



IESBA - International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, 10017
USA

30 May 2022

Re: Comment letter relating to the IESBA's Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

Dear Board Members,

1. The Committee of European Audit Oversight Bodies ("CEAOB") appreciates the opportunity to comment on the International Ethics Standards Board for Accountants' ("Board" or "IESBA") consultation on Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits issued in February 2022. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports continuing improvement of professional standards for the audit profession.
2. The content of this letter has been prepared by the CEAOB International Auditing Standards Sub-group and has been adopted by the CEAOB. The comments raised in the letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.
3. As audit regulators, our mandate encompasses the oversight of the independence of statutory auditors, based on the requirements applicable in our respective jurisdictions.
4. The IESBA Code of Ethics ("Code") is used in several European jurisdictions, but not in all of them. The CEAOB clearly sees an interest in enhancing the Code, as it constitutes a basis for some benchmarks at international level. Moreover, a number of audit firms and networks have voluntarily committed to complying with the Code.

General comments

5. We welcome the IESBA's initiative aimed at aligning the definition of engagement team and related language with ISQM 1, Revised ISA 220 and Revised ISA 600.
6. The CEAOB supports the standard setting boards efforts to improve alignment, consistency, and compatibility between the International Standards on Auditing and the Code. We believe that it is important that the IESBA strengthens the relevant independence considerations that apply in a group audit, whether the component auditor (firm) is part of the group auditor firm's network or not.
7. The CEAOB continues to consider that it is important to facilitate further convergence between the concepts used in Code and in the European Union ("EU") regulations. To this end, the CEAOB encourages the IESBA to pursue its benchmarking initiative comparing its International Independence Standards against the independence rules of





the EU regulations to provide information to stakeholders about the similarities and key differences.

Specific comments

Regarding the proposals in the Exposure Draft, we would like to make the following comments:

[Responsibility for requirements in relation to independence of the component auditor firm](#)

8. We suggest clarifying in section 405 which individual in the component auditor firm is responsible for the performance of the procedures related to independence required by section 405.
9. We suggest adding a requirement in paragraph R405.8 for the component auditor firm outside the group auditor firm's network to also perform inquiries or other procedures within that component auditor firm's network to identify whether a threat to the component auditor firm's independence exists.

[Self-review threat that might be created by the provision of non-assurance services \(NAS\) by a component auditor firm outside the network](#)

10. Paragraphs 405.12 A1 and 405.12 A2 provide relevant context with respect to self-review threats that might be created by a non-network component auditor firm providing non-assurance services. It is currently unclear whether these paragraphs relate to the Public Interest entities (PIEs) and/or non-public interest entities (non-PIEs). We suggest clarifying whether the provisions in paragraphs 405.12 A1 and 405.12 A2 relate to PIEs and/or non-PIEs.
11. We also suggest clarifying in paragraphs 405.12 A1 and 405.12 A2, that those paragraphs only deal with component auditor firms outside the network, in addition to the header and the explanatory memorandum.
12. In addition, with respect to paragraphs 405.12 A1 and 405.12 A2, we suggest to assess whether the distinction in requirements for component auditor firms within and outside the network could cause unintended consequences.

[Breach of independence by component auditor firm](#)

13. (Revised) ISA 600 states in paragraph 25 the responsibilities of the group engagement partner regarding the component auditors' compliance with relevant ethical requirements. We believe that the component auditor firm outside of the group auditor firm's network should be required to inform the group auditor when it applies the "reason to believe" tests referred to in paragraphs R405.7 and R405.8 whether or not these lead to a threat to independence.
14. Paragraph 405.18 A1 states that additional actions might be needed to satisfactorily address breaches of independence by the component auditor firm. We support this remedial work, however we suggest emphasizing in paragraph 405.18 A1 that the group auditor firm should assess the remedial actions identified as necessary by the group engagement partner, whether performed by the group auditor firm or by the component auditor. In addition, we suggest clarifying the rationale when it would be appropriate that the component auditor firm where the independence breach was identified also performs remedial work in relation to the affected areas.

[Communication with those charged with governance of the group audit client](#)

15. With respect to paragraphs R405.19 and R405.20 on communicating to those charged with governance ("TCWG") of the group audit client, we suggest that all breaches by





component auditors, regardless of whether they are part of the group auditor firm's network, require the same information and discussion/decision making at TCWG level. If this is already required elsewhere in the Code, it would be useful to include references to the requirements regarding communications with TCWG relating to breaches by component audit firms within the group auditor's network.

16. We also suggest clarifying whether the requirement in paragraph R400.84 about communicating in writing about breaches to those charged with governance only applies to the group audit firm.
17. Finally, we suggest repeating in paragraphs R405.19 and R405.20 that these communications take place with those charged with governance of the group audit client (in addition to the header).

Glossary

18. We suggest clarifying in the definition of the audit team for the group audit included in the glossary that the engagement quality reviewer and those who provide consultation at the component level, whether inside or outside the group auditor firm's network are members of the audit team for the group audit. This clarification may also be illustrated in the application material provided in paragraph 400.C.
19. The glossary provides the definition of the group audit client. However, from this definition and paragraph 50 of the explanatory memorandum it is not clear what triggers the group audit client to classify as a PIE. We suggest clarifying whether the group audit client classifies as a PIE when a related entity or any other component that is subject to audit work classifies as a PIE, even when the entity on whose group financial statements the group auditor firm conduct an audit engagement itself is not a PIE.

Other comments

20. Even though we have noted that the language in paragraph 400.A (b) of the Code is aligned with that of paragraph A17 in ISA 220, we believe the terminology used in paragraph 400.A (b) could cause confusion. We suggest replacing it by '(b) a firm that is not a network firm, or (c) another service provider' and to liaise with IAASB to align ISA 220. Also, we wonder whether this definition makes it sufficiently clear that all team members for every component audit are included as well.
21. We note that the explanatory memorandum is clearer on certain topics than the proposed revised Code. For example, we note that the Explanatory Memorandum provides more insight than the draft standard with respect to the issue mentioned in paragraphs 10 and 11 of this letter regarding paragraphs 405.12 A1 and 405.12 A2.

Please do not hesitate to contact me or the Chair of the CEAOB International Auditing Standards Sub-group should you have any questions on the content of this letter.

Yours faithfully,

Patrick Parent
Chairman