



National Association of State Boards of Accountancy

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International Ethics Standards Board for Accountants (IESBA)  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017

Via Website: [www.ethicsboard.org](http://www.ethicsboard.org)

**Re: *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits***

Dear IESBA Members and Staff:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the IESBA Exposure Draft on *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* (Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments on the Exposure Draft.

**Responses on Request for Specific Comments**

*Proposed Revised Definition of Engagement Team*

1. *Do you agree with the proposed changes to the Code related to the revised definition of ET, including: (see Chapters 1, 4 and 6)*

- (a) The revised definitions of the terms “engagement team,” “audit team,” “review team,” and “assurance team,” and*
- (b) The explanatory guidance in paragraphs 400.A - 400.D?*

- (a) NASBA agrees with the proposed revised definitions of the terms “engagement team,” “audit team,” “review team,” and “assurance team.”
- (b) NASBA believes that the explanatory guidance in paragraphs 400.A - 400.D will assist users in understanding and applying the Code.

*Independence Considerations for Engagement Quality Reviewers*

2. *Do you agree with the changes to the definitions of “audit team,” “review team,” and “assurance team” to recognize that EQRs may be sourced from outside a firm and its network (see Chapter 6)?*

NASBA agrees with the proposed change to add the phrase “or engaged by” to the definitions of “audit team,” “review team,” and “assurance team” and agrees that the independence rules should apply to engagement quality reviewers (EQRs) whether that individual comes from within or outside of the firm or its network,

*Independence in a Group Audit Context*

3. *Do you agree with the proposed new defined terms that are used in Section 405 in addressing independence considerations in a group audit (see Chapters 1 and 6)?*

NASBA agrees with the newly defined terms used in Section 405. Aligning the Code with ISA 600 (Revised) provides a necessary linkage between the Code and International Auditing Standards.

4. *In relation to the proposals in Section 405 (Chapter 1), do you agree with the principles the IESBA is proposing for:*  
*(a) Independence in relation to individuals involved in a group audit; and*  
*(b) Independence in relation to firms engaged in a group audit, including CA firms within and outside the GA firm’s network?*

(a) NASBA agrees with the principles being proposed that align the definition of engagement team (ET) with the definition of ET in ISA 220 (Revised).

(b) NASBA agrees with the proposal that individuals involved in a group audit (GA) be independent of the audit client, including applicability of independence requirements by component audit (CA) firms within and outside the GA firm’s network. However, we have some reservations about the practicality of non-network CA firms effectively complying with the independence requirements for public interest entities (PIEs) or non-PIEs, as applicable to the group audit. We believe it would be helpful to add clarifying language for situations where the CA is potentially a PIE and under a non-PIE umbrella.

5. *Concerning non-network CA firms, do you agree with the specific proposals in Section 405 regarding:*  
*(a) Financial interest in the group audit client; and*  
*(b) Loans and guarantees?*

- (a) NASBA agrees with the proposal that prohibits non-network CA firms from holding a direct or material indirect financial interest in the entity that controls the audit client, regardless of whether the audit client is a PIE.
- (b) NASBA believes that the conceptual framework (CF) provides a sufficient principles-based approach to identify, evaluate and address independence threats that might be created with respect to non-network CAs.

#### *Non-Assurance Services*

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

NASBA believes that the proposed application material is sufficiently clear and appropriate in the instance where the group audit client is a PIE and a non-network CA firm provides non-assurance services (NAS) to the component audit client even if the component audit client is a non-PIE.

#### *Changes in Component Auditor Firms*

7. *Is the proposed application material relating to changes in CA firms during or after the period covered by the group financial statements in proposed paragraph 405.13 A1 – 405.13 A2 sufficiently clear and appropriate?*

NASBA believes that the application materials relating to changes in CA firms during or after the period covered by the group financial statements are sufficiently clear and appropriate.

#### *Breach of Independence by a Component Auditor Firm*

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

NASBA believes that the process proposed by IESBA is appropriate when there is a breach of independence by a non-network CA. Notification of the group engagement partner (GEP) by the non-network CA is an essential component of the process. Ultimately, it is the responsibility of the GEP to determine the significance of the breach and what, if any actions may be taken to use the work of the non-network CA. It is also appropriate for the GA firm to notify those charged with governance (TCWG) of the breach at the CA firm and the remedial actions taken by the GA firm, if any. Similarly, NASBA supports IESBA's proposal to prohibit the GA firm from using the work of the CA firm for purposes of the group audit if TCWG do not concur with the GA firm's assessment.

*Proposed Consequential and Conforming Amendments*

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

NASBA believes that for ease of consistency, it is important that the Code align with ISA 600 (Revised) terminology and, accordingly, agrees with the proposed conforming amendments.

NASBA understands IESBA's views related to the proposed consequential amendments to the Code that result from the finalization of IAASB's suite of quality management standards and agrees that simply replacing the term "quality control" with "quality management" would unnecessarily broaden the scope of those impacted by the change.

*Effective Date*

10. *Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISA 600 (Revised) on the assumption that the IESBA will approve the final pronouncement in December 2023?*

NASBA supports the proposed effective date of the final provisions with the effective date of ISA 600 (Revised).

**Responses on Request for General Comments**

*Small- and Medium-sized Entities (SMEs) and SMPs*

NASBA believes that it is important to continually assess the impact that proposed changes to the Code may have on small- and medium- sized entities (SMEs) and small- and medium- sized practices (SMPs) within the context of public protection.

*Regulators and Audit Oversight Bodies*

NASBA understands the philosophy of setting principles-based standards and recognizes that such standards can be more challenging to enforce by regulators due to the greater level of judgement that can be implicit in their implementation. NASBA supports the proposed changes to the Code and believes the provisions of the proposed Code are clear and will likely be enforceable by regulatory bodies, including those responsible for performing inspections.

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We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

Handwritten signature of W. Michael Fritz in black ink, featuring a stylized 'W' and a long horizontal flourish.

W. Michael Fritz, CPA  
NASBA Chair

Handwritten signature of Ken L. Bishop in black ink, written in a cursive style.

Ken L. Bishop  
NASBA President and CEO