

June 7, 2022

International Ethics Standards Board for Accountants

To: Ms. Gabriela Figueiredo Dias (Chair)

529 Fifth Avenue

New York, NY 10017

USA

Subject: Comment on the IESBA Proposed Exposure Draft on Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

Dear Ms. Dias,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) request for input on the Exposure Draft (ED) on Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits. As an international organization of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. IFIAR's objectives are as follows:
 - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
 - Promoting collaboration and consistency in regulatory activity.
 - Initiating and leading dialogue with other policymakers and organizations that have an interest in audit quality.
 - Forming common and consistent views or positions on matters of importance to its members, while considering the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all, of the members of IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organizations.
4. Where we do not comment on certain specific matters, this should not be interpreted as either approval or disapproval thereof by IFIAR.
5. The IESBA Code of Ethics (the Code) is used by some, but not all, IFIAR members. Moreover, a number of audit firms have voluntarily committed to complying with the Code. As a result, IFIAR has an interest in enhancing the quality, clarity and enforceability of the Code, even though existing ethical rules or provisions in force at the national level may supersede certain aspects of the Code.

6. As audit regulators, we believe that the Code should be clear and enforceable and allow for audits to be performed on a consistent basis. The Code should incorporate provisions required to ensure appropriate and consistent auditor behavior: this means for IESBA to articulate clear ethical principles and supporting ethical provisions, along with clearly linked requirements, to promote better ethical behaviors and outcomes.

Overarching comments

7. We welcome IESBA's initiative aimed at enhancing the requirements in the Code to address auditors' independence in a group audit context. We also support the alignment of a number of provisions in the Code to conform to changes in the International Auditing and Assurance Standards Board's (IAASB's) [Quality Management](#) standards and [ISA 600 \(Revised\), Special Considerations – Audits of Group Financial Statements \(Including the work of Component Auditors\)](#). These efforts represent a step-forward to enhancing confidence and public trust in the audit profession. Nonetheless, we are of the view that the proposed requirements should be enhanced in light of the comments below.
8. We support the direction of the ED to:
 - Establish new defined terms and revise a number of existing terms, including for application with respect to independence in a group audit context;
 - Clarify and enhance the independence principles that apply to individuals involved in a group audit and firms engaged in the group audit, including firms within and outside the group auditor firm's network; and
 - More explicitly set out the process to address a breach of an independence provision at a component auditor firm, including reinforcing the need for appropriate communication between the relevant parties and with those charged with governance of the group audit client.

However, as noted by our comments in this letter, we believe there are areas where: (1) requirements could be strengthened; (2) terminology and definitions could be clarified; and (3) application material could be added to further improve the Code, thereby driving consistent application with the ultimate goal of enhancing audit quality.

9. We strongly recommend that IESBA aims to finalize the proposed revisions to the Code in order to align the effective date of the final provisions with the effective date of ISA 600 (Revised) - i.e., for audits of financial statements for periods beginning on or after December 15, 2023.

Breach of independence by a Component Auditor Firm

10. R405.14 of the Code, related to breaches of independence when a component auditor firm within the group auditor firm's network concludes that a breach has occurred, is less restrictive than R405.15 of the Code, related to breaches of independence when a component auditor outside the group auditor's firm network concludes that a breach has occurred, because R405.14 would allow a decision by the group engagement partner to determine what action to take in accordance with the provisions of paragraphs R400.80 to R400.89. Comparatively, R405.15, would state, among other things, that the interest or relationship causing the breach must be ended, suspended, or eliminated. We think that a differentiation in the consequences between component firms within and outside of the network is neither appropriate nor aligns with the network neutrality as envisaged by ISA 600 (Revised).

11. It is not clear enough why the requirement in R405.19 of the Code for the group auditor firm to communicate breaches by a component auditor firm outside the group auditor firm's network to those charged with governance of the group audit client is not the same as the provisions applicable for other breaches in extant paragraph R400.84 of the Code (i.e., discussion, as per R405.19, versus written communications as per extant paragraph R400.84). We suggest that all breaches, regardless of the component auditor that commits them, require the same method of communication to those charged with governance of the group audit client.
12. Additionally, we believe it would be beneficial to specify in the body of paragraphs R405.19 and R405.20 of the Code that communication should be with those charged with governance of the group audit client (instead of this specification appearing only in the header to those paragraphs).

Component Auditor Firms Outside a Group Auditor Firm's Network

13. We advise that IESBA considers including a requirement for component auditor firms outside the group auditor firm's network to inform the group auditor of any relationship or circumstance that: (i) is being included, in accordance with paragraph R405.7 of the Code, when the component auditor firm is identifying, evaluating, and addressing threats to independence (regardless of whether such a threat is actually identified); or (ii) creates, or the component auditor has reason to believe creates, a threat to the component auditor firm's independence and the component auditor firm, in accordance with paragraph R405.8, is evaluating and addressing any such threat. This will assist in applying the Code consistently across the group.

Possible Unintended Consequences

14. Paragraph 405.12 A2 of the Code provides 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 this paragraph relates to Public Interest entities (PIEs) and/or non-public interest entities (non-PIEs). We suggest clarifying the kind of entities to which the provisions in paragraphs 405.12 A2 of the Code are to be applied.
15. We also suggest clarifying whether the paragraphs 405.12 A1 and 405.12 A2 of the Code, only deal with component auditor firms outside the network, in addition to the header and the explanatory memorandum.
16. In addition, with respect to paragraphs 405.12 A1 and 405.12 A2 of the Code, we suggest an assessment of whether the distinction in requirements for component auditor firms within and outside the network could cause unintended consequences.

Clarity and Understandability, Including Terminology Used

17. We generally support the proposed revisions to the Code relating to the definitions of the terms "engagement team" and "group audit", due to the alignment with the IAASB's Quality Management standards (in particular, ISQM 1) and ISA 600 (Revised), respectively. With respect to clarity and understandability, we suggest that IESBA considers revising the amendments for the matters highlighted in the subsequent paragraphs.
18. We recommend that the requirements in proposed Section 405 of the Code should specify who at the component auditor firm is responsible for performance of the procedures required under paragraphs R405.7, R405.8, and R405.15 of the Code.

19. The ED would define a “component audit client:”

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

This definition may result in complexities regarding the application of Code requirements, depending on whether or not the component audit client is a legal entity. We therefore suggest that IESBA considers addressing some of the envisioned complexities in the application paragraphs or through implementation guidance (for example, if a component audit client is a business unit, how will the Code’s group audit requirements be practically applied?).

20. Furthermore, for purposes of clarity we suggest that IESBA uses the words “Group audit client is non-PIE” and “Group audit client is PIE” in place of “Group non-PIE” and “Group PIE” respectively; and “Conceptual Framework” instead of “CF” in the diagram on page 17 of the Explanatory Memorandum.

Please do not hesitate to contact me or Martijn Duffels, Chair of the IFIAR Standards Coordination Working Group (SCWG) to discuss any of our comments.

Yours faithfully,



Duane DesParte, IFIAR Chair

Cc: Takashi Nagaoka, IFIAR Vice Chair,
Martijn Duffels, SCWG Chair,
Carl Renner, IFIAR Executive Director