



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

27 May 2022

Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017 U.S.A.

Our Ref: 2022/O/C1/IESBA/MS/38

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

Dear Sir:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants (the IESBA or the Board) Exposure Draft: *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audis* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

Overall Comments

General

We appreciate the IESBA’s initiative to take on this project which includes the important tasks of (1) aligning the definition of the term “engagement team” in the Code with the revised definition of the same term in ISA 220 (Revised); and (2) revising the International Independence Standards (IIS) so that they are robust, comprehensive, and clear when applied in a group audit context, including independence for non-network component auditors (CAs).

In reconciling the proposed revisions of the definition of the engagement team in the Paper with ISA 220 (Revised) and ISA 600 (Revised), we believe the definitions appear to be consistent. We support the cooperation between IESBA and the IAASB in order to provide consistency in definitions between the Code and the IAASB’s quality management and performance standards. In addition, the proposed revisions related to the application of the IIS in a group audit context, including independence for non-network CAs, provide helpful clarity. In our view, applying consistent independence requirements to all individuals involved in an audit engagement, regardless of their location or employment status, promotes high quality audits and investor confidence in financial reporting.

We have included below certain matters, including observations and clarifying edits, for your consideration that we believe would further strengthen the Code and enhance understandability.

Observations

Section 405. Group Audits

Independence Considerations Applicable to Component Auditor Firms outside a Group Auditor Firm’s Network

Paragraph	Observation
405.7 and 405.8	These paragraphs include independence considerations for CA firms outside the group auditor firm’s network when considering relationships



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

or circumstances involving the component audit client or the group audit client.

Observation 1

The proposed wording of these paragraphs limits the responsibility of such CA firms in identifying relevant relationships or circumstances to “know[ing]” or “ha[ving] reason to believe”. These limited procedures may preclude CA firms outside the group auditor firm’s network from identifying threats to compliance with the Code, including, for example, self-interest and advocacy threats.

We recommend that the Code be strengthened by requiring CA firms outside the group auditor firm’s network to perform inquiries or other procedures within its network to identify and consider relationships or circumstances that may create threats to its independence.

Observation 2

The proposed wording of these paragraphs do not require CA firms outside the group auditor firm’s network to report to the group engagement partner threats to the CA firm’s independence that are the result of a relationship or circumstance between the CA firm (or a firm within its network) and the component audit client or group audit client, assuming such threats are adequately addressed. By comparison, R405.15 requires CA firms outside the group auditor firm’s network to communicate a breach to the group engagement partner, including its assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

We recommend that the Code be strengthened by also requiring the CA firm to communicate to the group engagement partner significant relationships or circumstances between the CA firm (or a firm within its network) and the component audit client or group audit client that create a threat to the CA firm’s independence and how such threat was addressed. Even if the CA firm was able to address any such threats at the component entity level, the group auditor should be made aware of such threats and the actions taken to evaluate and address such threats



International Organization of Securities Commissions
 Organisation internationale des commissions de valeurs
 Organização Internacional das Comissões de Valores
 Organización Internacional de Comisiones de Valores

	from the perspective of the group audit engagement. In addition, knowledge of such significant relationships or circumstances by the group engagement partner would allow him/her to better understand the CA firm’s processes and controls related to independence.
--	--

When a Component Auditor Firm Outside the Group Auditor Firm’s Network Identifies a Breach

Paragraph	Observation
405.18 A1	<p>This paragraph acknowledges that following the occurrence of a breach within a CA firm outside the group auditor’s firm network, in certain circumstances, the group engagement partner might determine that in order to use the CA firm’s work, additional actions are needed to satisfactorily address the breach, including, for example, requesting the same CA firm to perform appropriate remedial work on the affected areas.</p> <p>We observe that allowing for the CA firm to perform remedial work on areas of the engagement that are affected by its own breach may not be an appropriate safeguard. For example, if the CA firm (or a firm in its network) provides a service that results in a breach due to a self-review threat, we question the notion of the same CA firm performing remedial work. Further, in this scenario, the CA firm may be incentivized to make judgments that prioritize the economics and other interests of the CA firm over the public interest, including investors. To avoid these types of self-interest conflicts, examples of other safeguards that could be taken, include the following:</p> <ul style="list-style-type: none"> • Recommend that the component audit client engage another firm to review or re-perform the affected audit work, to the extent necessary. • The group auditor should evaluate, or re-perform the affected audit work, or engage another firm to evaluate the results of the non-assurance service or re-perform the non-assurance service, to the extent necessary.



International Organization of Securities Commissions
 Organisation internationale des commissions de valeurs
 Organização Internacional das Comissões de Valores
 Organización Internacional de Comisiones de Valores

	<p>Further, we believe that it would be useful for the Board to provide examples of the circumstances in which the group engagement partner may determine that additional actions are required or are not required. We believe this would be helpful for the group engagement partner in exercising his or her judgment. Moreover, for those situations in which the Board believes such additional actions must be taken, there should be guidance on how and what the group engagement partner could consider in performing appropriate remedial work to address the breach.</p>
--	--

Clarifying Edits

Section 400. Applying the Conceptual Framework to independence for Audit and Review Engagements

Engagement Team and Audit Team

Paragraph	Proposed Clarifying Edit	Explanation
400.A	<p>[...]</p> <p>(a) A network firm; or (b) A firm that is not a network firm, or another service provider (c) Another service provider</p> <p>[...]</p>	<p>We recommend separately presenting within paragraph 400.A the phrase “another service provider.” This clarifying edit would avoid unnecessary conflation between non-network firms and service providers.</p>
400.C	<ul style="list-style-type: none"> • [...] • Individuals who are external experts¹ in 	<p>The third bullet in paragraph 400.C refers to individuals who are external experts in fields other than accounting or auditing and notes</p>

¹ As defined in ISA 620, *Using the Work of an Auditor’s Expert*.



International Organization of Securities Commissions
 Organisation internationale des commissions de valeurs
 Organização Internacional das Comissões de Valores
 Organización Internacional de Comisiones de Valores

	<p>fields other than accounting or auditing,</p>	<p>such individuals are neither engagement team members nor audit team members.</p> <p>To avoid potential confusion regarding the interpretation of the third bullet, and because the exposure draft specifically references ISA 620 as a basis for excluding such external experts from both the engagement team and audit team, we recommend including a footnote (immediately after the term “external experts”) with the following wording: <i>“As defined in ISA 620, Using the Work of an Auditor’s Expert”</i> (see such language included in footnote 1 herein).</p>
--	--	---

Chapter 6: Proposed Changes to the Glossary

Term	Proposed Clarifying Edit	Explanation
<p>Component auditor firm</p>	<p>[...] (a) A legal entity, the entity and any related entities over which the entity has direct or indirect control, and is subject to audit by the component auditor; or (b) [...] [...]</p>	<p>We recommend explicitly using the term “audit” in the actual definition of the term “Component auditor firm” by including the text in bold.</p>



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact Nigel James at ph. +01 (202) 551- 5394 (email: JamesN@sec.gov) or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,

Makoto Sonoda
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions