

## Invitation to Comment – Proposed Revisions to International Independence Standards in the IESBA Code

# ENGAGEMENT TEAM – GROUP AUDITS INDEPENDENCE

**April 2022**

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*In order to be considered in CPA Canada’s response to the IESBA on behalf of the Canadian profession, comments<sup>1</sup> to the ISC must be received by **May 3, 2022***

*Comments to the IESBA must be received by **May 31, 2022***

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<sup>1</sup> Please refer to [Responding to the IESBA’s Exposure Draft](#) and [Providing Comments to the ISC](#)

## Glossary

**CIS** – Canadian Independence Standards in Rule 204, Independence

**IAASB** – International Auditing and Assurance Standards Board; Independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services

**IESBA** – International Ethics Standards Board for Accountants; Independent standard-setting board that develops, in the public interest, high-quality ethics standards and other pronouncements for professional accountants worldwide

**IESBA Code** – IESBA Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards); Global standards for professional ethics for the accountancy profession

**IFAC** – International Federation of Accountants; Global organization for the accountancy profession that supports the development, adoption, and implementation of international standards

**IIS** – International Independence Standards (as issued in Parts 1, 4A and 4B of the IESBA Code)

**ISC** – Independence Standing Committee; Subcommittee of the PTC charged with recommending high-quality independence standards for proposed adoption by the Canadian profession's Provincial Bodies in their own provincial codes of ethics for use by all CPAs

**PCPA** – Provincial CPA body

**PIOB** – Public Interest Oversight Board; Global independent oversight body seeking to improve the quality and public interest focus of the international audit and assurance, and ethics standards formulated by the International Standard Setting Boards

**PTC** – The Canadian profession's Public Trust Committee; Oversight body for the ethics standards and self-regulatory processes of the CPA profession

## Background and Overview

### About the PTC

The Public Trust Committee (PTC) oversees the ethics standards and self-regulatory processes of the Chartered Professional Accountant (CPA) profession and serves to protect the integrity of the profession while maintaining public confidence and trust.

The detailed ethics standards are embodied in the provincial CPA bodies' codes of conduct and are monitored and enforced through the profession's self-regulatory activities.

### About the ISC

The ISC is a subcommittee of the PTC, formed in 2021, with a mandate to assist the PTC by recommending high-quality Canadian Independence Standards for approval and proposed adoption by provincial CPA bodies (PCPAs). The ISC is charged with reviewing and exposing for public comment all changes proposed by the IESBA to the International Independence Standards (IIS) in the IESBA Code<sup>2</sup>.

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<sup>2</sup> The ISC's first public invitation to comment is on the IESBA's February 2022 Exposure Draft, *Proposed Technology-related Revisions to the Code*

The ISC will recommend that the PTC approve revisions to the Canadian Independence Standards (CIS) for proposed adoption by PCPAs with a view to ensuring that Rule 204 is not, in the absence of specific reasons related to the Canadian public interest, laws or regulations, less stringent than the IESBA Code.

### Responding to the IESBA's proposals

The International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting board responsible for developing high-quality, internationally appropriate ethics standards for professional accountants, including auditor independence requirements (IESBA Code).

The PTC participates in the IESBA's standard-setting process by consulting with provincial CPA bodies (PCPAs), considering comments from Canadian stakeholders and providing a response to the IESBA on its proposed revisions to the IESBA Code on behalf of the CPA profession.

### *IESBA Exposure Draft*

The ISC is exposing proposed changes to the International Independence Standards as issued by the IESBA in February 2022 for public comment in Canada.

The IESBA's Exposure Draft, "*Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*," is available on the IESBA website.

In addition to the text of proposed revisions to the IESBA Code, the IESBA's Exposure Draft includes the Explanatory Memorandum, which provides background to, and an explanation for, the proposed revisions to the IESBA Code.

The ISC invites Canadian stakeholders to **comment** on:

1. The technical merit of the IESBA's proposals for consideration by the profession's Public Trust Committee (PTC) in preparing its response to the IESBA (see also Responding to the IESBA's Exposure Draft); and
2. Whether there are Canadian-specific circumstances which would make any of the IESBA's proposals unsuitable for eventual incorporation into the Canadian Independence Standards (CIS) as outlined in Rule 204, Independence (see also Providing Comments to the ISC). Such circumstances are expected to be limited to:
  - Canadian legal and regulatory requirements; and
  - Other circumstances particular to the Canadian environment where the IESBA's proposals would not serve the Canadian public interest or maintain the quality of the CIS.

Before commenting, stakeholders should be familiar with the roles of the PTC and the ISC with regard to updating and maintaining the Canadian Independence Standards in Rule 204.

### [The PTC's Process for Approving Changes to the Canadian Independence Standards](#)

The IESBA Code is not fully adopted in Canada. However, as an IFAC member, CPA Canada is committed to updating and maintaining the Canadian Independence Standards in Rule 204, *Independence*, such that they are **no less stringent** than the IIS as issued by the IESBA, except where required due to law, regulation or to serve the Canadian public interest.

Once proposed changes to the IIS are adopted by the IESBA, the ISC may recommend and the PTC may take steps to amend Rule 204<sup>3</sup> so that it is no less stringent than the IESBA Code with respect to these proposals, unless changes and/or re-exposure are necessary to reflect Canadian circumstances based on comments received from constituents with respect to the IESBA proposals.

In circumstances where the IESBA's proposals in this Exposure Draft rely or build upon existing requirements in the IESBA Code that have been identified as more stringent than those in the CPA Code the PTC may decide to consider re-exposure of the combined requirements.

## Highlights

The ISC's Invitation to Comment consists of:

- a link to the IESBA's Exposure Draft, "*Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*", which includes the IESBA's Explanatory Memorandum;
- an overview of the IESBA's Engagement Team – Group Audits Independence Project;
- information about the IESBA's proposed revisions;
- a discussion of significant Canadian-specific circumstances; and

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<sup>3</sup> The extent to which Rule 204 is adopted by individual PCPAs is determined by those bodies.

- a request for comments.

Please review “[Comments requested](#)” for information on preparing your response to this Invitation to Comment.

## The IESBA’s Engagement Team – Group Audits Independence Project<sup>4</sup>

This project is the result of coordination between the IESBA and the International Audit and Assurance Board (IAASB).

### *Revision of ISA 220, Quality Management for an Audit of Financial Statements<sup>5</sup>*

In response to feedback received on the IAASB’s December 2015 Invitation to Comment (IAASB ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, the IAASB undertook a project to modernize ISA 220 in February 2019. This project has now been finalized. Amongst other matters, the definition of an engagement team has been changed to recognize different and evolving engagement team structures, thereby addressing the concerns identified in the IAASB ITC.

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<sup>4</sup> Sections on The IESBA’s Project and About the Proposed Enhancements include some terminology that is not used in the Canadian profession’s provincial codes of conduct and requires familiarity with the IESBA Code. Readers may find useful background on the IESBA’s website, including the series “[Exploring the IESBA Code](#)”.

<sup>5</sup> Adopted in Canada as CAS 220, Quality Management for an Audit of Financial Statements

## *Revision of ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)<sup>6</sup>*

Based on responses to the IAASB ITC and other input gathered during related outreach activities, the IAASB approved a project proposal to revise ISA 600 in December 2016. A key aspect of extant ISA 600 that intersects with the IIS is the requirement for the group engagement team to obtain an understanding of whether a component auditor understands and will comply with the ethical requirements that are relevant to the group audit. Some stakeholders highlighted the need to clarify the meaning of the phrase “ethical requirements that are relevant to the group audit.” This concept is currently not addressed in the IESBA Code.

### **Public Interest Considerations**

The IESBA believes that the proposals are critical to maintaining public trust and confidence in group audits because they aim to respond to questions and concerns that have arisen over a number of years about the application of the IIS in the context of group audits. The enhancements to the IESBA Code resulting from this project will serve to further clarify and strengthen the IIS, thereby contributing to public trust and confidence in the quality of the auditor’s work.

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<sup>6</sup> Exposed by AASB in Canada, pending finalization by the IAASB in early 2022.



## About the Proposed Revisions<sup>7</sup>

The IESBA indicates that the proposed revisions establish provisions that comprehensively address independence considerations for firms and individuals involved in an engagement to perform an audit of group financial statements. The proposals also address the independence implications of the change in the definition of an engagement team—a concept central to an audit of financial statements—in ISA 220, *Quality Management for an Audit of Financial Statements*.

### Highlights of Proposed Revisions

Among other matters, the proposals:

- Establish new defined terms and revise a number of existing terms, including for application with respect to independence in a group audit context.
- Clarify and enhance the independence principles that apply to:
  - Individuals involved in a group audit.
  - Firms engaged in the group audit, including firms within and outside the group auditor firm’s network.
- More explicitly set out the process to address a breach of an independence provision at a component auditor firm, including reinforcing the need for

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<sup>7</sup> Sections on The IESBA’s Project and About the Proposed Revisions are taken from the IESBA’s Explanatory Memorandum and include some terminology that is not used in the Canadian profession’s provincial codes of conduct and requires familiarity with the IESBA Code. Readers may find useful background on the IESBA’s website, including the series “[Exploring the IESBA Code](#)”.

appropriate communication between the relevant parties and with those charged with governance of the group.

- Align a number of provisions in the IESBA Code to conform to changes in the IAASB’s Quality Management standards.

## Canadian-specific circumstances

The IESBA Code is not fully adopted in Canada. To provide proper context for the IESBA’s proposals, [Appendix A](#) provides information about recent revisions to the IESBA Code that have not yet been recommended or approved for adoption in Canada.

The ISC invites comments on Canadian-specific circumstances related to the IESBA’s proposals. If the PTC decides to take steps to amend Rule 204 such that it is no less stringent than the IESBA Code with respect to these proposals, the PTC will consider comments received on the IESBA’s Exposure Draft about Canadian-specific circumstances in the public interest and determine whether re-exposure is required.

## Comments requested

There are two ways of responding to this Invitation to Comment:

- To the IESBA, by responding to the questions in the IESBA’s Exposure Draft on the technical merit of the proposals to revise the IESBA Code and the International Independence Standards; and
- To the ISC, by identifying whether there are Canadian-specific circumstances that the ISC should consider in deciding whether to recommend the IESBA’s final revisions to the PTC for approval in Canada.

## Responding to the IESBA's Exposure Draft

Stakeholders are asked to provide comments on the IESBA's Exposure Draft directly to the IESBA and to provide the ISC with a copy of these comments. The ISC and PTC will take such comments, if received by May 3, 2022, into account in drafting CPA Canada's response to the IESBA's Exposure Draft. Comments are most helpful if they relate to and identify a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the IESBA Exposure Draft should be supported by specific reasoning and include a suggested alternative.

When a respondent agrees with proposals in the IESBA Exposure Draft, it will be helpful if the respondent's comments express this view.

Please refer to the "Guide for Respondents" contained in the IESBA's Exposure Draft and respond to the specific questions therein.

## Providing comments to the ISC on Canadian-specific circumstances

Once the IESBA finalizes these proposals, the ISC may take steps to recommend changes to Rule 204 such that it is no less stringent than the IESBA Code with respect to these proposals.

Accordingly, in addition to a copy of comments made directly to the IESBA, the ISC is encouraging responses to the Canadian-specific questions set out below. **All comments received by the ISC will be available on the ISC webpage after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.**

While comments are most helpful if they pertain specifically to the IESBA's proposed revisions to the IIS in Parts 1, 4A and 4B of the IESBA Code, the PTC will consider all comments received.

1. Do you believe that there are any Canadian-specific circumstances that the ISC and PTC should consider with regard to these proposals? If so, please include your reasoning and describe their nature and extent. For example, if these proposals are approved by the IESBA, do you believe that there are Canadian-specific reasons for modifying the IESBA's revisions before they are recommended for approval and proposed adoption by PCPAs?
2. Do you believe any of the requirements in the proposals could create implementation difficulties in Canada, despite the guidance provided? If so, please explain.

## Appendix A

The IESBA Code is not fully adopted in Canada. In 2015, a Phase I CPA Code was approved and recommended for adoption by PCPAs. A project is underway to develop and recommend a Phase II CPA Code, including consideration of the IESBA's 2016 pronouncements related to non-compliance with laws and regulations (NOCLAR) in the context of Canadian legislation, regulation, and public interest.

Since 2016, the IESBA has made the following revisions that have not yet been recommended or approved for adoption in PCPAs codes of conduct.

- The IESBA issued a Revised and Restructured Code in 2018 to improve the clarity, usability and enforceability of the IESBA Code, thereby facilitating its adoption, effective implementation and consistent application. These revisions also included strengthened provisions related to Safeguards. The revised and restructured IESBA Code became effective June 15, 2019

In addition, the IESBA has completed the following projects to revise the IESBA Code since 2016:

### Independence-related revisions

- **January 2017:** Changes to provisions addressing long association of personnel with an audit or assurance client, which contain a number of substantive improvements, including a strengthened partner rotation regime for audits of public interest entities. The amendments came into effect December 15, 2018, with an exception to facilitate the transition to the required cooling-off period of five consecutive years for engagement partners that expires December 15, 2023
- **July 2018:** Revisions to the IESBA Code pertaining to the offering and accepting of inducements, which set out a comprehensive framework that covers all forms of inducement and is applicable to both professional accountants in business and professional accountants in public practice in situations involving the offering or accepting of an inducement. The amendments came into effect June 15, 2019
- **January 2020:** Revisions to Part 4B of the IESBA Code, which update the IESBA Code to reflect terms and concepts used in the IAASB's International Standard on Assurance Engagements (ISAE) 3000 (Revised). Part 4B relating to independence for assurance engagements with respect to underlying subject matter covering periods became

effective for periods beginning on or after June 15, 2021; otherwise, it came into effect as of June 15, 2021

- **January 2021:** Revisions to address the objectivity of an engagement quality reviewer and other appropriate reviewers, which provide guidance that supports ISQM 2 in addressing the eligibility of an individual to serve in an EQR role, focusing on the critical attribute of objectivity. The amendments are effective December 15, 2022
- **April 2021:** Non-assurance Services (NAS) revisions, which relate to the provision of NAS to audit clients and ensure that all the NAS provisions in the IESBA Code are robust and of high quality for global application, thereby increasing confidence in the independence of audit firms. The amendments are effective December 15, 2022
- **April 2021:** Fee-related revisions, which are responsive to the public interest need to deal with fee-related matters, including those that impact or are perceived to impact auditor independence – both independence of mind and independence in appearance. The amendments are effective December 15, 2022

#### **Revisions to the fundamental principles and conceptual framework in Part 1 of the IESBA Code**

- **October 2021:** Revisions to promote the role and mindset expected of professional accountants. These revisions are to Sections 100, 110, 120, 220 and the Glossary to the IESBA Code and came into effect in December 2021

#### **Revisions to Parts 2 and 3 of the IESBA Code (not independence-related)**

- **July 2016:** Revisions to provide guidance for professional accountants on how best to act in the public interest when they become aware of a known or suspected illegal act (NOCLAR) came into effect July 15, 2017