

Engagement Team – Group Audits Independence
Strawman

(Marked Up against extant Code)

INTERNATIONAL INDEPENDENCE STANDARDS
(PARTS 4A AND 4B)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND
REVIEW ENGAGEMENTS

Introduction

...

400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements.

400.2 This Part applies to both audit and review engagements. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

400.3 This Part applies to all members of the audit engagement team, including component auditors performing audit procedures in a group audit. Section 405 sets out independence provisions applicable in a group audit.

Network Firms

...

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

Engagement Team and Audit Team

400.A An engagement team for an audit of financial statements includes partners and staff in the firm and might also include other individuals who perform audit procedures who are from:

(a) A network firm; or

(b) A firm that is not a network firm, or another service provider.

For example, an individual from another firm might perform audit procedures on the financial information of a component in a group audit.

Commented [A1]: From ISA 220.A17

400.B In ISQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organizations in the network.

400.C An engagement team might include individuals from service delivery centers who perform audit procedures. For example, it might be determined that specific tasks that are repetitive or specialized in nature will be performed by a group of appropriately skilled personnel and the engagement team therefore includes such individuals. Service delivery centers might be established by the firm, a network firm or other structures or organizations in the network.

Commented [A2]: From ISA 220.A18

400.D An audit engagement might involve experts from the firm or network firm, or external experts who assist in the engagement. Depending on the role of the individuals, they might be members of the engagement team or the audit team. For example:

- Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are members of the engagement team. These include, for example, individuals with expertise in accounting for income taxes or in auditing client information using automated tools and techniques.
- Individuals who are external experts in fields other than accounting or auditing are not members of the engagement team.
- Individuals whose involvement with the engagement is limited to consultation are not members of the engagement team but might be members of the audit team.

400.E If the audit engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are not members of the engagement team. Such individuals are members of the audit team.

Commented [A3]: From ISA 220.A20

SECTION 405

GROUP AUDITS

Introduction

405.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

405.2 Section 400 requires professional accountants to be independent when performing audit engagements. This section sets out specific requirements and application material relevant to applying the independence provisions in Part 4A to group audits.

Requirements and Application Material

General

405.3 A1 The International Standards on Auditing (ISAs) apply to an audit of group financial statements (group audit). This section addresses the relevant independence considerations that apply in a group audit.

405.3 A2 ISA 600 (Revised) deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. ISA 600 (Revised) requires the group engagement partner to confirm whether the component auditors understand and will comply with the ethical requirements that are relevant to the group audit and, in particular, are independent.

405.3 A3 For the purposes of this section:

- Group financial statements are financial statements that include the financial information of more than one entity or business unit through a consolidation process.
- A group audit is an audit of group financial statements.
- A group auditor firm is the firm that issues the audit opinion on the group financial statements.
- A group audit client is the entity on whose group financial statements a group auditor firm conducts an audit engagement. The group audit client includes its related entities as specified in paragraph R400.20 and any other components that are subject to audit procedures.
- A component is an entity or business unit or a function or activity (or some combination thereof) determined by the group auditor for purposes of planning and performing audit procedures in a group audit.
- A component audit client is:
 - When a component is an entity, the entity and, where applicable, any controlled related entities.
 - When a component is a business unit or a function or activity (or some combination thereof), the entity to which the business unit belongs or the entity or entities in which the function or activity is being performed.
- A component auditor is an auditor who, at the request of the group auditor, performs audit procedures related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.

Commented [A4]: Note to the Board:
The Task Force is considering whether to move these proposed definitions to the Glossary or include them in both Section 405 and the Glossary.

- A component auditor firm is the firm carrying out audit work on the component.
- A group engagement team is the engagement team for the group audit, including component auditors.
- A group audit team comprises:
 - (a) The group engagement team;
 - (b) All others within the group auditor firm who can directly influence the outcome of the group audit, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group 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 group audit; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit; and
 - (c) All those within a network firm who can directly influence the outcome of the group audit.

Independence Considerations Applicable to Individuals

R405.4 All members of the group audit team shall be independent of the group audit client.

405.4 A1 In the context of a group audit, the independence provisions that apply to the audit team in Part 4A apply to the group audit team with respect to the group audit client.

Independence Considerations Applicable to Group Auditor Firms

R405.5 A group auditor firm shall be independent of the group audit client in accordance with the requirements of Part 4A.

Independence Considerations Applicable to Network Firms of Group Auditor Firms

R405.6 A network firm of a group auditor firm shall be independent of the group audit client in accordance with the requirements of Part 4A.

Independence Considerations Applicable to Component Auditor Firms outside a Group Auditor Firm's Network

Group Audit Clients that are Public Interest Entities

R405.7 When the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network:

- (a)** Shall be independent of the component audit client in accordance with the requirements set out in Part 4A that apply to public interest entities; and
- (b)** Shall not hold a direct or material indirect financial interest in the group audit client.

Group Audit Clients that are Not Public Interest Entities

R405.8 When the group audit client is a not public interest entity, a component auditor firm outside the group auditor firm's network shall be independent of the component audit client in accordance with the requirements set out in Part 4A that apply to non-public interest entities.

Other Considerations

R405.9 When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance involving any related entity of the component audit client other than controlled related entities is relevant to the evaluation of the component auditor firm's independence from the component audit client, the component auditor firm shall include that related entity when identifying, evaluating and addressing threats to independence.

R405.10 When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that interests or relationships of a firm within the component auditor firm's network with the component audit client create a threat to the component auditor firm's independence, the component auditor firm shall evaluate and address any such threat.

405.11 A1 When a component auditor firm also performs a standalone audit of the financial statements of a component that is an entity, the requirements of Part 4A apply.

Independence Considerations Applicable to Other Service Provider Firms

[Placeholder – TF to discuss further]

Independence Considerations Applicable to Mergers and Acquisitions

[Placeholder – TF to discuss further/coordinate with ISA 600 TF]

Exceptions/Clarifications to Part 4A for Component Auditors Outside the Group Auditor Firm's Network (?)

[Placeholder – TF to discuss items such as communications with TCWG]

Breach of an Independence Provision by a Component Auditor Firm

405.12 A1 If a component auditor firm concludes that a breach of a requirement in this Part has occurred, ISA 600 (Revised) requires the component auditor firm to communicate relevant information about the breach timely to the group engagement partner such that the group engagement partner has sufficient time to respond and address the breach.

When a Component Auditor Firm Within the Group Auditor Firm's Network Identifies a Breach

405.12 A2 When the component auditor firm is a network firm of the group auditor firm, paragraphs R400.80 to R400.89 apply.

When a Component Auditor Firm Outside the Group Auditor Firm's Network Identifies a Breach

R405.13 If a component auditor firm concludes that a breach of a relevant ethical requirement applicable to the group audit has occurred, the component auditor firm shall:

- (a) Comply with paragraph R400.80 (a);
- (b) Evaluate the significance of the breach and its impact on the component auditor firm's objectivity and ability to issue an audit opinion on the component audit client's financial information for group reporting purposes (Ref: Para 400.80 A2);
- (c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and (Ref: Para 400.80 A3)
- (d) Promptly communicate the breach to the group engagement partner, including the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

R405.14 Upon receipt of the component auditor firm's communication of the breach, the group engagement partner shall:

- (a) Review the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach; and
- (b) Evaluate the impact of the breach on the group auditor firm's ability to rely on the work of the component auditor firm for purposes of the group audit.

R405.15 In making this determination, the group engagement partner shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the group auditor firm's objectivity would be compromised, and therefore, the group auditor firm would be unable to issue an audit report.

405.15 A1 If the group engagement partner determines that the breach has been satisfactorily addressed by the component auditor firm and does not impact the component auditor firm's objectivity, the group auditor firm may continue to rely on the work of the component auditor for the group audit.

405.15 A2 In all other cases, the nature and extent of actions the group auditor firm might take will depend on the group engagement partner's evaluation of the significance and impact of the breach on the component auditor firm's objectivity:

- (a) In some circumstances, the group auditor firm might determine that actions can be taken to allow the group auditor firm to rely on the component auditor firm's work. Examples of such actions include the group auditor firm performing specific procedures on the areas impacted by the breach or requesting the component auditor firm to perform appropriate remedial work on the affected areas; or
- (b) In other circumstances, the group auditor firm might determine that it cannot place reliance on the component auditor firm's work. In such situations, the group auditor firm might need to take further actions to obtain the necessary audit evidence on the component audit client's financial information by means other than relying on the component auditor firm's work. Examples of such actions include requesting the group audit client to arrange for another component auditor firm to be engaged to perform the audit work on the component audit client's financial information, or the group auditor firm carrying out the necessary audit work on the component audit client's financial information.

Communication with Those Charged with Governance of the Group Audit Client

R405.16 Unless already addressed by a process pre-agreed with those charged with governance, the group auditor firm shall discuss with those charged with governance as soon as possible:

- (a)** The significance of the breach at the component auditor firm, including its nature and duration;
- (b)** Whether the action proposed or taken would satisfactorily address the consequences of the breach and enable the group auditor firm to issue the audit report on the group financial statements;
- (c)** The group auditor firm's conclusion as to whether the objectivity of the component auditor firm has been compromised and the rationale for that conclusion.

R405.17 If those charged with governance do not concur that the actions proposed or taken satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm shall determine whether to perform further or alternative procedures, or perform itself the necessary audit work on the component audit client, to obtain such concurrence.

Documentation

Commented [A5]: Cross reference from ISA 600 re documentation