

Definition of Engagement Team—Summary of Significant Comments on Exposure and IESBA and IAASB Responses**Background, Project Status and Timeline**

1. The International Auditing and Assurance Standards Board (IAASB) initiated its project to revise ISA 610¹ in March 2009 to reflect developments in the internal audit environment and changes in practice regarding the interactions between external and internal auditors. At the same time, there was a strong need to address the ambiguity in the scope of the extant ISA 610 regarding the use of internal auditors to provide direct assistance on the external audit (DA).
2. Given the linkage with the IESBA *Code of Ethics for Professional Accountants* (the Code), the IAASB extended an invitation to the IESBA to appoint a representative on the IAASB Task Force. The IESBA accepted the invitation and IESBA Member Robert Franchini joined the IAASB Task Force as a correspondent member.
3. The IESBA subsequently considered the matter of DA and whether DA is appropriate given that internal auditors providing DA are not independent of the audit client. The IESBA concluded that the threats and safeguards approach being proposed by the IAASB Task Force (by which the external auditor would perform additional review and supervision of the internal auditors' work) gave adequate recognition to the fact that internal auditors are not independent of the audit client, thus meaning that the Code would not present an obstacle to the use of DA in accordance with the proposed ISA. Accordingly, the IESBA concluded that the definition of engagement team did not need clarification.
4. The IAASB issued its exposure draft (ED) of the proposed revised ISA 610² in July 2010. In addition to addressing the use of the work of the internal audit function, the ED set out clearly the external auditor's responsibilities where DA is used, and included requirements and guidance to ensure that DA is used only in appropriate circumstances.
5. Almost all the respondents agreed with the IAASB that it is undesirable for the ISAs to continue to be silent on the matter of DA and that the ambiguity regarding whether or not external auditors are permitted to use DA should be resolved. However, respondents' views on whether the ISAs should permit DA were polarized. Regulators and oversight bodies expressed the least support for permitting DA, with some expressing strong concerns.
6. Recognizing that DA is established practice in some jurisdictions, many of the respondents agreed that the proposed ISA should address it so that appropriate limitations and safeguards can be put in place regarding its use. Those respondents who accepted the use of DA generally felt that such a practice should be restricted to more limited circumstances than the use of the work of the internal audit function. Among the reasons cited, respondents were most concerned that DA appeared to be in conflict with the Code. In particular, it was felt that internal auditors performing external audit procedures at the direction of the external auditor would, in effect, be part of the engagement team and the Code requires that the engagement team be independent of the audit client.

¹ ISA 610, *Using the Work of Internal Auditors*

² Proposed ISA 610 (Revised), *Using the Work of Internal Auditors*

7. In light of the comments the IAASB received on exposure, the IESBA concluded that an IESBA Task Force should be formed to consider the comments related to DA and the definition of engagement team (ET). Pursuant to the IESBA's invitation to the IAASB to appoint a representative on the ET Task Force, the ISA 610 Task Force Chair, Diana Hillier, joined the IESBA Task Force as a correspondent member.
8. At its October 2011 meeting, the IESBA considered the issues raised by the ET Task Force and the IAASB's related responses at the September 2011 IAASB meeting. The IESBA recommended that the following changes be made to the proposed ISA:
 - Requiring the auditor to communicate to those charged with governance the planned use of DA;
 - Modifying the ET definition to explicitly scope out internal auditors providing direct assistance; and
 - To be more consistent with the Code, modifying the requirement regarding the prohibition of using DA when there are significant threats to the internal auditor's objectivity, to prohibit the external auditor from using DA if the threats to objectivity cannot be reduced to an acceptable level.
9. The IAASB Task Force Chair, who attended this IESBA meeting, reported that at its September 2011 meeting the IAASB had supported most of the IESBA Task Force's proposals. With respect to the last recommendation, however, the IAASB had noted that the requirements in the ISAs, while often giving effect to a threats and safeguards model, have not directly introduced that concept nor used that terminology. The IAASB was of the view that the proposed requirements regarding DA collectively achieved the same objective.
10. Throughout its development of its ED and subsequent consideration of the ED responses, the IAASB had consulted with the IAASB Consultative Advisory Group (CAG). In addition, in September 2011, IAASB leadership met with the European Audit Inspection Group (EAIG), in the context of the comment letter on the ISA 610 ED from a subgroup of 14 EAIG members, to:
 - Provide an overview of the IAASB's deliberations in its project, the inputs received, its interactions with the IESBA, and the significant issues arising on the ED; and
 - Explain the proposed way forward in terms of further strengthening of the tone of, and messaging and safeguards built into, the revised wording of the proposed ISA.

The majority of the EAIG members expressed general satisfaction with how the IAASB was proposing to address the significant concerns from the subgroup of 14 EAIG members. Some EAIG members did, however, express interest in the outcome of the IESBA deliberations on DA.
11. At its December 2011 meeting, having duly considered the IESBA's comments and suggestions, the input received from the IAASB CAG and the feedback from EAIG, the IAASB finalized the wording of the proposed ISA 610 (Revised), including the DA provisions (see Agenda Item 1-B, which also includes further changes agreed at the IAASB's December 2012 meeting).
12. Recognizing (a) the need for the IESBA to adhere to its own due process in proposing a change to the ET definition, and (b) the public interest in timely release of strengthened requirements in relation to the external auditor's use of the work of the internal audit function, the IAASB decided to submit to the Public Interest Oversight Board (PIOB) for its consideration of due process the final ISA 610

(Revised) without the DA provisions. The IAASB agreed that this course of action would help avoid any risk of perception of the ISAs and the Code being in conflict when the revision is released.

13. In its submission to the PIOB, the IAASB noted that it had concluded, having taken into account stakeholder responses to the ISA 610 ED, not to prohibit DA provided that appropriate limitations and safeguards are put in place in the standard. The IAASB also noted to the PIOB that it had engaged with the IESBA closely throughout the project to ensure that adequate safeguards regarding the use of DA are built into the final ISA 610 (Revised).
14. The revised ISA 610, minus the DA provisions, was released as a final standard in March 2012 (together with related amendments to ISA 315)³ after the PIOB's confirmation of due process and its due consideration of, and concurrence with, the approach taken by the IAASB to finalize the DA provisions.
15. At its February 2012 meeting, the IESBA expressed satisfaction that the changes made by the IAASB to the proposed ISA with respect to DA were consistent with what the IESBA had proposed. Among other matters, the IESBA noted that the proposed ISA is responding to an existing practice and that the constraints built into it would help keep use of DA at a level that safeguards the external auditor's ability to exercise appropriate professional skepticism. Accordingly, the IESBA approved the following amended definition of ET for exposure:

Engagement team—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 external experts engaged by the firm or by a network firm. It also excludes individuals within an audit client's internal audit function providing direct assistance on the engagement in accordance with ISA 610 Using the Work of Internal Auditors.

16. At their December 2012 meetings, both the IESBA and IAASB considered the significant comments received on the ET ED. In response to those significant comments, and as a result of coordinating their discussions:
 - The IESBA tentatively agreed amendments to the proposed ET definition as set out in Appendix 1. The IESBA, however, did not take a final vote on the revised definition pending consultation with the IESBA CAG; and
 - The IAASB tentatively agreed limited amendments to the DA material in ISA 610 (Revised) as set out in Agenda Item 1-B. The IAASB, however, did not take a final vote on those limited amendments pending the IESBA's final vote on the revised ET definition.
17. Subject to the IESBA CAG discussion, the IESBA anticipates considering a final vote on the ET definition at a teleconference to be scheduled at the end of January 2013. Subject to that vote, the IAASB anticipates considering a final vote on the Direct Assistance material in Agenda Item 1-B at its February 2013 meeting. In addition, it is expected that the IAASB would make a similar amendment to the ET definition in the ISAs and ISQC 1⁴ for purposes of alignment with the Code.

³ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁴ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Overview of Responses

18. The comment period for the ET ED closed on May 31, 2012. Forty six responses were received. The table below highlights broadly the balance of support for the proposed change to the definition. Appendix 2 provides a detailed listing of the respondents and an indication of whether they support the proposal.

Category of Respondent	Supportive	Some Concerns	Not supportive
IFAC Member Bodies	24	2	2
Firms	6	0	0
Regulators and Public Authorities	1	1	2
Individuals & Others	1	0	1
Other Professional organizations	5	1	0
Total	37	4	5

19. It is clear that the overwhelming majority of the respondents are supportive of the proposed change. However, a minority have indicated that they do not support it. In addition, while accepting the proposal in principle, a few other respondents have raised some concerns.
20. The significant comments raised by respondents are summarized below together with the IESBA and IAASB Task Forces' related recommendations, which have been agreed to by both Boards at their December 2012 meetings.

Interactions with Respondents from the Regulatory and Oversight Community

Teleconferences with IOSCO

21. Representatives of both IESBA and IAASB Task Forces held a joint teleconference with IOSCO representatives on November 7, 2012 to discuss the significant concerns raised by IOSCO on the ET ED. The IAASB Task Force representatives took the opportunity to explain how the IAASB had responded to IOSCO's concerns in the final wording of the complete ISA 610 (Revised). A mapping document was provided to the IOSCO representatives for this purpose, showing how the DA provisions in ISA 610 (Revised) had evolved from the original ED to the final wording agreed by the IAASB at its December 2011 meeting. The mapping document is provided for reference as Agenda Item 1-C (which has been updated to incorporate the further changes agreed at the IAASB's December 2012 meeting).
22. In addition to the mapping document, a separate summary showing paragraph references in the final ISA 610 wording to where specific IOSCO comments had been addressed (see Agenda Item 1-D, again updated for the further changes agreed at the IAASB's December 2012 meeting) was subsequently provided to the IOSCO representatives for their information, together with a clean version of the final ISA 610 (Revised) wording incorporating the DA provisions separately highlighted.

23. Representatives of the IESBA and IAASB Task Forces held a second joint teleconference with IOSCO representatives on November 26, 2012 to consider IOSCO's reactions to the information that had been provided to them in connection with the November 7th teleconference. Among other matters, individual IOSCO representatives made the following comments:
- While some IOSCO member organizations hold strong views against the use of DA – even to the point of believing that such use should be banned – such views are not universally held within IOSCO. Accordingly, the IOSCO representatives were not suggesting that the proposed ISA ban the practice. On the other hand, they did not believe the ISA should encourage widespread use of DA.
 - In relation to the proposed requirement in paragraph 33(b) of the final ISA 610 wording that the external auditor's review procedures include the "external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors," it was important that the external auditor check back to the original source within the entity. Reviewing photocopies of underlying documentation that the internal auditors have retained on file would not be sufficient; rather, it would be expected that the external auditor would go further and inspect the original source documentation.
 - The safeguard in terms of evaluating the totality of procedures performed by internal auditors to ensure that they do not form a significant portion of the total audit work seemed more directed at the use of the work of the internal audit function than the use of DA. Indeed, such evaluation should take into account the aggregate total of the use of the work of the internal audit function and the use of DA.
 - The requirements in relation to evaluating the objectivity of internal auditors providing DA are at too high a level when compared with the detailed objectivity requirements that apply to actual engagement team members. Even the most junior ET members who perform procedures in similarly low risk or low judgment areas are required to meet the detailed requirements in the Code. The same benchmark should, therefore, be set for internal auditors providing DA who would be doing the same work.
 - Also, the requirements in relation to objectivity are built into a threats and safeguards model, and there are concerns about the robustness of this model given evidence from inspections of its inconsistent application in practice.
 - It would be helpful to have more prescription in terms of evaluating the significance of threats to objectivity – the current requirement in paragraph 28(a) of the final ISA wording appears too general.
 - The guidance in paragraph A32 of the final ISA wording describing factors that may be relevant in evaluating the existence and significance of threats to an internal auditor's objectivity, while helpful, is not enforceable.

Meeting with EAIG

24. Both IAASB and IESBA representatives had the opportunity to provide an update on the progress of the ISA 610 and ET projects at the November 15, 2012 EAIG meeting. Among other matters, a few EAIG representatives made the following comments:
- The proposed change to the ET definition does not resolve the issue of the use of DA being in

conflict with independence requirements.

- While accepting that ISA 610 is not setting out to promote the use of DA, there is a potential unintended consequence of the standard actually communicating that it is acceptable.
- The public interest rationale for addressing DA in ISA 610 is unclear.
- While regulators are endeavoring to strengthen independence standards, the IESBA's and IAASB's proposals appear to be undermining these efforts.
- The IAASB should further reflect on whether the requirements in ISA 610 (for example re-performance) are sufficiently strong against pressures from audit clients to use DA to lower audit fees.
- The Boards should be aware of the global implications of the proposals, particularly the potential need for some jurisdictions to introduce legislation to prohibit DA if the proposals remain substantially unchanged.

Significant Comments Arising on the ET ED

A. CONFLICT BETWEEN DIRECT ASSISTANCE AND INDEPENDENCE

25. Four respondents⁵ did not support the proposal as they are of the view that DA fundamentally conflicts with the principle of independence because internal auditors providing DA are not independent of the audit client. One of the respondents,⁶ in particular, argued that the competence and objectivity of these internal auditors are not subject to the same level of regulation that applies to external auditors. Further, the respondent expressed the view that the audit client could put undue pressure on the external auditor to use DA to reduce the audit fee. It also believes that it is conceptually inappropriate to exclude internal auditors from the engagement team definition when their work would be expected to be subject to the same direction, supervision and review as work performed by ordinary engagement team members.
26. A similar concern was shared by another respondent⁷ who questioned whether, in reaching its conclusion on the proposed amended definition, the IESBA had considered that from a functional perspective internal auditors providing DA, as defined, are performing procedures under the direction, supervision and review of the external auditor. The same respondent, however, also noted that where DA is permitted, it should be subject to specific objectivity requirements and the application of appropriate safeguards and professional skepticism to mitigate independence concerns. The respondent suggested that the IESBA more explicitly state that its guidance is provided to assist an external auditor conduct its work in situations in which DA from internal auditors is allowed, vs. being provided to establish or imply whether such assistance is appropriate.
27. Two respondents⁸ commented that both IESBA and IAASB projects could have benefited from both Boards jointly discussing the broader notion of objectivity.
28. Two other respondents objected to the proposal on the following grounds:

⁵ IDW, ICAC, WpK, and a group of 11 European audit regulators (the latter representing Czech Republic, France, Luxembourg, Malta, The Netherlands, Norway, Portugal, Romania, Slovenia, Spain and Switzerland)

⁶ The group of 11 European audit regulators

⁷ IOSCO

⁸ IOSCO and EAIG

- (a) DA creates a conflict of interest with the external auditor's objectives which is difficult or impossible to eliminate.⁹
 - (b) There is a lack of public interest justification for explicitly permitting DA.¹⁰
29. Another respondent,¹¹ however, expressed support for the proposal, noting that the revised ISA 610 recognizes the need to ensure that the objectivity of the external auditor is not impaired by the use of DA and that the revised ISA consequently establishes significant additional requirements for such situations. The respondent expressed the view that the safeguards provided by these new requirements are sufficiently robust to ensure that the objectivity of the external auditor is not undermined when internal auditors are used in a DA capacity.
30. One respondent,¹² while supporting the proposal, expressed concern regarding the potential for external auditors to use internal auditors more frequently to complete their audit work.

Task Forces' and Boards' Responses

31. In undertaking its project to revise ISA 610, the IAASB had noted that in some jurisdictions internal auditors are not prohibited from providing DA under the direction, supervision, and review of the external auditor. Because the extant ISA 610 explicitly states that it does not deal with such instances,¹³ the IAASB had recognized the ambiguity that exists regarding whether this meant that the IAASB does not support the use of DA, or whether DA is simply not addressed in the scope of the ISA. The IAASB had, however, noted that national auditing standards of a number of jurisdictions allow for DA, and it is common practice in many, although in others it is not allowed. The IAASB had therefore concluded that it would *not* be in the public interest to allow continued ambiguity about its intent.
32. The IAASB had also acknowledged the concerns of some stakeholders about threats to the independence of the engagement team (in fact or perceived) when internal auditors provide DA. The IAASB had taken the view that safeguards can be put in place, through adequate direction, supervision, and review, to ensure that DA is used only in appropriate areas, and that the external auditor can address possible risks to audit quality arising from the fact that internal auditors are not independent of the audit client. Therefore, in the ISA 610 ED, the IAASB had proposed to establish requirements and guidance to ensure that DA is obtained only in appropriate circumstances and to clearly set out the external auditor's responsibilities in such cases, including the required involvement of the external auditor.
33. The IAASB had also carefully considered the fact that in some jurisdictions DA is explicitly prohibited by law or regulation. The ISA 610 ED therefore acknowledged this fact. It also explained that prohibitions or restrictions regarding the use of the work of internal auditors will not prevent the external auditor from complying with the ISA because the proposed requirements do *not* require or encourage the external auditor to use, or to consider using, DA.
34. In analyzing the potential impacts of its ED proposals regarding DA, the IAASB had concluded that

⁹ ICAC

¹⁰ IDW

¹¹ EYG

¹² APESB

¹³ ISA 610, paragraph 2

a positive impact on audit effectiveness may simply arise through recognizing that DA is not prohibited in some jurisdictions and, therefore, clarifying and strengthening the proposed ISA by imposing rigor regarding its use in those jurisdictions. The IAASB believed that the safeguards it was proposing against undue use of DA should reduce actual threats to the external auditor's independence to an acceptable level.

35. In addition, the IAASB believed that the clarifications regarding the external auditor's obligations when using the work of internal auditors, including DA, would be helpful when audit oversight bodies focus on this area in their inspection programs, having regard to the varying practices internationally regarding DA.
36. In concluding its deliberations on the final wording of the revised ISA 610, the IAASB resolved to *further* strengthen the tone of, and messaging and safeguards built into, the proposed ISA in response to concerns arising on exposure. Specifically, the actions the IAASB took were in terms of:
- Further clarification of its intent in the proposed ISA;
 - Further strengthening of the ED proposals relative to conditions and circumstances in which use of DA is prohibited;
 - The introduction of further safeguards, such as the need for some reperformance, and communication with those charged with governance regarding the nature and extent of the planned use of DA so as to reach a mutual understanding that such use is not excessive in the engagement circumstances; and
 - Formalization of the arrangements regarding use of DA with the entity.

The mapping document at Agenda Item 1-C provides a detailed analysis of the specific areas where the IAASB's ED proposals have been further strengthened in the final ISA wording.

37. For the reasons set out above, the IAASB Task Force is of the view that:
- The requirements and guidance addressing DA in the final ISA wording are fully responsive to the public interest; and
 - The concerns expressed by the respondents above who fundamentally object to the notion of DA have been fully considered and addressed by the IAASB in finalizing the ISA wording.
38. Further, from the two Task Forces' experience, DA is a practice that has been in existence for a long time in a number of jurisdictions and there has been no evidence of its use having a negative effect on audit quality. The two Task Forces also were not aware of situations where the use of DA has resulted in the external auditor forming the wrong opinion. Accordingly, there is a track record in practice of DA working effectively.
39. Additionally, the DA model proposed in the ISA is based on restricting the type of work internal auditors would be allowed to do on the external audit and increasing the level of supervision to which they would be subject. It would not be possible to turn these individuals into external auditors, and to attempt to do so would be to pretend that they are fulfilling a role that they are not. The model is predicated on severely constraining DA to areas of low risk/low judgment (i.e., basic work) where there is no risk of self-review, and where it will be tightly controlled through a heightened level of external auditor direction, supervision and review. The proposed ISA, therefore, clearly puts constraints over its use and, thereby, the ability of internal auditors providing DA to influence the

outcome of any judgments in the audit – enough checks and balances are built into the model to make DA safe where it is used.

40. With respect to the suggestion from IOSCO that both IESBA and IAASB projects could have benefited from both Boards jointly discussing the broader notion of objectivity, both Task Forces note that this had already happened at the Board and Task Force levels as indicated in the above summary of IESBA-IAASB interactions. Further, the two Boards had indeed fully considered in their deliberations the issue of the internal auditors’ objectivity, with the IESBA reaching satisfaction that the safeguards built into the final ISA wording were adequate. In addition, the matter of how both Boards have coordinated their actions in considering the objectivity issue was explained to IOSCO during the November 7th teleconference. Agenda Item 1-D provides cross-references to where objectivity considerations have been built into the final ISA wording.
41. Nevertheless, the IESBA accepted the suggestion that it more explicitly state that its guidance is provided to assist an external auditor conduct its work in situations in which DA from internal auditors is allowed, vs. being provided to establish or imply whether such assistance is appropriate. The IESBA therefore tentatively agreed amendments to the proposed ET definition to clarify that internal auditors who provide DA on an audit engagement are excluded from the ET definition when the external auditor complies with the requirements of ISA 610 (Revised 2013) (see Appendix 1).

Matters for CAG Consideration

1. In light of the explanations above, and in the context of how the IAASB has further strengthened the proposed ISA post-exposure, do CAG Representatives agree that the respondents’ concerns above have been adequately addressed?
2. Do CAG Representatives agree with the IESBA’s proposed amendments to the ET definition in response to the suggestion noted in paragraph 41 above?

B. DEFINITIONS

42. In relation to definitions, the significant ED comments and the Task Forces’ responses are set out below. The IESBA and IAASB concurred with their respective Task Forces’ responses.
43. For information, the revised ISA 610 defines an internal audit function as “[a] function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control processes.”

Significant ED Comments	Task Forces’ Responses
<p><i>Definition of “Internal Audit function”</i></p> <p>One respondent¹⁴ believes that this definition is flawed for a number of reasons:</p> <p>(a) The definition does not adequately distinguish the nature of an internal audit function from other internal controls in that the definition does</p>	<p>The IAASB Task Force noted that the IAASB had developed the definition of “internal audit function” based on the definition currently used by the Institute of Internal Auditors (IIA). The IAASB Task Force does not believe that it would be in the public interest to introduce a definition of “internal audit function” that would differ</p>

¹⁴ IDW

Significant ED Comments	Task Forces' Responses
<p>not recognize that the internal audit function is a high level monitoring control that is segregated from governance and management processes and from other internal control processes. Consequently, individuals performing monitoring control activities other than internal audit would be permitted to provide direct assistance and be excluded from the engagement team under the proposed amended definition, even though they are not a part of an "internal audit function" properly defined.</p> <p>(b) The reference in the definition to "and consulting activities" means that those internal audit functions that do not engage in consulting activities would not be regarded as internal audit functions as defined. Consequently, individuals in internal audit functions without consulting activities performing direct assistance would not be exempted from the engagement team under the proposed amended definition, even though they are a part of an "internal audit function" properly defined.</p> <p>(c) The use of the connective "and" in the phrase "governance, risk management and internal control processes" implies that if an internal audit function is designed to evaluate and improve the effectiveness of only one of the entity's governance, risk management or internal control processes, or only any two thereof, then the function would not be an internal audit function as defined. Consequently, individuals in these internal audit functions performing direct assistance would not be exempted from inclusion in the proposed amended definition of engagement team, even though they are a part of an "internal audit function" properly defined.</p> <p>Accordingly, the respondent suggested that the IESBA should submit the definition of "internal audit function" to the IAASB for</p>	<p>significantly from that which has been established by the IIA and therefore already well understood and applied in practice.</p> <p>The IAASB Task Force also noted that there has been little evidence of the interpretation of the definition proving to be problematical in the ways outlined by the respondent. In fact, the IAASB Task Force noted that most individuals applying the definition do not appear to interpret the wording as literally as the respondent. Importantly, the IAASB Task Force noted that paragraphs A1-A4 of the application material in the final ISA 610 wording provide ample guidance that explains the particular nuances of the definition. The IAASB Task Force therefore believes that this guidance is adequate to assist in understanding and applying the definition.</p> <p>With respect to the comment that the internal audit function is a high level monitoring control, the IAASB Task Force noted that the IAASB recognizes internal audit is a monitoring control in ISA 315. However, internal audit is a monitoring control with unique characteristics in that it is an "independent" function within the entity, performing assurance work with a systematic and disciplined approach, including its own quality control. Therefore, there is a valid basis to approach this "monitoring control" differently from other controls in the audit.</p> <p>For all of these reasons, the IAASB Task Force recommended that no changes be made to that definition.</p>

Significant ED Comments	Task Forces' Responses
reconsideration.	
<p><i>Definition of Engagement Team</i></p> <p>The respondent also highlighted what it believes are two issues with the proposed amended engagement team definition:</p> <p>(a) The IESBA's explanation as to why employees of the entity are not "engaged" to provide direct assistance could have severe consequences for the interpretation of the Code by in effect contending that indirect engagement is not engagement. This argument would permit the circumvention of the requirement to include on the engagement team individuals engaged to perform assurance procedures by having audit firms or networks indirectly engage those individuals through an organization or series of organizations. The respondent believes that it is not the IESBA's intention to exclude from the engagement team individuals performing audit procedures that are indirectly engaged by the firm or network firm.</p> <p>(b) The proposed change would open up a loophole in the Code by excluding from the engagement team partners and staff of the firm or network firm who render internal audit services to the entity, even when the partners and staff are performing the engagement (whether through direct assistance or otherwise) simply because they are providing internal audit services.</p>	<p>The IESBA Task Force disagrees with the respondent's literal interpretation of the term "engaged," noting that the respondent's interpretation was not what the IESBA intended. In contrast to employees of the entity, members of the engagement team are under employment contract with the firm.</p> <p>With respect to the comment that the proposed change would open up a loophole in the Code by excluding from the engagement team partners and staff of the firm or network firm who render internal audit services to the entity, the IESBA Task Force noted that this eventuality would unlikely arise in practice, particularly as the Code severely restricts the provision of internal audit services by a firm to an audit client that is a public interest entity.</p> <p>Overall, the IESBA Task Force believes that the risk of misinterpretation of the ET definition is very low, particularly as no other respondents have taken a similar view as the respondent.</p>
<p>A few other respondents also commented on the proposed change to the engagement team definition as follows:</p> <p>(a) One respondent¹⁵ felt that the proposed amended definition was unclear as to whether individuals providing direct assistance who fall outside the definition of the internal audit function would be considered part of the</p>	<p>Both Task Forces rejected the respondent's suggestion that the ET definition be broadened as indicated because the critical aspect of an internal audit function that makes it important to limit the scope of the exclusion to individuals working within that function is that these individuals are subject to a systematic and disciplined approach to their work, as explained</p>

¹⁵ ACCA

Significant ED Comments	Task Forces' Responses
<p>engagement team. It noted that the revised ISA 610 expressly states that activities similar to those performed by an internal audit function may be conducted by functions with other titles within an entity. Accordingly, the respondent suggested that the definition be amended to state that the engagement team “also excludes individuals within an audit client’s internal audit function and other individuals within the client entity who perform procedures similar to those performed by an internal audit function.”</p>	<p>in the final ISA 610 wording:</p> <p>There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining evidence regarding the effectiveness of such controls would be part of the auditor’s responses to assessed risks in accordance with ISA 330.¹⁶</p>
<p>(b) Three other respondents¹⁷ suggested deletion of the reference to the revised ISA 610 in the proposed amended definition as they believe internal auditors should be excluded from the engagement team regardless of whether or not they are providing direct assistance on the audit engagement. Equally, two other respondents¹⁸ highlighted the fact that specific references (including ISA numbers) are not generally made within the Code and that the IESBA should consistently maintain this approach with respect to the definition of engagement team.</p>	<p>Both Task Forces disagreed with the suggestions to delete the reference to ISA 610 (Revised) in the ET definition because the critical function served by this reference is to point to the conditions and safeguards incorporated in the revised ISA around the use of DA.</p>
<p>One respondent¹⁹ argued that the definition of engagement team in the Code should be made consistent with that in the IAASB’s literature, which does not limit the concept of “engagement team” to assurance engagements only (the definition in ISQC 1²⁰ refers to “any individuals engaged by the firm or a network firm who perform <i>procedures</i> on the engagement”).</p>	<p>The IESBA Task Force did not accept the respondent’s suggestion as it falls outside the scope of this IESBA project.</p>

¹⁶ See Agenda Item 4-A, paragraph 10

¹⁷ FEE, FSR and ICJCE

¹⁸ SAICA, ICAA

¹⁹ JICPA

²⁰ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Significant ED Comments	Task Forces' Responses
<p>A further respondent²¹ noted that the IESBA's use of the term "individuals" in the definition conflicts with the IAASB's use of the term "internal auditors." The respondent argued that the same terms should be used to avoid unintended consequences.</p>	<p>The IESBA Task Force did not accept the suggestion as the term "internal auditors" is not explicitly defined in the proposed ISA.</p>

Matter for CAG Consideration
<p>3. Do CAG Representatives agree with the Task Forces' and Boards' responses above?</p>

C. THREATS AND SAFEGUARDS

44. In relation to threats and safeguards, the significant ED comments and the Task Forces' responses are set out below. The IESBA and IAASB concurred with their respective Task Forces' responses.

Significant ED Comments	Task Forces' Responses
<p>Some respondents cited the need for the IESBA to consider, improve or modify safeguards to address objectivity considerations if DA is used, as well as guidance related to potential threats when DA is used. The following specific comments were made:</p> <p>(a) It is important to consider safeguards to address the external auditor's objectivity when internal auditors provide direct assistance to external auditors.²²</p> <p>(b) The Code should directly address ethical considerations which the external auditor and the internal auditor should consider when DA is used. This should include potential threats that the external auditor and internal auditor should identify and appropriate safeguards that may mitigate those threats. Further, as the Code has higher independence requirements for PIEs, the IESBA should consider whether DA should be allowed for PIEs and, if so, identify safeguards that may eliminate the threats to the fundamental principles or reduce them to an acceptable level. For example, one consideration may</p>	<p>Both Task Forces noted that in finalizing the wording of ISA 610 (Revised), the IAASB had proactively consulted with the IESBA in relation to further strengthening of the threats and safeguards framework in the proposed ISA to respond to comments on exposure (see the introductory section above recapitulating IESBA-IAASB interactions). The two Task Forces also noted that the threats and safeguards framework is best built into the proposed ISA not only because the Code does not apply to internal auditors (and therefore the suggestions for guidance on threats and safeguards applicable to internal auditors are not appropriate) but also because auditors would need to directly apply that framework during the actual performance of their audits.</p> <p>Importantly, the two Task Forces agreed that it would be undesirable to have safeguards in two separate places. In addition, the IESBA Task Force felt that including detailed guidance in the Code addressing DA would inappropriately suggest that use of such DA is a core aspect of the external audit.</p>

²¹ IDW

²² DTT

Significant ED Comments	Task Forces' Responses
<p>be having the internal audit function reporting directly to the audit committee of the PIE.²³</p>	
<p>(c) The revision of the engagement team definition is insufficient and parts B and C of the Code should address the use of DA and include guidance to professional accountants in practice and in business about the potential threats and possible safeguards. Further, it is important that the Code addresses the independence issues involved, including the nature of threats and safeguards²⁴</p>	<p>The IESBA Task Force did not accept this suggestion because that Part C of the Code deals only with the typical roles and responsibilities of professional accountants in business.</p>
<p>(d) To ensure the application of appropriate safeguards and professional skepticism to mitigate independence concerns, one possible way under ISA 610 would be to go further in the IAASB's recent deliberations on it and specifically modify the safeguarding requirements as follows:²⁵</p> <p>(i) For the work of internal auditors providing DA and the work performed by the internal audit function that is to be relied upon by the external auditor, the external auditor should independently re-perform procedures in the specific audit areas and be satisfied that there is minimum variation of the results.</p> <p>(ii) The totality of procedures performed by internal auditors providing DA and by the internal audit function and relied upon by the external auditor should not form a significant portion of the total audit work.</p> <p>(iii) Work performed by the internal audit function and relied upon by the external auditor should not include</p>	<p>The IAASB Task Force noted that the final ISA 610 wording already has incorporated these additional safeguards (see cross references to the relevant paragraphs in the final ISA wording in Agenda Item 1-D). This was explained to the IOSCO representatives on the November 7th and 26th conference calls.</p> <p>In response to the further comments from one of the IOSCO representatives during the November 26th conference call, the two Task Forces noted that the conditions and safeguards incorporated into the final ISA wording regarding the use of DA must be considered in their totality and overall depth and rigor relative to the low risk/low judgment circumstances in which DA could be used under the revised ISA. The two Task Forces did not agree with the suggestion from this IOSCO representative that internal auditors providing DA in these limited circumstances should be subject to the same objectivity and independence requirements that apply to normal engagement team members. Imposing such obligations, or requiring firms to establish the infrastructure for operationalizing compliance with such obligations, would not only falsely imply that internal auditors could ever</p>

²³ APESB

²⁴ CPAA

²⁵ IOSCO

Significant ED Comments	Task Forces' Responses
<p>matters that involve high risk or a high need for judgment.</p> <p>(iv) The external auditor should not use the work of the internal audit function at all if there are significant threats to the objectivity of the internal audit function besides the threat that internal auditors are employees of the audit client and are therefore not independent.</p>	<p>become independent of the entity but also represent a disproportionate response in the circumstances.</p> <p>Also in response to the further comments from the IOSCO representatives that detailed guidance be provided as to when threats to the internal auditors' objectivity would be considered significant, the two Task Forces did not believe that it would be possible to construct detailed rules by which the external auditor could conclude that a threat to such objectivity is significant, because such rules would never be capable of capturing all the possible circumstances that might arise in practice. Instead, it will be a matter of judgment in the circumstances.</p> <p>Nevertheless, the IAASB Task Force proposes adding guidance that explains circumstances in which the significance of the threats to the internal auditors' objectivity would be such that there are no safeguards that could reduce these threats to an acceptable level (see paragraph A33 of Agenda Item 1-B).</p> <p>In addition, to respond to the regulatory concerns regarding whether the safeguards built into the proposed ISA have been appropriately strengthened, the IAASB Task Force proposes to:</p> <p>(a) Add a requirement to paragraph 27 of the final ISA wording for the external auditor's evaluation of the existence and significance of threats to the internal auditors' objectivity to include inquiry of the internal auditors regarding interests and relationships that may create a threat to their objectivity. This parallels a similar requirement in ISA 620²⁶ with respect to the external auditor's evaluation of the objectivity of the auditor's external expert;</p> <p>(b) Add a "stand-back" requirement paragraph 32 in the proposed ISA for the external auditor to evaluate, in aggregate, the extent</p>

²⁶ ISA 620, *Using the Work of an Auditor's Expert*

Significant ED Comments	Task Forces' Responses
	<p>of use of DA together with the planned use of the work of the internal audit function, thereby mirroring the existing “stand-back” requirement relative to the use of the work of the internal audit function; and</p> <p>(c) Add a refinement to paragraph 31 of the final ISA wording linking back to the external auditor having appropriately evaluated whether and, if so, to what extent DA can be used. This would respond in particular to any concern that in the discussion with those charged with governance, the external auditor would negotiate with those charged with governance regarding the nature and extent of use of DA.</p> <p>(See Agenda Item 1-B.)</p> <p>The IAASB Task Force also reflected on the suggestion from one IOSCO representative that it should be clear that “reperformance” is required. In the IAASB Task Force’s view, the requirement in paragraph 33(b) for the external auditor to check back to the <i>underlying audit evidence</i> for some of the work performed by the internal auditors clearly sets this expectation.</p> <p>The IAASB Task Force does not believe that the above refinements represent substantive changes to the final ISA 610 wording.</p>
<p>This respondent also suggested that to emphasize the importance of these provisions to the position taken in the Code regarding the role of internal auditors, it would be appropriate to make reference in the Code to the fact that ISA 610 contains them.</p>	<p>While accepting the thrust of the suggestion, the IESBA Task Force noted that it would not be appropriate to refer to only the provisions dealing with the four areas highlighted in the respondent’s comment immediately above. Instead, the reference should be to all the requirements in ISA 610 (Revised) addressing DA. Accordingly, the IESBA Task Force proposes that this be made clear in the revised ET definition (see Appendix 1).</p>

Significant ED Comments	Task Forces' Responses
<p>One respondent²⁷ recommended that the IESBA make reference in Section 280 of the Code (Objectivity—All Services) to the impact that the use of DA would have on independence if such use were not in accordance with ISA 610 (Revised). The respondent suggested that the following cross reference would be sufficient as the revised ISA 610 addresses the threats to independence of using DA and the related safeguards to reduce such threats to an acceptable level:</p> <p style="padding-left: 40px;"><u>280.5 A professional accountant in public practice shall not make use of an internal auditor to provide direct assistance on an audit engagement where use of the internal auditors providing direct assistance is not in accordance with ISA 610.</u></p>	<p>The IESBA Task Force did not believe that the suggested addition to Section 280 of the Code would be appropriate, as Section 280 deals specifically with objectivity as opposed to broader independence considerations relevant to the use of DA.</p>
<p>Another respondent²⁸ commented that even in countries where independence regulation may not prohibit DA, the revised ISA 610 provides insufficient guidance concerning threats that would be considered unacceptable vs. threats that could be overcome by appropriate safeguards.</p>	<p>Both Task Forces are of the view that the final ISA 610 wording now contains robust and adequate safeguards against undue use of DA, and without specific indications as to why these safeguards are insufficient or inappropriate they would be unable to determine whether any further changes to that wording would be necessary.</p>
<p>A respondent²⁹ commented that if the external auditor uses the reports or other work of the internal audit function as audit evidence but not in a DA capacity, then this would have a similar effect on the external auditor's work. As such, the respondent expressed concern that the safeguards applied in both scenarios may not be consistent. Accordingly, the respondent suggested that the IAASB consider expanding the definition of DA to include the external auditors' use of reports and other work performed by the internal audit function as audit evidence in performing compliance and substantive testing. As an alternative, the</p>	<p>The IAASB Task Force noted that respondents to the ISA 610 ED had argued that the use of DA should be more restricted than the use of the work of the internal audit function. Accordingly, the approaches to safeguards for both situations in the revised ISA differ, although the IAASB had concluded that both are robust.</p>

²⁷ NZAuSB

²⁸ EAIG

²⁹ IOSCO

Significant ED Comments	Task Forces' Responses
respondent suggested that the IAASB could provide the same safeguards for this use of the internal audit function's work.	

Matter for CAG Consideration 4. Do Representatives agree with the Task Forces' and Boards' responses above?

Appendix 1

Amendments to the Engagement Team Definition Tentatively Agreed at the December 2012 IESBA Meeting

Engagement team—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 external experts engaged by the firm or by a network firm.

~~†The term “engagement team” also excludes individuals within an audit the client’s internal audit function who providing direct assistance on the an audit engagement when the external auditor complies with the requirements of in accordance with ISA 610 (Revised 2013), *Using the Work of Internal Auditors*.~~³⁰

³⁰ ISA 610 (Revised 2013) establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

Appendix 2

LIST OF RESPONDENTS				
Abbreviation	Organization	Support	Concern	Not Support
IFAC MEMBER BODY				
ACCA	The Association of Chartered Certified Accountants		1	
AICPA	American Institute of CPA	1		
CGA	Certified General Accountants Association of Canada	1		
CICA	The Canadian Institute of Chartered Accountants	1		
CICPA	Chinese Institute of Certified Public Accountants	1		
CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes + Conseil Superieur de l'Ordre des Experts-Comptables	1		
CND-CEC	Consiglio Nazionale dei Dottori Commercialisti + E Degli Esperti Contabili	1		
CPA Au	CPA Australia		1	
FAR	FAR	1		
FSR	Foreningen af Statsautoriserede Revisorer	1		
HKICPA	Hong Kong Institute of Certified Public Accountants	1		
IBR-IRE	Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren	1		
ICAA	The Institute of Chartered Accountants in Australia	1		
ICAB	The Institute of Chartered Accountants of Bangladesh	1		
ICAEW	The Institute of Chartered Accountants in England and Wales	1		
ICAS	The Institute of Chartered Accountants of Scotland	1		
ICJCE	Instituto de Censores Jurados de Cuentas de España	1		
ICPAK	Institute of Certified Public Accountants of Kenya	1		
ICPAS	Institute of Certified Public Accountants of Singapore	1		

LIST OF RESPONDENTS				
Abbreviation	Organization	Support	Concern	Not Support
IDW	Institut der Wirtschaftsprufer			1
JICPA	The Japanese Institute of Certified Public Accountants	1		
KICPA	Korean Institute of Certified Public Accountants	1		
MIA	Malaysian Institute of Accountants	1		
NAAAU	National Association of Accountants and Auditors of Uzbekistan	1		
NBA	Nederlandse Beroepsorganisatie van Accountants	1		
SAICA	The South African Institute of Chartered Accountants	1		
WPK	Wirtschaftsprüferkammer			1
ZICA	Zambia Institute of Chartered Accountants	1		
FIRMS				
BDO	BDO Global Coordination B.V.	1		
DTT	Deloitte Touche Tohmatsu	1		
EYG	Ernst & Young Global	1		
GT	Grant Thornton International	1		
KPMG	KPMG	1		
PwC	PricewaterhouseCoopers	1		
REGULATORS & PUBLIC AUTHORITIES				
ICAC	Accounting and Auditing Institute (Spain)			1
CARB	Chartered Accountants Regulatory Board	1		
IOSCO	International Organization of Securities Commissions		1	
EAIG	11 European Audit Regulators			1
INDIVIDUALS & OTHERS				
Denise Juvenal	Denise Silva Ferreira Juvenal	1		
Anon	Anonymous			1

LIST OF RESPONDENTS				
Abbreviation	Organization	Support	Concern	Not Support
OTHER PROFESSIONAL ORGANIZATIONS				
APESB	Accounting Professional & Ethical Standards Board Limited-Australia		1	
FEE	Fédération des Experts Comptables Européens	1		
GAO	United States Government Accountability Office	1		
IIA	The Institute of Internal Auditors	1		
UKNAO	United Kingdom National Audit Office	1		
NZAuASB	New Zealand Auditing and Assurance Standards Board	1		
TOTAL RESPONSES		37	4	5