

**Meeting:** IESBA  
**Meeting Location:** Virtual  
**Meeting Date:** March 17, 2021

## Agenda Item

# 5

### Engagement Team – Group Audits Independence

#### Objectives

1. To receive an update on coordination activities with the International Auditing and Assurance Standards Board's (IAASB's) ISA 600<sup>1</sup> Task Force.
2. To provide feedback on the Task Force's proposed approach to addressing identified issues and other matters in the project.

#### Task Force

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

#### Activities since December 2020 IESBA Meeting

4. To develop the agenda materials for this meeting, the Task Force:
  - (a) Met via video conference in February and March 2021 to consider the input from the IESBA members at the December 9, 2020 Board meeting and to develop the agenda material for this meeting; and
  - (b) Sought input from the IAASB's ISA 600 Task Force as part of the coordination efforts. The feedback received has been considered by the Task Force in developing **Agenda Item 5-A**.
5. The Task Force Chair will present the issues and Task Force proposals at an IESBA CAG video conference to be scheduled in May 2021. Ms. Soulier will brief the IESBA on the CAG's feedback during the June 2021 Board meeting.

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

## Matters Raised at the December 2020 IESBA Meeting

### I. Definition of Engagement Team

6. At the [December 2020](#) IESBA meeting, the Task Force proposed a revised approach to the definition of engagement team (ET) in the Code, following feedback from the Board and CAG in September and October 2020 respectively. Under this revised approach:
  - The generic term “team” would be used to denote a team of individuals who perform an engagement; and
  - The definition of ET would be aligned with the definition of ET in ISQM 1,<sup>2</sup> with additional guidance to clarify the nature of the various teams in reference to the different Parts of the Code.
7. Overall, Board members were supportive of the Task Force’s revised approach to the ET definition. Board members, however, raised a few specific matters for the Task Force’s further consideration:
  - (a) Whether there should be a reference to ISA 220 (Revised) attached to the proposed definition of ET in the Code. It was noted that the specific reference to ISA 220 (Revised) pertains to guidance around individuals engaged to carry out audit engagements whereas the definition of ET applies to all types of engagements.
  - (b) Whether the proposed definition of ET should be supplemented with further application material to clarify that individuals engaged from a service provider would also be considered part of the ET.
8. Having reflected on the Board feedback, in relation to the first point the Task Force is proposing that the reference to ISA 220 (Revised) attached to the proposed ET definition in the Glossary be retained. The Task Force believes that it provides a helpful pointer to users as to where they may find further guidance on the definition of ET in the context of an audit of financial statements. The IAASB’s standards currently do not provide further guidance with regard to the definition of ET in the context of engagements other than audits of financial statements. Nevertheless, the Task Force has made a few refinements to the descriptions attached to the proposed definition in the Glossary to reflect editorial suggestions from some Board members. (See [Appendix 1.](#))
9. In relation to the second point regarding service providers, during the December meeting the Chair of the Task Force responded that it is a matter that the Task Force will consider subject to further input from the ISA 600 Task Force. At present, the IAASB is analyzing the responses to the ISA 600 Exposure Draft. One of the matters raised by the respondents relates to the composition of ETs that include individuals engaged from service providers and service organizations, and the relevant independence requirements expected of those individuals.

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<sup>2</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

## II. Independence Considerations for Engagement Quality Reviewers

10. At the [December 2020](#) meeting, the Task Force noted to the Board a matter which required further consideration relating to the independence considerations for engagement quality reviewers (EQRs) sourced from outside the firm and the firm's network.<sup>3</sup> The Task Force noted that the extant definitions of "audit team," "review team" and "assurance team" do not include individuals outside the firm and the network who serve in EQR roles. Accordingly, to address this gap in the Code, the Task Force proposed to amend the definitions of these three terms to scope in those external individuals engaged to serve as EQRs. For illustration, the proposed amendments to the definition of "audit team" were as follows:

- (a) All members of the engagement team for the audit engagement;
- (b) All others within ~~a~~ 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 ~~provide~~ are involved in providing quality ~~control~~ management for the engagement, including those who perform the engagement quality ~~control~~ review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the audit engagement.

11. Overall, Board members were supportive of the Task Force's proposal. A few Board members, however, raised for the Task Force's consideration whether, instead of expanding the scope of bullet (b) through the addition of the phrase "engaged by the firm" to cover the three sub-categories (i)-(iii), the addition of such phrase would not be better limited to sub-bullet (b)(iii) that deals with individuals involved in providing quality management for the engagement (including EQRs). It was also noted that the wording of "Those who are involved in providing quality management for the engagement" could be quite extensive and scope in a wider group of individuals involved in the quality management process across the firm and network. It was suggested that consideration be given to a narrower focus such as "directly influence the outcome of the audit engagement."

Having considered the Board feedback, the Task Force agreed that the wording of bullet (b)(iii) in the definition of audit team could be tightened to focus more narrowly on those who *perform* quality reviews. (See [Appendix 1.](#))

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<sup>3</sup> ISQM 2, *Engagement Quality Reviews*, defines an EQR as "a partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review." (The definition of "engagement quality control reviewer" in extant ISQC 1 also scopes in an external individual.)

## Breach of Independence at a Component Auditor Firm

12. During this quarter, the Task Force began analyzing the implications of a breach of independence by a component auditor firm in the context of a group audit, including the communication expectations with respect to the group engagement team and those charged with governance of the group.
13. The Chair of the Task Force will present the Task Force's preliminary thinking on this topic using the presentation slides in **Agenda Item 5-A**. As part of this presentation, Ms. Soulier will first walk through [Appendix 2](#) which summarizes the process for addressing a breach of independence under the extant Code in the context of audits of financial statements, including the statutory audit of group financial statements. She will also explain the Task Force's preliminary approach for dealing with a breach of independence at a component auditor firm as outlined in [Appendix 3](#).

## Matters for Further Consideration

14. Matters that the Task Force will consider in Q2 and Q3 of 2021 include:
  - Following input from ISA 600 Task Force, how the independence principles should apply at the service provider level.
  - The reconciliation of the concept of “related entity” as used in the Code based on a legal structure with the revised definition of component as conceptualized in proposed ISA 600 (Revised) and the implications for the independence provisions.
  - Implications of recent changes to the Code (effective December 2022) in the context of group audits.

## Action Requested

15. IESBA members are asked to provide input on the Matters for IESBA Consideration in **Agenda Item 5-A**.

## Material Presented

Agenda Item 5-A      Presentation Slides – Engagement Team – Group Audits Independence – Matters for Consideration

APPENDIX 1

Summary of Differences between the Defined Terms – Extant Code, December 2021 and March 2021 Meetings (Marked Up)

Terminology	Extant Code Described Terms	Proposed Definitions December 2020 Meeting	Proposed Definitions – March 2021 Meeting (Marked Up against Dec 20)
<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 other individuals who perform procedures on the engagement, excluding an external expert and internal auditors who provide direct assistance on an engagement.</p> <p><i>In Part 4A, the term “engagement team” refers to individuals performing the audit or review procedures on the audit or review engagement.</i></p> <p><i>For further guidance on the definition of engagement team in the context of an audit of financial statements, see ISA 220 (Revised) issued by International Auditing and Assurance Standards Board.</i></p> <p><i>In Part 4B, the term “engagement team” refers to individuals performing the assurance procedures on the assurance engagement.</i></p>	<p>All partners and staff performing the engagement, 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> <p><i>In Part 4A, the term “engagement team” refers to individuals performing <del>the</del> audit or review procedures on the audit or review engagement, <u>respectively</u>.</i></p> <p><i>In Part 4B, the term “engagement team” refers to individuals performing <del>the</del> assurance procedures on the assurance engagement.</i></p> <p><i><u>(ISA 220 (Revised) provides For further guidance on the definition of engagement team in the context of an audit of financial statements, see ISA 220 (Revised) issued by International Auditing and Assurance Standards Board.</u></i></p> <p><i><del>In Part 4B, the term “engagement team” refers to individuals performing the assurance procedures on the assurance engagement.</del></i></p>

Terminology	Extant Code Described Terms	Proposed Definitions December 2020 Meeting	Proposed Definitions – March 2021 Meeting (Marked Up against Dec 20)
Audit Team	<p>(a) All members of the engagement team for the audit engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the audit engagement, including:</p> <p>(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);</p> <p>(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who provide quality control for the engagement, including</p>	<p>(a) All members of the engagement team for the audit engagement;</p> <p>(b) All others within <u>the a firm, or engaged by the firm</u>, who can directly influence the outcome of the audit engagement, including:</p> <p>(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);</p> <p>(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who <u>are involved in providing</u> quality <del>management control</del> for the engagement, including those who perform the engagement quality <del>control</del> review for the engagement; and</p>	<p>(a) All members of the engagement team for the audit engagement;</p> <p>(b) All others within the firm, or engaged by the firm, who can directly influence the outcome of the audit engagement, including:</p> <p>(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);</p> <p>(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who <del>are involved in providing</del> <u>perform</u> quality <u>reviews</u> <del>management</del> for</p>

Terminology	Extant Code Described Terms	Proposed Definitions December 2020 Meeting	Proposed Definitions – March 2021 Meeting (Marked Up against Dec 20)
	<p>those who perform the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p> <p><i>In Part 4A, the term “audit team” applies equally to “review team.”</i></p>	<p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p> <p><i>In Part 4A, the term “audit team” applies equally to “review team.”</i></p>	<p>the engagement, including those who perform the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p> <p><i>In Part 4A, the term “audit team” applies equally to “review team.”</i></p>
Assurance Team	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <p>(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;</p> <p>(ii) Those who provide consultation regarding technical or industry specific</p>	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within <u>the a firm, or engaged by the firm</u>, who can directly influence the outcome of the assurance engagement, including:</p> <p>(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;</p> <p>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</p>	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within the firm, or engaged by the firm, who can directly influence the outcome of the assurance engagement, including:</p> <p>(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;</p> <p>(ii) Those who provide consultation regarding</p>

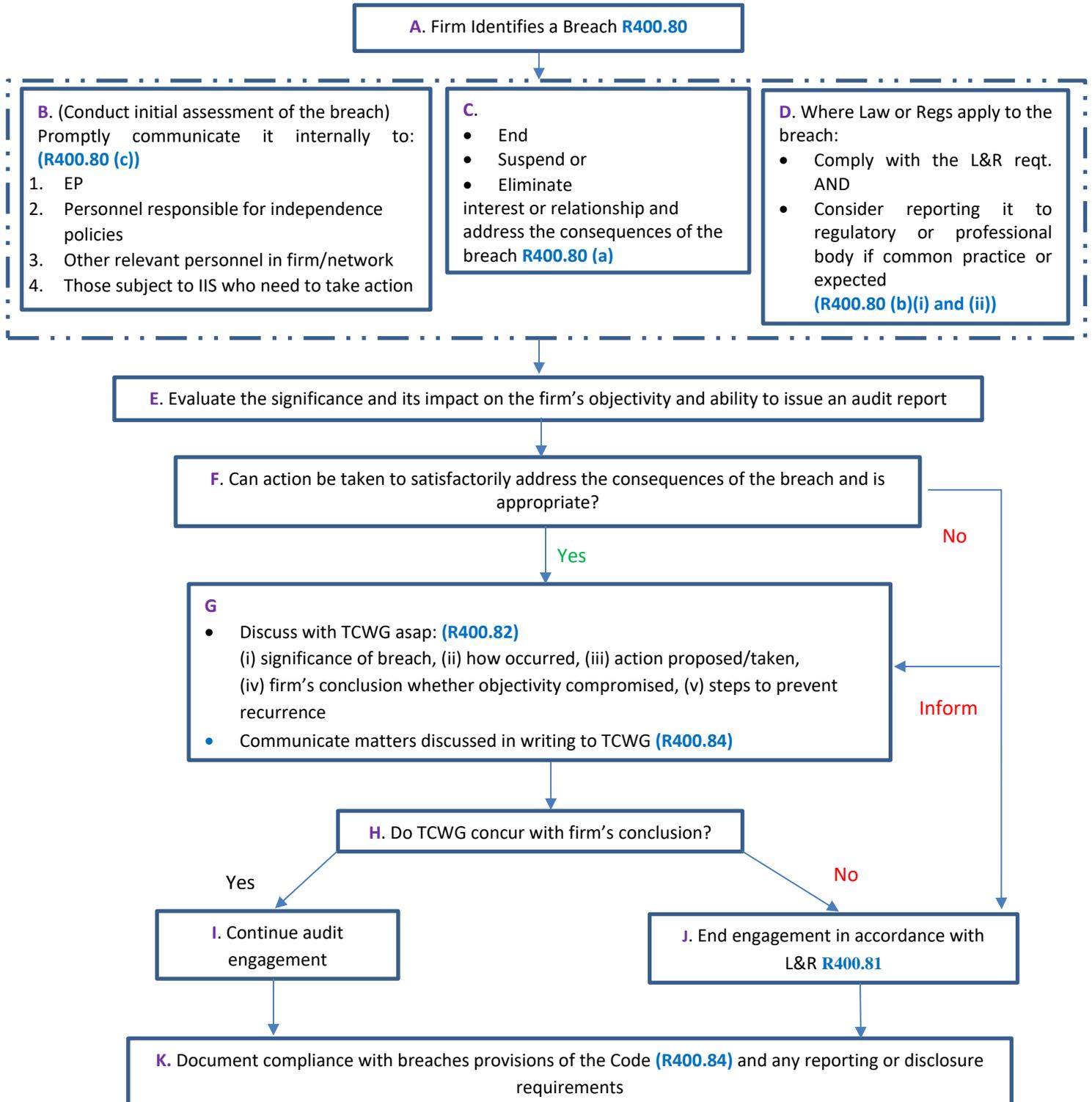
Terminology	Extant Code Described Terms	Proposed Definitions December 2020 Meeting	Proposed Definitions – March 2021 Meeting (Marked Up against Dec 20)
	<p>issues, transactions or events for the assurance engagement; and</p> <p>(iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.</p>	<p>(iii) Those who <u>are involved in providing</u> quality <del>control</del><u>management</u> for the assurance engagement, including those who perform the engagement quality <del>control</del>-review for the assurance engagement.</p>	<p>technical or industry specific issues, transactions or events for the assurance engagement; and</p> <p>(iii) Those who <u>perform-are involved in providing</u> quality <u>reviews</u> <del>management</del> for the assurance engagement, including those who perform the engagement quality review <del>for the assurance engagement</del>.</p>
Review Team	<p>(a) All members of the engagement team for the review engagement; and</p> <p>(b) All others within a firm who can directly influence the outcome of the review engagement, including:</p> <p>(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</p>	<p>(a) All members of the <u>review</u> engagement team <del>for the review engagement</del>; and</p> <p>(b) All others within a firm who can directly influence the outcome of the review engagement, including:</p> <p>(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);</p>	<p>(a) All members of the engagement team for the review engagement; and</p> <p>(b) All others within the firm, or engaged by the firm, who can directly influence the outcome of the review engagement, including:</p> <p>(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</p>

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	<p>senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);</p> <p>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the review engagement.</p>	<p>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the review engagement.</p>	<p>above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);</p> <p>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who <del>are involved in providing</del> <u>perform</u> quality <u>reviews</u> <del>management</del> for the engagement, including those who perform the engagement quality review <del>for the engagement</del>; and</p> <p>(c) All those within a network firm who can directly influence the outcome of the review engagement.</p>

**APPENDIX 2**

**SUMMARY OF BREACHES PROVISIONS (EXTANT CODE)**

(These provisions apply to the Statutory Auditor of Group Accounts and its separate components i.e., subsidiary audits)



**SUMMARY OF BREACHES PROVISIONS (GROUP AUDIT)**

Breaches of the ethical requirements relevant to the audit of Group Financial Statements

