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June 7, 2022

Ms. Gabriela Figueiredo Dias
Chair
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017

GAO's Response to the International Ethics Standards Board for Accountants' *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*

Dear Ms. Figueiredo Dias:

This letter provides GAO's comments on the International Ethics Standards Board for Accountants' (IESBA) *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the IESBA's efforts to revise its standards to reflect group audits. In our responses, we identify several areas where improvements and clarifications are necessary. In particular, we believe the explanatory guidance in paragraphs 400.A through 400.D can be improved by adding examples and modifying some of the existing examples. In addition, we believe the definitions can be improved to clearly identify that an engagement quality reviewer can come from outside the network.

We also believe that additional application materials with examples will improve the clarity of the definitions and proposed changes to the standards related to group audits and how to address independence breaches.

The IESBA seeks comment on 10 specific questions. Our responses to the questions follow in the enclosure to this letter.

Thank you for the opportunity to comment. If you have questions about this letter or would like to discuss any of our responses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

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Responses to Questions on the International Ethics Standards Board for Accountants' Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

- 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**

We agree with the addition of “engaged by” to the definition of the teams. See our response to question 2, which provides our views on changes to the team definitions related to engagement quality review (EQR).

- (b) The explanatory guidance in paragraphs 400.A—400.D?**

We believe that the explanatory guidance can be improved by adding examples and modifying some of the existing examples. Specifically, additional examples in paragraph 400.A could include one related to a firm that is not a network firm and another for a service provider. We believe that examples for these type entities would be more useful than an example of a network firm. For the third example in paragraph 400.C, we believe it may create confusion with the second example as a firm can engage an external expert to provide technical or industry-specific issues. In addition, for paragraph 400.C we recommend adding an example that is specific to component auditor firm.

- 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 do not agree that the changes to the team definitions recognize that EQR may be sourced from outside a firm and its network, as the definitions are silent regarding EQR sourcing.

- 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 believe that the new defined terms used in section 405 and listed in the glossary are reasonable.

- 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 believe that the independence related to individuals involved in a group audit is reasonable. We agree with the proposed independence principles as related to component auditor firms within the group auditor firm’s network. For component auditor firms outside the group auditor firm’s network, we believe that there should be additional information on how a component auditor firm should determine that a circumstance may lead to an independence threat.

Paragraphs R405.7 and R405.8 address requirements broadly, but they do not make clear what communication between the group auditor firm and component auditor firm should occur. We recommend clarifying the requirement and including application guidance for such communication that should occur between the group auditor firm and component auditor firm to identify circumstances that may result in threats to independence.

- 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 agree with the proposals in section 405 regarding holding a financial interest in the group audit client and holding loans and guarantees of the group audit client.

- 6. Is the proposed application materials relating to a non-network CA firm's provision of NAS to a component audit client in proposed paragraphs 405.12 A1-405.12 A2 sufficiently clear and appropriate?**

We believe that paragraph 405.12 A1 is sufficiently clear, but the examples appear to be requirements rather than application materials. We suggest changing the paragraph to reflect more clearly that the examples are of prohibited activities for component auditor firms when the group audit client is a public-interest entity. We believe that paragraph 405.12 A2 is sufficiently clear and appropriate.

- 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 believe that paragraph 405.13 A1 is sufficiently clear and appropriate for a component auditor firm. However, for paragraph 405.13 A2 we believe that reference to 400.31 A1 through A3 does not provide sufficient detail for the component auditor firm. We suggest adding application guidance paragraphs that focus on component auditor firms for a group audit, including examples of how to address threats.

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

We believe that the proposals in section 405 for addressing a breach of independence by a component auditor firm are appropriate. For paragraph 405.18 A2, we suggest that the guidance be revised to indicate that the group auditor firm determines whether sufficient audit evidence may be obtained.

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

We reviewed and agree with the proposed consequential and conforming amendments detailed in chapters 2 through 6.

- 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 believe that it will be helpful to align the effective date of the final provisions with the effective date of ISA 600 (Revised).