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May 31, 2022

Mr. Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, NY 10017 USA

Dear Mr. Siong:

**Re: February 2022 Exposure Draft, Proposed Revisions Relating to the Definition of Engagement Team and Group Audits**

I am writing on behalf of the Public Trust Committee (PTC) of the Canadian Chartered Professional Accountant profession in response to your request to comment on the Exposure Draft entitled *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* (“the Exposure Draft”).

Canada’s accounting profession is regulated by provincial CPA bodies and is comprised of more than 220,000 members both at home and abroad. The provincial CPA regulatory bodies are statutorily responsible for their respective codes of conduct including the independence standards. CPA Canada is a member of IFAC, represents the profession nationally and internationally, and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations, and government. The provincial CPA regulatory bodies and CPA Canada collaborate through the PTC to recommend policies and strategies to uphold the public’s confidence and trust in the profession.

One of the responsibilities of the PTC is to monitor international developments with respect to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics (“the Code”) and develop responses to changes on behalf of the Canadian CPA profession.

**Our views**

We commend the IESBA for its efforts to establish provisions that comprehensively address independence considerations for firms and individuals involved in an engagement to perform an audit of group financial statements. We are broadly supportive of the proposed revisions to address the independence implications of the change in the definition of an engagement team in the International Auditing and Assurance Standards Board’s (IAASB) International Standard on Auditing (ISA) 220, Quality Management for an Audit of Financial Statements and appreciate the coordination efforts undertaken with the IAASB in the development of the

proposals.

Notwithstanding our overall support for these proposals and our responses to your specific questions, where we have recommended clarification or additional guidance to encourage consistency in the interpretation and application of the proposals, we encourage the IESBA to also consider our comments below related to the consultation process more broadly.

#### *Comment periods for IESBA Exposure Drafts*

As outlined in our previous communications with the IESBA, the PTC would like to reemphasize that a 90-day comment period is highly challenging, especially in a multi-jurisdictional country such as Canada. The challenge of responding within a relatively short time frame is even more acute in our particular circumstances, as our due process for providing comments includes the exposure of IESBA proposals to revise the International Independence Standards for public comment in Canada. It is also noteworthy that the IESBA has released more than one set of proposed revisions for public comment, with tight deadlines for responding.

As the IESBA continues its important work in encouraging and promoting global adoption of the Code, we recommend it consider whether longer public consultation periods would result in more comprehensive and considered input and lead to a more rigorous standard-setting process in the public interest. This is particularly important in jurisdictions such as Canada where the proposals must be considered in the context of local laws and regulation and may require translation for public exposure. We are concerned that a 90-day comment period does not allow sufficient time to coordinate and prioritize the resources required for robust consultation in all jurisdictions and request that the IESBA increase the length of comment periods going forward.

#### *Webinars and other resources related to IESBA Exposure Drafts*

The IESBA's webinars are found by our committees to be extremely helpful in understanding the IESBA's process in developing its proposals in the public interest, as well as the substance and implications of the proposals to the Code itself. Given the IESBA's short comment periods and the usefulness of these webinars to our committees in responding to the IESBA's proposals, we request that going forward the IESBA provide webinar dates on the same date as the relevant exposure draft is published if at all possible. This would greatly assist our committees in understanding the proposals and providing feedback to the IESBA.

### **Our responses to your questions**

Please find below our responses to the requested matters for input from Respondents as outlined in the Explanatory Memorandum's Guide for Respondents.

## **Proposed Revised Definition of Engagement Team**

### **1. Do you agree with the proposed changes to the Code related to the revised definition of ET, including: (see Chapters 1, 4 and 6)**

#### **(a) The revised definitions of the terms “engagement team,” “audit team,” “review team” and “assurance team;” and**

Overall, the PTC is supportive of the proposed changes to the Code related to the revised definition of engagement team (ET) because we agree that:

- All individuals who perform audit procedures on an engagement should be considered part of the engagement team, regardless of where they are located or how they are related to the group audit firm, and should therefore be subject to the same audit requirements; and
- It is necessary to align with the revised engagement team definition in ISA 220 (Revised), for consistency.

We note that the proposed explanatory guidance in the third bullet of paragraph 400.C seems to clearly exclude external experts if their expertise is in a field other than accounting or auditing.

However, we believe experts, external or internal, who have direct influence over the outcome of the audit engagement should be members of the audit team, even if they are experts in fields other than accounting or auditing.

Further, we note that the extant definition of audit engagement implies that its outcome is an “opinion on whether the financial statements are fairly presented, in all material respects, in accordance with an applicable framework”. We believe that the proposed revised definition of audit team could, appropriately, be understood to capture external experts if they provide consultation regarding technical or industry specific transactions, issues or events, such as the valuation of geological assets or actuarial assumptions, because such consultation could directly influence the outcome of the audit engagement, even if their expertise is other than in accounting and auditing.

We recommend that the IESBA considers permitting external experts in fields other than accounting and auditing to be included as members of the audit team by leaving this matter open to professional judgment. While we acknowledge that the IESBA may consider this as part of a future initiative, we think that it is important to address within these revisions, for completeness and clarity.

We do not think that this would require a change to the IESBA’s proposed revised definition of an audit team. However, please see our response to Question 1. b), below.

The PTC also recommends that the IESBA considers adding a diagram to distinguish between engagement team, audit team, review team and assurance team to provide added clarity for Professional Accountants (“PAs”) to better understand the application of the requirements.

Finally, we also note that the proposed revised definition of ET continues to refer to performing

“audit procedures” versus “audit work”, which is a term used in several of the new proposed definitions. We observe that it is not clear whether there is a deliberate distinction intended by IESBA, but we recommend that the IESBA clarify the distinction if this is the case. Without clarification, our members may assume that audit work is used in a more general sense, to capture any work related to the audit that is not an audit procedure.

### **(b) The explanatory guidance in paragraphs 400.A – 400.D?**

While the PTC is supportive of the proposed explanatory guidance because we think that it provides useful information about the IESBA’s intent, we observe that the explanatory guidance provided in the 3<sup>rd</sup> bullet of proposed paragraph 400.C seems to conflict with the guidance provided in the 2<sup>nd</sup> bullet of the same paragraph. We believe that the exercise of professional judgment in applying the guidance in the 2<sup>nd</sup> bullet could lead to a determination that an external expert who can directly influence the outcome of the audit engagement is a member of the audit team. However, the 3<sup>rd</sup> bullet specifically excludes external experts in fields other than accounting or auditing (please also see our response to Question 1. a), above).

In light of these observations and our response to Question 1. a), we recommend that the IESBA considers clarifying the 3<sup>rd</sup> bullet of proposed paragraph 400.C as follows:

- “Individuals who are external experts in fields other than accounting or auditing, and do not have direct influence over the outcome of the audit engagement, are neither engagement team nor audit team members.”

### **Independence Considerations for Engagement Quality Reviewers**

#### **2. Do you agree with the changes to the definitions of “audit team,” “review team” and “assurance team” to recognize that EQRs may be sourced from outside a firm and its network (see Chapter 6)?**

The PTC is supportive of the changes to the definitions of “audit team,” “review team” and “assurance team” to recognize that EQRs may be sourced from outside a firm and its network. We agree that this role is integral to audit, and it is helpful to clarify that they are members of the audit team regardless of whether they are sourced from outside the firm.

### **Independence in a Group Audit Context**

#### **3. Do you agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit (see Chapters 1 and 6)?**

While the PTC is broadly supportive of the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit, we believe that some of the proposed definitions could be further clarified with regard to the IESBA’s intent. Specifically, the proposed definitions of:

- “Audit team for the group audit”, we think that it is not clear why individuals within, or engaged by, a non-network component auditor firm who can directly influence the outcome of the component audit are not included; and

- “Component audit client”, we note that it is not clear in the IESBA’s proposed definition why other related entities are not considered part of the component audit client unless they are directly or indirectly controlled. The IESBA has provided rationale in its explanatory memorandum that such other related entities are further removed from the audit of the component. However, we are of the view that the definition of a component audit client is not consistent with the definition of a group audit client with respect to related entities, and that this may not be clear in the final revisions.

Overall, we do agree with IESBA’s exclusion of specific relationships and parties in the definitions of the above terms, which eliminates further prohibitions for non-network component auditor (CA) firms. However, we are of the view that explicit clarification of the IESBA’s intent in developing these definitions would be helpful within the Code. We also recommend that, in clarifying their intent, the IESBA considers emphasizing the application of the conceptual framework in such circumstances.

Accordingly, we think that additional application material in proposed Section 405, including examples, would help to clarify that the IESBA did consider extending the definitions and related prohibitions to other related entities and relationships but decided that the conceptual framework should apply in such circumstances. Please also see our recommendation for this additional application material in our response to Question 4. b), specifically, the IESBA’s proposed paragraphs 405.6 (b) and (c), regarding related entities of the group audit client.

Regarding the proposed revision to the definition of “Key audit partner”, the PTC observes that the IESBA has already proposed to define a component, and therefore it would be clearer to simply replace “subsidiaries and divisions” in the extant definition with “components” in the revised definition. For example, “...’other audit partners’ might include, for example, ~~audit engagement partners responsible for significant certain components in a group audit such as significant subsidiaries and divisions~~”. As proposed, we think the definition seems to apply the significance criteria to subsidiaries or divisions, rather than to any significant component.

**4. In relation to the proposals in Section 405 (Chapter 1), do you agree with the principles the IESBA is proposing for:**

**(a) Independence in relation to individuals involved in a group audit; and**

The PTC agrees with the principle the IESBA is proposing for independence in relation to individuals involved in the group audit, that the independence of individuals on the engagement team outside the group auditor firm is as important as that of individuals on the engagement team within the group auditor firm and its network.

**(b) Independence in relation to firms engaged in a group audit, including CA firms within and outside the GA firm’s network?**

The PTC generally agrees with the principles the IESBA is proposing for independence in relation to firms engaged in a group audit, including component auditor firms within and outside the group auditor firm’s network.

Notwithstanding our overall support for the proposals, some stakeholders did question the potential proportionality and possible consequences of requiring component auditor firms to

apply the PIE independence requirements for a non-PIE component and we provide these questions for the IESBA's consideration. If the distinct component is not in and of itself material to the group audit, would it be unnecessarily prohibitive to require the component auditor firm to apply the PIE independence requirements and could this disproportionately impact small and medium practices? Further, as the group audit planning process and risk assessment is iterative, components to be audited may change over time. Is it possible that the client-practitioner engagement would be disrupted by the PIE independence requirements that may be only temporary as the group audit evolves?

The PTC also observes proposed sub-paragraphs 405.6 (b) and (c) do not include the term "group audit client" but rather include part of the definition of group audit client as "the entity on whose group financial statements the group auditor firm expresses an opinion" without making any reference to related entities included in the definition of the group audit client. This is perceived by some the stakeholders as intentional exclusion of the related entities of the group audit client by IESBA from the scope of the sub-paragraphs 405.6 (b) and (c).

In other words, it is not clear that "the entity on whose group financial statements the group auditor firm expresses an opinion" is distinct from a "group audit client", which includes its related entities. We recommend IESBA to clarify its intention either by using the term group audit client in sub-paragraphs 405.6 (b) and (c) or by adding application material highlighting the exclusion of the related entities. If the exclusion is the approach chosen, it is important to emphasize the relevance of the conceptual framework in evaluating such interests and relationships for threats to independence. Please also see our response to Question 3, above, where we recommend additional application material in Section 405 to clarify the IESBA's intent in developing the proposed definitions and related prohibitions.

We also suggest that the diagram included in paragraph 50 of the explanatory memorandum is very useful and recommend it be included directly in Section 405 as explanatory guidance.

**5. Concerning non-network CA firms, do you agree with the specific proposals in Section 405 regarding:**

**(a) Financial interest in the group audit client; and**

The PTC agrees with the proposed prohibition on non-network component auditor firms from holding a direct or material indirect financial interest in the group audit client because a non-network component auditor firm's independence from the component audit client can be threatened by such financial interest. Also, since the extant Code specifically prohibits network firms from holding a direct or material indirect financial interest in a group audit client, the proposed prohibition would bring alignment and consistency with respect to non-network component auditor firms.

**(b) Loans and guarantees?**

The PTC observes that in proposed paragraph R405.6 (c), there is a reference to Section 511 however it may not be clear to a non-network CA auditor firm which requirements and application material of Section 511 are relevant to them as there is no reference to non-network CA auditor firm under Section 511. For greater clarity, we recommend that the IESBA consider either:

- Expanding this proposed requirement to say, for example: “Shall, in relation to Section 511 [...], apply the relevant specific requirements and application material with respect to the Group Audit Client as if they are a network firm...”; or
- Making conforming amendments to Section 511 to include non-network CA firms in the requirements.

### **Non-Assurance Services**

#### **6. Is the proposed application material relating to a non-network CA firm’s provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 sufficiently clear and appropriate?**

The PTC believes that proposed paragraph 405.12 A1 – 405.12 A2 is not sufficiently clear with respect to proposed paragraph R405.10. Specifically, proposed paragraph R405.10 would require that when the group audit client is a PIE, a non-network component auditor firm be independent of the component audit client in accordance with the requirements applicable to audit clients that are PIEs in this Part.

However, it is not clear if non-network component auditor firms would be required to comply with requirements that apply to “All audit clients” in Section 600. For example, R604.8 (tax planning/advisory service) and R605.4 (internal audit service) apply to all audit clients.

We recommend that the IESBA considers expanding the proposed introduction paragraph 405.1 to explain the application of the group audit requirements, beginning with all audit requirements and then adding either PIE or non-PIE requirements.

### **Changes in Component Auditor Firms**

#### **7. Is the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 sufficiently clear and appropriate?**

The PTC is supportive of application material that clarifies the IESBA’s intent, however we recommend that some additional clarity and context be added to this proposed application material to enhance its usefulness.

Specially, regarding proposed paragraph 405.13 A1, it is not clear why these threats are unique to “Changes in Component Auditor Firms” versus the initial appointment of a component auditor.

We also think that it is not clear why the IESBA has proposed paragraph 405.13 A1 as application material, while paragraph R400.31 in the extant Code, which addresses the same threats, is a requirement.

Finally, we think that illustrative examples in non-authoritative guidance highlighting how the concept proposed in paragraph 405.13 A2 can be implemented with some examples of dates, would be useful in more clearly articulating this proposal.

## **Breach of Independence by a Component Auditor Firm**

### **8. Do you agree with the proposals in Section 405 to address a breach of independence by a CA firm?**

The PTC is supportive of the IESBA's proposals to outline the process to be followed in the event of a breach of independence. Our stakeholders note that the Appendix 2 in relation to the breach of independence at a CA firm is very useful and recommend it be directly included in the Code, or in a readily accessible guidance document.

We observe that the IESBA has not identified an option to end the audit engagement in the event of a breach in proposed paragraph R405.15. We assume that the IESBA's intent is that the group engagement partner is the one to consider whether to end the audit engagement, and therefore it is not addressed in this proposed section, however we recommend that the IESBA considers whether this can be clarified in the final revisions.

## **Proposed Consequential and Conforming Amendments**

### **9. Do you agree with the proposed consequential and conforming amendments as detailed in Chapters 2 to 6?**

Overall, the PTC agrees with the proposed consequential and conforming amendments in Chapters 2 to 6. However, in proposed paragraphs R360.16 to R360.18 it is unclear why "legal entities or business units" are included in the paragraphs given that definitions of "component" and "component audit client" in the glossary include both business unit and legal entity.

We are also unclear why the IESBA has proposed striking the word components in paragraph R360.18 and replacing it with legal entities or business units.

## **Effective Date**

### **10. Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISA 600 (Revised) on the assumption that the IESBA will approve the final pronouncement in December 2023?**

The PTC is supportive of the IESBA's proposal to align the effective date of the final provisions with the effective date of ISA 600 (Revised) on the assumption that the IESBA will approve the final pronouncement in December **2022**.

## **Other Comments**

- The PTC observes that proposed paragraph 405.11 A1 states "The group engagement partner **"might"** determine that an engagement partner who performs audit work related to a component for the purpose of the group audit is a key audit partner..." We are of the view that the group engagement partner should be **required** to determine whether or not an engagement partner for the component audit is a key audit partner and, if they are,



communicate that in writing to them. We recommend that the IESBA redraft this determination and communication in writing to be a specific requirement, followed by the application material in 405.11 A1 as it is currently drafted.

- We also observe that the numbering of the application material for the proposed section 405 is different from the other sections of the Code. Typically, the application material has the same number as the requirement to which it relates but is differentiated by dropping the “R” before the number and followed by “A”. For example, R511.5 has application material 511.5 A1, 511.5 A2 and 511.5 A3. In the proposed section 405 it is unclear which requirement the application material is providing guidance on. For example, 405.11 A1, 405.12 A1, 405.13 A 1, 405.13 A2 – do not have corresponding requirements and is unclear which requirement they are explaining. We recommend that the IESBA reconsider the numbering of the application material in section 405, to make it consistent with the other sections to the extent possible.
- Finally, the PTC recommends that the IESBA ensure that they have conducted sufficient consultation with small and medium-sized practitioners to appropriately evaluate the impact of these proposals in that space.

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We thank you for the opportunity to comment on this Exposure Draft and we appreciate that further revisions to these proposals may result through the feedback provided by stakeholders and as IESBA continues its close coordination regarding this and other related matters with the IAASB.

Yours truly,



Jamie Midgley, FCPA, FCA  
Chair, Public Trust Committee