

Engagement team

Background

The existing definition of engagement team contained in the Code 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

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

Seven 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 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 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.

Alternatives considered

The IESBA considered 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 to 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.

The IESBA concluded that a narrower definition was an appropriate position, provided that the proposed revised ISA 620 was sufficiently robust with respect to assessing the objectivity of experts – and in particular the assessment of the objectivity of those experts whose work was significant in the context of the audit.

Subsequent to the June IESBA meeting, the Task Force has communicated with the IAASB Experts Task Force and has provided comment on the draft ISA 620 to strengthen the auditor's assessment of the objectivity of experts. The Task Force has also developed the following revised definition of engagement team which it will recommend to the IESBA at its meeting in October:

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

Action requested

CAG Members are asked to consider the direction of the IESBA and the recommendation of the Task Force.

Appendix 1

Summary of Comments Received

	Member Bodies	Firms	Regulators	Gov't Orgs	Others
Agrees with definition	CGA Canada				
Keep existing definition and clarify intent					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, IOSCO		FEE, APB
Other	ICAIndia, ICAP				