



Sent via email: KenSiong@ethicsboard.org

July 14, 2022

International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Re: *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*

Dear Members of the International Ethics Standards Board for Accountants (IESBA):

The AICPA Professional Ethics Executive Committee (PEEC) respectfully submits the following comments to the IESBA on its *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* exposure draft (the ED).

The AICPA is the world's largest member association representing the CPA profession, with 431,000+ members in 130 countries and territories, representing many areas of practice, including business and industry, public practice, government, education, and consulting.

The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, nonprofit organizations, and federal, state, and local governments; provides educational materials to its members; develops and grades the Uniform CPA Examination; monitors and enforces compliance with the profession's technical and ethical standards; offers specialized credentials; builds the pipeline of future talent; and drives professional competency development to advance the vitality, relevance and quality of the profession.

Through PEEC, the AICPA devotes significant resources to ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards. The PEEC's [strategy and work plan](#) outlines the committee's projects through 2023.

International convergence

When deciding upon effective dates for changes to the code, PEEC believes an important consideration is the due process that some organizations have to follow in order to converge. In recent years, timelines to converge have been prolonged not only because of the volume of changes made by IESBA but by the meeting limitations caused by the pandemic. To better achieve international convergence, IESBA should consider a minimum of a two-year delayed effective date for all standards with longer periods for more complex projects or when multiple projects are finalized in close proximity. This extended timeframe will allow for due process to

be followed so international harmonization can be achieved. In addition, IESBA could consider allowing for early implementation so that those organizations that are not subject to due process and can act more quickly, may choose to do so.

The significant volume of IESBA standard setting activity impacts PEEC's ability to converge and so we encourage IESBA to continue considering this when determining comment periods for future exposure drafts.

Proposed revised definition of engagement team

Do you agree with the proposed changes to the IESBA Code related to the revised definitions 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"?

PEEC agrees with the changes proposed to the IESBA code related to the revised definitions of the terms "engagement team," "audit team," "review team," and "assurance team."

PEEC supports the exclusion of external "experts" from the revised definition of an engagement team and believes individuals who the group auditor firm does not direct, supervise, or assume responsibility for should either be excluded from the revised definition of an engagement team or specify their exclusion in nonauthoritative material. Examples of such individuals include:

- Engagement teams auditing service organizations and the report is used as an information source by the group auditor firm.
- Component auditors referred to in a group auditor firm's report.

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

PEEC agrees with the explanatory guidance in paragraphs 400.A – 400.D.

Independence Considerations for Engagement Quality Reviewers

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)?

PEEC supports the changes to recognize that engagement quality reviewers (EQRs) may be sourced from outside a firm and its network.

Definition of people on the engagement and audit team

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)?

PEEC is supportive of the proposed new defined terms that are used in Section 405. While the information on “key audit partner” is under the subheading “Group Audit Clients that are Public Interest Entities”, PEEC recommends clarifying in 405.11 A1 that a “key audit partner” is only applicable to PIE engagements.

To ensure the proper application of 405.11 A1, PEEC recommends including examples of situations where a component auditor would be identified as a key audit partner and be able to directly influence the outcome of the group audit. If specific examples cannot be identified, PEEC recommends excluding paragraph 405.11 A1.

If paragraph 405.11 A1 is included, guidance on how to address disagreements between a group auditor and component auditor that can directly influence the outcome of the group audit would be needed. However, PEEC is unsure if this should be provided by IESBA or by the IAASB.

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?
- (b) Independence in relation to firms engaged in a group audit, including component audit firms within and outside the group auditor firm’s network?

PEEC believes it will be challenging for firms and individuals from a component audit firm outside of the group audit firm’s network (non-network) to maintain independence with respect to related entities of the group audit client and recommends a threats and safeguard approach be applied to non-network firms and individuals from those firms versus what is currently being proposed.

If the strict requirement is adopted, then either IESBA or IAASB should provide guidance that would address matters such as what the group auditor should communicate to these non-network component audit firms.

PEEC also believes it would be helpful to clarify that when an entity undergoes a standalone audit, the auditor would not need to comply with Section 405 when the group engagement partner concludes that the entity is not a component audit client for purposes of the group audit.

When both the group audit client and the component audit client are PIEs and each resides in different jurisdictions, PEEC recommends clarification as to which PIE requirements the component audit team should apply with respect to the group audit. In these situations, would the component auditor need to apply:

- just the PIE requirements in the component audit client's jurisdiction;
- just the PIE requirements in the group audit client's jurisdiction; or
- the most restrictive jurisdictional PIE requirement?

If the component audit team is required to apply the PIE requirements of the group audit client's jurisdiction, either IESBA or IAASB should consider providing guidance about the requirements for the group auditor to communicate to the component auditor those PIE requirements to be able to achieve compliance with the different jurisdictions.

Concerning non-network component audit firms, do you agree with the specific proposals in Section 405 regarding:

(a) Financial interest in the group audit client?

PEEC supports the restrictions regarding non-network component audit firms' financial interest in the group audit client.

(b) Loans and guarantees?

PEEC supports the restrictions in proposed section R405.6(c) that references back to section 511 of the IESBA code.

Non-Assurance Services

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

PEEC recommends IESBA consider allowing a scalable approach that takes into consideration professional judgment and the conceptual framework for evaluating non-assurance services as the current approach in the proposal could make it challenging to find a firm that can act as a component auditor because of the services they may provide (or have provided) to the group audit client.

PEEC believes application would be enhanced if additional examples were added beyond just the self-review example currently included in 405.12 A2. If examples are not added to demonstrate how other threats may be created, PEEC recommends moving the example in

405.12 A2 to a “frequently asked question”.

Changes in Component Auditor Firms

Is the proposed application material relating to changes in component audit 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?

PEEC supports proposed paragraphs in 405.13 A1 – 405.13 A2 of the IESBA code when a group audit firm requires a component audit firm to perform additional work during or after the period covered by the group financial statements. PEEC does recommend addressing situations that could change the independence requirements of the component auditor as it applies to mergers or acquisitions by the group audit client such as when a PIE group audit client acquires a non-PIE entity during or after the period covered by the group financial statements.

Breach of Independence by a Component Auditor Firm

Do you agree with the proposals in Section 405 to address a breach of independence by a component audit firm?

PEEC supports the proposals in Section 405 of the IESBA code to address a breach of independence by a component audit firm whether the component audit firm is within the group audit firm’s network or is a non-network component audit firm.

Proposed Consequential and Conforming Amendments

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

PEEC supports the proposed consequential and conforming amendments as detailed in Chapter 2 to 6 of the exposure draft.

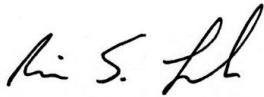
Effective Date

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?

Although PEEC appreciates IESBA’s goal to harmonize the effective date with the ISA 600 (Revised) effective date, this time frame does not allow adequate time for the necessary due process to occur. Please see our comments above under the subheading “International Convergence.”

We appreciate this opportunity to comment. We would be pleased to discuss in further detail our comments and any other matters with respect to the *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian S. Lynch". The signature is written in a cursive style with a large initial "B" and "L".

Brian S. Lynch, Chair
Professional Ethics Executive Committee

cc: Toni Lee-Andrews, CPA, PFS, CGMA, Director – Professional Ethics