

# Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

31 May 2022

To: Mrs Gabriela Figueiredo Dias  
The Chairwoman  
International Ethics Standards Board for Accountants  
529 5th Avenue 6th Floor  
New York 10017  
United States of America

Submission via IESBA website

## **Submission on IESBA's Exposure Draft Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits.**

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 870,000 current and next generation accounting professionals across 179 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

### **Proposed definitions**

We welcome the opportunity to comment on the IESBA's ED Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits. We commend the IESBA for engaging closely with the IAASB in ensuring that the proposed changes are consistent with the ISAs.

We generally agree with the proposed changes to the Code related to the revised definition of the term engagement team given that this aligns with the definitions used in ISA 220 (Revised) and ISQM1, ensuring consistency between the IESBA code and ISAs. We are also generally supportive of the proposed changes to the definitions of the terms audit team, review team and assurance team, particularly in recognising that EQRs can be engaged both from inside and outside a firm, aligning these definitions with IAASB's ISQM2. We are sceptical regarding the current drafting of paragraph 400.C, as it is not clear which other persons will be captured by the definition, which could lead to unintended consequences.

### **Independence in group audit context**

While we agree that firms and members of the engagement team should ideally be subject to the same level of independence requirements, we do have some reservations regarding some of the

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proposed revisions, in particular, as they relate to component auditors outside the group auditor's network having to comply with the PIE international independence standards irrespective of whether the component is a PIE or not. This could lead to unintended consequences. Firms outside the group audit firm network, such as local SMPs, are often engaged because they provide the statutory audit service to the component, and they bring local expertise. Having to comply with the PIE independence requirements when the component is not a PIE could therefore disincentivise such firms, particularly SMPs, to be engaged as component auditors, exacerbating market concentration issues, at a time where audit reforms taking place in various countries are trying to find ways to enhance competition in the audit profession. Furthermore, this could have an impact on audit quality given that priority may be given to using component auditors from within the group audit firm's network over component auditors that are outside the group auditor firm's network, losing the local expertise that component auditors from outside the group audit firm's network could bring.

We therefore suggest the IESBA should consider whether the binary approach of following the PIE independence requirements is indeed the right approach, taking into consideration our concerns. Instead, we suggest exploring whether following the PIE independence requirements should be based on the significance of the component to the group audit rather than a binary approach. This would ensure that in cases where the risk is high and the component is considered significant, component auditors are complying with the PIE independence requirements and where it is not, they are not required to do so, although they may be encouraged to do so.

Our responses to the specific questions for comment raised in the ED follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email; [melanie.scott@charteredaccountantsanz.com](mailto:melanie.scott@charteredaccountantsanz.com) and Antonis Diolas, Head of Audit and Assurance at ACCA via email: [antonis.diolas@accaglobal.com](mailto:antonis.diolas@accaglobal.com)

Yours sincerely

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## Appendix A

### 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**

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

#### Engagement team

We agree with the proposed changes to the Code related to the revised definition of the term engagement team given that this aligns with the definitions used in ISA 220 (Revised) and ISQM1, ensuring consistency between the IESBA code and ISAs.

#### Audit, review and assurance teams

We are generally supportive of the proposed changes to the definitions of the terms audit team, review team and assurance team, particularly in recognising that EQRs can be engaged both from inside and outside a firm, aligning these definitions with IAASB's ISQM2.

However, we are sceptical regarding the proposed paragraph 400.C as currently drafted, because it is not clear which other persons will be captured by this definition and that could lead to unintended consequences. For example, both ACCA and CA ANZ similar to other PAOs, have dedicated enquiry lines that our respective members can consult with on technical matters, including those related to audit and ethics. Would those individuals be considered to be part of the engagement team? We therefore suggest that IESBA provides further guidance to clarify this.

**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)?**

Yes, we agree with the changes to the definitions of audit, review and assurance teams recognising that EQRs may be sources from inside and outside a firm and its network as noted in our response to Q1.

**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)?**

Some of our stakeholders raised concerns as it relates to those individuals ‘who can directly influence the outcome of the group audit’, questioning whether IESBA can provide further guidance via application material as to who these individuals could be. We understand that the intention might be for example, to capture professional practice directors, however, further guidance would be helpful.

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

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

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

As per para R405.10 when the group audit client is a PIE, 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 this Part that are applicable to audit clients that are public interest entities', and this is irrespective of whether the component is PIE or not. Although we understand that the intention is for both the group audit firm and component audit firm whether within or outside the network firm, to be subject to the same independence standards, we find that this can be problematic in practice and have unintended consequences. For example, such firms may not have PIE audit engagements and hence lack the experience in complying with PIE independence requirements.

Firms outside the group audit firm network, such as local SMPs, are often engaged because they provide the statutory audit service to the component, and they bring local expertise. Having to comply with the PIE independence requirements when the component is not a PIE could disincentivise such firms to be engaged as component auditors exacerbating market concentration issues, at a time where audit reforms taking place in various countries are trying to find ways to enhance competition in the audit profession.

Furthermore, this could have an impact on audit quality given that priority of component auditors within the group audit firm's network might be given over component auditors that are outside the group auditor firm's network, losing the local experience that component auditors outside the group audit firm's network could bring.

We therefore suggest the IESBA to consider whether the binary approach of following the PIE independence requirements is indeed the right approach taking into consideration our concerns noted above. Instead, we suggest exploring whether following the PIE independence requirements should be based on the significance of the component to the group audit rather than a binary approach. This would ensure that in cases where the risk is high and the component is considered significant, component auditors are complying with the PIE independence requirements and where it is not, they are not required to do so, although they may be encouraged to do so.

Additionally, we find that there might be an issue of timing in relation to NAS in cases where the group is a PIE and the component is not a PIE. The component auditor may be advised to work on a component during the financial period and in some cases, they may have already provided independence impairing services given that they will now be subject to the stringent PIE independence standards, resulting in a breach. This could further impact the market concentration issue noted above.

**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**

**(b) Loans and guarantees?**

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We generally agree with the proposals, however, some of our stakeholders raised concerns as to whether the additional cost and work effort of managing independence will outweigh any uplift in audit quality for smaller entities and smaller component auditors and as noted in our response to Q4 could actually damage audit quality to some extent.

### **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?**

Yes, the proposed application material is sufficiently clear.

### **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?**

We find the paragraphs to be sufficiently clear, however, as noted in our response to Q4 we have concerns regarding the unintended consequences that may be caused such as the market concentration issues.

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

Yes, we agree with the proposals in Section 405.

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

Yes, we agree with the proposed consequential and conforming amendments given that they aligned with the ISA 600 (Revised) definitions.

### **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?**

Yes, we support aligning the effective date with ISA 600 (Revised) provided that IESBA will approve the final pronouncement in December 2023.

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## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.



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## About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 233,000 members and 536,000 future members based in 178 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

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