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Submitted electronically to: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Mr. Ken Siong  
Senior Technical Director  
International Ethics and Standards Board for Accountants (IESBA)  
529 Fifth Avenue  
New York  
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Dear Mr Siong,

**SAICA COMMENT LETTER ON THE IESBA'S EXPOSURE DRAFT- PROPOSED REVISIONS TO THE CODE RELATING TO THE DEFINITION OF ENGAGEMENT TEAM AND GROUP AUDITS**

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa. We currently have approximately 55,000 members from various constituencies, including members in public practice, business, the public sector, education, and other industries. In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

SAICA adopted the IESBA's International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) in November 2018 as the SAICA Code of Professional Conduct (the SAICA Code), with certain additional national requirements. The SAICA Code, with its Bylaws, provides the basis for disciplinary action against members and associates.

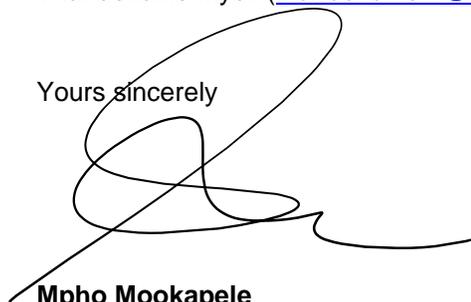
SAICA has consulted its membership in response to the exposure draft.

We thank you for the opportunity to comment on the **Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits (Exposure Draft)**. Our comments have been provided in Annexure A as follows:

- A. Overall comments;
- B. Responses to specific questions

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli ([thandokuhlem@saica.co.za](mailto:thandokuhlem@saica.co.za)) or Natasha Soopal ([natashias@saica.co.za](mailto:natashias@saica.co.za)) .

Yours sincerely



**Mpho Mookapele**

**Chairperson: Ethics Committee**



**Thandokuhle Myoli**

**Executive: Audit and Assurance**



**Natasha Soopal**

**Executive: Ethics and Public Sector**

## A. OVERALL COMMENTS

1. SAICA welcomes the efforts of the International Ethics and Standards Board for Accountants (IESBA) in issuing the Exposure Draft. We agree with the approach to align the definitions in the Exposure Draft to the definitions in the International Auditing and Assurance Standards Board (IAASB) pronouncements. In our comment letter to the IAASB on the Exposure Draft on ISA 600, SAICA had raised the following as some of the concerns:
  - a. Situations where statutory audits have been performed by other auditors on components and how the group auditor should assess and document the considerations made to rely on the work performed by the other auditor. For example, the group engagement team may not be able to evaluate whether the component auditors have fulfilled the ethical requirements that are relevant to the group audit engagement, including those related to independence.
  - b. Cases where some of the components in a group structure relate to equity investments that the group does not exercise control over. Such components may have component auditors from different auditing firms and the group engagement team may not necessarily have access to information and people.
2. The two scenarios highlighted above could result in situations where there are different Codes of Ethics that apply due to different jurisdictional requirements. This places a responsibility on IESBA to engage with those regulators in jurisdictions that apply different Codes to ensure that there is some alignment at a global level.
3. The business environment is evolving rapidly, and such evolution poses a multitude of challenges on the performance of group audits. The efforts to improve the Code should lead to greater consistency in the application of the Code and should have a positive impact on audit quality. South Africa is the gateway to the rest of the African continent when it comes to business. As such, there are companies whose headquarters are in South Africa with business interests across the continent and the rest of the world. Performing group audits on these companies can be challenging and may give rise to a vast array of complexities. Such audits bring to the spotlight differences in culture and languages, codes of ethics, as well as laws and regulations. Therefore, it is in this context that SAICA welcomes the revisions to the Code.
4. In South Africa, mandatory audit firm rotation (MAFR) will become effective on 1 April 2023. This will likely give rise to audit engagements where the group auditors for multi-national entities and component auditors come from different auditing firms and the need becomes greater to ensure that the Code contains sufficient guidance to allow practitioners from different firms working on the same group engagement to perform consistent and high-quality audits. If there were a lack of sufficient guidance in the Code in this regard, it could possibly lead to a situation where audit firms apply ethical principles that differ significantly and there could be a lack of consistency in how group audits are performed. This also highlights the importance of the IESBA working closely with the IAASB on projects going forward.
5. As part of the solutions used in South Africa to address the challenge of market concentration in the auditing profession, shared audits are often used to enhance the competencies of Small and Medium Practices (SMPs) so that they gain exposure to audits of large entity audits. This could involve auditors performing audit procedures on specific sections of the audit files relating to components and such procedures may not necessarily have a significant impact on the group audit opinion. Applying Public Interest Entity (PIE) independence requirements on the SMPs that perform these shared audits may not necessarily be in the interest of addressing the market concentration challenges.

## B. RESPONSES TO REQUEST FOR SPECIFIC COMMENTS

### ***Proposed Revised Definition of Engagement Team***

**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?**

#### **(a)**

7. The definition of “Assurance team” has been revised to include “Engagement Quality reviewers”. While we have no objection to this revision, it is important to note that there is increased global activity in the area of non-financial reporting. This means that in the future, it will not only be audits that would need to be considered but other assurance services as well, particularly in those instances where the group engagement team may be involved in the provision of other assurance services as well. Therefore, linkages with Part B of the Code may need to be considered and provided. This is particularly important given that the IAASB already has a framework and standards when it comes to the provision of assurance on non-financial information i.e., International Standards on Assurance Engagements on Assurance Engagements (ISAEs).
8. In South Africa, some of the Small and Medium Practices often make use of external consultants to obtain technical opinions on audit and accounting issues. These external consulting firms sometimes perform Engagement Quality Reviews (EQR) for the audit firms as well. The revised definitions also bring such consultants within the definition of the “audit team.” We have no objection to this in the cases where the SMP firm making use of such consultants is responsible for the entire group audit or where they are responsible for the audit of a component that may have a significant impact on the audit outcome for the entire group audit. However, in those cases where the work performed by the SMP auditors does not have significant impact on the group audit outcome, it may have a negative impact as the consultants may be reluctant to get involved in the engagement due to the additional independence requirements that may apply. This could add to the audit market concentration challenge that South Africa is currently grappling with and further increase the dominance of the large firms that have the resources internally for EQR.
9. A new definition has been included for “Audit team for the group audit.” This could cause some confusion with “Audit team.” SAICA recommends that this definition be changed to “Group Audit Team” to avoid the confusion.

#### **(b)**

10. The definition of an “engagement team” is clarified in the Explanatory Guidance in paragraph 400.A. However, no clarification is provided with regards to the “audit team” in this particular section even though reference is made to the “audit team” in subsequent paragraphs within the Explanatory Guidance. SAICA proposes that clarification of the “audit team” is provided in paragraph 400.A initially prior to the definition of the “engagement team.” This is because “engagement team” is included as one of the elements in the definition of the “audit team.”
11. Paragraph 400.B provides an explanation of a “service provider” in terms of ISQM 1. However, no conclusion is made in this paragraph as to whether service providers should be included as part of the audit team or not. Such clarification should be included in this paragraph.

***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)?**

12. We agree with the proposed changes to the definition. As mentioned above, in our jurisdiction, some of the SMPs often outsource the EQR function to consulting firms due to a lack of capacity and resources within their own firms. Therefore, there is quite a large section of the profession that focuses on providing monitoring, training and EQR services to audit firms operating in the SMP sector.
13. While it is important that the Exposure Draft acknowledges the existence of EQR providers that may be sourced outside the firm and its network, the independence requirements should not be applied based on a blanket approach, particularly where the firm is a component auditor. Consideration should be given to the nature of the involvement of the component auditor and the potential that the component auditor’s involvement could have on the group opinion.
14. There have been no requirements included in the Exposure Draft relating to outsourced EQRs. Our assumption is that these have been identified as service providers according to paragraph 400.B. The Exposure Draft needs to clarify the independence requirements for the service providers in Section 405.

***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)?**

15. With the exception of the item identified in paragraph 9 of this comment letter, we agree with the proposed new defined terms used in section 405.

**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?**

16. In principle we agree with the proposals, however, there are also other considerations that IESBA needs to make. As mentioned in paragraph 1(a) and (b), there are scenarios where the group engagement team may not have influence of the scope of activities and independence requirements of the component auditor. The Code should provide guidance in these situations as different jurisdictional requirements could apply.
17. In drafting the proposed amendments to the Code, the IESBA also needs to be considerate of the broader issues relating to market concentration, particularly in a developing economy such as South Africa. For example, you may get situations where a component auditor, although performing a PIE audit may still perform procedures limited to certain sections of the audit that may not have a significant impact on the group opinion. It would be onerous in these instances to expect the component auditor to comply with the stricter requirements of PIE audit engagements.
18. Guidance should be provided in the Code explaining those instances where a component auditor has significant influence in the audit. Different requirements should apply based on the level of influence that a component auditor has on the group engagement rather than using a blanket PIE requirement. Furthermore, we would like to highlight the fact that PIE is not consistently defined across all jurisdictions. For example, in South Africa the

Independent Regulatory Board for Auditors (IRBA) is currently revisiting the PIE definition for the local environment and they may not be consistent with definitions in other jurisdictions.

19. No guidance is provided with regards to shared audits and whether the non-signing party should be included in the independence requirements. A possibility is that these parties could be service providers to the main auditor, however, given that they are directly involved in the execution of audit procedures they would be correctly categorised as members of the engagement team. We encourage IESBA to provide explicit guidance regarding shared audits as this is a tool used globally to address the market concentration challenge.

**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?**

20. We agree with the proposals in Section 405 regarding financial interest in the group audit client and loans and guarantees. To further clarify the proposals, our view is that examples should be provided in the Application material or through a non-authoritative guidance document explaining the difference between material and immaterial indirect financial interest. Component audit firms as businesses and to ensure the continuity of their operations may have some level of financial interest in some of the entities that they audit. The guidance should be over and above the current guidance that currently exists which is primarily focused on individuals.

**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?**

21. Paragraph 405.12.A2 should be moved to the section, "*All group Audit clients*" directly below R405.6. The element relating to the example in this paragraph i.e. "*For example, if the component auditor firm's audit work is limited to a specific item such as inventory, 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,*" should be left in the Application material.
22. With the exception of the above change, SAICA is in agreement with the proposed application material relating to a non-network component auditor firm's provision of Non-Assurance services to a component audit client.

**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?**

23. The proposed application material is sufficiently clear and appropriate.

**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?**

24. We believe that further considerations need to be made by IESBA in this regard. As mentioned above, some jurisdictional challenges may make it impossible for certain component auditors to comply with the requirements

in the Exposure Draft. The application of different independence requirements due to different Ethical Codes being adopted could create challenges for the group engagement team as the component auditors may not be under any obligation to report the potential breaches according to their jurisdictional codes.

25. Furthermore, the group engagement team may face restrictions to access to information as the component auditors may not be allowed to share relevant information with the group engagement team. The current situation in Ukraine and Russia is case-in-point where the sanctions imposed upon Russia may prevent component auditors in that region from sharing information with group engagement teams that may be located in other jurisdictions. The Exposure draft needs to include provisions that address such situations, generally.
26. Mandatory Audit Firm Rotation (MAFR) and joint audit requirements could also result in certain challenges in other jurisdictions like South Africa where only a few audit firms may have the expertise and competence to perform specialised audits like large banks and insurers. SMP firms may not have the skills and resources to perform such complex audits, therefore, clients may be forced to engage firms that may not be adequately independent because they may have provided other non-assurance services or be forced to breach MAFR requirements. It is important that the IESBA engages with the local South African jurisdiction in this regard and SAICA would be willing to set up such discussions.

***Proposed Consequential and Conforming Amendments***

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

27. SAICA agrees with the consequential and conforming amendments included in Chapters 2-6.

***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?**

28. SAICA agrees with IESBA's objective of aligning the effective date with the ISA 600 (Revised) effective date of 15 December 2023. However, consideration will need to promptly be given to the issues that are raised in the comment letter.