

## Engagement Team – Group Audits Independence

### Task Force Responses to Feedback from September 2021 IESBA Meeting and Offline Comments on Draft Text

[Note: Paragraphs to which comments from Board members refer are to **Agenda [Item 11-B](#)** of the September 2021 IESBA meeting.]

No.	Para. Ref.	Comments	Task Force Response
<b>DEFINITION OF ENGAGEMENT AND AUDIT TEAM</b>			
1	400. C	<p>Why are component auditor firms excluded? The rationale being:</p> <ul style="list-style-type: none"> <li>- experts from a component auditor firm could equally (depending on their role) be regarded as part of the engagement team or audit team?</li> <li>- by not including component auditor firms in the lead-in on a strict reading of the example in the last bullet point, "external" experts could include such experts within a component auditor firm, which again would not think appropriate.</li> <li>- Will there be guidance as to the circumstances envisaged by the second bullet, which would determine if such individuals were members of the audit team?</li> </ul>	<p>Point accepted – paragraph updated to include individuals from component auditor firms outside of the group auditor's firm network.</p> <p>The Task Force has clarified the basis for including in the audit team individuals who provide consultation, i.e., they have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement (consistent with subparagraph (b)(ii) of the definition of audit team).</p>
2	400. C Bullet Two	The addition doesn't result in more clarity; on the contrary, by having it here, one can wonder what the nature of the consultation is that it would cause someone to become an audit team member.	See above.
<b>INTRODUCTION</b>			
3	405.2	This paragraph is inconsistent with the other sections as decided under structure. Suggested redraft:	<p>Point noted.</p> <p>See Task Force proposed redraft of paragraph 405.1 as per <b>Agenda Item 5-B</b>.</p>

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		"405.2 This section sets out specific requirements and application material relevant to group audits."	
4	405.3 A1	There might be an issue with this direct reference to ISA600 here. However, we have direct references to other standards like, e.g., ISAE 3000; these references are usually embedded in a paragraph (see, e.g., the lead-in in part 4B sentence where there is a reference to ISAE 3000). Having this linkage directly here means this section only applies in an ISA 600 context, so if a jurisdiction has another standard for group audit, you would not apply these independence provisions.	The Task Force has amended paragraph 405.2 A1 to refer more broadly to other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised), and not just ISA 600 (Revised).
<b>DEFINITIONS</b>			
5	Component audit client	<p>In respect of the definition of "component audit client" I am slightly confused as to how the independence provisions should apply in those cases where the second sub-bullet comes into play i.e., the component is a business unit or function.</p> <p>R405.7 (a) and R 405.11 make it clear that we apply the "standard" provisions. Those standard provisions however require independence from certain related entities of the audit client whereas the second sub-bullet in the definition 405.3 A2 makes it clear that it is just the entity itself we should consider. Take therefore for example a component which is a branch of a subsidiary of an entity which is a PIE. There would appear to be no requirement for the component auditor firm to be independent of the controlled related entities of that subsidiary (which is the component audit client by this definition) let alone any upstream entities.</p> <p>405.8 A2 even excludes evaluating relationships with the downstream entities. Is this really what we intend?</p>	<p>The Task Force believes that the determining factor for scoping in related entities is whether the component auditor firm is auditing the entity directly. In the Task Force's view, how a business unit is operated is not relevant to how the legal entity that owns the business unit controls other entities. Further, the extant Code refers to "entity" and not "legal entity." If the business unit has separate financial statements, there is nothing in the Code that precludes it from being considered an entity for purposes of applying the Code, and accordingly, independence would not automatically be required with respect to the overall entity of which the business unit is a part.</p> <p>The Task Force believes that scoping in related entities of the entity that owns the business unit could create a disproportionate burden, and that applying the conceptual framework to the particular facts and circumstances would be sufficient (see paragraphs R405.7 and R405.8).</p>

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6	Controlled related entities	Controlled related entities is not a term in the code; per R400.20 it is related entities over which the entity has direct or indirect control.	Point accepted and changes made accordingly as per <b>Agenda Item 5-B</b> .
7	Component audit client	<p>I am not convinced that under this scenario you would not have to include the related entities over which the entity has direct or indirect control. Does it make sense from an independence in appearance perspective that under scenario 1 above, you do have to apply the rules to these entities, whereas under scenario 2, although you conclude that you need to extend the component (the activities/BU) to its entire entity for independence (so same as under 1), nevertheless different rules apply?</p> <p>Same reasoning would apply for a financial interest by an engagement team member in such related entity that rolls up in the component's financial information.</p>	See response to comment #5.
8	Component audit client	Preference to delete the last paragraph "Depending on the nature" – and rather incorporating it into the definition.	Subparagraph has been deleted.
9	Component audit client	I realize ISA 600 speaks about an audit of financial information, but this term is not used in the code; In the glossary there is reference to historical financial information in the definition of financial statements.	Subparagraph has been deleted.
11	Component auditor	I note that we now have a definition of both "component auditor" and "component auditor firm" which I welcome. In regard to the former however whilst I appreciate the desire as much as possible to conform to the IAASB definitions it does read slightly oddly when set alongside the definition of component auditor firm (which the IAASB doesn't have I presume) in that both refer to performing (in one case) or carrying out (in the other) audit procedures at the request of the group auditor. Since the sense in which we use	<p>Point noted.</p> <p>The Task Force is proposing deletion of this definition as per <b>Agenda Item 5-B</b>, replacing “component auditors” with “individuals from component auditor firms” where it was used in subparagraph (a) of the definition of “audit team for the group audit.”</p>

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		"component auditor" is now very much related to the individual I would prefer to make that very explicit and perhaps define it as "an individual within a component auditor firm who performs the audit procedures requested by the group auditor" or something similar?	
12	Audit team for the group audit	In the definition of group audit team, I see the logic that the example in (b) (i) is highly unlikely to apply in the context of a non-network firm, I still think that the examples in (b) (ii) and even (iii) (as part of a team approach to EQR) could. I would very much prefer therefore to include a component auditor firm in (c). After all if there are no such individuals it wouldn't have any impact and if there were in my view it should catch them.	The Task Force does not believe it would be appropriate to scope in individuals within a component auditor firm outside the group auditor firm's network because it is highly unlikely they would directly influence the outcome of the group audit. The Task Force noted that individuals within a component auditor firm who perform audit work relating to a component for purposes of the group audit are already required to be independent of the component audit client, and they would also be captured with respect to financial interests in the parent entity of the component audit client.
<b>INDEPENDENCE CONSIDERATIONS</b>			
13	R405.4	Why the reference to Part 4A?	Amended through Section 405 to refer to "this Part."
14	R405.7	<p>More importantly there are a couple of areas where I still feel quite strongly we should tighten up on the actual independence requirements as they relate to the component auditor firm. Whilst I acknowledge that we are looking at the component auditor's firm independence from the component audit client, I do think that we should bear in mind that this is in relation to the work they are performing as an integral part of the group audit.</p> <ul style="list-style-type: none"> <li>Firstly, therefore I note the absolute prohibition in R405.7 (b) largely mirrors the provision in extant R510.6. I say largely mirrors because it does go further in that as I read it R510.6 would only apply if the</li> </ul>	Regarding paragraph R405.6(b) (formerly R405.7(b)), the Task Force notes that where the component audit client is a legal entity, the application of paragraph R405.6(a) will lead to the prohibition of loans from the component audit client and the related entities over which it has direct or indirect control, pursuant to Section 511 (Loans and Guarantees), unless the loans are from a financial institution and they are on normal commercial terms. The Task Force also notes that the extant Code does not outright prohibit loans from a parent entity (or

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		<p>component audit client was material to the group audit client whereas this has no materiality threshold – which I think is appropriate. In the same vein though I do think we should be giving more consideration as to whether there are other absolute prohibitions, we should be looking to introduce particularly for other financial relationships such as loans. I would think for example that a component auditor firm borrowing from another part of the group audit client would be wholly inappropriate. Whilst I acknowledge there are various provisions which should mean that the component auditor firm is required to consider such relationships, I do not think that goes far enough.</p> <ul style="list-style-type: none"> <li>Secondly, I think there is a major gap in what the component auditor firm is required to think about in its (and its network's) relationship with the <u>group</u> audit client. Specifically, in R405.9 we only talk about relationships that a firm within the component auditor firm's network has with the <u>component</u> audit client. I would wish to see that extended to relationships with the <u>group</u> audit client. Since the provision is subject to knowing or having reason to believe I don't see that this should cause many, if any, practical difficulties.</li> </ul>	<p>other indirect financial or business relationships) for all audit clients.</p> <p>For this reason, the Task Force believes it would be going too far to prohibit all such indirect relationships beyond those already captured by R405.6(a)-(b).</p> <p>Nevertheless, the Task Force is proposing to make it a requirement in paragraph <b>R405.7</b> to capture through the “reason to believe” test any related entity of the component audit client other than related entities over which the component audit client has direct or indirect control.</p> <p>Point accepted. See amendment in paragraph R405.8 in <b>Agenda Item 5-B</b>.</p>
15	405.8 A1	<p>I don't understand what this paragraph does here in a section on group audit. "Regular 4A" applies always for this scenario.</p> <p>I argue PIE rules only apply in the context of the standalone audit, not for the group audit.</p>	<p>Point noted.</p> <p>See Task Force proposed redraft as per <b>Agenda Item 5-B</b>.</p> <p>The Task Force is proposing to relocate the guidance to paragraph 405.2 A2. The Task Force believes the guidance provides a helpful reminder that different independence requirements may apply when a component auditor firm participates in a group audit engagement and also separately issues an audit opinion on the financial statements of the component.</p>

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16	405.8 A2	<p>R400.20 is written from the perspective of the audit client, not the component audit client. One could argue R400.20 is therefore not applicable to that instance. I think the TF needs to take the same approach as in R405.9.</p> <p>The Basis for Conclusion can explain the reasoning, which was based on R400.20 as a general principle.</p>	<p>The Task Force is proposing to retain a link to paragraph R400.20 as a reference point but redrafting the provision as a requirement so that it stands on its own. The Task Force is of the view that it is important for readers to understand that there may be other circumstances beyond those addressed by paragraph <b>R405.6</b> which require a component auditor firm outside the group auditor firm's network to evaluate the component auditor firm's independence.</p> <p>See Task Force proposed redraft of paragraph R405.7 as per <b>Agenda Item 5-B.</b></p>
17	405.10 A1	<p>This paragraph is redundant, and the example might have unintended consequences. It can be read as prohibiting all non-assurance services (NAS) in the space of inventory, whereas if it is a non-PIE even with a self-review threat. you can potentially perform the service. FAQ material?</p>	<p>The Task Force believes providing guidance with respect to NAS within Section 405 itself is helpful. The Task Force has, however, redrafted the guidance for greater clarity, including providing examples to illustrate different NAS scenarios in a group audit situation.</p> <p>See paragraphs 405.11 A1-A2 in <b>Agenda Item 5-B.</b></p>
<b>KEY AUDIT PARTNER</b>			
18	405.12 A1	<p>What is a group audit "context" and what kind of responsibility?</p>	<p>Definition of key audit partner further refined (and "context" deleted) – see box below paragraph 405.10 A1 in <b>Agenda Item 5-B.</b></p>

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<b>CHANGES IN COMPONENT AUDITOR FIRMS</b>			
19	405.13 A1	I think it is important that these paragraphs are specifically addressed, given R400.31 only apply in the context of a firm and network firm. So, you exclude non network CA; however 400.31 A4 is only for a firm and network firm, hence one can argue that this provision doesn't apply for a non-network CA.	Point noted. The Task Force has deleted the paragraph reference to R400.31 to make the provision more generic. See paragraph 405.12 A1 as per <b>Agenda Item 5-B</b> .
<b>BREACHES REQUIREMENT</b>			
20	405.14 A2	<ul style="list-style-type: none"> <li>This lead-in sentence may need to change along the lines that 'If a component auditor firm within...concludes that a breach has occurred'.</li> <li>These referenced paras are only written from the perspective of a firm; so by just referencing to these you don't call out what the role of the component is about.</li> </ul>	The provision has now been redrafted to make clear what the component auditor firm within the group auditor firm's network is required to do. See Task Force proposed redraft as per paragraph R405.13 in <b>Agenda Item 5-B</b> .
21	R405.15	Should this be component audit? Is group audit not too broad in this context?	The Task Force is of the view that there should be no change. The relevant ethical requirements are always by reference to the group audit.
22	R405.15	It would be clearer if you spell out R400.80 instead of pushing the reader go from one page to the next.	Paragraph R405.14(a) has now been amended to set out clearly the actions, consistent with paragraph R400.80(a).
23	405.18 A2	This might need gives the impression there is another step than just taking further action. What would that be?	The Task Force has amended the wording "might need" to "might decide" to more clearly convey the taking of further action. See Task Force proposed redrafted paragraph 405.17 A3 as per <b>Agenda Item 5-B</b> .

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24	R405.19	What is a pre-agreed process?	The reference to “pre-agreed process” has been deleted in the revised draft – see paragraph R405.18 in <b>Agenda Item 5-B</b> .
25	R405.19	Here it starts with the actions and then the conclusion on objectivity. Does that make sense?	The Task Force is proposing to delete bullet (c) so not to confuse readers as to the stepped approach. See paragraph R405.18 in <b>Agenda Item 5-B</b> .
26	R405.19	Why not also the Group Auditor Firm's actions, when they believe they cannot rely on the Component Auditor Firm's work?	Point noted.  The Task Force is proposing to simplify the language to convey that other actions can be undertaken. See Task Force proposed redrafted paragraph R405.19 as per <b>Agenda Item 5-B</b> .