

# Engagement Team – Group Audits Independence

Global Webinar, April 11, 2022

Global Webinar, April 19, 2022

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# Agenda

**Background**

**Proposed New Terms  
and Definitions**

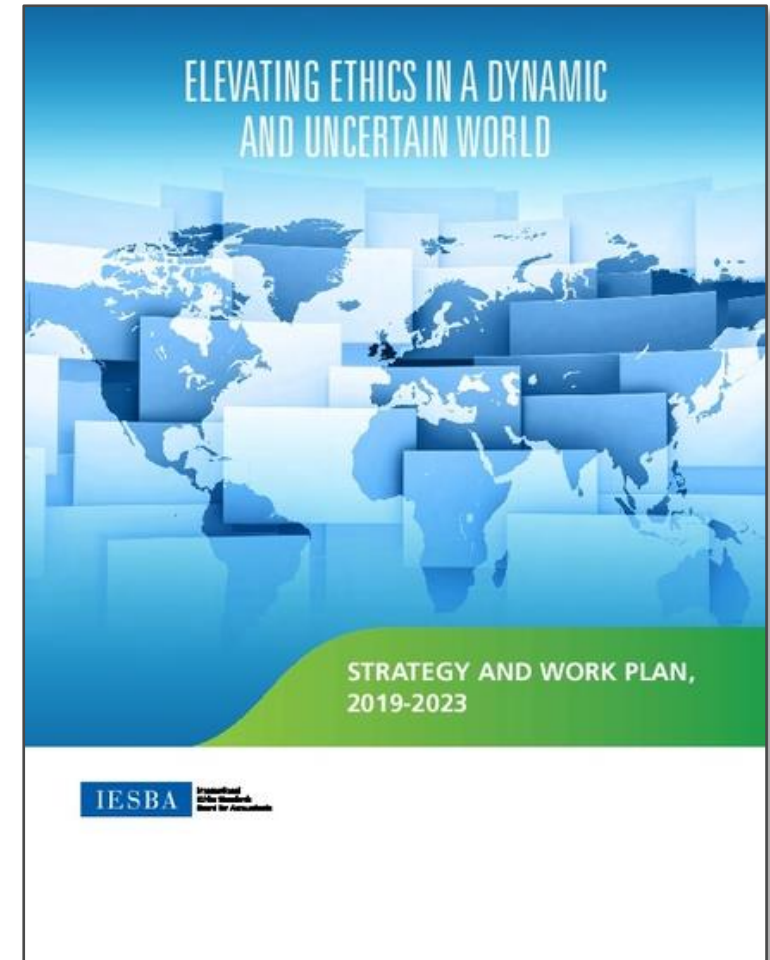
**Independence  
Considerations in a  
Group Audit**

**Proposed Conforming  
Amendments and  
Timeline**



# Background

- IESBA Strategy and Work Plan 2019-2023
  - Commitment to respond to stakeholders' concerns re need for clarity about application of IIS in an audit of group financial statements
  - Take up the project in coordination with IAASB
- Some practical matters also identified by IESBA's Emerging Issues committee (EIOC)
  - E.g. Non-network component auditor firm (CA firm) to apply PIE or non-PIE independence requirements when parent entity is PIE but component is not?





# Coordination with IAASB



- Revised definition of “engagement team” in ISA 220 (Revised) and ISQM 1
- Reference to “relevant ethical requirements” in IAASB standards
- Revised concepts and definitions in proposed ISA 600 (Revised)



# Engagement Team Definition



# Proposed Definition: Engagement Team

Defined Term	Extant Code	Proposed Definition aligns with ISQM1 (Marked-up against Extant Code)
Engagement team  (Applicable to all assurance engagements)	<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 <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 external experts and internal auditors who provide direct assistance on the engagement</u>. <u>This excludes external experts engaged by the firm or by a network firm.</u></p> <p><u>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>.</u></p> <p><u>In Part 4A, the term “engagement team” refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.A.</u></p> <p><u>ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.</u></p> <p><u>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.</u></p> <p><u>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.</u></p> <p><u>In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.</u></p>

# Proposed Definitions: Audit Team, Review Team and Assurance Team

## Audit Team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within , or engaged by, a 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 perform an engagement~~ quality ~~control for the engagement, including those who perform the review, or a review consistent with the objective of an~~ 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.

*In Part 4A, the term "audit team" applies equally to "review team."*



# Section 400 – New guidance on ET and AT

## Proposed guidance on Engagement Team (ET) and Audit Team (AT):

- New application material in Section 400 to clarify which individuals are now considered part of ET and AT

### **Engagement Team and Audit Team**

400.A An engagement team includes all partners and staff in the firm who perform audit procedures on the engagement, and any other individuals who perform such 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 a component auditor firm who performs audit work on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit.

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.



# Section 400 – New guidance on ET and AT

## Proposed guidance on Engagement Team (ET) and Audit Team (AT):

- Clarifies which types of experts are included in ET and AT, and where EQR is included

400.C

An audit engagement might involve experts from the firm or a network firm, external experts or, in the case of a group audit, experts from a component auditor firm outside the group auditor firm's network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit team members. For example:

- Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in auditing client information using automated tools and techniques.
- Individuals within or engaged by the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit team members but not engagement team members.
- Individuals who are external experts in fields other than accounting or auditing are neither engagement team nor audit team members.

400.D

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 audit team members but not engagement team members.

# Group Audits Independence – Overview

## Proposed Section 405

**Independence  
requirements for  
individuals**

**Independence  
requirements for firms**

- Group auditor firm and its network
- Component auditor firms outside the network

**Changes in the  
component  
auditor firm**

**Breach of  
independence at  
a component  
auditor firm**

# Glossary – Proposed New Definitions

Group	A reporting entity for which group financial statements are prepared
Group financial statements	Financial statements that include the financial information of more than one entity or business unit through a consolidation process
Group audit	An audit of group financial statements
Group audit client	The entity on whose group financial statements the 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 work
Group auditor firm	The firm that expresses the opinion on the group financial statements
Group engagement partner	The engagement partner who is responsible for the group audit

\* Definitions highlighted in grey are direct uplift from IAASB's definitions in ISA 600 (Revised)



# Glossary – Proposed New Definitions

## Component

An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit

Component audit client

When a component is:

- (a) A legal entity, the entity and any related entities over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Component auditor firm

The firm performing audit work related to a component for purposes of the group audit

# Glossary – Proposed New Definitions

- Audit team for the group audit
- (a) The engagement team for the group audit, including individuals from component auditor firms who perform audit work related to components for purposes of the group audit;
  - (b) All others within, or engaged by, 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;
  - (c) All those within a network firm of the group auditor firm's network who can directly influence the outcome of the group audit; and
  - (d) Any individual within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit.

# Key Principles: Independence for Individuals (R405.3)

- ALL members of the audit team for the group audit are subject to the same independence requirements
- Independence is required with respect to the group audit client

## **Group audit client:**

*The entity on whose group financial statements the 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 work*



# Key Principles: Independence for GA Firm and Network Firms (R405.4 -5)

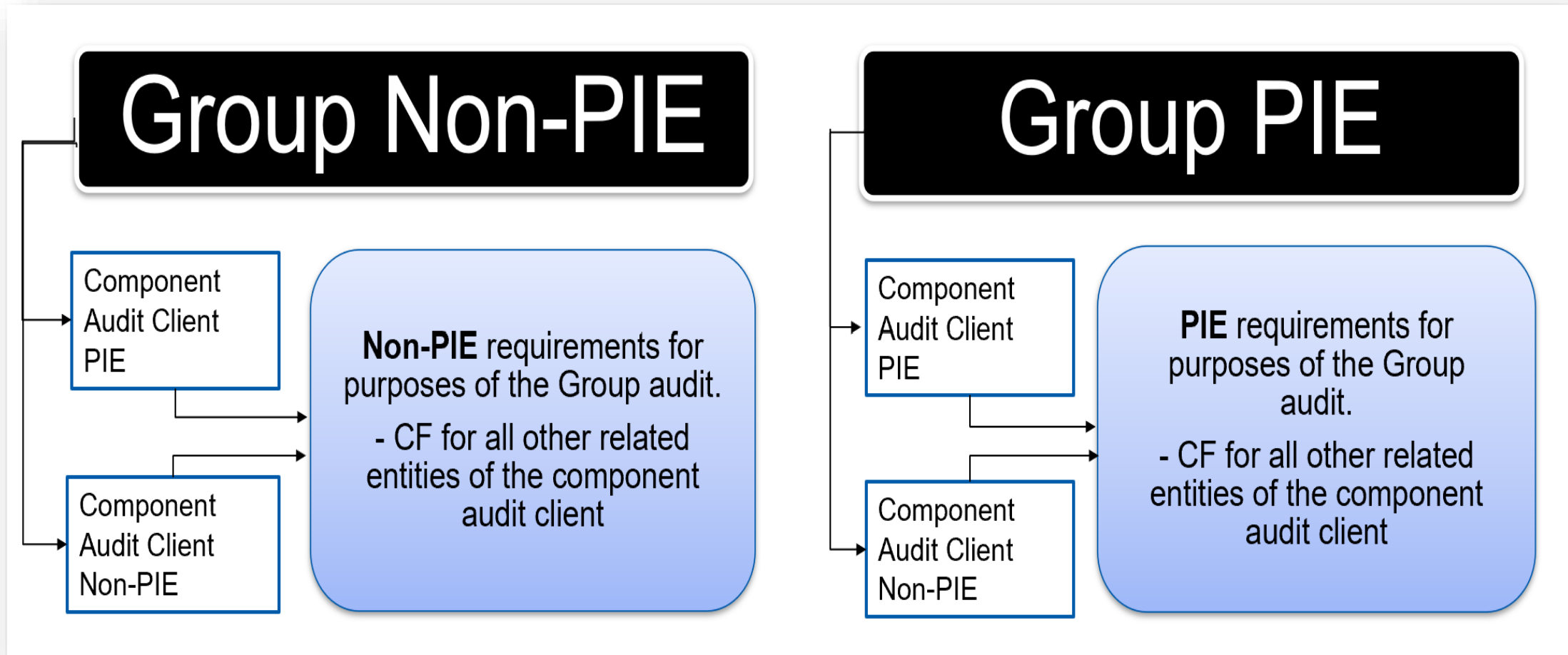
Which Firm	Independence Requirements
<b>Group Auditor Firm and Network Firms of Group Auditor Firm</b>	<ul style="list-style-type: none"><li>• Independence required of the group audit client</li><li>• Includes the related entities of the group audit client and any other components scoped in under ISA 600 (Revised)</li></ul>

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➤ Position reflects principles already applicable to firms and network firms in extant Code

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# Proposed Relevant Ethical Requirements



# Key Principles: Independence for Non-network CA Firms

Which Firm	Independence Requirements
<b>Component Auditor Firms (CAFs) outside a Group Auditor Firm's Network</b>	<ul style="list-style-type: none"> <li>Independence required of the <b>component audit client (as defined)</b> in accordance with the relevant ethical requirements               <ul style="list-style-type: none"> <li>* If Group audit client is PIE, follow PIE requirements</li> </ul> </li> <li>CAF to hold no direct or material indirect financial interests <b>in the entity on whose group financial statements the group auditor expresses an opinion</b></li> <li>Section 511 requirements with respect to loans and <b>guarantees involving the entity on whose group financial statements the group auditor expresses an opinion</b></li> <li>Apply conceptual framework with respect to all other related entities of the <b>group audit client (if CA firm knows or has reason to believe a relationship or circumstance involving the CA firm is relevant to independence)</b></li> <li>Apply conceptual framework if CA firm knows, or has reason to believe, that threats to its independence are created by a relationship or circumstance of a <b>firm within its network with the component audit client or group audit client</b></li> </ul>



# Key Principles: Independence for Non-network CA Firms

## Group Audit Client – PIE

- Guidance on implications of applying PIE standard
  - Determination of key audit partners (KAPs)
    - New guidance on EPs who perform audit work on a component audit client for the purposes of group audit who are determined KAPs for the group audit by the GEP
  - Application of revised non-assurance services (NAS) provisions
    - New guidance on independence requirements for NAS provided by a non-network CA firm to the component audit client are those applicable for PIEs even if the component audit client is a non-PIE

# Network CA Firms vs Non-network CA Firms

The extant Code largely treats a firm and its network firms as one for independence purposes

- Rationale for limited scope of independence requirements for CA firms outside GA firm's network
  - Recognizes that CA firm's work is focused on component audit client and is subject to review by GA firm
  - A proportionate approach that avoids unintended consequence of potentially limiting supply of CA firms for audits of components for group audit purposes

# Changes in Component Auditor Firms

- Proposed application material in 405.13 A1 and 405.13 A2
  - circumstances in which the GAF requests another firm to perform audit work during or after the period covered by the group financial statements
  - A threat to the component auditor firm's independence might be created by:
    - Financial or business relationships of the component auditor firm with the CAF during or after the period covered by the group financial statements but before the component auditor firm agrees to perform the audit work; or
    - Previous services provided to the component audit client by the component auditor firm.
- Application material per paragraphs 400.31 A1-A3





# Breach of Independence



# Breach of Section 405 Identified at CA Firm

## COMPONENT AUDITOR FIRM

- End, suspend or eliminate the breach and address the consequences;
- Evaluate the significance and impact on objectivity;
- Determine any other actions to be taken; and
- Communicate to the group engagement partner.



## GROUP ENGAGEMENT PARTNER

- Review the CAF's assessment and any proposed actions;
- Evaluate the impact on the CAF's objectivity and the ability to use the CAF's work for the group audit; and
- Determine any further action to be taken.



## TCWG

Group auditor firm discusses:

- the significance of the breach; and
- whether actions proposed or taken would enable the group auditor firm to use the work of the component auditor firm.

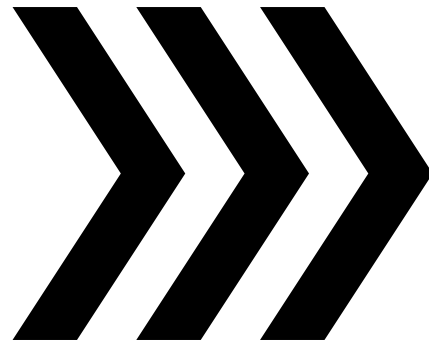
Group auditor firm cannot use the work of the component auditor firm unless TCWG concur.



# Other Matters



# Proposed Consequential and Conforming Amendments



## Chapters 2 -6 of the Exposure Draft

set out proposed consequential and conforming amendments, including to align with:

- ISA 600 (Revised)
- Revised NAS provisions
- Proposed revised engagement team definition
- IAASB's recently finalized suite of quality management standards

# Timeline: ET-GA Independence Project





The background of the slide features a grayscale image of a spiral-bound calendar. A red pen is positioned vertically on the right side of the calendar. The calendar shows days of the week (M, T, W, T, F, S) and dates (1, 2, 3, 6, 8, 10, 12, 13, 14, 15, 17, 19, 20, 21, 22, 24, 25, 26, 27, 28, 29, 30, 31).

## Effective Date

To align the effective date of the Engagement Team – Group Audits provisions to the effective date of ISA 600 (Revised), i.e., for audits of financial statements for periods beginning on or after December 15, 2023



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