

Meeting: IESBA CAG Meeting

Meeting Location: Virtual

Meeting Date: September 20, 2021

Agenda Item

D

Engagement Team – Group Audits Independence

Objectives of Agenda Item

1. To note the report-back on the May 2021 IESBA CAG discussion.
2. To provide feedback on:
 - (a) The Task Force’s proposed revisions to the definitions of the terms “engagement team,” “audit team,” “review team,” and “assurance team;” and
 - (b) The proposed text of changes to Part 4A of the Code to address independence considerations in a group audit.

Task Force

3. Members:
 - Sylvie Soulier, Chair, former IESBA Member
 - Caroline Lee, IESBA Deputy Chair
 - Denise Canavan, former IESBA Technical Advisor
 - Andrew Pinkney, IESBA Technical Advisor
 - Jens Poll, IESBA Member

Project Update since May 2021

4. At the [May 2021](#) meeting, the CAG considered the Task Force’s preliminary views and proposed approach to addressing some of the identified issues with respect to independence for the various parties within the scope of the revised definition of the term “engagement team” in proposed ISA 220 (Revised), especially in a group audit context.
5. Since May 2021, Task Force representatives have liaised with the IAASB’s ISA 600¹ Task Force in accordance with the established framework for coordination between the two Boards.
6. At its June 2021, the IESBA considered refinements to the proposed definitions noted above and a more developed draft of the strawman of the proposed changes to the Code addressing independence considerations in a group audit.

¹ Proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

7. An Exposure Draft of proposed changes to the Code is being targeted for IESBA consideration and approval at its December 2021 meeting.

Report Back on May 2021 CAG Discussion

8. [Appendix 1](#) to this paper includes extracts from the draft minutes of the May 2021 CAG meeting and an indication of how the Task Force/IESBA has responded to CAG Representatives' comments.

Material Presented

- | | |
|-----------------|---|
| Agenda Item D-1 | Presentation Slides – Engagement Team – Group Audits Independence – Matters for Consideration |
| Agenda Item D-2 | Engagement Team – Group Audits Independence – Proposed Text |
| Agenda Item D-3 | Indicative Provisions Where QM-related Amendments Needed |

Matters for CAG Consideration

9. Representatives are asked to:
 - (a) Consider the Task Force's views and proposals as set out in **Agenda Items D-1** and **D-2**; and
 - (b) Provide input on the Matters for Consideration in **Agenda Items D-1** and **D-2**.

Appendix 1

Below are extracts from the draft minutes of the May 2021 CAG meeting and an indication of how the Task Force and/or IESBA has responded to the CAG’s comments.

Matters Raised	Task Force/IESBA Response
DEFINITION OF ENGAGEMENT TEAM	
<ul style="list-style-type: none"> Messrs. Hansen and Orth expressed support for the Task Force’s approach in aligning the definition of engagement team with that in the IAASB’s Quality Management (QM) standards. Concerning internal auditors as referred to in the definition, Mr. Orth wondered whether there was a distinction between direct and indirect assistance. 	<p>During the meeting, Ms. Lee responded that the Task Force had no flexibility to expand on the definition as it is from ISA 220 (Revised).</p>
<ul style="list-style-type: none"> With respect to external experts, Mr. Hansen provided further context in terms of the influence of external experts on the engagement. In those circumstances, he wondered whether it is the client or the audit firm/group engagement partner who will be accountable for those individuals. 	<p>During the meeting, Ms. Lee responded that in relation to the reference to external experts, it would be the external experts who are engaged by the firm. Hence, the audit firm/group engagement partner would be accountable for those individuals.</p>
<ul style="list-style-type: none"> Mr. Munter highlighted the importance of coordination with the IAASB, especially on aligning the definitions and addressing the related implications for independence with the ISA 600 Task Force. He noted the challenge in enforcing independence requirements when terms with different definitions are used. 	<p>Point noted.</p> <p>The Task Force intends to align terms and definitions in the strawman as closely as possible with those in the proposed ISA 600 (Revised). The Task Force has liaised closely with the ISA 600 Task Force regarding any further changes to the definitions of terms in proposed ISA 600 (Revised). Any proposed revisions are reflected in Agenda Item D-2.</p>
<ul style="list-style-type: none"> Mr. Hirai expressed support for the Task Force’s approach in aligning the definition of engagement team with that in the IAASB’s QM standards. 	<p>Support noted.</p>
<ul style="list-style-type: none"> Ms. Landell-Mills commented that from an investor perspective, the independence requirements should cover all individuals who can influence the audit process, including external experts engaged by the firm and 	<p>Point noted.</p> <p>During the meeting, Lee explained that the requirement for independence is determined via the definition of the engagement team, which</p>

Matters Raised	Task Force/IESBA Response
<p>internal auditors. She suggested considering a more straightforward, broader approach to the scope focusing on achieving the right outcome for independence. Ms. Landell-Mills also queried whether excluding external experts from the revised definition, and hence from the requirement for independence, was appropriate. She was of the view that it would be a significant matter if external experts had conflicts of interest.</p>	<p>dictates who is considered an engagement team member on an engagement. The exclusion of external experts from the engagement team was discussed at length with the IAASB in the past to develop the extant definition. The objectivity of an external expert is addressed through ISA 620.² This is to be contrasted with an expert engaged by management, which is addressed in ISA 500.</p>
<ul style="list-style-type: none"> Mr. Orth queried the exclusion of external experts from the revised definition as it may imply that external experts are not required to adhere to any independence requirements. 	
BREACHES OF INDEPENDENCE REQUIREMENTS	
<ul style="list-style-type: none"> Mr. Hansen expressed support for the Task Force's approach to developing the breaches provisions, especially in the context of a component auditor (CA). He observed that the distinction between CAs inside and outside the firm's network seems unclear in the circumstances when a breach is found. Mr. Norberg agreed, noting that in principle when a breach is found, there should not be any distinction between the actions undertaken by CAs within and outside the network. 	<p>During the meeting, Ms. Lee explained that the extant Code already addresses breaches at CAs in network. There was a gap, however, with respect to breaches at CAs outside the network.</p>
<ul style="list-style-type: none"> Ms. Landell-Mills echoed the same observation as Mr. Hansen and wondered about the Task Force's thinking regarding a CA's finding of a breach and the reporting requirements. She noted that in the event of a breach by the CA, the CA may have a vested interest in not highlighting the breach to the group auditor, and hence potentially adversely impacting the group audit. She also queried from a transparency perspective whether the breach would be reported to the shareholders 	<p>During the meeting, Ms. Lee responded that ISA 600 already requires communication by the CA to the group auditor, with an emphasis on such communication being timely.</p> <p>The extant Code requires communication of a breach to those charged with governance in relation to breaches at CAs in network. As noted above, the extant Code currently does not address breaches of independence at CAs outside the group auditor's network. Hence, this project is addressing this gap.</p>

² ISA 620, *Using the Work of an Auditor's Expert*

Matters Raised	Task Force/IESBA Response
via communication to those charged with governance.	
<ul style="list-style-type: none"> Ms. Meng commented on the significance of the CA's work in the context of the group audit and the importance of considering the impact on the group audit in evaluating the significance of the breach. Mr. Dalkin echoed the same observation as Ms. Meng and wondered about the nature and extent of the group auditor's evaluation of the CA breach. 	During the meeting, Ms. Lee agreed that the role of the CA and the significance of its work to the group audit should factor in the consideration of the group auditor's actions.
<ul style="list-style-type: none"> Mr. Pavas expressed support for the Task Force's approach to developing the breaches provisions and noted the importance of documentation of the breach. 	Support and point noted.
<ul style="list-style-type: none"> Mr. Hirai suggested that the Task Force should consider principles-based provisions to avoid the Code being too prescriptive given that numerous scenarios could arise in practice. He recommended that the Task Force consider dealing with specific scenarios through non-authoritative guidance. 	During the meeting, Ms. Lee responded that the Task Force was focused on developing principles-based requirements but that it would also consider recommending that the IESBA commission non-authoritative guidance in due course.
<ul style="list-style-type: none"> Ms. Blomme commended the Task Force on its work and noted that Accountancy Europe is supportive of the principles that the Task Force is proposing. 	Support noted.
<ul style="list-style-type: none"> In terms of the three scenarios in determining the significance of a breach by a CA, Ms. Mubarak inquired about the Task Force's approach to distinguishing between the varying levels of significance of a breach and how the group auditor would respond to each. 	<p>During the meeting, Ms. Lee explained that the Task Force was still exploring how best to distinguish among the three levels of breaches and that the Code would set out guidance in that regard, including the reporting expectations.</p> <p>Having reflected on the various input it has received from the Board and stakeholders, the Task Force has developed a revised and simplified approach. Proposed revisions are reflected in Agenda Item D-2.</p>
<ul style="list-style-type: none"> Ms. Landell-Mills wondered whether the Task Force had data about the frequency of 	During the meeting, Ms. Lee responded that the Task Force did not have such data. However, in her experience, breaches at network firms are

Engagement Team – Group Audits Independence
IESBA CAG Meeting (September 2021)

Matters Raised	Task Force/IESBA Response
reporting of breaches at CA level and how often that led to the CAs being replaced.	reported to those charged with governance of the group.