

Engagement team

Background

The existing definition of engagement team is:

“All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.”

As noted in the Explanatory Memorandum, the IESBA understands that the existing definition may have unintended consequences because “any experts contracted by the firm” is broad. In an audit there are potentially many different “experts” who could be contracted by the firm, ranging from an individual who works closely with the team throughout the audit to an individual, usually on behalf of the organization they represent, who has no contact with the engagement team but does provide information about a particular matter (for example, an external lawyer who provides a legal opinion about a particular matter). The IESBA was of the view that it would be inappropriate to treat all such experts as members of the engagement team.

As noted in the Explanatory Memorandum, the IESBA was of the view that the definition of engagement team should be broader than partners of the firm and staff employed by the firm who serve on the team. Firms engage individuals (who may themselves be an expert in a particular field, such as a valuations specialist) to perform audit support activities that might otherwise be performed by partners or staff of the firm.

Also, firms often contract with outside audit professionals at times of peak activity to supplement staff levels. The IESBA is of the view that such individuals should be considered to be part of the engagement team because they are performing functions that would otherwise be performed by a partner or staff of the firm. The individual’s legal relationship with the firm should not be the factor that determines whether or not he or she has to comply with independence requirements.

Accordingly, the IESBA exposure draft proposed amending the definition to read:

“All partners and staff performing the engagement and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm.”

Discussion

Comments Received

25 respondents commented on the proposed revised definition. One respondent (CGA – Canada) agreed with the proposed definition and one respondent (CARB) was of the

June 2007 – Berlin, Germany

view that no change was needed to the existing definition but more guidance should be included on the independence of experts.

The majority of respondents who commented on this area were of the view that position of experts was not clear. They felt that the proposed definition was too broad. For example:

- *“...we believe the definition is unclear and could have the unintended consequence of causing firms to include as a member of the engagement team an external expert, such as a valuation, tax, or actuarial expert, who provides advice that the firm relies on during the audit...” AICPA*
- *“...the reference to ‘services on the engagement that might otherwise be provided by a partner or staff of the firm’ could mean that many external experts such as actuaries and lawyers are brought within the definition.” APB*

Six respondents expressed the view that only experts who perform audit procedures should be considered to be part of the engagement team and therefore subject to the independence requirements in Section 290 and 291. Seven respondents were of the view that no external experts should be on the engagement team. In their view such experts should not be subject to the independence requirements rather the objectivity of the expert would be assessed in determining whether reliance was warranted.

Six respondents noted that the definition of engagement team is also used in the ISAs (ISQC1 and ISA 220) and an IAASB Task Force is revising ISA 620 tentatively re-titled “Using the Work of an Auditor’s Expert.” These respondents expressed the view that the definitions used by the IAASB and the IESBA should be the same.

Liaison with IAASB

The IESBA has liaised with the IAASB in the development of the definition. The matter was last discussed by the IESBA at its December 2006 meeting when the IESBA approved the exposure draft. As noted in the December 2006 minutes:

“[Ms Rothbarth] indicated that, subsequent to the posting of the agenda papers, further input from the Experts Task Force of the International Auditing and Assurance Board (IAASB) had been received which expressed some concern that the definition was too broad because it would include all external experts if that expertise might otherwise be provided by a partner or staff of the firm – for example an external actuary. To address this concern she indicated that the Board may wish to consider a shorter definition which such as:

“All partners and staff performing the engagement.”

The Board discussed the issue and the revised proposal, it was noted that the legal relationship of an individual with the firm should not be the factor which

June 2007 – Berlin, Germany

determines whether or not that individual is subject to independence requirements. It was further noted that if an external actuary worked as part of the team performing the engagement that individual should be subject to the same independence requirements as an internal actuary. The Board concluded that the definition as presented in the agenda papers was appropriate. It was further agreed that the Explanatory Memorandum should outline the thinking on the Board on this issue.”

A member of the IAASB Experts Task Force met with the Independence Task Force during its meeting in Toronto to explain the views of the IAASB TF and to provide an overview of the approach proposed in the IAASB ED.

The draft ISA deals with the auditor’s use of the work of “a party possessing expertise in a field other than accounting or auditing, who is employed or engagement by the auditor to assist the auditor to obtain sufficient appropriate audit evidence.

The following draft definitions in the ISA are relevant to the IESBA consideration of the definition of engagement team:

Auditor’s expert – A party, possessing expertise in a field other than accounting or auditing, employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate audit evidence.

Expertise – Specialized skills, knowledge and experience in a particular field.

Auditor’s external expert – An auditor’s expert who is engaged, not employed, by the auditor.

The draft ISA states that:

“If expertise in a field other than accounting or auditing is required to obtain sufficient appropriate audit evidence, the auditor shall determine whether it is necessary to use the work of an auditor’s expert and, if so, the auditor shall use the work of an auditor’s expert who has the necessary capabilities, competence and objectivity.”

The draft ISA contains the following application guidance with respect to the requirement that the auditor’s expert have the necessary capabilities, competence and objectivity:

“When considering the auditor’s expert’s objectivity, it may be relevant to consider any independence requirements that apply to the expert. In the absence of such requirements, it may be helpful for the auditor to obtaining a written

June 2007 – Berlin, Germany

representation from an auditor's external expert that details any known interests or relationships with the entity, such as:

- Financial interests.
- Business relationships.
- Employment – past, present or future.
- Family and personal relationships.

Similarly, obtaining a representation from the entity that details any known interests or relationships with the auditor's external expert may be of assistance."

The IAASB discussed this issue at its April 2007 meeting and shares the views expressed by some respondents to the December Exposure Draft that an external expert should not be a member of the engagement team and thus subject to independence requirements, rather the auditor should make an assessment of the objectivity of the expert.

The Task Force recognizes that the involvement an expert might have falls on a wide spectrum – ranging from consultation on a specific issue to working directly with members of the engagement team. The Task Force recognizes the view that an expert who is working closely and directly with the engagement team should be treated as part of the team. Such an individual would be working under the direction and supervision of the engagement partner, would be performing auditing procedures and would likely be indistinguishable from other members of the team. This view, as expressed in the explanatory memorandum, is that an individual's legal relationship with the firm should not be the determining factor as to whether that individual should be subject to the independence requirements in Section 290/291.

The Task Force has developed two alternative definitions of engagement team:

- A narrower definition which excludes all external experts but includes individuals, who are not staff of the firm, but are engaged by the firm to perform audit work (for example, many firms engage individuals at busy season be a senior or manager on the job; and
- A definition which would include those experts that are working in effect as part of the team.

Alternatives

Alternative 1

"Partners and staff performing the engagement and any individuals engaged by the firm who provide services on the engagement. This excludes auditor's experts engaged by the firm."

Under this approach, the Code would also contain the IAASB definition of auditor's expert: "A party, possessing expertise in a field other than accounting or auditing, employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate

June 2007 – Berlin, Germany

audit evidence.” The objectivity of these external experts would be assessed under ISA 620.

The Task Force is of the view that if this alternative was adopted the guidance in ISA 620 on the assessment of objectivity would need to be rigorous, in particular, with respect to those external experts who perform audit procedures.

Alternative 2

“All partners and staff performing the engagement and any individuals engaged by the firm to perform audit procedures under the direction and supervision of the engagement partner.”

Under this approach those experts performing audit procedures under the direction and supervision of the engagement partner would be part of the team. Audit procedures are described in ISA 500 as inspection of records or documents, inspection of tangible assets, observation, inquiry, confirmation, recalculation, reperformance and analytical procedures. Such a definition would include, for example, an external actuary engaged by the firm if that actuary was performing audit procedures under the direction and supervision of the engagement partner.

Action requested

Members are asked to consider the alternative definitions presented and provide feedback to the Task Force.

Members are also asked whether it would be appropriate to have a cross-reference from the Code to the draft ISA. Such a cross-reference would act as a reminder that in addition to any independence requirements if an auditor’s expert is used the ISAs require the auditor to use an expert that has the necessary capabilities, competence and objectivity.

Appendix 1**Summary of Comments Received**

	Member Bodies	Firms	Regulators	Gov't Orgs	Others
Agrees with definition	CGA Canada				
Keep existing definition					CARB
Experts who perform audit procedures should be on the team	WpK, NIVRA,				CCAB, ACCA, ICAS, IRBA, SMP
“External” experts should not be part of the team – their objectivity should be assessed	IDW, AICPA, ICANZ	PwC, DTT, GT, SMP			
Should be clear if an actuary is part of the team			Basel, CEBS		
Definitions in the Code and used by ISAs should be consistent	Australia	Mazars, KPMG	Basel		FEE, APB
Other	ICAIIndia, ICAP				