

Engagement Team Definition

Background

As noted in the Explanatory Memorandum to the exposure draft, the IESBA understood that the existing definition may have unintended consequences because “any experts contracted by the firm” could be interpreted quite broadly. 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.

The IESBA was also 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.”

At the Berlin IESBA meeting, the Board considered the comments received on the definition of engagement team. The majority of respondents who commented on the proposed revised definition of engagement team were of the view that the position of experts was not clear. Some 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. Some 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. Many respondents expressed the view that the definition used in the Code should be consistent with the definition used by the International Auditing and Assurance

Board (IAASB). In developing a proposed definition, there has been significant liaison with the IAASB Experts Task Force and the IAASB itself.

The Task Force developed two alternative definitions of engagement team that were presented to the IESBA in Berlin:

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

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

The IESBA discussed the two alternatives developed by the Task Force and the following points were noted:

- Under the narrower definition, external experts who work very closely with the engagement team (such as those who are involved in the planning of the engagement and at all other key stages) would not be subject to the same independence requirements as partners and staff of the firm even though the external experts may be performing the same role;
- Under the narrower definition, an external tax expert contracted by the firm to assist with the audit of the tax provision would not be part of the engagement team;
- The response from the Basel Committee on Banking Supervision expressed the view that external actuaries performing significant services should be part of the team. It would be useful to discuss any proposed change in the definition with the Basel Committee;
- The phrase “perform audit procedures” is clearer than “provide services on the engagement.”

The IESBA agreed that the revised definition should be the narrower one, subject to the comments above, provided that the guidance on the assessment of the external expert’s objectivity was sufficiently robust in the revised ISA 620.

Discussion

The Task Force has continued to liaise with the IAASB in the development of ISA 620. In August, the IAASB’s Experts Task Force shared with the Task Force a draft of proposed changes to the ISA that were thought to be responsive to the views of the IESBA. The Task Force considered whether the guidance on the external expert’s objectivity was strong enough and suggested some further revisions.

Included on the IAASB's agenda for its September 24-28, 2007 meeting is a proposed revised ISA 620 that the Board will be asked to approve for exposure. A copy of this draft is attached to this agenda paper. *If there are any relevant changes at the IAASB meeting this will be communicated to the IESBA at the meeting in Toronto.*

The proposed definitions contained in the draft ISA 620 include the following:

- *Expert* – a person or organization, possessing expertise in a field other than accounting or auditing.
- *Auditor's expert* – an expert employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate audit evidence.
- *Auditor's external expert* – an auditor's expert who is engaged, not employed, by the auditor. An auditor's external expert is not a member of the engagement team.

As used in the draft ISA 620, the term *auditor's expert* may include both individual who are employed by or are members of the firm, as well as individuals contracted by the firm to provide expertise in a field other than accounting or auditing. Given the IESBA's conclusion in Berlin, the Experts Task Force excluded an auditor's external expert from being a member of the engagement team.

The Task Force considered the draft ISA 620 with a view toward determining whether the guidance on assessing the objectivity of the external expert was sufficient. Paragraph 9 of the draft requires the auditor to assess, among other things, the objectivity of the expert. The requirements in the draft include the following with respect to external experts:

In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity.

The draft ISA 620 also contains additional guidance related to the evaluation of the expert's objectivity in the section entitled *Application and Other Explanatory Material*. In particular, paragraphs A11 – A17 address the auditor's expert's capabilities, competence and objectivity. The Task Force provided detailed comments on an earlier draft and the Experts Task Force has reflected that input in the final draft to be discussed by the IAASB at its September meeting.

The Task Force has reviewed the changes to the earlier draft and is of the view that the current draft contains guidance that is sufficiently robust to support excluding auditor's external experts from the definition of engagement team. The requirements in the standard provide that in the case of an auditor's external expert, the auditor is required to evaluate the objectivity by inquiring about interests and relationships that may create a

threat to independence. (see paragraph 9). The explanatory material includes the following points that the Task Force believes are important:

- A reminder that auditor's experts who are not external to the firm are deemed part of the engagement team (see paragraph A4) and are required to be independent under the Code (see paragraph A11).
- The threats included in the Code are listed as threats to objectivity (see paragraph A15).
- The guidance provides that there may be circumstances where the threats are so significant that there are no safeguards that could reduce them to an acceptable level (see paragraph A15).
- The circumstances creating threat to the external expert's objectivity include those categories that are included in Section 290 of the Code (see paragraph A16).
- The guidance indicates that it may be appropriate to obtain a written representation from the external expert about the circumstances that may threaten the expert's objectivity (see paragraph A16).

After reviewing the draft ISA 620 and concluding that it was sufficient, the Task Force considered the revisions to definition of engagement team that had been included in the exposure draft. The Task Force is of the view that the definition should include not only partners and staff who perform the engagement but others who perform assurance procedures on the engagement if such individuals are engaged by the firm or a network firm. By using the term "engaged", the Task Force intends that both partners and staff who are experts in the firm would be considered engagement team members if they perform assurance procedures on the engagement. If the experts are external to the firm, they would not be subject to the requirements of section 290 of the Code; rather, the auditor would be required to assess their objectivity in accordance with ISA 620 and the guidance therein.

The definition of engagement team proposed by the Task Force is:

All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes auditor's external experts engaged by the firm or a network firm.

Action requested

IESBA members are asked to consider the definition presented and provide feedback to the Task Force.

IESBA 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.

Attachment to Paper

Proposed ISA 620 (Revised and Redrafted) Using the Work of an Auditor's Expert