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Ken Siong
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Our ref SRA/288

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Dear Mr Siong

Exposure Draft: Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG global organization.

Overall, we are supportive of the Board's objective to coordinate with the International Auditing and Assurance Standards Board and clarify the independence requirements that apply to individuals on the engagement team. We also welcome the Board's efforts toward providing clear guidance concerning the independence of non-network component auditors. However, we do have a significant concern with the extent of the requirement for individuals from a non-network component auditor firm to be independent of the related entities of the group audit client. We believe that the risk of threats being at an unacceptable level for individuals from a non-network component auditor firm due to relationships with, financial interests in or access to confidential information at these related entities is very low. We are concerned that there is little perceived value practically to the public interest or to the improvement of audit quality, yet the requirement will result in overly complicated processes and procedures to ensure compliance at the component team that may not be practicable to implement.

The appendix to this letter provides our responses to the specific questions posed in the Exposure Draft and indicates a relatively small number of matters that we believe can be strengthened. The appendix also expands on our concern related to independence requirements for individuals from a non-network component auditor firm.

Please contact Karen Bjune at kbjune@kpmg.com if you wish to discuss any of the issues raised in this letter.



Yours sincerely

A handwritten signature in black ink, appearing to read 'E. Cannizzaro', written over a vertical line.

Edward G. Cannizzaro
Global Head of Quality,
Risk and Regulatory

Appendix A: Responses to Specific Questions

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?

We agree with the revised definitions of these terms. However, the examples provided in paragraph 400.C include reference to “individuals with expertise in ... auditing client information using automated tools and techniques.” Under auditing standards, IT professionals who test automated controls are considered engagement team members. It is unclear if the phrase in paragraph 400.C is referring to these IT professionals or to another group, such as data analysts and individuals who are acquiring data. If the paragraph is referring to the latter group, is this intended to be a change in focus towards specialists who centrally operate data and analytics tools? At present, it is not common practice to consider data analysts who work on data extraction or prepare data for review by the engagement team as being part of the engagement team. Rather, it is the individuals who apply audit judgment to the data who are included as part of the engagement team. This may also be confusing when an external expert uses automated tools and techniques to generate audit evidence. Therefore, we believe there is a need to provide more explanation of what auditing client information using automated tools and techniques is meant to include and what can be excluded; particularly, how data analysts who extract, validate, sort and filter information that the engagement team uses are to be treated.

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 the changes appropriately recognize the potential sourcing of EQRs.

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)?

In relation to the definition of “audit team for the group audit,” the IESBA recognizes that it would be rare for a situation to occur where an individual in a non-network component auditor firm who is not a part of the engagement team could directly influence the group audit. However, the Board has determined that such individuals should be retained in the definition. It would be useful to be clear within the standard itself that this is expected to be rare and provide examples of what these rare circumstances might be.

We agree with the other definitions of the new terms used in Section 405.

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?**

We do not agree with the proposed requirement vis-à-vis paragraph R405.3 for individuals from a non-network component auditor firm who are involved in the group audit to be independent of the related entities of the group audit client, especially parent and sister entities for a listed group audit client. We believe that the risk of threats being at an unacceptable level for individuals from a non-network component auditor firm due to relationships with, financial interests in or access to confidential information at these related entities is very low. This requirement, which is not standard practice currently, would result in overly complicated processes and procedures to ensure compliance at the component team that may not be practical to implement and could result in the component auditor and group auditor inadvertently breaching these rules.

Concerns regarding compliance with this requirement for individuals from a non-network component auditor firm include:

- Difficulty for non-network firms in obtaining timely information on related entities of the group audit client, especially due to mergers and acquisitions, leading to breaches of personal independence rules;
- Limitations of the number of audit firms that could perform the component work due to the need to restrict sister entities of the group audit client. This may lead to increased audit costs without improving overall audit quality;
- Enhancement of systems to track related entities that only certain individuals in a component auditor firm need to be prohibited from investing in or having relationships with.

While we believe that this requirement should not be retained, in the event that the requirement for individuals from a non-network component auditor firm to be independent of the group audit client and its related entities is retained, we recommend

that this point be overtly clear in Section 405, as it was difficult to easily surmise the intent from the current language in R405.3.

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 these independence requirements applicable to the non-network component auditor firm in relation to the component audit client and the entity on whose group financial statements the group auditor firm expresses an opinion. However, we see a need for additional clarification in situations where a group has multiple sub-groups, as the wording in paragraph R405.6 does not effectively exclude sub-groups, even though our understanding is that it is the intent of the Board to exclude such. ISA 600 makes it clear that the sub-group auditor is the “group auditor” for that sub-group. Thus, the phrase “on whose group financial statements the group auditor firm expresses an opinion” needs to be clarified to clearly relate to the ultimate parent group auditor (or at least the top company in the group to prepare group financial statements).

In addition, clarification is needed as to whether an individual from a non-network component auditor firm who reports to a sub-group auditor would need to be independent of that sub-group audit client and its related entities, as well as the ultimate parent group audit client and its related entities.

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?

We agree with the application material and for clarity, we propose adding the word “solely” before “include non-assurance services that form part of or affect the accounting records...” in paragraph 405.12 A2.

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 agree with the application material and have no comments on its clarity.

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 proposals to address a breach.

Proposed Consequential and Conforming Amendments

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

Section 300

Removing the identifying adjective “engagement” before the use of the word “teams” in Part 3 (e.g., 300.8 A2, 310.8 A3, R310.12, 320.3 A3, etc.) results in some confusion, especially in translation, in understanding which specific team the Code is referring to. For example, in 300.8 A2, it is unclear whether the safeguard is only effective when the entire audit team is separate, or if separating the engagement teams is sufficient. Similarly, in 320.3 A3, removing “engagement” leaves uncertainty as to which team is being referenced and we disagree that the resulting statement would apply to the entirety of an audit team. We recommend leaving the word “engagement” in place consistent with the extant Code in Part 3.

Part 4B

We believe it would be beneficial to add similar introductory language to Part 4B as has been added to Part 4A in paragraphs 400.A – 400.D. Assurance engagements, similarly to audit engagements, involve the use of engagement quality reviewers, external experts and team members with expertise in specific areas of assurance and accounting. The addition of the explanatory language, which would be based on the revised glossary definitions of assurance team and engagement team (for an assurance engagement), will aid in a more fulsome understanding of these terms and the independence requirements applicable to each team.

In addition, while ISA 200 (Revised) and ISA 600 specifically apply to audit engagements, these standards may be applied, with modifications as needed, to assurance engagements. With the growth of assurance on environmental, social and governance (ESG) disclosures, entities may use their group reporting structures and systems to prepare ESG information, and the assurance provider may adopt a group audit approach to providing assurance on that information. It would be helpful for IESBA to add considerations on the group concept and how to consider the component auditor independence requirements in relation to an assurance engagement that applies ISA 600, particularly in relation to non-network firms.

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 proposal to align the effective date with that of ISA 600 (Revised).