

IESBA
529 5th Avenue
New York
New York
10017

To whom it may concern

Re: IESBA Exposure Draft: PROPOSED REVISIONS TO THE CODE RELATING TO THE DEFINITION OF ENGAGEMENT TEAM AND GROUP AUDITS

On behalf of the South African Institute of Professional Accountants (SAIPA) we would like to comment on Exposure Draft **PROPOSED REVISIONS TO THE CODE RELATING TO THE DEFINITION OF ENGAGEMENT TEAM AND GROUP AUDITS published** by the International Ethics Standards Board for Accountants for comments submitted by 31 May 2022. We appreciate the opportunity to comment on this Exposure Draft.

The International Ethics Standards Board for Accountants® (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code).

The proposed revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) establish provisions that comprehensively address independence considerations for firms and individuals involved in an engagement to perform an audit of group financial statements. The proposals also address the independence implications of the change in the definition of an engagement team—a concept central to an audit of financial statements—in the International Auditing and Assurance Standards Board's (IAASB) International Standard on Auditing (ISA) 220, Quality Management for an Audit of Financial Statements.

Among other matters, the proposals:

- Establish new defined terms and revise several existing terms, including for application with respect to independence in a group audit context.
- Clarify and enhance the independence principles that apply to:
 - Individuals involved in a group audit.



- Firms engaged in the group audit, including firms within and outside the group auditor firm's network.
- More explicitly set out the process to address a breach of an independence provision at a component auditor firm, including reinforcing the need for appropriate communication between the relevant parties and with those charged with governance of the group.
- Align several provisions in the Code to conform to changes in the IAASB's Quality Management standards.

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

The IESBA definition should align with the IAASB definitions, the definitions approved by the IAASB was used in the proposed changes to the definitions. The proposed definition aims to further emphasise the independence requirements considering the roles of all team members. The current definition only deals with individuals from the firm and network firm, the revised definition includes component auditors and service providers. We agree with the revised definition. We agree with IESAB view that individuals involved in the Engagement quality review should be subject to the same level of independence and should be members of the audit team. We agree with the inclusion of such individuals in the definition.

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

We agree with the explanatory guidance which will explain further that the standard define explicitly service providers. We agree that this is not a change in the existing standard as the current standard already define this in the standard. We agree that different types of individuals might be used in an audit engagement including individuals with specialised skills and expertise in the auditing and assurance and or industry specific information. We agree with the explanation and guidance provided in paragraph 400.C which clearly stipulate the difference between engagement team and audit team.

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)?

We agree with the changes to the definitions of audit team and review team and assurance team to include and recognize that those performing Engagement quality reviews might be from outside the firm or the network firm and they should be included in the definitions.

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)?

We agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit. We agree that the individuals from component auditor firms who perform audit work related to components for purposes of the group audit should form part of the audit team for the 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

The IESBA is proposing that the same independence provisions that apply to individuals from the GA firm and CA firms within the network should apply to individuals carrying out audit work at the component level from non-network firms. The IESBA is of the view that the work of the individuals from the non-network CA firms contributes to the audit opinion on the group financial statements just as much as the work performed by individuals from the GA firm and CA firms within the network.

Therefore, given that the expanded definition of ET captures individuals from non-network CA firms and other service providers, the IESBA is proposing a single requirement that all members of the audit team (which includes the ET) for the group audit be independent of the group audit client in accordance with the requirements of Part 4A that are applicable to the audit team.

By taking a consistent approach to personal independence, whether an individual is from a network firm or a non-network firm, the IESBA intends to eliminate any perception that the independence of individuals on the ET outside the GA firm and its network is less important than that of individuals on the ET within GA firm and its network.

We agree with the principles the IESBA is proposing 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?

With respect to the GA firm, a requirement to be independent of the group audit client in accordance with the requirements of Part 4A that are applicable to the firm. With respect to network CA firms, a requirement to be independent of the group audit client in accordance with the requirements of Part 4A that are applicable to the network firm. The key matters the IESBA has then sought to address is to establish principles applicable to firm independence concerning CA firms outside the GA firm's network.

We agree with the principles the IESBA is proposing on 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

The IESBA is proposing to introduce an explicit prohibition on non-network CA firms from holding a direct or material indirect financial interest in the entity on whose group financial statements the GA firm expresses an opinion on. We agree with the specific proposals in Section 405 regarding financial interest in the group audit client.

(b) Loans and guarantees.

The IESBA came to the view that loans and guarantees are a further area that should be specifically addressed in the proposed Section 405 (beyond the general application of the CF) because of the financial nature of those relationships. We agree with the specific proposals in Section 405 regarding 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?

405.12 States: Section 600 requires a firm to evaluate whether non-assurance services provided to an audit client create threats to independence. The application of paragraph R405.10 requires a

component auditor firm to apply the independence requirements for non-assurance services for public interest entities to the component audit client where the group audit client is a public interest entity. For example, where the group audit client is a public interest entity, the component auditor firm is prohibited from acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court, regardless of whether the amounts involved are material to the financial information of the component audit client. Similarly, the component auditor firm's design and implementation of the component audit client's information technology system that generates the financial information on which the component auditor firm will perform audit work creates a self-review threat and is therefore prohibited if the group audit client is a public interest entity.

The financial information on which a component auditor firm performs audit work is relevant to the evaluation of the self-review threat that might be created by the component auditor firm's provision of a non-assurance service. For example, if the component auditor firm's audit work is limited to a specific item such as inventory, the evaluation of the self-review threat would include non-assurance services that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory.

We believe that 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 is sufficiently clear and appropriate.

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?

We believe 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 clear and appropriate

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?

We agree with the IESBA that the process to address a breach of an independence requirement at the CA firm level needs to be clarified in the Code.

The IESBA is proposing that if a CA firm within the GA firm's network concludes that a breach of Section 405 has occurred, the CA firm first communicate the breach immediately to the GEP. The GEP is then required to assess the breach and determine the appropriate actions to take in accordance with the extant provisions of the Code dealing with breaches

The IESBA is proposing that the process to deal with a breach at a nonnetwork CA firm follows broadly similar principles as in the process to deal with a breach in the extant Code as per Appendix 2 outlined.

Consistent with the provisions dealing with breaches in the extant Code, the IESBA believes it is necessary to involve TCWG of the group audit client in the process to address a breach at a nonnetwork CA firm. The IESBA is therefore proposing a requirement for the GA firm to

communicate with TCWG of the group audit client concerning the breach at a CA firm, including the significance of the breach and whether actions proposed or taken would satisfactorily address the consequences of the breach.

We agree with the proposals in Section 405 to address a breach of independence by a CA firm.

Proposed Consequential and Conforming Amendments

9. 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. Some of the proposed amendments are also to align with terminology used in ISA 600 (Revised)

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.

We support the IESBA proposal to align the effective date of the final provisions with the effective date of ISA600 (Revised)

Should you wish to discuss the contents of this letter with us, please contact Faith Ngwenya or Leana van der Merwe or Rashied Small on +27 (0)11 207 7840

Yours faithfully

South African Institute of Professional Accountants