

Meeting: IESBA
Meeting Location: Virtual
Meeting Date: June 9-11, 15 and 25, 2021

Agenda Item

6

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 600¹ Task Force.
2. To provide feedback on:
 - (a) The Task Force's proposed revisions to the definitions of engagement team (ET), audit team, review team and assurance team; and
 - (b) A more developed draft of a strawman of changes to Part 4A of the Code to address independence considerations in a group audit.

Task Force

3. 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 March 2021 IESBA Meeting

4. To develop the agenda materials for this meeting, the Task Force:
 - (a) Met via video conference in Q2 2021 to consider the input received at the March 2021 Board meeting as well as during stakeholder outreach in late Q1 and in Q2; and
 - (b) Sought input from the ISA 600 Task Force as part of the coordination efforts.

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

5. The Task Force presented the issues and its direction of travel to the IESBA CAG and representatives of the IFIAR² Standards Coordination Working Group, IOSCO³ Auditing Subcommittee and firms.⁴ Ms. Soulier will brief the IESBA on the feedback received from stakeholders during the June 2021 Board meeting.

Matters Raised at the March 2021 IESBA Meeting

I. Definition of Engagement Team

6. At the [March 2021](#) Board meeting, the following matters were raised:
 - Regarding the exclusion of internal auditors who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised),⁵ whether the reference to ISA 610 which had been removed from the proposed definition of ET should be brought back.
 - The importance of making clear that individuals in non-network firms performing audit procedures on a group audit are included in the definition of ET.
7. In relation to the first point, the Task Force is proposing to add back a reference to ISA 610 (Revised) in the explanatory material attached to the proposed ET definition in the Glossary. The Task Force is also proposing to include a reference to ISA 620⁶ to highlight that there is a specific ISA that addresses the use of an auditor's expert on an audit engagement. (See [Appendix 1.](#))
8. With regards to the second point, the Task Force has taken the feedback into consideration in developing the application material in the strawman addressing group audits independence (see **Agenda Item 6-B**).

II. Independence Considerations for Engagement Quality Reviewers

9. With respect to the proposed amendments to the definition of audit team (AT), the following were raised:
 - Whether subparagraph (c) should explicitly refer to the “chain of command” at a network firm, such as those who might be involved in recommending the compensation of the engagement partner in connection with the performance of the audit engagement. It was suggested that this could be clarified through adding more specificity to that subparagraph using the word “including.”
 - Whether an individual in a firm outside the network (such as a component auditor firm) who provides consultation regarding technical issues on an engagement should be explicitly included in the AT definition. It was noted that subparagraph (b)(ii) currently does not include the engagement of such an individual but the engagement of the firm to which the individual belongs.

² International Forum of Independent Audit Regulators

³ International Organization of Securities Commissions

⁴ Representatives from Baker Tilly, BDO, Crowe Howarth, Deloitte, Ernst & Young, Grant Thornton International, KPMG, Mazars, PwC, Moore Global, Nexia, PwC and RSM

⁵ ISA 610 (Revised), *Using the Work of Internal Auditors*

⁶ ISA 620, *Using the Work of an Auditor's Expert*

- With respect to subparagraph (b)(iii), a suggestion to make it clear that a quality review and an engagement quality review are not the same.
10. In relation to the first point, the Task Force believes that bullet (c) of the definition of AT is sufficiently general and principles-based to scope in any individual within a network firm who can directly influence the outcome of the audit engagement. The Task Force believes that adding granularity to that part of the definition could make the definition unnecessarily long and cumbersome.
 11. With respect to the second point, the Task Force believes that bullet (b) makes it clear that any individuals engaged by the firm who can directly influence the outcome of the audit engagement would be scoped into the definition of AT. The Task Force does not believe that the definition of AT should scope in the “chain of command” at a component auditor firm in a group audit context.
 12. Regarding the third point, and also in response to feedback received during outreach to firms, the Task Force is proposing changes to bullet (b)(iii) of the definition of AT to clarify that this part of the definition is focused more narrowly on individuals who “perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.” The Task Force does not believe that the definition of AT should scope in other individuals who might have quality management responsibilities under ISQM 1.⁷
 13. Corresponding changes have been made to the definitions of review team and assurance team. (See [Appendix 1.](#))
 14. In [Appendix 2](#), the Task Force is proposing conforming amendments to two provisions in Sections 800⁸ and 990⁹ that draw upon bullet (b)(iii) of the definition of AT and assurance team, respectively.

III. Breach of Independence at a Component Auditor Firm

15. At the [March 2021](#) Board meeting, the IESBA was also briefed on the Task Force’s analysis of the implications of a breach of independence by a CA 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 (TCWG).
16. Having considered the Board’s comments, including with respect to the use of terminology to describe possible scenarios of breaches (‘inconsequential’, ‘significant’ and ‘very significant’), the Task Force has developed preliminary material for the strawman (see **Agenda Item 6-B**).

Coordination with ISA 600 Task Force and Forward Timeline

17. The Task Force has liaised with the ISA 600 Task Force on the proposed revisions to ISA 600 and the key concepts and principles being developed in that project. 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.

⁷ 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*

⁸ Section 800, *Reports on Special Purpose Financial Statements that Include a Restriction on Use and Distribution (Audit and Review Engagements)*

⁹ Section 990, *Reports that Include a Restriction on Use and Distribution (Assurance Engagements other than Audit and Review Engagements)*

18. Given that the ET-GA project is so closely linked to the ISA 600 project, the ET-GA Task Force believes that it would be sensible to align the timing of the Exposure Draft with the anticipated timing of final approval of ISA 600 (Revised), i.e., December 2021. This timeline will allow sufficient time for the ET-GA Task Force to firm up its proposals on the various matters under consideration (including with respect to the involvement of “service providers” in a group audit) based on concepts that are sufficiently well settled in the proposed ISA 600 (Revised).

Matters for Further Consideration

19. Matters that the Task Force will consider in Q3 of 2021 include:
- How the independence principles should apply at the service provider level.
 - In the context of group audits, the implications of recent changes to the Code that come into effect for audits of financial statements for periods beginning on or after December 15, 2022, including with respect to communication with those charged with governance.

Next Steps

20. Subject to the Board’s feedback on the Task Force’s views and proposals, the Task Force will present a first read of proposed changes to the Code for the Board’s consideration at the September 2021 IESBA meeting.

Action Requested

21. IESBA members are asked to provide input on the Matters for IESBA Consideration in **Agenda Item 6-A**, including the proposed refinements to the definitions of ET, AT, review team and assurance team, and the strawman in **Agenda Item 6-B**.

Material Presented

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| Agenda Item 6-A | Presentation Slides – Engagement Team – Group Audits Independence |
| Agenda Item 6-B | Engagement Team – Group Audits Independence – Strawman (Marked Up against extant Code) |

Proposed Revised Definitions (Marked Up Against Extant Code)

Terminology	Extant Code Described Terms	Proposed Definitions – June 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 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 <u>other</u> individuals <u>engaged by the firm or a network firm</u> who perform <u>assurance</u> procedures on the engagement, <u>excluding an external expert and internal auditors who provide direct assistance on the engagement. This excludes external experts engaged by the firm or by a network firm.</u></p> <p><u><i>In Part 4A, the term “engagement team” refers to individuals performing audit or review procedures on the audit or review engagement, respectively.</i></u></p> <p><u><i>(ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.</i></u></p> <p><u><i>ISA 620 deals with the auditor’s responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.</i></u></p> <p><u><i>ISA 610 (Revised 2013) deals with the auditor’s responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.)</i></u></p> <p><u><i>In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.</i></u></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>Audit Team</p>	<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</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</p>

Terminology	Extant Code Described Terms	Proposed Definitions – June 2021 Meeting (Marked Up against Extant Code)
	<p>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 those who perform the engagement quality control review for the engagement; and</p>	<p>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<u>perform an engagement quality review, or a review control consistent with the objective of for the engagement, including those who perform the an</u> 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>

Terminology	Extant Code Described Terms	Proposed Definitions – June 2021 Meeting (Marked Up against Extant Code)
	<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 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 technical or industry specific issues, transactions or events for the assurance engagement; and</p> <p>(iii) Those who <u>provide perform an engagement quality control review, or a review consistent with the objective of an engagement quality review,</u> for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement</p>

Terminology	Extant Code Described Terms	Proposed Definitions – June 2021 Meeting (Marked Up against Extant Code)
	<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>Review Team</p>	<p>(a) All members of the engagement team for the review engagement; and (b) All others within a 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</p>	<p>(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 provide<u>perform an engagement quality review, or a review consistent with the objective of an engagement quality review, -quality control</u> 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 review engagement.</p>

Terminology	Extant Code Described Terms	Proposed Definitions – June 2021 Meeting (Marked Up against Extant Code)
	<p>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>	

Note to IESBA

The Task Force is also proposing the following conforming amendments to reflect the proposed revisions to the definition of audit team and assurance team as above. The below revisions build on the conforming amendments as a result of IAASB's approval of its Quality Management standards.

SECTION 800

REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

Requirements and Application Material

General

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Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

R800.10 When the firm performs an eligible audit engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who ~~provide~~perform an engagement quality review, or a review consistent with the objective of management for the an engagement quality review, including those who perform the engagement quality review for the engagement; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

SECTION 990

REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

R990.7 When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who provide perform an engagement quality review, or a review consistent with the objective of an engagement quality review, control for the engagement ~~including those who perform the engagement quality control review~~; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.