

Meeting: IESBA CAG Meeting

Meeting Location: Virtual

Meeting Date: May 17, 2021

Agenda Item

B

Engagement Team – Group Audits Independence

Objectives of Agenda Item

1. To note the report-back on the October 2020 CAG discussion.
2. To receive an update on coordination activities with the International Auditing and Assurance Standards Board's (IAASB's) ISA 600¹ Task Force.
3. To provide feedback on the Task Force's proposed approach to addressing identified issues and other matters in the project.

Task Force

4. 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 Status and Timeline

5. At its March 2020 meeting, the IESBA approved a [project proposal](#) to:
 - (a) Provide clear and consistent guidance in the International Independence Standards (IIS) 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; and
 - (b) Revise the IIS so that they are robust, comprehensive and clear when applied in a group audit context, including with respect to independence for non-network component auditors.
6. The CAG considered and provided feedback on the project proposal at its March 2020 meeting.
7. At its June 2020 meeting, the IESBA considered the Task Force's preliminary views and proposed approach to addressing some of the identified issues.

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

8. Task Force representatives have liaised with the IAASB's ISA 600 Task Force in accordance with the established framework for coordination between the two Boards.
9. 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 October 2020 CAG Discussion

10. [Appendix 1](#) to this paper includes extracts from the minutes of the September-October 2020 CAG meeting and an indication of how the Task Force/IESBA has responded to CAG Representatives' comments.

Material Presented

Agenda Item B-1 Presentation Slides – Engagement Team – Group Audits Independence – Matters for Consideration

Matters for CAG Consideration

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

Appendix 1

Below are extracts from the minutes of the September-October 2020 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
<ul style="list-style-type: none"> Ms. Robert queried if the Task Force had assessed the impact of the revised definition of engagement team on the independence requirements of the Code. In this regard, she highlighted the importance of coordination with the IAASB. 	<p>During the meeting, Ms. Soulier explained that the Task Force had discussed the matter of alignment in the definitions and the related implications for independence with the ISA 220 Task Force. As a result, clarity has now been achieved.</p>
<ul style="list-style-type: none"> Ms. Wei was supportive of the three new terms “audit engagement team,” “review engagement team” and “assurance engagement team” as proposed by Task Force. She queried the exclusion of external experts from the revised definition. 	<p>During the meeting, Ms. Soulier explained that the requirement for independence is determined via the definition of engagement team, which dictates who is considered to be 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 in the context of the development of the extant definition. The objectivity of an external expert is addressed through ISA 620.</p>
<ul style="list-style-type: none"> Mr. Hirai was supportive of the Task Force’s proposal to align the definition of engagement team with that proposed in ISA 220 (Revised). He queried if there might be a translation challenge with regards to the terms “audit team” (AT) and “audit engagement team” (AET) as they are quite similar. He suggested that the Task Force consider combining both AT and AET as one definition. He also noted that in Japan, there are quarterly reviews in addition to the audit, and these can be performed by the same individuals. 	<p>During the meeting, Ms. Soulier explained that the extant Code already uses the terms AT and engagement team, in addition to “assurance team,” and these have been translated in Japanese. She noted that the AT essentially refers to the “chain of command” within a firm. As the individuals caught under the definitions of AT and AET differ, it would be difficult to avoid making a distinction between AT and AET.</p>
<ul style="list-style-type: none"> Ms. Zietsman was supportive of the Task Force’s proposal to align the definition of engagement team with that proposed in ISA 220 (Revised). She felt it important that the concepts are aligned between the two Boards. She also saw it as logical to develop the three new terms. With respect to the terms AT and engagement team, she commented that these can be confusing. The change in terminology to “teams” could add to the 	<p>Point considered.</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 that moves away from the three new terms originally proposed.</p> <p>With regard to the suggestion to consider whether a broader and different term could be used for the chain of command, on reflection the</p>

Matters Raised	Task Force/IESBA Response
<p>potential confusion. She suggested that there was an opportunity for the Task Force to consider whether a broader and different term could be used for the chain of command for clarity.</p>	<p>Task Force did not see a compelling need to explore introducing new terminology given that the terms “audit team” and “engagement team” are long established in the Code and applied in practice.</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 and internal auditors. She suggested consideration of a simpler broader approach to the scope focusing on achieving the right outcome for independence. 	<p>During the meeting, Ms. Soulier responded that the broader scope of AT serves precisely that purpose.</p> <p>With respect to independence requirements for external experts, the IESBA agreed that this matter was outside the scope of the project. Nevertheless, the IESBA will consider the matter further as part of the development of its future strategy and work plan.</p>
<ul style="list-style-type: none"> Mr. Hansen expressed support for the Task Force’s approach but was concerned to make sure there were not different levels of independence. He wondered whether there was a distinction between independence for reviews and independence for audits. With respect to internal audit, he suggested the need for clarity as to what it is or is not. With respect to external experts, he was of the view that the Task Force’s approach was logical as independence is also not required for experts employed or engaged by the audit client. 	<p>During the meeting, Ms. Soulier noted that internal auditors are internal to the audit client. Accordingly, it would be impossible to expect them to have the same level of independence as engagement team members.</p> <p>The Code does not generally make a distinction between audits and reviews for independence purposes – Part 4A of the Code applies to both audits and reviews of financial statements.</p>
<ul style="list-style-type: none"> Mr. Hansen queried the distinction between listed versus PIEs. 	<p>During the meeting, Ms. Soulier explained that under the extant Code, the scope of related entities of which independence is required is not the same for an audit client that is a listed entity and for an audit client that is not a listed entity. If an audit client is listed, independence is required with respect to all the related entities of the client, otherwise it is required only with respect to the controlled related entities. For personal independence, the Task Force was of the view that the distinction between listed and non-listed would be more appropriate.</p>
<ul style="list-style-type: none"> Mr. Hirai reiterated his support for the Code to remain principles-based, i.e., that those who are 	<p>Point noted.</p>

Matters Raised	Task Force/IESBA Response
<p>involved in the audit should be subject to the same independence requirements. Accordingly, he was of the view that the Task Force's proposals were reasonable. However, he acknowledged that independence with respect to firms could be more complex.</p>	
<ul style="list-style-type: none">• In relation to the Task Force's proposal regarding extending independence requirements to network firms of component auditor firms that are outside the group auditor's network, Ms. Robert raised her concern about the potential challenges for smaller firms, especially given the principles-based approach.	<p>Point noted.</p> <p>During the meeting, Ms. Soulier noted that the principles the Task Force was considering include, for example, network firms providing prohibited NAS.</p>