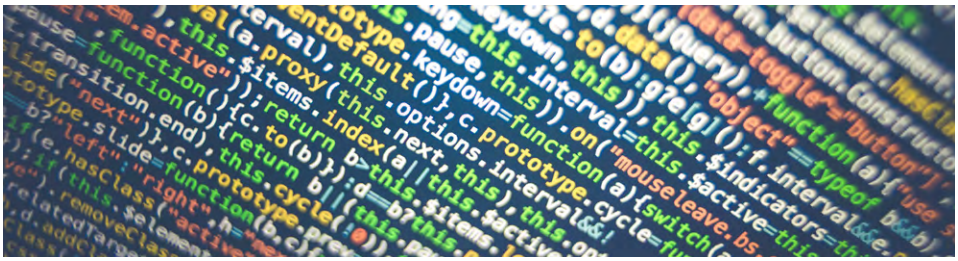
IESBA International Ethics Standards Board for Accountants®

Staff Questions & Answers | October 2023

Revisions to the Code Relating to the Definition of Engagement Team and Group Audit



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This Questions and Answers (Q&A) publication is issued by the Staff of the International Ethics Standards Board for Accountants (IESBA). It is intended to help the adoption and implementation of the Final Pronouncement, Revisions to the Code Relating to the Definition of Engagement Team and Group Audit, which was issued in February 2023.

This publication is designed to highlight, illustrate or explain aspects of the revised provisions and thereby assist in their proper application. It does not amend or override the Code, the text of which alone is authoritative. Reading the Q&As is not a substitute for reading the Code. The Q&As are not intended to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA

General

Q1. For purposes of independence, which sections in Part 4A of the Code should a group auditor firm (GAF) and component auditor firms (CAFs) comply with in an audit of group financial statements?

A. Section 405 in Part 4A sets out the relevant independence requirements for the GAF, CAFs and the group audit team members. It specifies, as applicable, which independence provisions in the other Sections of Part 4A apply to them. The independence requirements referred to in ISA 600 (Revised),[1] or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised), are those set out in Section 405.

Determination of the Engagement Team and Audit Team

Revised Definition of Engagement Team

Q2. Why did the IESBA delete the reference to individuals "engaged by the firm or a network firm" in revising the definition of engagement team?

A. The IESBA made the change to align the definition of engagement team in the Code with the revised engagement team definition in the International Standards on Auditing (ISAs).

In revising its engagement team definition as part of its Quality Management project, the International Auditing and Assurance Standards Board (IAASB) recognized that engagement teams might be organized in numerous ways, including being located together or across different geographic locations, or organized by the activity they perform. As long as individuals are performing audit procedures on the engagement and their work can be directed, supervised, and reviewed in accordance with the requirements of ISA 220 (Revised),[2] they are part of the engagement team regardless of their location or employment status. Accordingly, it is no longer relevant to refer to individuals being engaged by the firm or a network firm in the definition.

1. International Standard of Auditing (ISA) 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*
2. International Standard of Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

Q3. Why does the revised definition of engagement team refer to individuals who perform "procedures" instead of "assurance procedures" as in the previous definition?

A. In considering aligning the engagement team definition in the Code with the definition in ISA 220 (Revised), the IESBA recognized that the extant definition of engagement team in the Code applies to both audit and other assurance engagements. In contrast, the definition of engagement team in ISA 220 (Revised) applies only to audit engagements. Therefore, the IESBA agreed that simply substituting the definition of engagement team in the Code with the revised definition in ISA 220 (Revised) would not be appropriate.

However, the IESBA noted that International Standard on Quality Management (ISQM) 1[3] addresses engagement teams for engagements other than audits. Specifically, the term "engagement team," as defined in ISQM 1, applies to any team performing procedures on an engagement within the scope of ISQM 1 (i.e., an audit, review, other assurance, or related services engagement). In ISQM 1, the IAASB has established a broader definition of engagement team, which refers to individuals performing procedures on an engagement.

Considering the above, the IESBA revised the definition of engagement team in the Glossary of the Code to align with the definition in ISQM 1. It also added explanatory guidance to the revised definition to clarify the type of procedures performed by the various engagement teams when they are subject to Part 4A or Part 4B of the Code.

Q4. What are the implications of the changes to the engagement team definition in the Glossary of the Code from an independence perspective?

A. With reference to Q2, the revised definition of engagement team is now broader and includes individuals who perform procedures on an engagement, regardless of whether they are engaged by the firm or a network firm. These individuals are required to be independent in accordance with the requirements of Part 4A that apply to the audit team in an audit of financial statements, or the requirements of Section 405 that apply to the group audit team in a group audit. In particular, Section 405 covers individuals from CAFs outside the GAF's network.

Service Providers

Q5. Paragraph 400.10 references ISQM 1 and explains that a service provider includes an individual or organization external to the firm that provides a resource that is used in the performance of engagements. What are examples of service providers in the context of the Code?

A. A service provider is defined under ISQM 1 as "An individual or organization external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm's network, other network firms or other structures or organizations in the network." The Code refers to this definition in paragraph 400.10.

ISQM 1, paragraph A105, lists some examples of service providers that provide resources for the performance of audit engagements. These include:

- An organization that provides a commercial IT application used to perform audit engagements.
- In the context of a group audit, a CAF outside the GAF's network where individuals from the CAF perform procedures on the group audit.
- An organization that is engaged to provide individuals to attend a physical inventory count at a remote location.
- An organization that is engaged to provide an external expert to assist the engagement team in obtaining audit evidence.

3. International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

The International Independence Standards (IIS) only apply to individuals from a service provider who perform audit procedures on an audit engagement. These individuals are part of the engagement team for the audit engagement (refer to paragraphs R405.5 and R405.6 for the independence requirements that apply to them in a group audit, depending on whether they are engaged by the GAF or its network firms, or are within or engaged by a CAF outside the GAF's network).

The IIS do not apply to an external expert from a service provider who is used to assist the engagement team in obtaining audit evidence. External experts are specifically excluded from the definition of engagement team and they are also not part of the audit team.[4]

Regarding a service provider that is an organization, the Code specifically addresses the independence of a CAF outside the GAF's network in Section 405.[5]

However, in the case of any other organization that is a service provider, the IESBA did not believe that it would be appropriate to extend the scope of the IIS to cover such organization. This is because such an organization does not perform audit work. Accordingly, that organization is not subject to independence requirements under the Code.

See also Q18 below.

Revised Definition of Audit Team and Definition of Group Audit Team

Q6. The revised audit team definition includes individuals within, or engaged by, the firm as well as individuals within a network firm who can directly influence the outcome of the audit engagement. Likewise, the group audit team definition includes individuals within or engaged by the GAF, or within a network firm or a CAF outside the GAF's network who can directly influence the outcome of the group audit. Does the Code provide any guidance or examples regarding what might be considered to be "directly influencing" the outcome of the engagement?

A. Beyond the revised definition of audit team and the definition of group audit team, the Code does not provide specific guidance regarding what might be considered to be "directly influencing" the outcome of the engagement. It will be a matter of professional judgment, taking into account the nature of the engagement and its circumstances (for example, the significance and complexity of the audit issues, the specific role and involvement of the individual in the audit work performed, etc.). That said, the revised definition of audit team does continue to provide specific illustrations of how direct influence might be exercised (see bullets (b)(i)-(iii) of the definition and the corresponding bullets in the definition of group audit team).

In the context of audit work being performed at a component in a group audit, it is important to note that the determination of direct influence should focus on the outcome of the group audit engagement and not the outcome of the audit work at the component. An individual might be able to directly influence the *audit work at a component* but might not be able to directly influence the overall outcome of the *group audit*.

Additionally, the IESBA did not believe that individuals *engaged* by a network firm or CAF outside the GAF's network would be able to directly influence the outcome of the group audit as they would be further removed from the group audit; therefore, such individuals are not part of the group audit team under bullet (c) or (d) of the group audit team definition.

Q7. Are individuals members of the audit team when they perform internal quality management reviews or regulatory inspections subsequent to the completion of an audit engagement?

A. No. Individuals who perform internal quality management reviews or regulatory inspections after the completion of the audit engagement are not members of the audit team as they cannot directly influence the outcome of the audit.

Furthermore, individuals who carry out regulatory inspections of audit engagements are not engaged by the firm to perform procedures on the engagement, which is a further indicator that they would not be considered part of the audit team.

4. The IESBA is currently undertaking a project addressing the ethical expectations for external experts when they are used by professional accountants in audit, assurance or other contexts.
5. A CAF outside the GAF's network is a service provider under ISA 220 (Revised) (see ISA 220 (Revised), paragraph A17).

Experts

Q8. Paragraph 400.11 provides examples of different types of experts who are engagement team or audit team members.

a) In the context of a group audit, could individuals engaged by a CAF outside the GAF 's network be group audit team members?

A. Yes. For example, if the CAF engages an individual with expertise in a specialized area of accounting or auditing to *perform audit procedures* for purposes of the group audit, this individual would be an engagement team member under bullet (a) of the group audit team definition.

b) If an individual who is an expert in taxation provides advice in relation to the audit engagement, would the individual be a member of the audit team?

A. This will depend on the particular facts and circumstances of the engagement with the expert, assuming the expert is not performing any actual audit procedures.

If the individual provides consultation regarding technical or industry-specific issues, transactions, or events that relate to, or have implications for, tax, the individual would be considered to be able to directly influence the outcome of the audit engagement. Thus, the individual would be part of the audit team under bullet (b)(ii) of the audit team definition.

If the individual provides legal advice on the interpretation of tax laws and regulations as an external legal expert (i.e., an individual outside of the firm with knowledge, skills and experience in a field other than accounting and auditing whose work in that field is used to assist the firm in obtaining sufficient appropriate evidence), that individual will not be part of the engagement team or the audit team.

c) An individual from a professional body, which is not a service provider, is consulted on an issue in relation to the audit engagement. Would the individual be a member of the audit team?

A. No. This is because the individual is not engaged by the firm. The individual would therefore not be part of the audit team.

d) Paragraph 400.11 explains that individuals with expertise in analyzing complex information produced by automated tools and techniques who perform audit procedures to identify unusual or unexpected relationships are engagement team members. Does this mean that IT professionals such as data analysts and other individuals who gather data for purposes of the audit are part of the audit team?

A. Whether the IT professionals are part of the audit team depends on whether they are performing audit procedures. Audit procedures are performed to obtain audit evidence and comprise risk assessment procedures and further audit procedures.[6] Audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.[7] Therefore, if the individuals are gathering data as an audit procedure, they would be part of the engagement team and therefore the audit team.

Q9. The revised engagement team definition in the Glossary continues to exclude external experts. Does the Code define an "external expert" and are they subject to any independence requirements under the Code?

A. The Glossary of the Code defines an external expert as an individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge, and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.

As external experts are specifically excluded from the definition of engagement team, they are not subject to the independence requirements under the IIS. However, ISA 620[8] requires the auditor to evaluate an external expert's objectivity if their work is used in an audit of financial statements.

(In December 2022, the IESBA launched the Use of Experts project to address ethical considerations regarding the use of experts by professional accountants in business and in public practice. The proposed changes to the Code arising from this project are anticipated to be approved by the IESBA by December 2024.)

6. ISA 220 (Revised), paragraph A16
7. ISA 500, paragraphs A14-A25
8. ISA 620, *Using the Work of an Auditor's Expert*

New Defined Terms in the Context of Group Audits

Q10. In line with ISA 600 (Revised), the definition of a component audit client also addresses situations where a component at which audit work is performed is not a legal entity. How would Section 405 be applied when the component is a business unit, function or business activity?

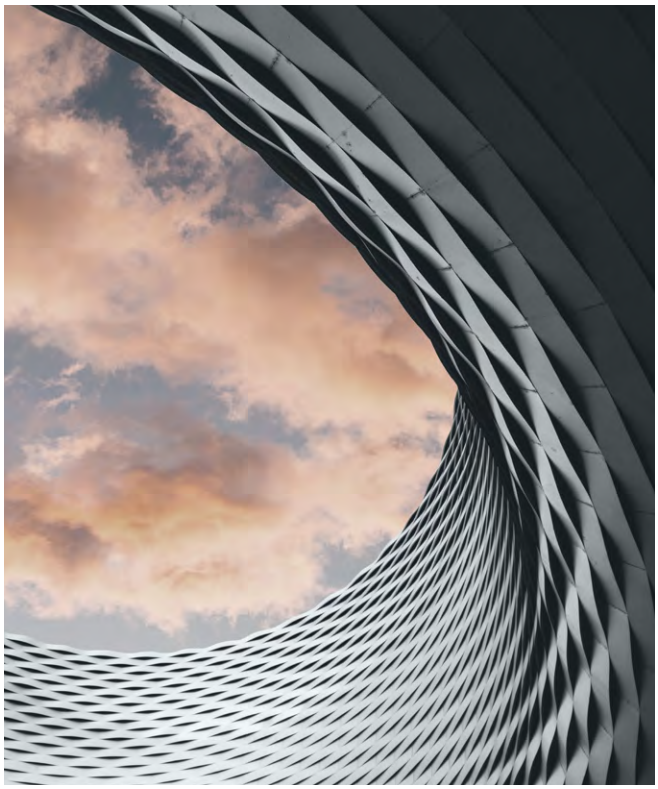
A. The Code focuses on independence with respect to a legal entity or entities, either the audit client itself or entities that are related to the audit client. The definition of a component in ISA 600 (Revised) is not limited to a legal entity,[9] as the group auditor may determine that an entity, business unit, function, or business activity, or some combination thereof, is a component for purposes of planning and performing audit procedures. The definition of a component audit client in the Glossary of the Code specifies that when a component is a business unit, function, or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed. The independence requirements in Section 405 are therefore applied with respect to that legal entity or those legal entities.

See also Q13 and Q14.

Q11. What is the distinction between "the entity on whose group financial statements the group auditor firm expresses an opinion" (in paragraph R405.6(b)) and the "group audit client"?

A. The term "entity on whose group financial statements the group auditor firm expresses an opinion" only refers to the entity in respect of which a firm conducts the group audit engagement, without any related entities or components at which audit work is performed.

By contrast, "group audit client" is a broader definition that includes not only the "entity on whose group financial statements the group auditor firm expresses an opinion" but also its related entities and any other components at which audit work is performed for purposes of the group audit.



Q12. Why are there two versions of the definitions of *audit client* and *group audit client* in Chapters 6 and 7 of the Final Pronouncement?

A. In April 2022, the IESBA released a revised definition of a public interest entity (PIE) which specifies a broader list of PIE categories, including a new category "publicly traded entity" to replace the category "listed entity." The revised PIE definition and related provisions (PIE revisions) are effective for audits of financial statements for periods beginning on or after December 15, 2024.

Chapter 7 of the final Engagement Team – Group Audits pronouncement specifies definitions of "audit client" and "group audit client" aligned with the PIE revisions, and these definitions will be effective for audits of financial statements for periods beginning on or after December 15, 2024.

As the PIE revisions will not yet be effective as of December 15, 2023, Chapter 6 of the final pronouncement specifies definitions that still refer to "listed entity."

9. ISA 600 (Revised) defines a component as "an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit."

Independence in a Group Audit Context

Q13. The definition of group audit client includes "any other components at which audit work is performed." What entities might be included in this definition in addition to those that are related entities?

A. Under the definition of "group audit client," independence is required with respect to related entities as specified by that definition depending on whether the group audit client is a listed entity (or a publicly traded entity under the PIE revisions).[10]

However, ISA 600 (Revised) defines "group financial statements" as financial statements that include the financial information of more than one entity or business unit through a consolidation process. It further explains that a consolidation process includes:[11]

(i) Consolidation, proportionate consolidation, or an equity method of accounting;

(ii) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or

(iii) The aggregation of the financial information of entities or business units such as branches or divisions.

Accordingly, the group financial statements may include entities that are not considered to be related entities of the group audit client under the Code. Such entities might include, for example, entities accounted for under the equity method of accounting but which do not meet the Code's definition of a related entity, or, in the case of combined financial statements, other entities that are not under direct control by another entity but are under common control or common management. If the GAF determines that audit work needs to be performed at such a component for purposes of the group audit, that entity would fall within the definition of group audit client and would be subject to the independence requirements in Section 405.

10. The Code defines a related entity as an entity that has any of the following relationships with the audit client:
    (a) An entity that has direct or indirect control over the client if the client is material to such entity;
    (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
    (c) An entity over which the client has direct or indirect control;
    (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
    (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.
11. ISA 600 (Revised), paragraph 14(k)

Q14. What constitutes the performance of audit work at a component that would result in the component being included in the definition of group audit client and subject to the independence requirements in Section 405?

A. ISA 600 (Revised) requires a group auditor to establish, and update as necessary, an overall group audit strategy and group audit plan.[12,13] ISA 600 (Revised) further requires that, in doing so, the group auditor determines the components at which audit work will be performed.[14]

Importantly, ISA 600 (Revised) explains the considerations that may influence the group auditor's determination of such components. These include, for example:[15]

- The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component, for example:
  - Newly formed or acquired entities or business units.
  - Entities or business units in which significant changes have taken place.
  - Significant transactions with related parties.
  - Significant transactions outside the normal course of business.
  - Abnormal fluctuations identified by analytical procedures performed at the group level, in accordance with ISA 315 (Revised 2019).
- The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions at the location or business unit relative to the group financial statements.
- Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances and disclosures in the group financial statements from audit work planned on the financial information of identified components.

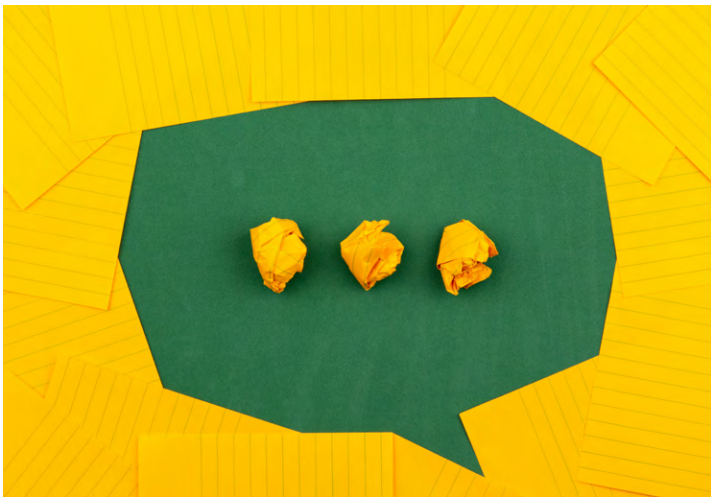
12. ISA 600 (Revised), paragraph 22
13. ISA 600 (Revised), paragraph A50
14. ISA 600 (Revised), paragraph 22(a)
15. ISA 600 (Revised), paragraph A51

- The nature and extent of misstatements or control deficiencies identified at a component in prior period audits.
- The nature and extent of the commonality of controls across the group and whether, and if so, how, the group centralizes activities relevant to financial reporting.

ISA 600 (Revised) emphasizes that making this determination is a *matter of the group auditor's professional judgment*.

If the GAF has determined that it is not necessary to perform audit work at a component (i.e., on the underlying financial information of a component), that component would not be part of the group audit client for purposes of applying Section 405, unless it is a related entity captured within the definition of a group audit client (for example, any subsidiary of the group audit client regardless of materiality).

Furthermore, audit procedures that are performed at the group level and not at the component level (i.e., not on the underlying financial information, such as classes of transactions, account balances or disclosures, of a component to identify and assess or to respond to risks of material misstatement of the group financial statements in that underlying information) are not considered to be audit work performed at a component for purposes of applying the definition of group audit client. For example, in the case of an equity-method investee that is not a related entity of the group audit client, if the GAF only performs audit procedures on financial information prepared at the group level, such as procedures to verify that amounts are properly reflected in the group financial statements, that investee would not be subject to the independence requirements of Section 405. By contrast, if a GAF determines it necessary to perform audit procedures on the underlying financial information of the component to identify and assess or to respond to risks of material misstatement of the group financial statements, whether performed by the GAF or a CAF, such procedures would constitute audit work performed at a component for purposes of applying the independence requirements of Section 405.



Communication between a GAF and a CAF

Q15. Paragraph R405.4 requires the group engagement partner to request the CAF to communicate any independence matters that require significant judgment. What are some examples of such matters, and is there guidance in the Code on how to determine whether an independence matter is significant?

A. The communication provisions in Section 405 aim at ensuring effective, two-way communication about any independence matters that warrant significant judgment from the CAF in applying the conceptual framework. The Code does not provide specific guidance regarding how to determine whether an independence matter requires significant judgment. It will depend on the particular facts and circumstances and the CAF will need to exercise professional judgment as set out in paragraphs 120.5 A4 and A5.

It is not expected that the CAF would communicate an identified threat if its evaluation did not require significant judgment.

Independence Considerations Applicable to Individuals

Q16. Do members of the group audit team need to be independent of each entity within the group audit client if they are within or engaged by:

a) A CAF within the GAF's network; or

b) A CAF outside the GAF's network?

A. Section 405 sets out different independence requirements for members of the group audit team depending on whether they are within or engaged by the GAF and its network firms, or whether they are within or engaged by a CAF outside the GAF's network:

a) If a member of the group audit team is within or engaged by the GAF or a network firm, the individual must be independent of the group audit client in accordance with the requirements in Part 4A applicable to the audit team (paragraph R405.5). This is consistent with how the Code addresses network firms for purposes of independence in Part 4A, recognizing that firms within the same network share common characteristics and a common system of quality management, including a system for monitoring independence.

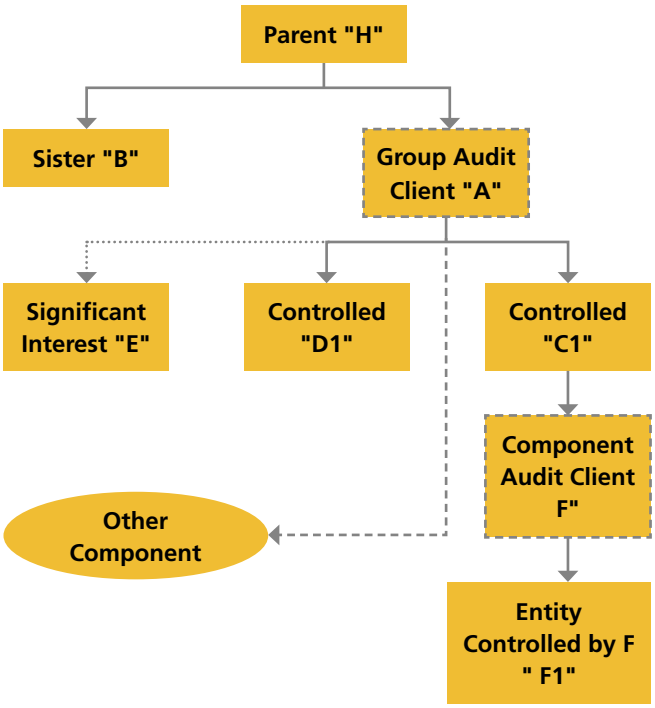
b) If a member of the group audit team is within or engaged by a CAF outside the GAF's network, the individual is required to be independent of (i) the component audit client, (ii) the entity on whose group financial statements the GAF expresses an opinion, and (iii) any entities within the "chain of control" of the component audit client provided that these entities are controlled by the entity subject to the group audit, in accordance with the requirements in Part 4A that are applicable to the audit team (paragraph R405.6).

The IESBA determined that this differentiated approach is necessary because of potential practical challenges CAFs outside the GAF's network might face in monitoring the independence of their group audit team members with respect to all related entities and other components within a group audit client, especially in the case of very large, multinational group audit clients. The IESBA also considered that there was potential for the cost of implementing a system to monitor compliance with such independence requirements to be disproportionate for a CAF outside the GAF's network relative to the likelihood of threats created.

Notwithstanding the above, in relation to any other related entities or components within the group, a member of the group audit team within or engaged by a CAF outside the GAF's network needs to apply the "knows or has reason to believe" principle to notify the CAF about any circumstances or relationships that might create threats to their independence in the context of the group audit (paragraphs R405.7 and 405.7 A1).

See also Q17.

For illustration purposes, the questions and answers below include references to the entities shown in the diagram to help identify the specific entities within the group. ***The list of related entities is not exhaustive. It only serves to illustrate the entities involved in Q17 and Q21 below.***



Q17. Paragraph R405.7 requires a group audit team member within or engaged by a CAF outside the GAF's network to notify the CAF about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's independence with respect to related entities or components within the group audit client that are not covered under paragraph R405.6 (Entities covered under paragraph R405.6 are A, C1, F and F1 in the illustration above). Why did the IESBA take the approach of placing the onus on the individual to notify the CAF about any such relationship or circumstance instead of having the GAF communicate all related entities and other components to the CAF for the latter to then monitor the independence of its group audit team members relative to those related entities and other components?

A. The IESBA considered that there are potentially two ways to determine the independence of an individual within or engaged by a CAF outside the GAF's network relative to the related entities and other components outside of the entities covered by paragraph R405.6:

a) Based on the list of all such related entities and other components communicated by the GAF ("top-down" approach); or

b) Based on the individual considering whether they have any relationships or circumstances they know, or have reason to believe, might create a threat to their independence ("bottom-up" approach).

The IESBA's view is that under both options, the proper application of the Code and the conceptual framework should lead to the same outcome regarding the individual's independence in the context of the group audit. However, in the case of Option (a) above, the IESBA considered, that the administrative burden from both the GAF's and CAF's perspectives could be disproportionate in the case of large multinational, multi-industry groups relative to the likelihood of threats to independence given the distance of these related entities and other components from the CAF. Importantly, the IESBA recognized the potential unintended consequence of this approach becoming a "tick-box" compliance exercise that would draw time and attention of the CAF and its group audit team members away from their focus on addressing the significant risks in the component audit, which would be detrimental to audit quality.

Given these considerations, the IESBA determined that Option (b) would provide a more thoughtful approach to independence with respect to these related entities and other components within the group audit client. This is because it is likely that the individuals at the CAF would know of any relationships or circumstances in which they or their immediate family members are involved relative to specific entities. Under this "bottom-up" approach, the individuals would be required to notify the CAF *if they know, or have reason to believe*, that any such relationships or circumstances might create a threat to their independence in the context of the group audit.

To facilitate the application of this principle, paragraph 405.7 A1 provides illustrations of relevant relationships or circumstances to consider.

Upon receipt of the individuals' notification, the CAF would then need to evaluate and address any threats to the individuals' independence created by their particular relationships or circumstances. (See paragraph R405.8.)

Q18. What independence requirements apply to individuals who are service providers within the engagement team?

A. As explained in the answer to Q5, the independence provisions in Section 405 apply only to individuals who are service providers who are part of the group audit team, not to their organizations.[16]

If the service provider is engaged by (1) the GAF and is a member of the group audit team, or (2) a network firm and is a member of the engagement team for the group audit, the individual needs to comply with the requirement in paragraph R405.5 and be independent of the group audit client in accordance with the provisions in Part 4A that are applicable to the audit team.

If the service provider is engaged by a CAF outside the GAF's network and is a member of engagement team for the group audit and therefore a member of the group audit team, paragraphs R405.6 and R405.7 apply. Paragraph R405.7 requires the individual service provider to apply the "knows or has reason to believe" principle to notify the CAF outside the GAF's network about any circumstances or relationships that might create threats to their independence, applying the guidance in paragraph 405.7 A1.

16. As indicated in the answer to Q5, the exception is that Section 405 applies to a CAF outside the GAF's network, which is a service provider under ISA 220 (Revised).

Independence Considerations Applicable to Firms

Q19. When a group audit client and a component audit client are in different jurisdictions where different national laws and regulations apply in terms of public interest entity (PIE) definitions, which laws and regulations should a CAF consider when determining whether the group audit client is a PIE?

A. In line with ISA 220 (Revised) and ISA 600 (Revised), the overarching principle in Section 405 is that the provisions applicable at the group level should also apply consistently and uniformly across the group. Therefore, the determination of whether or not a group audit client is a PIE depends on the national laws and regulations applicable in the group audit client's jurisdiction.

As noted in paragraph R405.3, ISA 600 (Revised) requires the group engagement partner to take responsibility for making the CAF aware of the relevant ethical requirements applicable to the group audit. Paragraph R405.3 also requires the GAF to communicate at appropriate times the necessary information to enable the CAF to comply with Section 405. This will include informing the CAF about whether the group audit client is a PIE and the relevant ethical requirements applicable to the group audit. (See paragraph 405.3 A1.)

Q20. The statutory auditor of a non-PIE audit client also performs audit work at the entity as a CAF for the purposes of the group audit. The group audit client is a PIE. Does the CAF need to apply the PIE requirements with respect to the statutory audit engagement, too?

A. No. If the CAF also carries out an audit engagement at a non-PIE entity that is part of a group for reasons other than the group audit, for example, a statutory audit, the CAF is not required to apply the PIE independence requirements with respect to that engagement. (See paragraph 405.15 A1.)

Q21. In the illustration above, a CAF outside the GAF's network performs audit work at a component audit client (Entity F) that is a non-PIE, but the group audit client (Entity A) is a PIE. Under what circumstances can the CAF provide NAS, for example bookkeeping services, to:

a) The component audit client (Entity F);

b) The entity on whose group financial statements the GAF expresses an opinion ("group audit client") (Entity A);

c) The entity controlled by the group audit client that has control over the component audit client (immediate parent) (Entity C1); and

d) The entity controlled by the group audit client which is not a parent entity of the component audit client (Entity D1)?

A. a) Based on paragraph R405.11(a), a CAF outside the GAF's network needs to be independent of the component audit client in accordance with the requirements set out in Part 4A that are applicable to a firm with respect to all audit clients. In addition, when the group audit client is a PIE, paragraph R405.16 requires a CAF outside the GAF's network to comply with the provisions in Section 600 that are applicable to a PIE with respect to the provision of NAS to the component audit client. Accordingly, the CAF cannot provide any NAS to Entity F that is prohibited for a PIE audit client under Section 600.

b) In the case of a CAF outside the GAF's network, Section 405 does not prohibit a CAF from providing NAS to Entity A, the entity on whose group financial statements the GAF expresses an opinion.

Nevertheless, when the CAF knows, or has reason to believe that a relationship or circumstance involving Entity A is relevant to evaluating its independence from Entity F, the CAF needs to include that relationship or circumstance when identifying, evaluating and addressing threats to its independence. (See paragraph R405.12.)

c) The same answer in (b) above applies regarding the provision of NAS to Entity C1.

d) The same answer in (b) above applies regarding the provision of NAS to Entity D1.

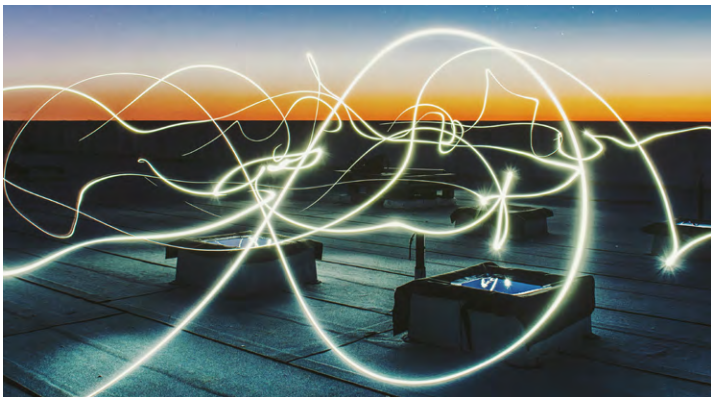
Q22. Under paragraph R405.16, if a group audit client is a PIE, a CAF outside the GAF's network cannot provide bookkeeping services to a non-PIE component audit client. Is the CAF permitted to prepare statutory financial statements for the component audit client?

A. In the case of a group audit client that is a PIE, paragraph R601.7 permits, as an exception, the CAF outside the GAF's network to prepare the statutory financial statements of the component audit client, provided that the CAF meets the conditions[17] set out in that paragraph.

Q23. How should Section 405 be applied when the GAF determines during the course of the audit that audit work needs to be performed at a component that is not currently subject to the requirements of Section 405?

A. Under paragraph R405.19, paragraphs R400.71 to R400.76 apply when an entity that is not a related entity becomes a component within a group audit client. While this situation may arise as a result of a merger or acquisition involving the group audit client, it may also occur when a determination is made by the GAF during the course of the group audit that audit work will need to be performed at an entity that is not currently subject to independence requirements. When audit work is performed at that entity, it will result in it being a component and paragraphs R400.71 to R400.76 apply. These provisions establish requirements and provide guidance for the GAF regarding the application of the conceptual framework to identify, evaluate and address any threats created by interests or relationships of the GAF or a network firm with the component, as well as how to address interests or relationships that cannot reasonably be ended timely.

The principle in paragraph R405.19 would also apply in circumstances where the GAF provides a NAS to an entity that was not subject to the PIE prohibitions of Section 600 before the effective date of Section 405 but which becomes a component, at which audit work is to be performed, within the group audit client as from the effective date of Section 405 and the NAS would be prohibited under the Code.



Q24. A GAF is using a CAF outside its network for purposes of the group audit. The CAF relies on a firm within its own network to carry out certain audit procedures, and eventually, the CAF reports to the GAF. What are the independence considerations for the network firm of the CAF? Would that firm also be considered a CAF in the group audit?

A. As per the definition of "engagement team," the individuals within or engaged by the CAF's network firm who perform the audit procedures for purposes of the group audit are members of the engagement team for the group audit and, therefore, the group audit team. Accordingly, the provisions in paragraphs R405.6 to 405.7 A1 apply to these individuals.

With respect to the CAF's network firm, although it performs some of the audit work for the CAF for purposes of the group audit, it has no direct reporting relationship with the GAF. As the CAF reports the outcome of the audit work at the component to the GAF, it also bears sole responsibility for that work. Therefore, the CAF's network firm is not itself a CAF for purposes of the group audit. It is therefore not subject to the independence requirements applicable to the CAF.

Nevertheless, in accordance with paragraph R405.13, if the CAF knows or has reason to believe that a relationship or circumstance involving the network firm with the component audit client or group audit client creates a threat to the CAF's independence, the CAF must evaluate and address the threat.

17. The conditions in paragraph R601.7 are:
    (a) The audit report on the group financial statements of the public interest entity has been issued;
    (b) The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;
    (c) The firm or network firm does not prepare the accounting records underlying the statutory financial statements of the related entity and those financial statements are based on client-approved information; and
    (d) The statutory financial statements of the related entity will not form the basis of future group financial statements of that public interest entity.

Period During Which Independence Is Required

Q25. If a firm participates in a group audit as a CAF outside the GAF's network, what is the period during which the CAF needs to be independent of the entities within the group? Does the CAF need to be independent until the auditor's report on the group financial statements is issued, even if the CAF already completed audit procedures and the engagement is not of a recurring nature?

A. Under Section 405, the CAF is required to maintain independence during both the engagement period and the period covered by the group financial statements. The engagement period for the CAF starts when it begins to perform the audit work at the component. The engagement period ends when the group audit report is issued. When the audit work at the component is of a recurring nature, the engagement period ends at the later of the notification by either the CAF or the GAF that the professional relationship has ended or the issuance of the final group audit report. (See paragraph 405.14 A1.)

As an example of a matter the GAF should communicate to the CAF, Section 405 mentions the period during which the CAF needs to be independent. This will therefore include the date of the issuance of the group audit report, unless the CAF's involvement in the group audit is of a recurring nature. (See paragraph 405.3 A1.)

Even if the CAF already completed the audit procedures for purposes of the group audit, for example, an inventory count, and the engagement is not of a recurring nature, the GAF might still require further information or audit evidence concerning the inventory count until the group audit report is issued. Therefore, the CAF needs to maintain independence until that date.

Key Audit Partners

Q26. Will an engagement partner at a CAF participating in a group audit be a key audit partner for the group audit? How will that engagement partner know if they are a key audit partner in the group audit?

A. Not all engagement partners at CAFs participating in the group audit are key audit partners for the group audit. In the context of a group audit, the group engagement partner and any individual responsible for the engagement quality review at the group level are key audit partners. In addition, any other partners in the engagement team for the group audit who make key decisions or judgments on significant matters with respect to the audit of the group financial statements on which the GAF will express an opinion are key audit partners for the group audit. This might include an engagement partner from a CAF participating in the group audit.

However, only the group engagement partner has the necessary information to determine whether the engagement partner at a CAF is a key audit partner for the group audit.

Paragraph R405.18(a) requires the group engagement partner to determine whether an audit partner who performs audit work at a component for purposes of the group audit is a key audit partner for the group audit and, if so, communicate that determination to that individual.

Q27. The requirement for a group engagement partner to communicate the relevant independence provisions applicable to key audit partners in the case of a group audit client that is a PIE in paragraph R405.18(b) (ii) only references specific requirements in Section 540, i.e., paragraphs R540.5(c) and R540.20, but not all of them. Does this mean that the requirements in paragraphs R540.6 to R540.19 are not applicable in the case of a key audit partner at a CAF?

A. An audit partner at a CAF might be designated as a key audit partner for the group audit, in which case they are an "other key audit partner" in Section 540. Paragraphs R540.6 to R540.19 stipulate the requirements in order to comply with paragraph R540.5(c). As a result, these paragraphs are applicable for a key audit partner at a CAF as they relate to the group audit.

Q28. If an audit partner at a CAF is designated as a key audit partner for the group audit of a PIE, how should the CAF calculate the time-on and cooling-off periods in the context of the:

a) Group audit; and

b) The audit of the component audit client?

A. If an audit partner at the CAF is designated as a key audit partner for the group audit, the provisions relevant to "other key audit partners" in paragraph R540.5(c) apply regarding the determination of the time-on and cooling-off periods in the context of the group audit. Accordingly, the audit partner at a CAF cannot serve as a key audit partner for purposes of the group audit for more than 7 cumulative years even if the component audit client is a non-PIE, regardless of any time served for a statutory audit of the component. After that period, the individual needs to have a cooling-off period of 2 consecutive years. (See paragraphs R540.5 (c) and R540.13.)

If the component audit client is itself a PIE, and engagement partner from the CAF also acts as the engagement partner for the statutory audit of the component audit client, the CAF needs to consider paragraph R540.5 (a) with respect to the rotation of that partner in connection with the statutory audit. In this case, the engagement partner from the CAF needs to rotate off the statutory audit of the component audit client after having served 7 consecutive years and serve a cooling-off period of 5 consecutive years.

Breach of an Independence Provision at a Component Auditor Firm

Q29. If a breach of independence occurs at a CAF, Section 405 sets out steps for the CAF and the group engagement partner for purposes of determining whether the GAF can use the work of the CAF. Is the GAF also required to take any steps to determine whether its independence is compromised by that breach and whether it can still carry out the group audit?

A. When there is an independence breach at a CAF, Section 405 requires the group engagement partner to assess the significance and impact of the breach on the CAF's objectivity and to evaluate whether the GAF can use the CAF's work for the purposes of the group audit, regardless of whether the CAF is from the GAF's network.

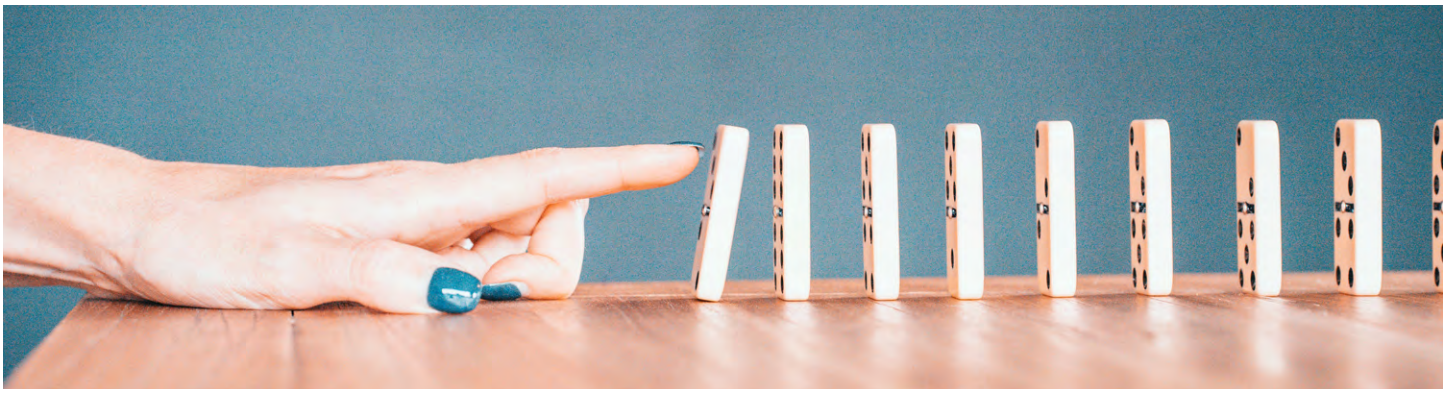
Paragraphs R400.80 to R400.89 in the extant Code set out provisions for dealing with independence breaches that could compromise the GAF's objectivity. In the case of a breach at a CAF within the GAF's network, the GAF needs to evaluate the impact of the breach on the GAF's objectivity in relation to the group audit. However, when the breach is at a CAF outside of the GAF's network, the GAF does not need to evaluate the impact of the breach on the GAF's objectivity given that the breach is outside its network.

Q30. What is the process to follow if the group engagement partner identifies a potential breach of independence at a CAF, but the CAF itself has not identified the matter?

A. Based on paragraph R405.3, the group engagement partner must communicate at appropriate times the necessary information to enable the CAF to meet its responsibilities under Section 405.

The purpose of the provisions in Section 405 relating to an independence breach at a CAF is to assist the CAF in addressing the breach and to enable the GAF to determine whether it can use the CAF's work.

Consequently, if the group engagement partner identifies a potential breach at a CAF, the group engagement partner must communicate it to the CAF. Upon receiving this communication, the CAF would need to determine whether a breach of Section 405 has occurred and, if so, apply paragraphs R405.23 to 405.23 A1.



Q31. Paragraph 405.25 A1 explains that there might be circumstances where the group engagement partner determines that the CAF's actions did not satisfactorily address the consequences of the breach and additional actions are needed from the GAF to be able to use the CAF's work for group audit purposes. What are some examples of such circumstances?

A. The group engagement partner's determination of whether additional actions are needed will depend on the specific facts and circumstances and will be a matter of professional judgment.

Examples of additional actions the GAF might take include:

- The GAF performing specific audit procedures on the areas impacted by the breach. (See paragraph 405.25 A2.)
- Requesting the CAF to perform appropriate remedial work on the affected areas. (See paragraph 405.25 A1.)

Q32. Section 405 requires written communication between the GAF and those charged with governance (TCWG) of the group audit client about a breach of independence at a CAF. Is there any specific timing or content of this communication under the Code?

A. Paragraphs R400.82 (in the case of a CAF within the GAF's network) and R405.27 (in the case of a CAF outside the GAF's network) set out that the discussion with TCWG about the breach needs to take place as soon as possible unless an alternative timing is specified by TCWG for reporting less significant breaches.

Section 405 does not provide any specific guidance regarding the content of the written communication to TCWG. Instead, it allows the GAF flexibility regarding the specific form of the written communication, depending on the GAF's judgment as to which form of written communication would best achieve the objective of the communication with TCWG. The timing and the content of such communication need to provide sufficient and timely information to TCWG to enable them to assess whether the actions taken will satisfactorily address the consequences of the breach and whether the GAF can use the CAF's work.

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