

2 June 2022

Gabriela Figueiredo Dias  
Chair  
International Ethics Standards Board for Accountants  
539 Fifth Avenue  
New York, 10017  
USA

Dear Ms Figueiredo Dias,

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

Thank you for the opportunity to comment on the *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting, climate and auditing and assurance standards including professional and ethical standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards and standards for related services. The NZAuASB's mandate is limited to developing ethical standards for assurance practitioners. Our consideration of the proposals is limited in this regard.

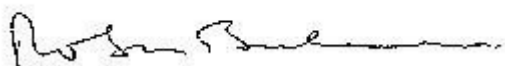
The NZAuASB supports the IESBA's objective to align the definition of engagement team with the International Standards on Auditing and to revise the International Independence Standards so that they are robust, comprehensive and clear in a group context.

We agree with the proposals in principle. However, the proposals are complex and very technical, and we found a number of them difficult to understand. We encourage the IESBA to simplify the drafting through use of shorter sentences in the Code. To assist readers to better engage with revisions, we also encourage the IESBA to develop illustrative examples and/or flowcharts in non-authoritative material. Our detailed responses to questions 1 to 10 are included in the attachment.

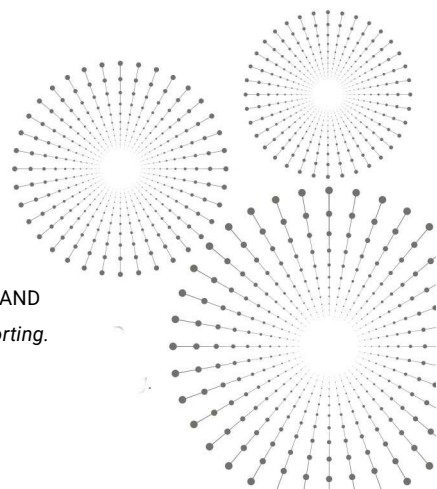
In formulating this response, the NZAuASB held a webinar to gather the views of New Zealand stakeholders where in general we heard support for the proposals. The NZAuASB also received a submission from a professional body that expressed support for the proposed changes to align the Code with recent changes made by the IAASB, recognising that independence is a fundamental principle of audit. However, the professional body highlighted that there may be some practical and unintended consequences from these proposals e.g., expanding the independence requirements may drive some firms to not undertake component work or from utilising component auditors outside of their network. The submitter also encouraged the IESBA to field test the changes, to fully understand what the consequences may be, and we support that suggestion.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Misha Pieters ([misha.pieters@xrb.govt.nz](mailto:misha.pieters@xrb.govt.nz)).

Yours sincerely,



**Robert Buchanan**  
Chairman  
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## **Submission of the New Zealand Auditing and Assurance Standards Board**

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

**Question 1: Do you agree with the proposed changes to the Code related to the revised definition of ET, including:**

- 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?

**Response:**

The NZAuASB supports the objective of revising the definitions of engagement team, audit team, review team and assurance team to align with the IAASB standards. However, it is important that these definitions are clear so that it is easy to understand which individuals involved in an engagement are captured by each definition. The NZAuASB supports the inclusion of the explanatory guidance in paragraphs 400.A-400.D to achieve this.

The role of experts in an engagement and whether or not they are part of the engagement team is complex. We consider that the addition of further examples in 400.C would be helpful, along with clarity as to the implications of being an engagement team member or an audit team member. We consider that the explanatory guidance in paragraph 400.C could be enhanced by the use of a flowchart.

The NZAuASB is encouraged by the IESBA’s consideration of the independence requirements for experts in an audit of financial statements. We urge the IESBA to consider further the impact of the use of experts in Part 4B of the Code dealing with assurance other than audit and review engagements, as it is our expectation that the use of experts is likely to increase with the increase in demand for reporting of ESG information.

**Question 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?**

**Response:**

Yes, the NZAuASB supports the proposals and does not have any further comments.

**Question 3: Do you agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit?**

**Response:**

Yes, the NZAuASB supports the proposals and does not have any further comments.

**Question 4: In relation to the proposals in Section 405, do you agree with the principles the IESBA is proposing for:**

- 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?

**Response:**

Yes, the NZAuASB supports the proposals and does not have any further comments.

**Question 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?

**Response:**

Yes, the NZAuASB supports the proposals and does not have any further comments.

**Question 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?**

**Response:**

No, the NZAuASB does not consider that the proposed application material is sufficiently clear.

405.12 A2 proposes application material for the evaluation of the self-review threat when a limited scope engagement is performed. The example provided to illustrate the concept is audit work limited to a specific line item such as inventory. The example states:

*“ the evaluation of the self-review threat would include non-assurance services that form part of or affect the accounting records or the financial information **related to the accounting for, or the internal controls over, inventory.**”*

When a firm is engaged to perform a limited scope audit over inventory, we consider the guidance is clear that if the non-assurance service related to internal controls over inventory, a self-review threat might be created. However, if the non-assurance engagement related to internal controls over creditors, it is not clear cut how this scenario might be captured by the words “related to the accounting for, or internal controls over inventory”.

We consider it is unclear whether the intent of the words “related to the accounting for, or the internal controls over inventory” extends to other line items in the financial statements that the inventory balance may impact on, such as creditors and cost of goods sold or if it strictly the inventory line item of the financial statements. We consider that additional clarification to explain what the words “related to the accounting for” means would be helpful.

In this regard, including case study type scenarios in more detailed non-authoritative material would be helpful.

**Question 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 405.12 A1 – 405.13 A2 sufficiently clear and appropriate?**

**Response:**

Yes, the NZAuASB considers the proposed application material to be sufficiently clear and appropriate.

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

**Response:**

Yes, the NZAuASB supports the proposals and does not have any further comments.

**Question 9: Do you agree with the proposals consequential and conforming amendments as detailed in Chapters 2 to 6?**

**Response:**

Yes, the NZAuASB supports the proposals and does not have any further comments.

**Question 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?**

**Response:**

Yes, the NZAuASB supports the proposals and does not have any further comments.