

# Engagement Team - Group Audits Independence

Caroline Lee, IESBA Deputy Chair

IESBA CAG Meeting

Virtual

May 17<sup>th</sup>, 2021

# Objectives of the Session



To receive an update on coordination activities with the International Auditing and Assurance Standards Board's (IAASB's) ISA 600 Task Force



To provide feedback on the Task Force's proposed approach to addressing the issues in the project and other identified matters

# Agenda of the Session



UPDATE ON  
COORDINATION WITH  
ISA 600 TASK FORCE



DEFINITION OF  
ENGAGEMENT  
TEAM



INDEPENDENCE  
CONSIDERATION FOR  
ENGAGEMENT QUALITY  
REVIEWERS



BREACHES OF  
INDEPENDENCE  
REQUIREMENTS -  
COMPONENT AUDITOR

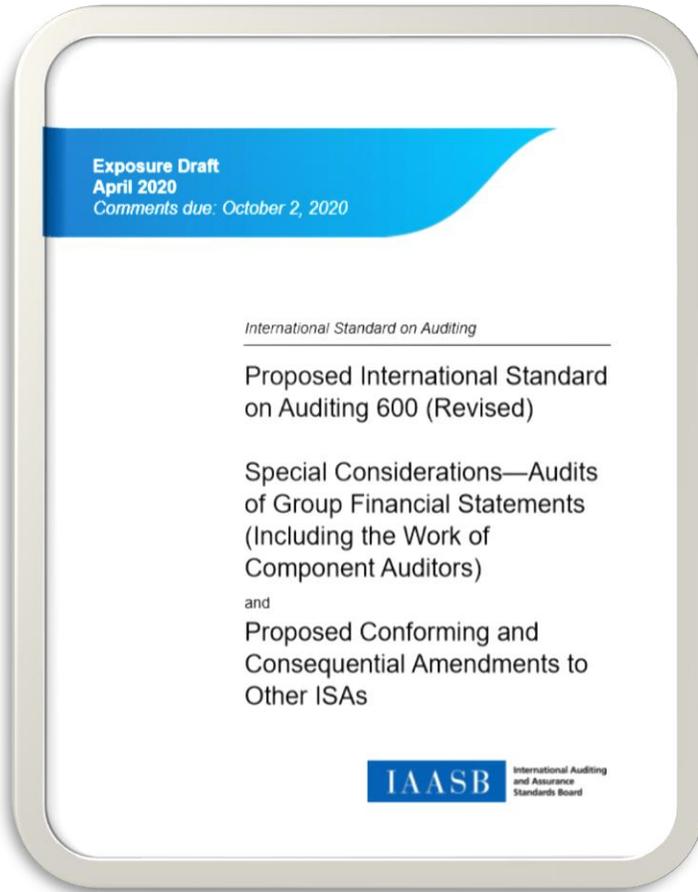


MATTERS FOR FURTHER  
CONSIDERATION



TASK FORCE  
NEXT STEPS

# Update on Coordination ISA 600 Task Force



## Coordination activities during Q1 2021

Teleconferences and email exchanges at TF and Staff level

- Staff (Biweekly catch-ups)
- Joint Task Force Teleconference (Feb 2021)

Matters Discussed:

- Terminologies (Engagement Team, Group Engagement Team → Group Auditor)
- ISA 600 TF Areas of Focus (March 2021)
  - Group Financial Statements
  - Revised definition of Component Auditor
  - Concept of Significant Component
- Expected ISA 600 (Revised) approval in December 2021

# Definition of Engagement Team (Extant Code vs ISA 220 (Revised) vs ISQM 1)

Extant Code	ISA 220 (Revised)(Approved September 2020)	ISQM 1 (Approved September 2020)
<p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform <b>assurance procedures</b> on the engagement. This excludes external experts engaged by the firm or by a network firm.</p> <p>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</p>	<p>All partners and staff performing the <b>audit engagement</b>, and any other individuals who perform <b>audit procedures on the engagement</b>, excluding an auditor’s external expert and internal auditors who provide direct assistance on an engagement.</p> <p>A17 Engagement teams include personnel and <b>may also include other individuals</b> who perform audit procedures who are from:</p> <ul style="list-style-type: none"> <li>a) <b>A network firm</b></li> <li>b) <b>A firm that is not a network firm, or another service provider</b></li> </ul> <p>For example, an individual from another firm may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count or inspect physical fixed assets at a remote location.</p>	<p>All partners and staff performing the <b>engagement</b>, and any other individuals who perform procedures on the engagement, excluding an external expert and internal auditors who provide direct assistance on an engagement.</p>

## Proposed Changes to Engagement Team Definition

Terminology	Extant Code Described Terms	Proposed Definitions – March 2021 Meeting (Marked Up against Extant Code)
<p>Engagement team</p> <p>Applicable to all types of engagements</p>	<p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform <b>assurance procedures</b> on the engagement. This excludes external experts engaged by the firm or by a network firm.</p> <p>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</p>	<p>All partners and staff performing the engagement, and any <u>other</u> individuals <b>engaged by the firm or a network firm</b> who perform <b>assurance procedures</b> on the engagement, <u>excluding an This excludes external experts and internal auditors who provide direct assistance on the engagement.</u> <del>engaged by the firm or by a network firm.</del></p> <p><del>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</del></p> <p><u>In Part 4A, the term “engagement team” refers to individuals performing audit or review procedures on the audit or review engagement, respectively.</u></p> <p><u>In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.</u></p> <p><u>(ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements)</u></p>

# Matters for CAG Consideration: Definition of Engagement Team



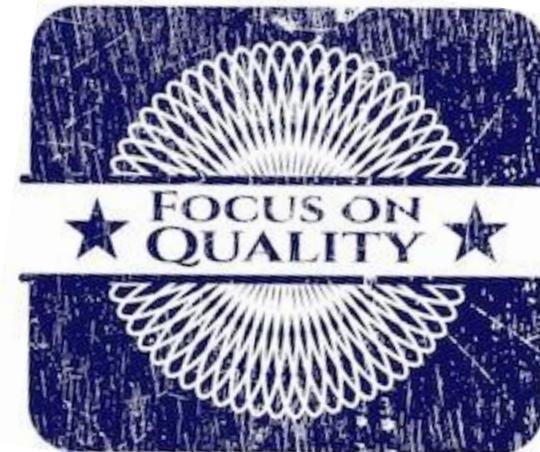
Views on, or reactions to, the  
Task Force's Proposal



Whether Representatives have  
any other comments

# Independence Consideration for EQRs

Engagement Quality Reviewers outside the firm and the network



# Proposed Definitions: Audit Team (Marked Up)

## Audit Team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within the firm, or engaged by the firm, who can directly influence the outcome of the audit engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
  - (iii) Those who ~~are involved in providing perform~~ quality reviews management for the engagement, including those who perform the engagement quality review ~~for the engagement;~~ and
- (c) All those within a network firm who can directly influence the outcome of the audit engagement.

*In Part 4A, the term "audit team" applies equally to "review team".*

# Proposed Definitions: Review Team (Marked Up)

## Review Team

- (a) All members of the engagement team for the review engagement; and
- (b) All others within the firm, or engaged by the firm, who can directly influence the outcome of the review engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
  - (iii) Those who ~~are involved in providing~~ perform quality reviews ~~management~~ for the engagement, including those who perform the engagement quality review ~~for the engagement~~; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

# Proposed Definitions: Assurance Team (Marked Up)

## Assurance Team

- (a) All members of the engagement team for the assurance engagement;
- (b) All others within the firm, or engaged by the firm, who can directly influence the outcome of the assurance engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
  - (iii) Those who perform ~~are involved in providing~~ quality reviews management for the assurance engagement, including those who perform the engagement quality review ~~for the assurance engagement.~~

# Matters for CAG Consideration: Independence Consideration for EQRs



Views on, or reactions to, the  
Task Force's Proposal



Whether Representatives have  
any other comments

# Breaches of Independence Requirements – Component Auditor (CA) Task Force Proposals – Key Principles

## CA Inside of the Network

Breach of independence at CA level may impair the independence of the Group Auditor  
Breach of independence at the CA level could be addressed via additional actions and safeguards by the Group Auditor for the purposes of the Group Audit

## CA Outside of the Network

Breach of independence at CA level does not automatically translate to a breach of the Group Auditor's Independence  
Breach of independence at the CA level could be addressed via additional actions and safeguards by the Group Auditor for the purposes of the Group Audit

# Task Force Proposals: Identification of breaches by Component Auditor (CA)

*\*\*May be different from other requirements (e.g., IESBA PIE or local statutory requirements that are not relevant in the context of the group audit)*

**CA identifies a breach of the independence requirements relevant to the group audit**

**CA evaluates the breach and communicates locally within the firm including to those that need to take action AND end, suspend or eliminate etc.**

**The matter, with details and the evaluation of the impact of the CA's independence and objectivity, is promptly reported to the Group Auditor (GA)**

**GA evaluates the breach and determines whether the breach, taking into account actions at the component or group level, has a bearing on the ability of the GA to rely on the work of the CA**

**Consideration: the role and significance of the CA work in the context of the Group Audit**

## Task Force Proposals: Three scenarios of breaches - Component Auditor

Coordinate  
with ISA 600  
TF

“Inconsequential” breach at the CA which can be addressed/safeguarded adequately by the CA

Coordinate  
with ISA 600  
TF

“Significant” matter that requires the GA to perform additional review, and still rely on the work performed by CA

Coordinate  
with ISA 600  
TF

“Very significant” matter that the GA cannot rely on the work of the CA, results in more extensive action, such as re-audit

## Task Force Proposals: Communication to TCWG

Where a breach of the independence requirements relevant to the group audit is found at the Component Auditor level, in terms of communication with TCWG, it is:

- Group Auditor's determination
  - Depending on significance of the matter being reported AND
  - Requirements as requested by TCWG
- Alignment with ISA 600 (subject to further coordination)

# Matters for CAG Consideration: Breaches Of Independence Requirements by Component Auditor



Views on, or reactions to, the  
Task Force's Proposal



Whether Representatives have  
any other comments

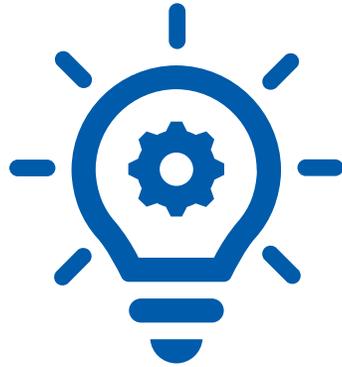
# Matters for Further Task Force Consideration

**How the independence principles should apply at the service provider level**

**How components are conceptualized in proposed ISA 600 (Revised)**

**Implications of recent changes to the Code in the context of group audits**

# Matters for CAG Consideration: Further matters to be addressed



Views on, or reactions to, the matters presented



Whether Representatives have any other comments

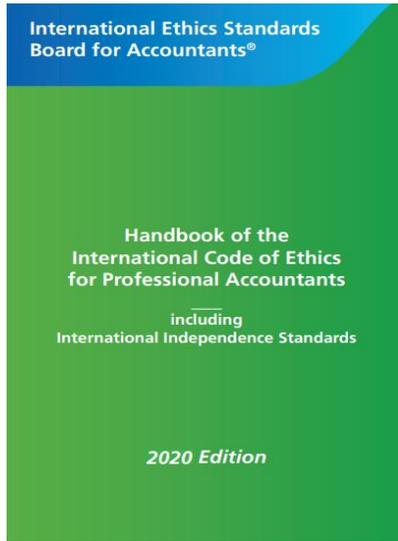
# Next Steps – 2021



## Q2 2021 Activities

- Continue to develop proposed changes to the Code for the Board's consideration at June 2021 meeting
- Continuing coordination with ISA 600 Task Force and other IAASB representatives
- Seek engagement with various stakeholders:
  - ✓ Firms (Q2 2021)
  - ✓ Regulators and audit oversight bodies (e.g., IOSCO)
  - ✓ Professional Accounting Organizations in major jurisdictions





# The Ethics Board

[www.ethicsboard.org](http://www.ethicsboard.org)

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