



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

The Wirtschaftsprüferkammer (WPK) is pleased to take this opportunity to comment on the above-mentioned Exposure Draft (ED). We would like to highlight some general issues first and provide you with our specific responses to selected questions of the ED subsequently.

General Comments

We very much support all efforts to improve audit quality and independence in the public interest. However, we would like to recall some of our key concerns we addressed in our comment letter regarding the Exposure Draft ISA 600¹ two years ago, which is closely linked to the ED we are commenting here:

- we have expressed our concerns, that the **competition-distorting disadvantages** of non-network-related component auditors will increase even further,
- we have expressed our concerns, that the lack of minimum requirements regarding the involvement in the work performed at component level will result in a **greater inconsistency of the involvement** approaches applied by different audit firms or networks, again in particular with regard to complex international groups. This will also reduce the ability of users of future group audits, including audit committees or any readers of group audit reports, to evaluate the effectiveness and persuasiveness of group audit engagements and
- we have expressed our concerns, that ED 600 may result in **several competitive disadvantages** in particular in situations when smaller and medium sized audit firms that are not related to larger networks act as component auditors. Also, in this regard, ED-600 falls short of extant ISA 600 which – due to our experience – successfully avoided such a distortion of competition within the audit profession

¹ [Comment Letter on Proposed ISA 600 \(Revised\): Special Considerations – Audits of Group Financial Statements \(Including the Work of Component Auditors\)](#)

Against that background we elaborated that ISA 600 (Revised) in connection with the changes in ISA 220 (Revised) will have a noticeable and painful **impact especially on SMP component auditors**. It is to be expected, that group auditors will choose “own-network” firms due to the requirement to supervise and review the work of component auditors (ISA 600 (Revised), e.g. paragraphs 8, 28, 43). Therefore, non-network SMPs will increasingly be squeezed out of group audits.

Even if the ED predominantly proposes conforming amendments to the Code of Ethics, we fear that the expansion of the scope of the proposed definitions to the Code **extends the applicability to all professional accountants** and expands the scope to address when independence would be required in group audit situations.

We realise that applying all relevant independence rules for group audits are even yet complex in practice. Audit firms spend considerable amounts of time and resources on this. The proposed requirements of this ED **will even increase existing independence requirements** for group audits, EQRs and component auditors, therefore the board should carefully consider and evaluate the input (costs of monitoring and compliance) vs. output (improvement in audit quality) ratio, especially for SMPs

It would be helpful if IESBA **tested** the proposed changes with a variety of firms to understand the work involved **before making a final decision** on whether or not materiality of a component should be considered in applying the requirements.

WPK has concerns that some SMPs might be **forced to leave the component auditor market**. This is relevant especially in cases, were SMPs are engaged as component auditors within a group audit for group audit clients that are not PIEs.

Specific Comments

Overarching Objective

1. Do you agree with the proposed changes to the Code related to the revised definition 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;” and

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

The revised definition of engagement team is basically sound and in line with the provisions of the IAASB. However, in practice, it might be challenging for those individuals outside the „regular“ audit to assess themselves being part of the engagement team or not.

Another aspect is that some individuals won't be comfortable with having both „Engagement Team“ and „Audit Team“, as it might create more complexity and confusion than clarity.

Moreover, there are three aspects that might be tricky:

- ESG Services:
We question, whether the proposed definitions will be sound in the future with regard to ESG and sustainability services (as part of the audit of financial statements). We believe the Board should evaluate this issue carefully as ESG and sustainability services will become increasingly common in practice.
- Involvement of Experts:
Moreover, we question whether the involvement of Professional Accountancy Organizations (like WPK, whose task is – among others – to respond to professional issues and questions of our members) or other technical hotlines will be classified as “Involvement of Experts” (according to paragraph 400.C) which would include them into the definition of engagement team with all intended and unintended consequences.
- Individuals performing Taxation Services
Last but not least we question whether a taxation expert, who is only providing feedback or consulting services to the team, will be considered part of the engagement team or not.

We therefore urge the Board to clarify this issue or to provide additional application material.

Independence Considerations for Engagement Quality Reviewers

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 (see Chapter 6)?

We would appreciate a clarification regarding the use of other service providers within the definitions of “audit team,” “review team” and “assurance team”, as it is not clear who the other service providers would encompass (e.g. borrowed staff from other firms).

Independence in a Group Audit Context

3. 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)?

We don't agree. In our understanding the term “directly influencing the outcome of the group audit” is not sufficiently clear and may be interpreted in various ways. A precise description of this

term is necessary so that all potentially affected individuals can be clearly identified as members of the audit team.

In the following we would like to give some examples where it is not clear, if the individual could directly influence the outcome of the group audit:

- observing the stock taking,
- reviewing the audit report,
- suggesting changes to the wording in the audit report,
- suggesting changes to the type of audit opinion,
- etc.

4. 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; and

(b) Independence in relation to firms engaged in a group audit, including CA firms within and outside the GA firm's network?

We don't agree.

In our view the Requirement in R 405.9 ("Group Audit Clients that are Not Public Interest Entities") is a particular hurdle for SMPs because SMPs often act as component auditors for group audit clients that are not PIEs. It might be problematic ensuring that an audit firm is independent, particularly in jurisdictions with a limited number of auditors in a certain sector or with specific skills.

It is proposed in R 405.10 ("Group Audit Clients that are Public Interest Entities") that „When the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to audit clients that are public interest entities.”.

In principle we agree with the IESBA that the same ethical requirements apply to non-PIE component auditors as to the Group Auditor of the PIE. However, this requirement does not consider any aspects regarding the size, complexity or extent of work performed by the component auditor. Therefore, we are convinced that at least adequate aspects of scalability should be included within this requirement. Otherwise there is an increasing risk that SMP statutory auditors will be excluded from all work relating to the component, although they are accepted as local statutory auditor. We are therefore concerned that the proposed independence requirements will discourage many SMP-component auditors from doing audit work, especially to small components.

Both requirements (R 405.9 and 405.10) could lead to a complete abandonment of local audits in order to continue to rely on the local auditor as a consultant or similar.

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?

We please the IESBA to provide additional application material regarding the calculation of materiality for purposes of a direct financial interest in an entity (similar to R511.3A1 related to the calculation of loans and guarantees).

Non-Assurance Services

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?

We agree with 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.

Changes in Component Auditor Firms

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 405.13 A1 – 405.13 A2 sufficiently clear and appropriate?

We agree that the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements are sufficiently clear. However, we do have concerns related to how this could force SMPs out of the component auditor market.

Breach of Independence by a Component Auditor Firm

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

We agree with the proposals in Section 405 to address a breach of independence by a CA firm.

Proposed Consequential and Conforming Amendments

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

We agree with the related proposed consequential and conforming amendments if the other proposed amendments proceed as outlined in the ED.

Effective Date

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?

We support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISA 600 (Revised) since they are so closely related, although we have concerns about the impact of the proposal, on SMPs in particular.

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *Small- and Medium-sized Entities (SMEs) and SMPs*

See above.

- *Regulators and Audit Oversight Bodies*

No Comments.

- *Developing Nations*

n/a

- *Translations*

No Comments.

We hope that our comments are helpful. If you have any questions relating to our comments in this letter, we should be pleased to discuss matters further with you.
