

# Agenda Item 1-B.1

## Sustainability – Drafting Option 1 (MARK-UP FROM EXTANT)

**Option 1** – Involves the use of “sustainability assurance engagements” without amending the definition of “audit” as used in extant Part 4A.

### Note to Meeting Participants

This document includes proposed revisions to extracts of Part 4A (i.e., extant Section 400, updated for the PIE revisions<sup>1</sup> that come into effect at the end of 2024 and the September 2022 draft of Proposed Section 405). It is provided for information purposes and is intended to assist in determining the approach to be used in drafting independence provisions for Sustainability Assurance Engagements.

The sustainability-related revisions will be made to the most up-to-date version of the Code and will incorporate IESBA-approved revisions as of December 2022. This will include the revised PIE definition and the soon to be finalized ET-GA revisions.<sup>2</sup> The ED will also incorporate the technology-related revisions provided that they are finalized by March 2023.

## INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A AND 4B)

### PART 4A – INDEPENDENCE FOR AUDIT, ~~AND REVIEW~~ AND SUSTAINABILITY ENGAGEMENTS

#### SECTION 400

#### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT, ~~AND REVIEW~~ AND SUSTAINABILITY ASSURANCE ENGAGEMENTS

##### Introduction

##### General

400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements. It is also in the public interest that practitioners performing sustainability assurance engagements (to provide assurance on sustainability information designed to meet the common needs of a wide range of users) be independent.

**Commented [KB1]:** Need to define. E.g. An assurance engagement conducted in accordance with International Standards on Sustainability Assurance or equivalent.

**Commented [KB2]:** Exclude if covered by the definition of a 'sustainability assurance engagement'; or in due course align with how IAASB decides to describe the scope of its ISSAs.

<sup>1</sup> The revised **PIE definition related revisions are shaded in yellow and** will become effective for audits of financial statements for periods beginning on or after December 15, 2024

<sup>2</sup> The September 2022 draft of the **ET-GA revisions are shaded in turquoise** and are subject to change.

400.2 This Part applies to both audit, and review and sustainability assurance engagements unless otherwise stated. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

400.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms. The term “practitioner” refers to other individuals and their firms conducting sustainability assurance engagements who are not professional accountants.

400.4 ISQM 1 requires a firm to design implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm. As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under ISQM 1, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm’s engagements are subject. ISAs, and ISREs and ISSAs establish responsibilities for engagement partners, leaders and engagement teams at the level of the engagement for audits, and reviews and sustainability assurance engagements, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with ISQM 1. In addition, an individual professional accountant or practitioner remains responsible for compliance with any provisions that apply to that accountant’s or practitioner’s activities, interests or relationships.

400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit team member’s, integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

400.6 When performing audit or sustainability assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110. Section 405 sets out specific requirements and application material applicable in a group audit.

400.7 This Part describes:

Commented [KB3]: Align in due course with IAASB definition when known.

Commented [KB4]: Align in due course with IAASB position on ISQM 1 when known.

Commented [KB5]: Definition of ‘firm’ to be updated to encompass the types of practitioner / organisations that may undertake such work.

Commented [KB6]: Align in due course with IAASB position when known.

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

#### **Engagement Team and Audit or Sustainability Assurance Team**

**400.8** This Part applies to all audit and sustainability assurance team members, including engagement team members.

**400.9** An engagement team for an audit or sustainability assurance engagement includes all partners and staff in the firm who perform audit or sustainability assurance procedures on the engagement, and any other individuals who perform such procedures who are from:

- (a) A network firm; or
- (b) A firm that is not a network firm, or another service provider.

For example, an individual from a component auditor firm who performs audit procedures on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit. Likewise, an individual from a component sustainability assurance firm who performs sustainability assurance procedures on the sustainability information of a component for purposes of a group sustainability assurance engagement is a member of the engagement team for the group sustainability assurance engagement.

**400.10** In ISQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organizations in the network.

**400.11** An audit or sustainability assurance engagement might involve experts within, or engaged by, the firm, a network firm, or a component auditor or component sustainability assurance firm outside a group auditor or sustainability assurance firm's network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit or sustainability assurance team members. For example:

- Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in the application of automated tools and techniques to analyze client data.
- Individuals with expertise in a specialized area of sustainability information or assurance who perform sustainability assurance procedures are engagement team members. These include, for example, individuals with expertise [in the measurement of sustainability information or] in the application of automated tools and techniques to analyze client data

Commented [KB7]: Consider giving a more specific example.

- Individuals within, or engaged by, the firm who have direct influence over the outcome of the audit or sustainability assurance engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit or sustainability assurance team members but not engagement team members.
- Individuals who are external experts are neither engagement team nor audit or sustainability assurance team members.

**400.12** If the audit or sustainability assurance engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are audit or sustainability assurance team members but not engagement team members.

#### Public Interest Entities

**400.8** Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements and sustainability assurance engagements of public interest entities, reflecting significant public interest in the financial condition and sustainability related factors of these entities due to the potential impact of their financial well-being and approach to sustainability on stakeholders.

**400.9** Factors to consider in evaluating the extent of public interest in the financial condition of an entity include:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

Factors to consider in evaluating the extent of public interest in the sustainability related factors of an entity include:

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**400.10** Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement or sustainability assurance engagement for a public interest entity because of the significance of the public interest in the financial condition and sustainability related factors of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements or sustainability related information that can be used when assessing the entity's financial condition or approach to sustainability.

Commented [KB8]: O/s to include examples.

### Reports that Include a Restriction on Use and Distribution

400.11 An audit or sustainability assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

Commented [KB9]: This could also apply in theory to sustainability assurance engagements but might be unlikely?

### Assurance Engagements other than Audit and Review or Sustainability Assurance Engagements

400.12 Independence standards for assurance engagements that are not audit or review or sustainability assurance engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit, and Review and Sustainability Assurance Engagements*.

### Requirements and Application Material

#### General

R400.13 A firm performing an audit or sustainability assurance engagement shall be independent.

R400.14 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit or sustainability assurance engagement.

#### Prohibition on Assuming Management Responsibilities

R400.15 A firm or a network firm shall not assume a management responsibility for an audit or sustainability assurance client.

400.15 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

400.15 A2 When a firm or a network firm assumes a management responsibility for an audit or sustainability assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

400.15 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.

- Taking responsibility for:
  - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
  - The preparation and fair presentation of the sustainability related information in accordance with the applicable sustainability reporting framework
  - Designing, implementing, monitoring or maintaining internal control.

400.15 A4 Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit or sustainability assurance client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit or sustainability assurance client might create a self-review threat and is addressed in Section 600.

**R400.16** When performing a professional activity for an audit or sustainability assurance client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
  - (i) The objectives, nature and results of the activities; and
  - (ii) The respective client and firm or network firm responsibilities.However, the individual is not required to possess the expertise to perform or re-perform the activities.
- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

#### Public Interest Entities

**R400.17** For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10.

**400.17 A1** When terms other than public interest entity are applied to entities by law, regulation or professional standards to meet the purpose described in paragraph 400.10, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as "public interest entities" for reasons unrelated to the purpose described in paragraph 400.10, that designation does not necessarily mean that such entities are

public interest entities for the purposes of the Code.

**R400.18** In complying with the requirement in paragraph R400.17, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.17 (a) to (c).

**400.18 A1** The categories set out in paragraph R400.17 (a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to more explicitly define these categories by, for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
- Setting size criteria for certain types of entities.

**400.18 A2** Paragraph R400.17 (d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

**400.19 A1** A firm is encouraged to determine whether to treat other entities as public interest entities for the purposes of this Part. When making this determination, the firm might consider the factors set out in paragraph 400.9 as well as the following factors:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, a predecessor firm has applied independence requirements for public interest entities to the entity.
- Whether in similar circumstances, the firm has applied independence requirements for public interest entities to other entities.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional standards.
- Whether the entity or other stakeholders requested the firm to apply independence requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.

*Public Disclosure – Application of Independence Requirements for Public Interest Entities*

**R400.20** Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, or in performing a sustainability assurance engagement, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

**R400.21** As an exception to paragraph R400.20, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

**Related Entities**

**R400.22** As defined, an audit or sustainability assurance client that is a publicly traded entity in accordance with paragraphs R400.17 and R400.18 includes all of its related entities. For all other entities, references to an audit or sustainability assurance client in this Part include related entities over which the client has direct or indirect control. When the audit or sustainability assurance team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit or sustainability assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 400.23 to 400.29 are intentionally left blank]

**Period During which Independence is Required**

**R400.30** Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) In the case of an audit or review engagement, the period covered by the financial statements; or
- (c) In the case of a sustainability assurance engagement, throughout any period over which, or from the time at which the sustainability related information is measured or evaluated in connection with the engagement and throughout any subsequent period until the engagement has been completed.

400.30 A1 The engagement period starts when the audit or sustainability assurance team begins to perform the audit or sustainability assurance engagement. The engagement period ends when the audit or sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or sustainability assurance report.

**R400.31** If an entity becomes an audit or sustainability assurance client during or after the period covered by the financial statements or sustainability related information on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the audit or sustainability assurance client during or after the period covered by the financial statements or sustainability related information but before accepting the audit or sustainability assurance engagement; or
- (b) Previous services provided to the audit or sustainability assurance client by the

Commented [KB10]: Need to consider what an appropriate period for sustainability related information would be. This is just a first thought suggestion .

firm or a network firm.

- 400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit or sustainability assurance client during, or after the period covered by the financial statements or the period described in R300.30 (c) for sustainability related information, but before the audit or sustainability assurance team begins to perform the audit or sustainability assurance engagement, and the service would not be permitted during the engagement period.
- 400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, the data records underlying the sustainability related information, the internal controls over financial or sustainability reporting, or the financial statements or sustainability related information on which the firm will express an opinion.
- 400.31 A3 Examples of actions that might be safeguards to address threats independence include:
- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
  - Having an appropriate reviewer review the audit or sustainability assurance work or non-assurance service as appropriate.
  - Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.
- 400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the audit or sustainability assurance engagement period or prior to the period covered by the financial statements or sustainability related information on which the firm will express an opinion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited by another firm or for which an sustainability assurance engagement has been undertaken by another firm.

*Audit or Sustainability Assurance Clients that are Public Interest Entities*

- R400.32** A firm shall not accept appointment as auditor or sustainability assurance provider of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the financial statements or sustainability related information on which the firm will express an opinion unless:
- (a) The provision of such service ceases before the commencement of the audit or sustainability assurance engagement period;
  - (b) The firm takes action to address any threats to its independence; and
  - (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.
- 400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment as auditor or

sustainability assurance provider of that entity include:

- The results of the service had been subject to auditing or sustainability assurance procedures in the course of the audit or sustainability assurance engagement of the prior year's financial statements or sustainability related information by a predecessor firm.
- The firm engages a professional accountant or practitioner, who is not a member of the firm expressing the opinion on the financial statements or sustainability related information, to perform a review of the first audit or sustainability assurance engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
  - (i) Evaluate the results of the non-assurance service; or
  - (ii) Re-perform the service,to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

#### Communication with those Charged with Governance

400.40 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

[Paragraphs 400.41 to 400.49 are intentionally left blank]

#### Network Firms

400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

**R400.51** A network firm shall be independent of the audit and sustainability assurance clients of the other firms within the network as required by this Part.

400.51 A1 The independence requirements in this Part that apply to a network firm apply to any

**Commented [KB11]:** The definition would also work for firms providing sustainability assurance services that are not firms of professional accountants.

It is important to retain this concept for non-accountancy firms providing sustainability assurance services. As the market matures it is possible that networks of such firms could further develop.

Also, ISQM 1 has requirements applicable to networks.

entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

- R400.52** When associated with a larger structure of other firms and entities, a firm shall:
- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
  - (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
  - (c) Apply such judgment consistently throughout such a larger structure.

**R400.53** When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
- (c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit or sustainability assurance methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)).

400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53(b)).

400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R400.53(c)).

400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the

provision of a professional service. (Ref: Para. R400.53(d)).

- 400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a partner of the firm signs an audit report. (Ref: Para. R400.53(e)).
- 400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R400.53(e)).
- 400.53 A8 Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records.
  - Partners and other personnel.
  - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
  - Audit or sustainability assurance methodology or audit or sustainability assurance manuals.
  - Training courses and facilities. (Ref: Para. R400.53(f)).
- 400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:
- The shared resources might be limited to common audit or sustainability assurance methodology or audit or sustainability assurance manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor.
  - The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.53(f)).
- R400.54** If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.
- 400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 400.55 to 400.59 are intentionally left blank]

#### General Documentation of Independence for Audit and Review Engagements

**R400.60** A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm’s judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 400.61 to 400.69 are intentionally left blank]

#### Mergers and Acquisitions

##### *When a Client Merger Creates a Threat*

400.70 A1 An entity might become a related entity of an audit or sustainability assurance client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue an audit or sustainability assurance engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

**R400.71** In the circumstances set out in paragraph 400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the audit or sustainability assurance engagement after the effective date of the merger or acquisition; and
- (b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

**R400.72** As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

**R400.73** If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor or sustainability assurance provider, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit or sustainability assurance engagement or the individual responsible for the engagement quality review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having a professional accountant or practitioner review the audit or sustainability assurance or non-assurance work as appropriate.
- Having a professional accountant or practitioner, who is not a member of the firm expressing the opinion on the financial statements or sustainability related information, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

**R400.74** The firm might have completed a significant amount of work on the audit or sustainability assurance engagement prior to the effective date of the merger or acquisition and might be able to complete the remaining audit or sustainability assurance procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit or sustainability assurance engagement while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R400.73(b) to (c); and
- (c) Ceases to be the auditor or sustainability assurance provider no later than the date that the audit or sustainability assurance report is issued.

*If Objectivity Remains Compromised*

**R400.75** Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the

firm shall cease to be the auditor or sustainability assurance provider.

*Documentation*

**R400.76** The firm shall document:

- (a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

**Breach of an Independence Provision for Audit ~~and~~, Review and Sustainability Assurance Engagements**

*When a Firm Identifies a Breach*

**R400.80** If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
  - (i) Comply with those requirements; and
  - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
  - (i) The engagement partner / leader;
  - (ii) The individual with operational responsibility for compliance with independence requirements;
  - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
  - (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit or sustainability assurance report; and
- (e) Depending on the significance of the breach, determine:
  - (i) Whether to end the audit or sustainability assurance engagement; or
  - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is

appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit or sustainability assurance report.

400.80 A1 A breach of a provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the audit or sustainability assurance engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit or sustainability assurance report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit or sustainability assurance engagement.
- Whether an audit or sustainability assurance team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit or sustainability assurance team member or another individual for whom there are independence requirements.
- If the breach relates to an audit or sustainability assurance team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements, or on the sustainability related information, on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the audit or sustainability assurance team.
- Using different individuals to conduct an additional review of the affected audit or sustainability assurance work or to re-perform that work to the extent necessary.
- Recommending that the audit or sustainability assurance client engage another firm to review or re-perform the affected audit or sustainability assurance work to the extent necessary.
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements, or the sustainability related information, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

**R400.81** If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as

possible and take the steps necessary to end the audit or sustainability assurance engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

**R400.82** If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit report;
- (d) The conclusion that, in the firm’s professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

*Communication of Breaches to Those Charged with Governance*

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

**R400.84** With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of:
  - (i) The firm’s policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
  - (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

**R400.85** If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit or sustainability assurance engagement in accordance with paragraph R400.81.

*Breaches Before the Previous Audit Report Was Issued*

**R400.86** If the breach occurred prior to the issuance of the previous audit or sustainability assurance report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm’s objectivity and its ability to issue an audit or sustainability assurance report in the current period.

**R400.87** The firm shall also:

- (a) Consider the impact of the breach, if any, on the firm’s objectivity in relation to any previously issued audit or sustainability assurance reports, and the possibility of withdrawing such ~~audit~~ reports; and
- (b) Discuss the matter with those charged with governance.

#### Documentation

**R400.88** In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made;
- (d) All the matters discussed with those charged with governance; and
- (e) Any discussions with a professional or regulatory body or oversight authority.

**R400.89** If the firm continues with the audit or sustainability assurance engagement, it shall document:

- (a) The conclusion that, in the firm’s professional judgment, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit or sustainability assurance report.

## SECTION 405

### GROUP AUDITS AND GROUP SUSTAINABILITY ASSURANCE ENGAGEMENTS

#### Introduction

405.1 Section 400 requires a firm to be independent when performing an audit or sustainability assurance engagement, and to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing group audit or group sustainability assurance engagements.

#### Requirements and Application Material

##### General

405.2 A1 The ISAs apply to an audit of group financial statements. ISA 600 (Revised) deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. ISA 600 (Revised) requires the group engagement partner to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related

to independence, that apply to the group audit. The independence requirements referred to in ISA 600 (Revised), or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised), are those specified in this section.

**Commented [KB12]:** O/s develop an equivalent paragraph for sustainability assurance engagements under ISSAs. First need to see how ISSAs address group engagements.

405.2 A2 A component auditor firm that participates in a group audit engagement might separately issue an audit opinion on the financial statements of the component audit client. Depending on the circumstances, the component auditor firm might need to comply with different independence requirements when performing audit work for a group audit and separately issuing an audit opinion on the financial statements of the component audit client for statutory, regulatory or other reasons.

405.2 AX A component sustainability assurance firm that participates in a group sustainability assurance engagement might separately issue a sustainability assurance opinion on the sustainability related information of the component sustainability assurance client. Depending on the circumstances, the component sustainability assurance firm might need to comply with different independence requirements when performing sustainability assurance work for a group sustainability assurance engagement and separately issuing a sustainability assurance opinion on the sustainability related information of the component sustainability assurance client for statutory, regulatory or other reasons.

#### **Communication between a Group Auditor Firm and a Component Auditor Firm**

**Commented [KB13]:** O/s edit or develop equivalent paragraphs for sustainability assurance engagements under ISSAs. First need to see how ISSAs address group engagements.

**R405.3** ISA 600 (Revised) requires the group engagement partner to take responsibility to make a component auditor aware of the relevant ethical requirements that are applicable given the nature and the circumstances of the group audit engagement. When making the component auditor firm aware of those requirements, the group auditor firm shall communicate at appropriate times the necessary information to enable the component auditor firm to meet its responsibilities under this section.

405.3 A1 Examples of matters the group auditor or group sustainability assurance firm might communicate include:

- Whether the group audit or group sustainability assurance client is a public interest entity and the relevant ethical requirements applicable to the group audit or group sustainability assurance client.
- The related entities and other components of the group audit or group sustainability assurance client that are relevant to the independence considerations applicable to the component auditor or component sustainability assurance firm and the group audit or group sustainability assurance team members within, or engaged by, that firm.
- The period during which the component auditor or component sustainability assurance firm is required to be independent.
- Whether an audit partner or sustainability assurance leader who performs work at the component for purposes of the group audit or group sustainability assurance engagement is a key audit partner or key sustainability assurance leader for the group

audit or group sustainability assurance engagement.

**R405.4** ISA 600 (Revised) also requires the group engagement partner to request the component auditor to communicate whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement. Such request shall include the communication of

- (a) Any independence matters that require significant judgment, and
- (b) In relation to those matters, the component auditor firm's conclusion that the threats to its independence are at an acceptable level, and the rationale for that conclusion.

#### **Independence Considerations Applicable to Individuals**

*Members of the Group Audit or Group Sustainability Assurance Team Within, or Engaged by, a Group Auditor or Group Sustainability Assurance Firm and Its Network Firms*

**R405.5** Members of the group audit or group sustainability assurance team who are within, or engaged by, the group auditor or group sustainability assurance firm and its network firms shall be independent of the group audit or group sustainability assurance client in accordance with the requirements of this Part that are applicable to the audit or sustainability assurance team.

Other *Members of the Group Audit or Group Sustainability Assurance Team*

**Commented [KB14]:** O/s edit or add equivalent paragraphs for group sustainability assurance engagements. Also need to see which option IESBA finally agrees.

*Option 1:*

**R405.6** Members of the group audit team within, or engaged by, a component auditor firm outside of the group auditor firm's network shall be independent of:

- (a) The component audit client;
- (b) The entity on whose group financial statements the group auditor firm expresses an opinion; and
- (c) Any other entities over which the entity in subparagraph (b) has direct or indirect control,

in accordance with the requirements of this Part that are applicable to the audit team.

*Option 2:*

**R405.6** Members of the group audit team within, or engaged by, a component auditor firm outside of the group auditor firm's network shall be independent of:

- (a) The component audit client;
- (b) The entity on whose group financial statements the group auditor firm expresses an opinion; and
- (c) Other entities over which the entity in subparagraph (b) has direct or indirect

control, provided that such entities have direct or indirect control over the component audit client,  
in accordance with the requirements of this Part that are applicable to the audit team.

*Option 3*

**R405.6** Members of the group audit team within, or engaged by, a component auditor firm outside of the group auditor firm’s network shall be independent of:

- (a) The component audit client; and
- (b) The entity on whose group financial statements the group auditor firm expresses an opinion,

in accordance with the requirements of this Part that are applicable to the audit team.

**Independence Considerations Applicable to a Group Auditor or Group Sustainability Assurance Firm**

**R405.7** A group auditor or group sustainability assurance firm shall be independent of the group audit or group sustainability assurance client in accordance with the requirements of this Part that are applicable to a firm.

**Independence Considerations Applicable to Network Firms of a Group Auditor or Group Sustainability Assurance Firm**

**R405.8** A network firm of the group auditor or group sustainability assurance firm shall be independent of the group audit or group sustainability assurance client in accordance with the requirements of this Part that are applicable to a network firm.

**Independence Considerations Applicable to Component Auditor or Component Sustainability Assurance Firms outside a Group Auditor or Group Sustainability Assurance Firm’s Network**

*All Group Audit or Group Sustainability Assurance Clients*

**R405.9** A component auditor or component sustainability assurance firm outside the group auditor or group sustainability assurance firm’s network shall:

- (a) Be independent of the component audit or component sustainability assurance client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all audit or sustainability assurance clients;
- (b) Apply the relevant requirements in paragraphs R510.4 (a), R510.7 and R510.9 with respect to financial interests in the entity on whose group financial statements or group sustainability related information the group auditor or group sustainability assurance firm expresses an opinion; and
- (c) Apply the relevant requirements in Section 511 with respect to loans and guarantees involving the entity on whose group financial statements or group sustainability related information the group auditor or group sustainability assurance firm

expresses an opinion.

**R405.10** When a component auditor or component sustainability assurance firm outside the group auditor or group sustainability assurance firm's network knows, or has reason to believe, that a relationship or circumstance involving the group audit or group sustainability assurance client, beyond those addressed under paragraph R405.9(b) and (c), is relevant to the evaluation of the component auditor or component sustainability assurance firm's independence from the component audit or component sustainability assurance client, the component auditor or component sustainability assurance firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

**R405.11** When a component auditor or component sustainability assurance firm outside the group auditor or group sustainability assurance firm's network knows, or has reason to believe, that a relationship or circumstance of a firm within the component auditor or component sustainability assurance firm's network with the component audit or component sustainability assurance client or the group audit or group sustainability assurance client, beyond those addressed under paragraph R405.9(b) and (c), creates a threat to the component auditor or component sustainability assurance firm's independence, the component auditor or component sustainability assurance firm shall evaluate and address any such threat.

#### Period During Which Independence is Required

405.12 A1 The references to the financial statements and the audit report, and to the sustainability related information and sustainability assurance report, in paragraphs R400.30 and 400.30 A1 mean the group financial statements and audit report on the group financial statements, and the group sustainability related information group sustainability assurance report, when applied in this section.

405.12 A2 If the engagement of a component auditor or component sustainability assurance firm outside the group auditor or group sustainability assurance firm's network is not of a recurring nature, the group engagement partner / leader might determine that the period during which the component auditor or component sustainability assurance firm is required to be independent ends at the later of the completion of the work of the component auditor or component sustainability assurance firm for the purposes of the group audit, or group sustainability assurance engagement, or the notification by the group auditor or group sustainability assurance firm that the component auditor or component sustainability assurance firm's involvement in the group audit or group sustainability assurance engagement has ended, irrespective of when the audit report on the group financial statements or the sustainability assurance report on the sustainability related information is issued.:-

#### *Group Audit or Sustainability Assurance Clients that are Not Public Interest Entities*

**R405.13** When the group audit or group sustainability assurance client is not a public interest entity, a component auditor or component sustainability assurance firm outside the group auditor or group sustainability assurance firm's network shall be independent of the

component audit or sustainability assurance client in accordance with the requirements set out in this Part that are applicable to audit or sustainability assurance clients that are not public interest entities for the purposes of the group audit or group sustainability assurance engagement.

- 405.13 A1 Where a component auditor or component sustainability assurance firm outside the group auditor or group sustainability assurance firm's network also performs an audit or sustainability assurance engagement for a component audit or component sustainability assurance client that is a public interest entity for reasons other than the group audit or group sustainability assurance engagement, for example, a statutory audit, the independence requirements that are relevant to audit or sustainability assurance clients that are public interest entities apply to that engagement.

*Group Audit and Group Sustainability Assurance Clients that are Public Interest Entities*

Non-Assurance Services

- R405.14** When the group audit or group sustainability assurance client is a public interest entity, a component auditor component sustainability assurance firm outside the group auditor or group sustainability assurance firm's network shall comply with the provisions in Section 600 that are applicable to public interest entities with respect to the component audit or component sustainability assurance client, except paragraphs R600.21 to R600.24.

- 405.14 A1 Where the group audit client is a public interest entity, a component auditor firm is prohibited from, for example:

- Acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court, regardless of whether the amounts involved are material to the financial information of the component audit client.
- Designing or implementing the information technology systems of a component audit client that is not a public interest entity where such information technology systems generate information for the component audit client's accounting records or financial statements as such a non-assurance service creates a self-review threat.

- 405.14 AX Where the group sustainability assurance client is a public interest entity, a component sustainability assurance firm is prohibited from, for example:

- Acting in an advocacy role for a component sustainability assurance client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court, regardless of whether the amounts involved are material to the sustainability related information of the component sustainability assurance client.
- Designing or implementing the information technology systems of a component sustainability assurance client that is not a public interest entity where such information technology systems generate information for the component sustainability assurance client's data records underlying the sustainability related information or report of sustainability related information as such a non-assurance service creates a self-

review threat.

405.14 A2 The financial or sustainability related information on which a component auditor or component sustainability assurance firm performs audit or sustainability assurance work is relevant to the evaluation of the self-review threat that might be created by the component auditor or sustainability assurance firm's provision of a non-assurance service, and therefore the application of Section 600. For example, if the component auditor firm's audit work is limited to a specific item such as inventory, the results of any non-assurance service that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory are relevant to the evaluation of the self-review threat.

**Key Audit Partners**

**R405.15** The group engagement partner shall determine whether an audit partner who performs audit work at a component for purposes of the group audit is a key audit partner for the group audit. If so, the group engagement partner shall:

- (a) Communicate that determination to that individual; and
- (b) Indicate:
  - (i) In the case of all group audit clients, that the individual is subject to paragraph R411.4, and
  - (ii) In the case of a group audit client that is a public interest entity, that the individual is also subject to paragraphs R524.6, R540.5 (c) and R540.20.

405.15 A1 A key audit partner makes key decisions or judgments on significant matters with respect to the audit of the group financial statements on which the group auditor firm expresses an opinion in the group audit.

**Key Sustainability Assurance Engagement Leaders**

**R405.15** The group engagement leader shall determine whether a sustainability assurance engagement leader who performs sustainability assurance work at a component for purposes of the group sustainability assurance engagement is a key sustainability assurance engagement partner for the group sustainability assurance engagement. If so, the group engagement leader shall:

- (a) Communicate that determination to that individual; and
- (b) Indicate:
  - (i) In the case of all group sustainability assurance clients, that the individual is subject to paragraph R411.4, and
  - (ii) In the case of a group sustainability assurance client that is a public interest entity, that the individual is also subject to paragraphs R524.6, R540.5 (c) and R540.20.

405.15 A1 A key sustainability assurance engagement leader makes key decisions or judgments on

significant matters with respect to the sustainability assurance engagement of the group sustainability assurance information on which the group sustainability assurance firm expresses an opinion in the group sustainability assurance engagement.

### Changes in Components

*All Group Audit or Group Sustainability Assurance Clients*

**R405.16** When an entity that is not a related entity becomes a component of the group audit or group sustainability assurance client, the group auditor or group sustainability assurance firm shall apply paragraphs R400.71 to R400.76.

### Changes in Component Auditor Firms

*All Group Audit or Group Sustainability Assurance Clients*

405.17 A1 There might be circumstances in which the group auditor or group sustainability assurance firm requests another firm to perform audit or sustainability assurance work as a component auditor or component sustainability assurance firm during or after the period covered by the group financial statements or group sustainability related information, for example due to a client merger or acquisition. A threat to the component auditor or component sustainability assurance firm's independence might be created by:

- (a) Financial or business relationships of the component auditor or component sustainability assurance firm with the component audit or component sustainability assurance client during or after the period covered by the group financial statements or group sustainability related information but before the component auditor or component sustainability assurance firm agrees to perform the audit or sustainability assurance work; or
- (b) Previous services provided to the component audit or sustainability assurance client by the component auditor or sustainability assurance firm.

405.17 A2 Paragraphs 400.31 A1 to A3<sup>3</sup> set out application material that is applicable for a component auditor or component sustainability assurance firm's assessment of threats to independence if a non-assurance service was provided by the component auditor or component sustainability assurance firm to the component audit or component sustainability assurance client during or after the period covered by the group financial statements or group sustainability related information, but before the component auditor or component sustainability assurance firm begins to perform the audit or sustainability assurance work for the purposes of the group audit or group sustainability assurance engagement, and the service would not be permitted during the engagement period.

405.17 A3 Paragraph 400.31 A4 sets out application material that is applicable for a component auditor or component sustainability assurance firm's assessment of threats to independence if a non-assurance service was provided by the component auditor or component sustainability assurance firm to the component audit or component sustainability

<sup>3</sup> The numbering for paragraphs 400.31 A1-A3 will be updated when the revised NAS provisions become effective.

assurance client prior to the period covered by the group financial statements or group sustainability related information.

*Group Audit or Group Sustainability Assurance Clients that are Public Interest Entities*

- 405.18 A1 Paragraphs R400.32 and 400.32 A1 are applicable when a component auditor or component sustainability assurance firm agrees to perform audit or sustainability assurance work for group audit or group sustainability assurance purposes in relation to a group audit or group sustainability assurance client that is a public interest entity if the component auditor or component sustainability assurance firm has previously provided a non-assurance service to the component audit or component sustainability assurance client.
- 405.18 A2 Paragraphs R600.25 and 600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component auditor or component sustainability assurance firm to a component audit component sustainability assurance client and the group audit group sustainability assurance client subsequently becomes a public interest entity.

**Breach of an Independence Provision at a Component Auditor or Component Sustainability Assurance Firm**

- 405.19 A1 A breach of a provision of this section might occur despite a component auditor or component sustainability assurance firm having a system of quality management designed to address independence requirements. Paragraphs R405.19 to R405.24 are relevant to a group auditor or group sustainability assurance firm's determination as to whether it would be able to use a component auditor or component sustainability assurance firm's work if a breach has occurred at the component auditor or component sustainability assurance firm.
- 405.19 A2 In the case of a breach at a component auditor or component sustainability assurance firm within the group auditor or group sustainability assurance firm's network, paragraphs R400.80 to R400.89 also apply to the group auditor or group sustainability assurance firm in relation to the group audit or group sustainability assurance engagement, as applicable.

*When a Component Auditor or Component Sustainability Assurance Firm Identifies a Breach*

- R405.20** If a component auditor or component sustainability assurance firm concludes that a breach of this section has occurred, the component auditor or component sustainability assurance firm shall:
- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
  - (b) Evaluate the significance of the breach and its impact on the component auditor or component sustainability assurance firm's objectivity and ability to perform audit or sustainability assurance work for the purposes of the group audit or group sustainability assurance engagement;
  - (c) Depending on the significance of the breach, determine whether it is possible to

take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and

- (d) Promptly communicate in writing the breach to the group engagement partner or group engagement leader, including the component auditor or component sustainability assurance firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

405.20 A1 Paragraphs 400.80 A2 and A3 set out application material relevant to the component auditor or component sustainability assurance firm's evaluation of the significance and impact of the breach on the component auditor or component sustainability assurance firm's objectivity and ability to issue an opinion or conclusion on the audit or sustainability assurance work performed at the component for purposes of the group audit or group sustainability assurance engagement, and its consideration of any actions that might be taken to address the breach satisfactorily.

**R405.21** Upon receipt of the component auditor or component sustainability assurance firm's communication of the breach, the group engagement partner or group engagement leader shall:

- (a) Review the component auditor or component sustainability assurance firm's assessment of the significance of the breach and its impact on the component auditor or component sustainability assurance firm's objectivity, and any actions proposed or taken to address the consequences of the breach;
- (b) Evaluate the group auditor or group sustainability engagement firm's ability to use the work of the component auditor or component sustainability assurance firm for the purposes of the group audit or group sustainability assurance engagement; and
- (c) Determine the need for any further action.

**R405.22** In applying paragraph R405.21, the group engagement partner or group engagement leader shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component auditor or component sustainability assurance firm's objectivity is compromised, and therefore, the group auditor or group sustainability assurance firm is unable to use the work of the component auditor or component sustainability assurance firm for the purposes of the group audit or group sustainability assurance engagement.

405.22 A1 If the group engagement partner or group sustainability assurance leader determines that the breach has been satisfactorily addressed by the component auditor or component sustainability assurance firm and does not compromise the component auditor or component sustainability assurance firm's objectivity, the group auditor or group sustainability assurance firm may continue to use the work of the component auditor or component sustainability assurance firm for the group audit or group sustainability assurance engagement. In certain circumstances, the group engagement partner or group engagement leader might determine that additional actions are needed to satisfactorily address the breach in order to use the component auditor or component sustainability assurance

firm's work. Examples of such action include the group auditor or group sustainability assurance firm performing specific procedures on the areas impacted by the breach or requesting the component auditor or component sustainability assurance firm to perform appropriate remedial work on the affected areas.

**Commented [KB15]:** O/s edit or develop equivalent paragraphs for sustainability assurance engagements under ISSAs. First need to see how ISSAs address group engagements.

405.22 A2 ISA 600 (Revised) sets out that if there has been a breach by a component auditor and the breach has not been satisfactorily addressed, the group auditor cannot use the work of that component auditor. In those circumstances, the group engagement partner might find other means to obtain the necessary audit evidence on the component audit client's financial information. Examples of such means include the group auditor firm performing the necessary audit work on the component audit client's financial information or requesting another component auditor firm to perform such audit work.

*Discussion with Those Charged with Governance of the Group Audit or Group Sustainability Assurance Client*

405.23 A1 With respect to breaches by a component auditor or component sustainability assurance firm within the group auditor or group sustainability assurance firm's network, paragraph R400.84 applies.

**R405.24** With respect to breaches by a component auditor or component sustainability assurance firm outside the group auditor or group sustainability assurance firm's network, the group auditor or group sustainability assurance firm shall discuss with those charged with governance of the group audit or group sustainability assurance client:

- (a) The component auditor or component sustainability assurance firm's assessment of the significance and impact of the breach on the component auditor or component sustainability assurance firm's objectivity, including the nature and duration of the breach, and the actions proposed or taken; and
- (b) Whether
  - (i) The actions proposed or taken would satisfactorily address the consequences of the breach; or
  - (ii) The group auditor or group sustainability assurance firm will use other means to obtain the necessary audit or sustainability assurance evidence on the component audit or component sustainability assurance client's financial or sustainability related information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

**R405.25** If those charged with governance do not concur that the actions proposed or taken satisfactorily address the consequences of the breach at the component auditor or component sustainability assurance firm, the group auditor or group sustainability assurance firm shall not use the work performed by the component auditor or component sustainability assurance firm for the purposes of the group audit or group sustainability assurance engagement.

## Definitions

As considered by IESBA at its September 2022 board meeting (Agenda Item 5). To facilitate easier comparison, the proposed definitions for sustainability assurance engagements are included below immediately after the audit definitions on which they are based. In the final Glossary they would be position in alphabetical order. Consideration could be given to combing the definitions.

- Assurance Team** (a) All members of the engagement team for the assurance engagement;
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including:
- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
  - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.

Commented [KB16]: This works for a sustainability assurance team.

**Audit Client** An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity in accordance with paragraphs R400.22 and R400.23, audit client will always include its related entities. When the audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.22.)

*In Part 4A, the term “audit client” applies equally to “review client.”*

*In the case of a group audit, see the definition of group audit client.*

**Sustainability Assurance Client** An entity in respect of which a firm conducts an ~~audit~~ sustainability assurance engagement. When the client is a publicly traded entity in accordance with paragraphs R400.22 and R400.23, ~~audit sustainability assurance~~ client will always include its related entities. When the ~~audit sustainability assurance~~ client is not a publicly traded entity, ~~audit sustainability assurance~~ client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.22.)

- Audit Team
- (a) All members of the engagement team for the audit engagement;
  - (b) All others within, or engaged by, the firm who can directly influence the outcome of the audit engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
    - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
    - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
  - (c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

*In Part 4A, the term "audit team" applies equally to "review team." In the case of a group audit, see the definition of group audit team.*

- Sustainability Assurance Team
- (a) All members of the engagement team for the audit-sustainability assurance engagement;
  - (b) All others within, or engaged by, the firm who can directly influence the outcome of the audit-sustainability assurance engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner-leader in connection with the performance of the audit-sustainability assurance engagement, including those at all successively senior levels above the engagement partner-leader through to the individual who is the firm's ~~Senior or Managing Partner~~ (Chief Executive or equivalent);
    - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
    - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
  - (c) Any other individuals within a network firm who can directly influence the outcome of the audit-sustainability assurance engagement.

*In Part 4A, the term “audit team” applies equally to “review team.” In the case of a group ~~audit~~ sustainability assurance engagement, see the definition of group ~~audit~~ sustainability assurance team.*

Component An entity, business unit, function or business activity, or some combination thereof, determined, for a group audit, by the group auditor for purposes of planning and performing audit procedures in a group audit; or, for a sustainability assurance engagement, by the group sustainability assurance engagement provider for purposes of planning and performing sustainability assurance procedures in a group sustainability assurance engagement.

Component audit client A component in respect of which a group auditor firm or component auditor firm performs audit work for purposes of a group audit. When a component is:

- (a) A legal entity, the component audit client is the entity and any related entities over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Component sustainability assurance client A component in respect of which a group ~~auditor~~ sustainability assurance firm or component ~~auditor~~ sustainability assurance firm performs ~~audit~~ sustainability assurance work for purposes of a group ~~audit~~ sustainability assurance engagement. When a component is:

- (a) A legal entity, the component ~~audit~~ sustainability assurance client is the entity and any related entities over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), the component ~~audit~~ sustainability assurance client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Component auditor firm The firm performing audit work related to a component for purposes of a group audit

Component sustainability assurance firm The firm performing ~~audit~~ sustainability assurance work related to a component for purposes of a group ~~audit~~ sustainability assurance engagement.

**Engagement team** All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement.

*In Part 4A, the term “engagement team” refers to individuals performing audit, or review or sustainability assurance procedures on the audit, or review or sustainability assurance engagement, respectively. This term is further described in paragraph 400.A.*

*ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.*

*ISA 620 defines an auditor’s expert as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ISA 620 deals with the auditor’s responsibilities relating to the work of such experts.*

*ISA 610 (Revised 2013) deals with the auditor’s responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.*

*In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.*

**Group** A reporting entity for which group financial statements or group sustainability information are prepared

Commented [KB17]: Align with IAASB in due course.

**Group audit** The audit of group financial statements

**Group sustainability assurance engagement** The audit performance of a sustainability assurance engagement to report on of group financial statements sustainability information.

**Group audit client** The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a publicly traded entity, the group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a publicly traded entity, the group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

*See also paragraph R400.22.*

Group sustainability assurance engagement client The entity on whose group ~~financial statements~~ sustainability information the group ~~auditor sustainability assurance~~ firm conducts an ~~audit sustainability assurance~~ engagement. When the entity is a publicly traded entity, the group ~~audit sustainability assurance~~ client will always include its related entities and any other components at which ~~audit sustainability assurance~~ work is performed. When the entity is not a publicly traded entity, the group ~~audit sustainability assurance~~ client includes related entities over which such entity has direct or indirect control and any other components at which ~~audit sustainability assurance~~ work is performed.

See also paragraph R400.22.

Group auditor firm The firm that expresses the opinion on the group financial statements

Group sustainability assurance firm The firm that expresses the opinion on the group ~~financial statements~~ sustainability information.

**Commented [KB18]:** Definition of 'firm' to be updated to encompass the types of practitioner / organisations that may undertake such work.

- Group audit team
- (a) The engagement team for the group audit, including individuals from component auditor firms who perform audit procedures related to components for purposes of the group audit;
  - (b) All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
    - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and
    - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;
  - (c) Any other individuals within a network firm of the group auditor firm's network who can directly influence the outcome of the group audit; and
  - (d) Any other individuals within a component auditor firm outside the

group auditor firm's network who can directly influence the outcome of the group audit.

- Group sustainability assurance team
- (a) The engagement team for the group auditor-sustainability assurance engagement, including individuals from component auditor-sustainability assurance firms who perform auditor-sustainability assurance procedures related to components for purposes of the group auditor-sustainability assurance engagement;
  - (b) All others within, or engaged by, the group auditor-sustainability assurance firm who can directly influence the outcome of the group auditor-sustainability assurance engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner-leader in connection with the performance of the group auditor-sustainability assurance engagement, including those at all successively senior levels above the group engagement partner-leader through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
    - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group auditor-sustainability assurance engagement; and
    - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group auditor-sustainability assurance engagement;
  - (c) Any other individuals within a network firm of the group auditor-sustainability assurance firm's network who can directly influence the outcome of the group auditor-sustainability assurance engagement; and
  - (d) Any other individuals within a component auditor-sustainability assurance firm outside the group auditor-sustainability assurance firm's network who can directly influence the outcome of the group auditor-sustainability assurance engagement.

Group engagement partner The engagement partner who is responsible for the group audit

Group engagement leader The engagement partner-leader who is responsible for the group auditor-sustainability assurance engagement.

Group financial statements Financial statements that include the financial information of more than one entity or business unit through a consolidation process

Group sustainability information ~~Financial Sustainability~~ statements that include the ~~financial sustainability~~ information of more than one entity or business unit ~~through a consolidation process~~

Key audit partner The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, engagement partners for certain components in a group audit such as significant subsidiaries or divisions.

Key sustainability assurance engagement leader The engagement ~~partner~~leader, the individual responsible for the engagement quality review, and other ~~audit partners~~persons, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the ~~audit sustainability assurance~~ of the ~~financial statements~~sustainability information on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the ~~audit~~sustainability assurance engagement, "other ~~audit partners~~persons" might include, for example, engagement ~~partners~~leaders for certain components in a group ~~audit sustainability assurance engagement~~ such as significant subsidiaries or divisions.

Review team

- (a) All members of the engagement team for the review engagement; and
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the review engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and

- (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.