

Meeting: IESBA
Meeting Location: Virtual
Meeting Date: September 13-17 and 27 2021

Agenda Item

11

Engagement Team – Group Audits Independence (ET-GA)

Objectives

1. To receive an update on coordination activities with the International Auditing and Assurance Standards Board's (IAASB's) ISA 600¹ Task Force.
2. To provide feedback on the first read of the proposed changes to the International Independence Standards to address independence considerations in a group audit.
3. To receive an update on the Task Force's consideration of potential Quality management-related amendments to the Code arising from the finalization of the IAASB's Quality Management Standards.

Task Force

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

Activities since June 2021 IESBA Meeting

5. To develop the agenda materials for this meeting, the Task Force:
 - Met via video conference in Q3 2021 to consider the input received at the May 2021 IESBA CAG meeting and the June 2021 Board meeting; and
 - Sought input from the ISA 600 Task Force as part of the coordination efforts.
6. The Task Force will present the issues and the Board's direction of travel to the IESBA CAG on September 20, 2021. Ms. Soulier will brief the IESBA on the feedback received from IESBA CAG during the December 2021 Board meeting.

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

Matters Raised at the June 2021 IESBA Meeting

7. At the June 2021 Board meeting, the following significant matters were raised on the strawman of Section 405:

I. Proposed Definitions

- Alignment of definitions of proposed terms with those in proposed ISA 600 (Revised)

A question was raised about perceived differences between some of the definitions of the proposed terms and those in the proposed ISA 600 (Revised).

In response, the Task Force has endeavored to align the definitions and terms as closely as possible with those in the proposed ISA 600 (Revised). This has involved coordination with the ISA 600 Task Force in relation to any further changes to the relevant definitions and terms. See paragraph 405.3 A2 in **Agenda Item 11-B**.

- In relation to the definition of a component audit client, whether it was logical to extend the application of the independence requirements as far as they would be for an audit of an entity's entire set of financial statements in the situation where assurance is sought only on a single line item at the component level. There was a question as to whether it might not be more appropriate in such a situation to address the independence requirements via Part 4B of the Code.

The Task Force noted that the requirement for *audit work* (as opposed to other assurance work) to be performed by a component auditor (CA) firm stems from the group engagement team's assessment of the risks of material misstatement of the group financial statements in relation to the specific component, as set out in proposed ISA 600 (Revised). Even if a CA firm were to audit only a line item that would be consolidated into the group financial statements, that line item might be so significant as to be material to the entire group financial statements. Accordingly, the Task Force did not believe that the CA firm should be subject to the less stringent independence requirements in Part 4B. Further, the Task Force believes that all CAs and CA firms should be subject to the same level playing field regarding independence if they are involved in the group audit.

Nevertheless, the Task Force is proposing to clarify in the definition of component audit client that the CA firm may perform an audit of the component audit client's financial statements or an audit of specific financial information of the component audit client. See paragraph 405.3 A2 in **Agenda Item 11-B**.

II. Independence Considerations Applicable to Component Auditor Firms Outside the Group Auditor Firm's Network

8. Concerning the proposed prohibition on a CA firm outside the group auditor firm's network from holding a direct or material indirect financial interest in the group audit client:
- There was a question as to whether the wording of the prohibition was intended to prohibit financial interests in sister entities of the parent entity given that when the group audit client is a listed PIE, it is defined to include all its related entities, including sister entities.

The Task Force has reconsidered the wording of the prohibition. To align it fully and unambiguously with paragraph R510.6 of the extant Code, the Task Force proposes that instead of referring to the group audit client, the wording focuses more clearly on the “entity on whose group financial statements the group auditor firm expresses an opinion.” This makes it clear that consistent with the extant Code, the prohibition extends only to the parent entity as viewed from the vantage point of the component audit client. See paragraph R405.7(b) in **Agenda Item 11-B**.

- There was a question as to whether the same financial interest prohibition that applies to PIEs should also apply to non-PIEs, consistent with the extant paragraph R510.6.

The Task Force accepted the point and has restructured the relevant provisions so that there is no longer a distinction between PIEs and non-PIEs as far as this prohibition is concerned. See paragraph R405.7 and subheading above that paragraph in **Agenda Item 11-B**.

III. Breaches

- Where those charged with governance of the group do not concur with the group engagement partner's assessment and proposed actions regarding a breach found at the component auditor level, whether it should be made clear that an option would be for the group engagement team to remove the component auditor from the group audit.

The Task Force has accepted this point and redrafted the requirement accordingly. See paragraph R405.20(a) in **Agenda Item 11-B**.

- Concerning paragraph 405.14 A1, whether it would be appropriate to require the group engagement partner to respond to and address the breach as in practice, it would be for the component auditor to address the breach.

The Task Force intends to align as closely as possible with the proposed ISA 600 (Revised) and has coordinated with the ISA 600 Task Force in this regard. See paragraph 405.14 A1 in **Agenda Item 11-B**.

IV. Other Changes

9. Other changes to the proposed text are set out in **Agenda Item 11-B**, with explanations of the nature of the more substantive changes included in the margins.

Quality Management-related Amendments

10. In coordinating the development of the proposed Quality management-related amendments to the Code with the IAASB, certain matters were raised by IAASB Staff that IESBA Staff and the IESBA Coordination Lead to the IAASB considered to be substantive. As some of those matters appeared to overlap with matters being considered in the ET-GA project, the IESBA agreed at the June 2021 meeting to ask the ET-GA Task Force to consider whether these matters could be addressed within the scope of the ET-GA project.
11. The Task Force has considered the various matters and has agreed to address some of them as part of the ET-GA project. Where a matter is beyond the scope of this project, the Task Force recommends that the Board review it as part of a potential future project. By way of an update, the Task Force's

considerations of where potential changes are needed are indicated in the margins in **Agenda Item 11-D**. The Task Force will present the actual proposed amendments to the Code at the December 2021 IESBA meeting as part of any proposed conforming amendments to the Code arising from this project.

Coordination with ISA 600 Task Force and Forward Timeline

12. The Task Force has liaised with the ISA 600 Task Force on the proposed revisions to ISA 600. The ISA 600 Task Force has indicated that it remains focused on presenting a final draft of ISA 600 (Revised) for IAASB consideration and final approval in December 2021.
13. Given that the ET-GA project is so closely linked to the ISA 600 project, the ET-GA Task Force also sought feedback from the ISA 600 Task Force on a revised strawman of Section 405. The ISA 600 Task Force's feedback has been reflected in **Agenda Item 11-B**.

Next Steps

14. Subject to the Board's feedback on the Task Force's views and proposals, the Task Force will present the draft Exposure Draft for the Board's consideration with a view to approval at the December 2021 IESBA meeting.

Action Requested

15. IESBA members are asked to:
 - (a) Provide input on the Matters for IESBA Consideration in **Agenda Item 11-A** and the first-read draft in **Agenda Item 11-B**; and
 - (b) Note the update in **Agenda Item 11-D**.

Material Presented

Agenda Item 11-A	Presentation Slides – Engagement Team – Group Audits Independence
Agenda Item 11-B	Engagement Team – Group Audits Independence – Draft Text (Marked up against extant Code)
Agenda Item 11-C	Engagement Team – Group Audits Independence – Draft Text (Clean)
Agenda Item 11-D	ET-GA – Indicative Provisions Where Quality Management-related Changes Are Needed