to all elements of an audit is complex. Further it has the potential to minimise competition as ensuring independence under the revised definitions is more complex and therefore utilising non-network firms is even less attractive, consequently, the proposed definitions and principles are anti-competitive, and potentially reduce audit quality by limiting the available firms to a client for their audit.

As the group auditor identifies the components in some cases after engaging, based on facts and circumstances, there is a high likelihood that smaller components will have independence breaches as soon as they are scoped in, particularly with the PIE matter making all subsidiaries PIE if the parent is. Further how does this work for an intermediary entity which may be a PIE at that level but the overall parent may not be a PIE.

Further the reasonable informed party test is in practice applied with hindsight and in a review or litigation environment in most instances and is an open area for disagreement, particularly where regulators consider themselves to be the sole determinant of a reasonable informed party.

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?

**Feedback**

No comment

*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?

**Feedback**

The guidance is problematic, particularly where the component auditor is a non-network firm, the group auditor has the absolute power to determine that a service is prohibited, without any recourse for the component firm, potentially providing the ability for a group auditor to deny a component auditor legitimate work, which may again be seen as a deterrent to having a non-network auditor, a potential unintended consequence.

*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?

**Feedback**

The guidance is not clear or easy to follow.

*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?

**Feedback**

Firstly the timing of reporting appears different for an in network and out of network auditor which is conceptually inconsistent. Additionally the PIE rules mean that component auditors could instantly find themselves in breach if they are determined to be a material component.

*Proposed Consequential and Conforming Amendments*

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

**Feedback**

That the code should be consistent is appropriate, however, the proposed changes are not as currently defined ones which we would support.

*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?

**Feedback**

On the assumption that the other matters raised above are resolved, the alignment of release is logical, however, without appropriate resolution of the queries raised above we would not support the release of the revisions.