

IESBA [®] **Agenda Item**
5

Engagement Team - Group Audits Independence

Sylvie Soulier, Task Force Chair

IESBA Board Meeting
Virtual
March 17, 2021

1

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

IESBA [®] Page 2 | Proprietary and Copyrighted Information

2

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

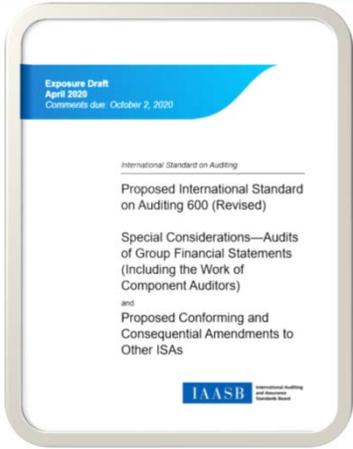


TASK FORCE
NEXT STEPS

Page 3 | Proprietary and Copyrighted Information

3

Update on Coordination ISA 600 Task Force



Exposure Draft
April 2020
Comments due: October 2, 2020

International Standard on Auditing
**Proposed International Standard
on Auditing 600 (Revised)**

Special Considerations—Audits
of Group Financial Statements
(Including the Work of
Component Auditors)
and
Proposed Conforming and
Consequential Amendments to
Other ISAs



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

Page 4 | Proprietary and Copyrighted Information

4

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 assurance procedures 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 audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external expert and internal auditors who provide direct assistance on an engagement.</p> <p>A17 Engagement teams include personnel and may also include other individuals who perform audit procedures who are from:</p> <ul style="list-style-type: none"> a) A network firm b) A firm that is not a network firm, or another service provider <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 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>

5

Definition of Engagement Team

Summary of Differences between the Defined Term Engagement Team – Extant Code, December 2020 and March 2021 (Marked Up) (Agenda Item 5 Appendix 1)

Terminology	Extant Code Described Terms	Proposed Definitions December 2020 Meeting	Proposed Definitions – March 2021 Meeting
<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 assurance procedures 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 the 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 the assurance procedures on the assurance engagement.</i></p> <p><i>(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.</i></p> <p><i>In Part 4B, the term "engagement team" refers to individuals performing the assurance procedures on the assurance engagement.</i></p>

6

Matters for IESBA Consideration: Definition of Engagement Team



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



Whether members has any
other comments

7

Independence Consideration for EQRs

- Overall, Board members were supportive of the Task Force's proposal
- Matters for Task Force consideration:
 - Whether the wording of individuals "who are involved in providing quality management for the engagement" in the proposed revised definitions could be quite extensive and scope in a wider group of individuals involved in the quality management process across the firm and network
 - Consideration be given to a narrower focus such as "directly influence the outcome of the audit engagement"

8

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~~.

11

Matters for IESBA Consideration: Independence Consideration for EQRs



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



Whether members has any other comments

12

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 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



Page 13 | Proprietary and Copyrighted Information
Page 13

13

Breaches Of Independence Requirements – Component Auditor 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)

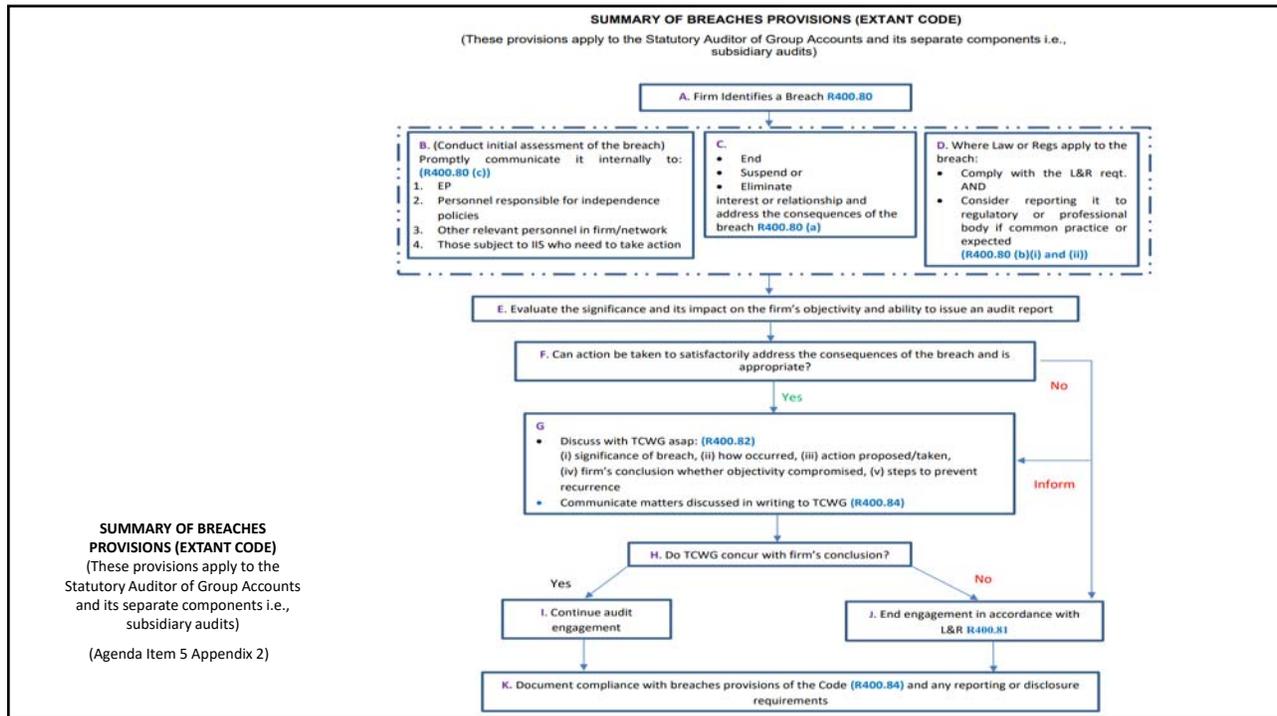
GA evaluates the breach and determines whether the breach, taking into account safeguards at the component or group level has a bearing on the ability of the GA to rely on the work of the CA

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

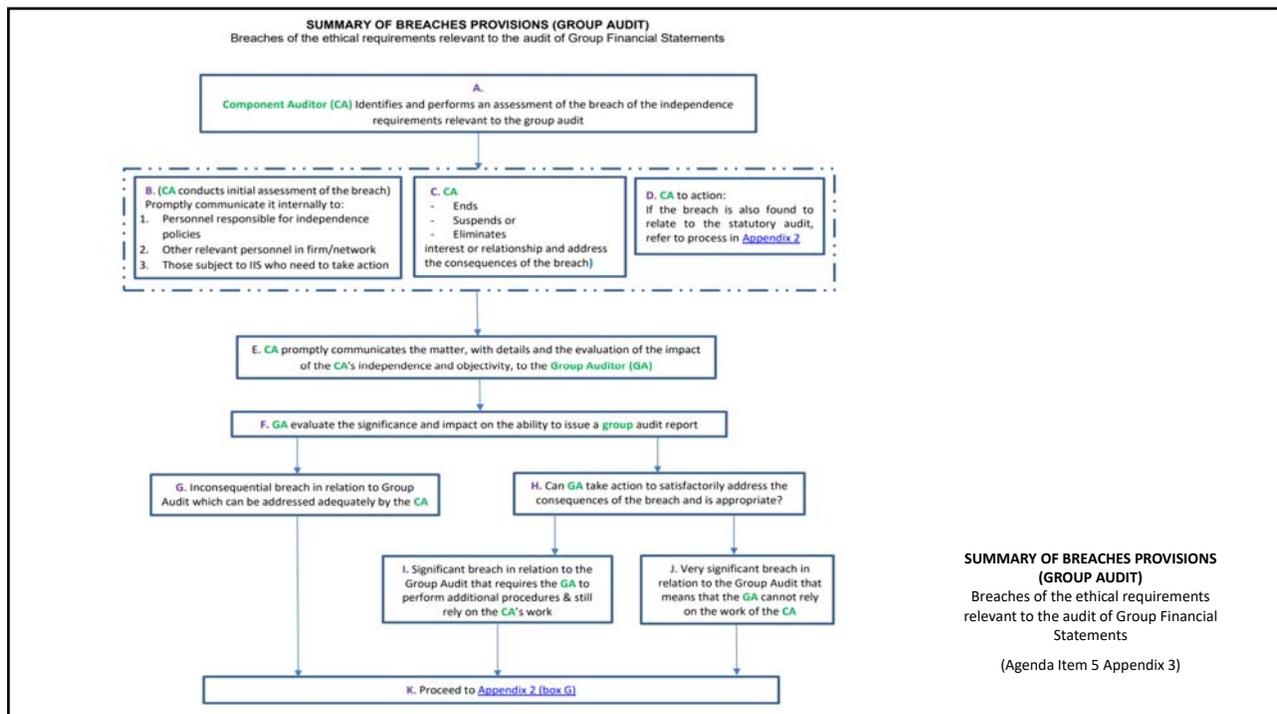


Page 14 | Proprietary and Copyrighted Information
Page 14

14

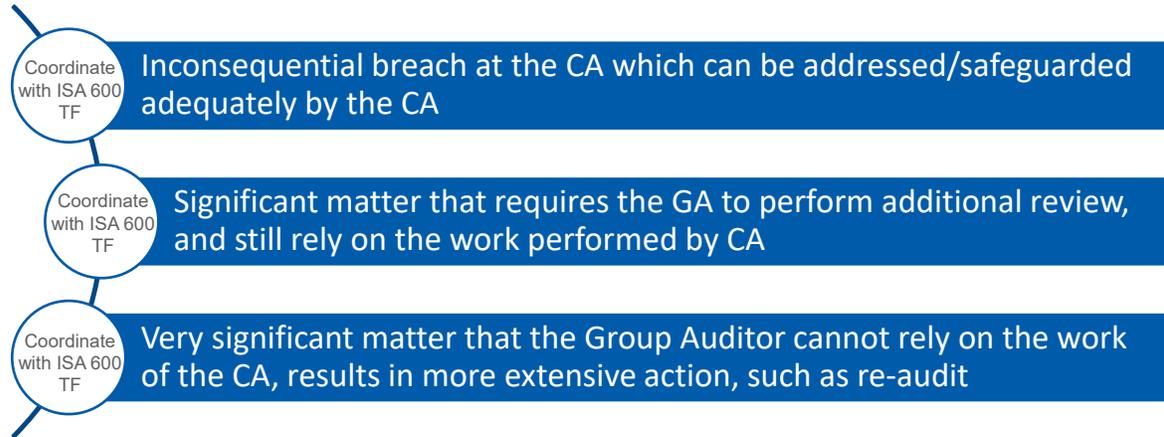


15



16

Task Force Proposals: Three scenarios of breaches - Component Auditor



17

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)

18

Matters for IESBA Consideration: Breaches Of Independence Requirements by Component Auditor



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



Whether members has 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 IESBA Consideration: Further matters to be addressed



Views on, or reactions to, the matters presented



Whether members has any other comments

21

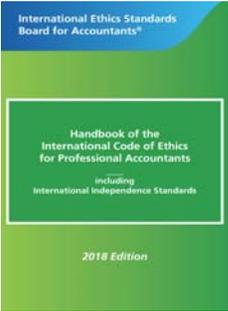
Task Force Next Steps

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:
 - ✓ IFIAR (March 29th, 2021)
 - ✓ IESBA CAG (May 2021)
 - ✓ Forum of Firms (Q2 2021)
 - ✓ Regulators and audit oversight bodies (e.g., IOSCO)
 - ✓ Professional Accounting Organizations in major jurisdictions



22



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