

Le Président

IESBA
529 5th Avenue
New York, New York 10017
UNITED STATES OF AMERICA

To the attention of
Ms. Gabriela FIGUEIREDO DIAS, Chair

Paris, 10 June 2022

Reference: YOL/CG/CDA 20220183

Re: Comments on the IESBA ED on Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

Dear Chair,

The Compagnie Nationale des Commissaires aux Comptes (CNCC), the French institute of statutory auditors is pleased to provide the IESBA with its comments on the ED relating to the "Definition of Engagement Team and Group Audits".

Although we recognise that the ED provides some clarifications as to the applicable independence rules in the case of a group audit, we have two issues of major concerns:

1. Overall complexity of the proposals:

We consider that the proposals remain overly complex especially with respect to the various definitions of audit team and engagement team, and the implications of being a member of one or the other, in terms of which independence rules to be applied. The complexity of the ED is such, due to the many interactions with ISA 600 and with the other parts of the IESBA Code, that, even though we formed a group of highly knowledgeable practitioners to draft the response, we could not get a clear view as to which independence rules apply to a non-network firm and where it applies. Does the non-network firm need to be independent from the group, including its related entities? or does it need to be independent from the component? Is it different in the case where the group is listed, etc.? As presently drafted, we believe that the practitioners in non-network firms will have great difficulties to understand what applies to them.



2. Major concern on the application of the PIE independence rules to the non-network component auditor of a non-PIE component:

We have a major concern with **the application of the PIE independence rules to the non-network component auditor of a non-PIE component** when the Group is a PIE.

We consider that the necessity for imposing such an important change in requirement is not proven in terms of expected increase in audit quality. We also consider that this change would impose an unnecessary burden to non-network SMPs and would be detrimental to the audit market by further increasing market concentration.

Prior to imposing such a change in the code, the board should demonstrate that it is either necessary for the quality of the group audit or for the independence in fact or in appearance of the group auditor.

If the non-PIE independence rules are considered fit for purpose to allow the component auditor to issue an audit opinion on those financial statements to the Public, had they been single financial statements of the component, why would such non-PIE rules not be enough for the group auditor to rely on the work of the component auditor? In other words, why are the non-PIE independence rules sufficient for the Public and not for the group auditor?

The non-network component auditor does not have the same role and responsibility as the group auditor or its network firms. The non-network component auditor does not have access to the management or the governance of the group and is therefore unable to influence the positions taken either on the group financial statements or on the opinion on the group financial statements. It is therefore acceptable that a non-network component auditor may not be subject to the same independence rules as the network auditor.

A non-network auditor of a non-PIE component may be unable to apply PIE independence rules such as partner rotation and EQCR on the component. It may be an SMP which may not have any PIE client and therefore not be equipped accordingly.

In addition, not all components are material to the group audit. There can be groups with many components none of which are material (public parkings, retirement houses, hotels, etc.) and components may be scoped-in by the group auditor to have sufficient audit coverage of the group, even though they are not material. The new rule may therefore apply on immaterial components.

Therefore, we consider that the application of that new rule would have major implications on the audit market since it would lead to further market concentration in the audit by chasing non-network auditors away from the audit of non-PIE components in PIE Groups.

This would also have impacts on statutory audits for these entities since it would most likely irrevocably lead to the group asking for a change of the statutory auditor in the component to replace it by a network firm of the group auditor. In France, it is rather frequent to have non-network auditors in non-PIE components of a group. It can be the case, for example, as a consequence of external growth, when a group acquires existing entities which already have a statutory auditor that can be a non-PIE SMP. It is also linked to the fact that the statutory auditor in France has, by law, a 6-year engagement and is not allowed to resign during its 6-year engagement unless there is a proper justification anticipated by the law (change of group auditor



is not considered as a proper justification). It is therefore not a rare occurrence to have non-network component auditors in a PIE Group.

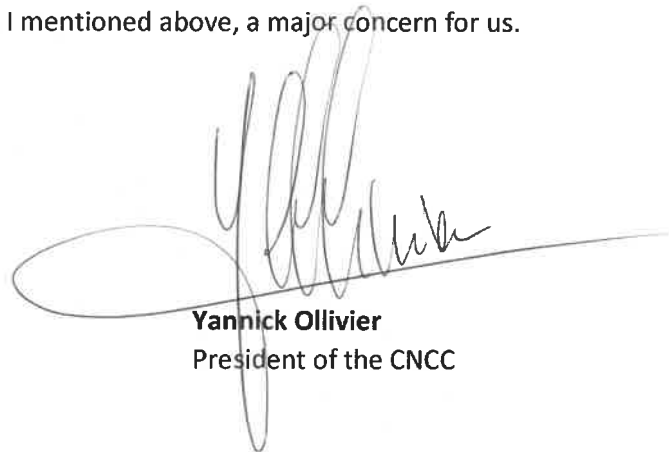
It can also be the case in larger pan European groups, due to the different duration applicable to audit firm rotation.

Because we consider that this proposal is not necessary to drive the quality of group audits and because of the practical implications which would irrevocably lead to further concentration in the audit market at a time when the legislator is seeking to increase choice in the audit market everywhere, the CNCC cannot support this proposal.

We are providing further detailed comments on other topics of the Exposure draft in the Appendix to this letter.

We hope you will find those comments useful. If you would wish to further discuss them, please do not hesitate to contact me. It is, as I mentioned above, a major concern for us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yannick Ollivier', is written over a large, light grey oval shape. The signature is fluid and cursive.

Yannick Ollivier
President of the CNCC

PJ : - Appendix: Detailed comments to the Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

APPENDIX

**Detailed comments to the
Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits**

Question 1

- (a) We struggled with the definitions which we find particularly complex and intricate.

It was first difficult to understand whether the engagement team was part of the audit team or whether it was the contrary. After thorough analysis we understand that the audit team is larger than the engagement team and therefore that the engagement team forms part of the audit team.

The complexity of these definitions may come from the fact that they do not stand alone and are not self-explanatory, since they require to be supplemented by application material 400.A to 400.D to be understood.

The intricacies of the definitions are clarified by the diagrams in the explanatory memorandum or in the various slide decks explaining the ED. Such diagrams should be included in the Code to help understand the definitions.

Understanding differences of rules that apply to engagement teams and audit teams or vice-versa are difficult to assess and should be more clearly referenced and explained.

- (b) We have the following comments on application material 400.A to 400.D:

- In 400.A (b), the drafting is unclear “another service provider” should be split from (b) to add a third bullet point (c);
- In 400.B, the definition of service provider is too wide. The expression “that provides a resource that is used in the performance of engagements” should be replaced by “that directly contributes to the engagements under the direction and supervision of the auditor;”
- In 400 .C when defining which experts are part of the engagement team (or the audit team - here again it is difficult to understand what difference is implied in terms of independence), some flexibility should be introduced when the consultation of the expert was not significant (less than 10 hours for example).

Question 2

We agree that the EQRs may be sourced from outside a firm and its network.

Question 3 and 4

As a matter of principle, we agree with paragraph R 405.3 which requires to apply the same independence rules to **individuals** who are members of the group audit engagement team (through being a component auditor for example), and this, irrespective of whether they are from a network firm (i.e., a firm from the Group auditor network) or from a non-network firm.

However, when it comes to the independence rules to be applied by **firms** engaged in a group audit, we strongly disagree with paragraph R 405.10 of the IESBA proposal which requires applying the PIE

independence rules to the non-network component auditor of a non-PIE component in a PIE Group especially for key audit partner and rotation rules (which by the way are mentioned as firm independence rules but apply to an individual).

As explained in our cover letter we consider that such a requirement is not necessary to allow proper reliance by the group auditor on the work of the component auditor and would be very detrimental to the audit market by further increasing market concentration.

It is neither necessary for the quality of the group audit nor for the independence in fact or in appearance of the group auditor.

Question 5

We agree.

Question 6

We disagree with paragraph 405.12 A1 since we disagree with the requirement of paragraph 405.10 to apply PIE independent rules to the component auditor of a non-PIE component of a PIE group.

We agree with paragraph 405.12 A2.

Question 7

No comment.

Question 8

We agree with the principles for the auditor to analyse the impact of breaches of independence and escalate them to those charged with governance to see whether they concur with the auditor's conclusion as to the significance (or not) of the breach. It is globally the same rationale as in the extant code.

In addition, we believe that the group auditor will not be able to identify breaches of independence of non-network component auditors and that in practice s/he will not be able to know whether the non-network component auditor of a non-PIE component has followed the PIE independence rules on the component or not.

Question 9

No comment.

Question 10

We agree.

