



Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
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New York 10017

[Submitted via IESBA website]

31 May 2022

**IESBA Exposure Draft – Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits**

Dear Mr Siong,

**Introduction**

We<sup>1</sup> appreciate and thank you for the opportunity to comment on the IESBA's Exposure Draft (ED) regarding proposed revisions to the Code relating to the definition of engagement team and group audits.

These proposed revisions are important to ensure the ongoing interoperability of the Code and the IAASB's standards, in particular ISA 220 (Revised) and ISA 600 (Revised).

We are largely supportive of the proposed changes. However, in our responses to the Board's request for specific comments, included in Appendix 1 to this letter, we provide some substantive suggestions on certain matters that we believe require further consideration, together with a few observations on matters where additional clarity or guidance might be useful. Appendix 2 includes additional editorial and other comments for consideration in finalising the revisions.

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<sup>1</sup> This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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**Contact**

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me at [samuel.l.burke@pwc.com](mailto:samuel.l.burke@pwc.com).

Yours sincerely

A handwritten signature in black ink, appearing to read "Sam", written in a cursive style.

Sam Burke  
Global Independence Leader



## Appendix 1: Requests for specific comments

Our responses to the specific questions raised in the ED follow.

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?**

Yes.

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)?**

Yes.

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)?**

Yes. While we agree with the IESBA assessment that the circumstances may be rare, there may be challenges in identifying individuals within a component auditor firm outside the group auditor firm’s network who can directly influence the outcome of the group audit. Furthermore, when such individuals are identified, there may be disagreement between the group auditor firm and component auditor firm over any such designation. This would appear to be an area where additional guidance is warranted, including clarifying that this is intended only to encompass individuals who are not on the engagement team but who do influence the outcome of the group audit, perhaps through involvement in direct discussions with the group audit team. This would help address any confusion between parts (a) and (d) of the group audit team definition.

It may also be helpful to amend parts (c) and (d) of the group audit team definition to refer to “Any other individuals within...” i.e., individuals beyond those captured in (a), which would also be consistent with the drafting construct of part (b) of the definition.

We believe the proposed definition of “component audit client” is a pragmatic solution that accommodates the new concept of a component as defined in ISA 600 (Revised). We recognise that the ISA does not allow for any differentiation between components (in relation to the independence and ethical requirements applicable to the group audit) on grounds of materiality of the component to the group financial statements, and that components include related entities and other components.



**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?**

**In relation to individuals:**

We agree that these changes are necessary to give clarity to the application of applicable requirements in ISA 220 (Revised) and ISA 600 (Revised) resulting from the revision of the definition of the engagement team.

We agree in principle that there should be no distinction between the independence requirements that apply to individuals at the component level based on whether they are from a network or non-network component auditor firm. However we are concerned that the proposals are not proportionate to the level of threat for individuals outside the Network and would recommend that the Board give consideration to modifying the requirements for component auditors.

We recommend that if the group audit client is a listed entity that the definition of group audit client for this purpose could reasonably exclude upstream entities of the group audit client and its downstream significant influence associated entities. This would be a specific refinement of the application of R400.20 for this purpose.

This would align with the requirement in the case of a non-listed PIE where such individuals are required to be independent of (a) the component entity and (b) the PIE group audit client and its other controlled entities/components.

In both scenarios, personal independence of any other related entity of the group audit client, including its upstream entities, would be evaluated only on a "knows or has reason to believe" basis in line with the conceptual framework.

We believe that this would be a proportionate response, bearing in mind this applies to all components irrespective of materiality and impact on the group financial statements, and that the distinction between listed and non-listed PIEs does not seem to be an important differentiator in this regard. The existence and level of any threat arising from an interest in an upstream entity of the group audit client or an "associated" entity is more remote (especially when the scope of the component audit work is limited e.g. attending a stock-take).

We also believe that such a refinement would help with potential systems and information access limitations, especially for SMPs acting as component auditors (see general comment below), and would ultimately be in the public interest.

**In relation to the firm:**

We agree that in relation to its audit of the component audit client:

- when the group audit client is a PIE, the independence provisions that apply to the non-network component auditor firm in relation to the component audit client for purposes of the group audit are those applicable to PIEs; and



- when the group audit client is a non-PIE, the independence provisions that apply to the non-network component auditor firm in relation to the component audit client for purposes of the group audit are those applicable to non-PIEs. As stated in the Standard, PIE provisions would apply to the component audit client in respect of any component statutory audit if the component audit client is itself a PIE.

**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?**

We agree with the proposal to introduce an explicit prohibition on non-network component auditor firms from holding a direct or material indirect financial interest in the entity on whose group financial statements the group auditor firm expresses an opinion and that there should be no materiality consideration in this regard.

We also agree with the decision taken to also only restrict non-network component auditor firms from having loans and guarantees with the group audit entity. In the case of both financial interests and loans and guarantees, there is clearly a public interest cost/benefit judgement as to whether these provisions should also be applied to intermediate holding entities and related entities. We believe it is important that the same principle be applied to both financial interests and loans and guarantees. Based on the explanation of the IESBAs considerations on this matter (which will require the application of the conceptual framework in relation to other relevant interests and loans), we support the proposed decision to apply the restrictions only in relation to the group audit entity.

**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?**

Yes. We support the proposal that when the group audit client is a PIE, the independence requirements for NAS provided by a non-network component auditor firm to the component audit client are those applicable for PIEs even if the component audit client is a non-PIE.

**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?**

Yes. However, we recommend that the Board be clear that the same provisions can also apply where there is a change in component auditor as a result of a client merger or acquisition.

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

Yes. The ultimate outcome that is of most relevance is that if those charged with governance do not concur with the group auditor firm's assessment that the actions proposed or taken



satisfactorily address the consequences of the breach, the group auditor firm will be precluded from using the work of the CA firm. That is consistent with the principle and guidance established in ISA 600 (Revised).

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

Yes. See additional editorial suggestion in Appendix 2.

**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?**

Given these changes are prompted by the revisions to ISA 220 and ISA 600, it seems sensible to seek to align the effective date of the proposed changes with the effective date of ISA 600 (Revised). We understand that the IAASB plans to issue "bridging guidance" to explain how ISA 220 (Revised) can be applied with extant ISA 600 for periods beginning on or after 15 December 2022, but before 15 December 2023 i.e., periods in which ISA 220 (Revised) (and the revised definition of engagement team) become effective, but before ISA 600 (Revised) becomes effective. It would be beneficial to firms if the IAASB and IESBA worked in collaboration to enable relevant considerations on applying the extant Code with ISA 220 (Revised) to also be reflected in any such guidance, in advance of the proposed changes to the Code coming into effect.

**General comment**

We are aware that one potential unintended consequence of a requirement for non-network component audit firms to comply with the independence requirements relevant to the group audit of a listed entity or PIE is a risk that smaller and medium practitioners are unable or unwilling to act in such a capacity, which may exacerbate market concentration issues in certain jurisdictions. For example, the component audit firm's systems or policies may not be sufficient to manage compliance with the requirements established in the Standard including those applicable to the provision of non-assurance services or that there will be impacts on the range of services that have to date been provided to non-PIE clients. There will likely be some change management issues for SMPs.

In relation to individuals, ISA 220 (Revised) established a principle that treats all engagement team members equally and the proposals reasonably impose new requirements for individuals within component audit firms outside the group audit network. We do not believe, in principle, that there are valid arguments to support creating differential independence requirements for different classes of individuals within the engagement team or component auditor firms. To set out to apply a lower threshold of independence solely on competition grounds is clearly, in our view, not in the public interest. However, we believe that the refinement to the requirements set out in response to Q4 above may alleviate some of the likely issues for SMPs, particularly in cases where they have difficulty gaining access to relevant client information on related entities of the group audit client. It would provide for the application of the conceptual framework and should not be seen as a lower standard.



## Appendix 2: Other comments

Paragraph	Comment
R405.2. A1	<p>Para 405.2.A1 states:</p> <p><i>“The independence requirements referred to in ISA 600 (Revised), or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised), are those specified in this section.”</i></p> <p>While it is true that the independence requirements referred to in ISA 600 (Revised) are those in the Code, other national standards that are equivalent to ISA 600 (Revised) may or may not refer explicitly to the ethical requirements of the Code. The above statement reads like a statement of fact. We assume the intent is to make a statement of equivalence in terms of the nature and extent of the relevant ethical requirements that are required to be followed under those other relevant auditing standards. We suggest this statement be clarified.</p>
R300.16 & R360.17(b)	<p>While we understand the rationale for the proposed additional words, there is a risk of confusion given that a legal entity or business unit may also be a component (part of the definition of a component). For absolute clarity we suggest that the lead-in and part (b) include the additional words “legal entity or business unit that is not determined to be a component but is otherwise part of a group”.</p>
Application of R400.30	<p>This provision in the Code sets out when independence shall be maintained. It is not evident how this requirement should be applied by a component auditor outside the Network in relation to the group audit client. Is the component auditor required to be independent in accordance with the relevant ethical requirements until it issues its report to the group audit firm or by reference to another date, such as when the group audit firm issues its report? We recommend that this is addressed. There may be some practical challenges, such as knowledge about the relevant dates (the group audit report will be issued at some point in the following financial statement period) or in those scenarios when the component audit firm is not aware as to whether it will be asked to remain as as the component auditor in a subsequent period (e.g whether there is to be an on-going relationship).</p>



<p>Explanatory Memorandum Appendix 2</p>	<p>Although not forming part of the proposed changes to the Code itself, we observe that Appendix 2 includes separate references to a "significant" breach and a "very significant" breach. It is unclear what differentiating factors result in a significant breach becoming "very significant". Provisions in R405.15 and R405.16 require a determination of significance and whether the breach can be satisfactorily addressed, and that the auditor's objectivity has not been compromised. The critical factor that seems most relevant is therefore whether the breach can or cannot be satisfactorily addressed and/or whether a determination is reached that objectivity has been compromised. It may be more helpful, if the flowcharts are to be used going forward, to reflect these two thoughts in boxes I and J within the flowchart and simply refer to "significant breaches" in both cases, avoiding the arbitrary references to significant and very significant.</p>
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