

**Engagement Team – Group Audits Independence  
Definition of Engagement Team****Note to IESBA**

This paper illustrates how the Task Force's proposals regarding the term "engagement team" might be applied in the Code based on its proposed definition as explained below. The Task Force would welcome any high-level comments or observations on the application of the proposed approach.

Proposed approach:

- For extant references to **engagement team** in **Part 3** → Changed to **team** (marked-up and highlighted in **green**). This are no changes from the draft presented at the September 2020 meeting.
- For extant references to **engagement team** in **Part 4A** → terminology to be retained as **engagement team** based on the Task Force's revised proposal as detailed in **Agenda Item 6-A**. (marked up and highlighted in **yellow** against the draft presented at the September 2020 meeting)
  - In Part 4A, where the term audit is used, it is in reference to the engagement team performing the audit procedures.
- For Part 4B, extant references to **assurance team** to be retained as **assurance team** only where the context implies individuals performing assurance procedures on the assurance engagement (marked up with **blue font**)
  - In Part 4B, where the term assurance is used, it is in reference to the engagement team performing the assurance procedures.

## **PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

### **SECTION 300**

#### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

##### **Requirements and Application Material**

###### **General**

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###### **Evaluating Threats**

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###### **Addressing Threats**

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###### *Examples of Safeguards*

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- ...
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.
- ...

### **SECTION 310**

#### **CONFLICTS OF INTEREST**

##### **Conflict Identification**

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##### **Threats Created by Conflicts of Interest**

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310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
- ...

## Confidentiality

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### *When Disclosure to Obtain Consent would Breach Confidentiality*

**R310.12** When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

- (a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the **engagement teams** serving the two clients; and

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## Documentation

**R310.13** In the circumstances set out in paragraph R310.12, the professional accountant shall document:

- (a) The nature of the circumstances, including the role that the accountant is to undertake;
- (b) The specific measures in place to prevent disclosure of information between the **engagement teams** serving the two clients; and

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## SECTION 320

### PROFESSIONAL APPOINTMENTS

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#### Requirements and Application Material

##### Client and Engagement Acceptance

###### *General*

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the **engagement team** does not possess, or cannot acquire, the competencies to perform the professional services.

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## **SECTION 340**

### **INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY**

#### **Requirements and Application Material**

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#### **Other Considerations**

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- 340.15 A2 If a firm, network firm or an audit team member is being offered gifts or hospitality from an audit client, the requirement and application material set out in Section 420 apply.
- 340.15 A3 If a firm or an assurance team member is being offered gifts or hospitality from an assurance client, the requirement and application material set out in Section 906 apply.

## INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A AND 4B)

### PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

#### SECTION 400

#### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

##### Introduction

###### General

- 400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements.
- 400.2 This Part applies to both audit and review engagements. The terms “audit,” “audit team,” “audit engagement,” “audit procedures,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review procedures, review client, and review engagement report, as defined respectively.

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##### Requirements and Application Material

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##### Period During which Independence is Required

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- 400.30 A1 The engagement period starts when the **audit engagement** team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

...

- 400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period covered by the financial statements, but before the **audit engagement** team begins to perform the audit, and the service would not be permitted during the engagement period.

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##### Mergers and Acquisitions

###### *When a Client Merger Creates a Threat*

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- R400.73** If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor, the firm shall do so only if:
- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;

- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the **audit engagement** team for the audit or the individual responsible for the engagement quality control review; and
- (c) ...

## SECTION 510

### FINANCIAL INTERESTS

#### Requirements and Application Material

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#### Financial Interests Held by the Firm, a Network Firm, Audit Team Members and Others

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510.4 A1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other **audit engagement** team members, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

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## SECTION 540

### LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

#### Requirements and Application Material

#### All Audit Clients

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540.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

(a) In relation to the individual:

- ...
- How long the individual has been an **audit engagement** team member, and the nature of the roles performed.
- ...
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other **audit engagement** team members.
- ...

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#### Restrictions on Activities During the Cooling-off Period

**R540.20** For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an **audit engagement** team member or provide quality control for the audit engagement;
- (b) Consult with the **audit engagement** team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the **audit engagement** team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);

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## SECTION 600

### PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

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### SUBSECTION 605 – INTERNAL AUDIT SERVICES

#### Introduction

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#### Requirements and Application Material

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605.4 A3 When a firm uses the work of an internal audit function in an audit engagement, ISAs require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the **audit engagement** team will use the results of the internal audit service for purposes of the audit engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

605.4 A4 Factors that are relevant in evaluating the level of such a self-review threat include:

- The materiality of the related financial statement amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the **audit engagement** team will place on the work of the internal audit service, including in the course of an external audit.

605.4 A5 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service.

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## SECTION 800

### REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

#### Requirements and Application Material

##### General

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##### Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

**R800.10** When the firm performs an eligible audit engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the **audit engagement team**, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the **audit engagement team** has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

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**R800.11** When the firm performs an eligible audit engagement, the firm shall evaluate and address any threats that the **audit engagement team** has reason to believe are created by financial interests in the audit client held by individuals, as set out in paragraphs R510.4(c) and (d), R510.5, R510.7 and 510.10 A5 and A9.

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## **PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS**

### **SECTION 900**

#### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS**

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#### **Requirements and Application Material**

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#### **Period During which Independence is Required**

**R900.30** Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the ~~assurance~~-engagement team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

...

**R900.32** Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the ~~assurance~~ engagement team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

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## **SECTION 940**

### **LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT**

#### **Introduction**

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#### **Requirements and Application Material**

##### **General**

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940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

- ...
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other engagement team members.
- ...

## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

Assurance Team	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within <u>the a-firm, or engaged by the firm</u>, who can directly influence the outcome of the assurance engagement, including:</p> <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;</li> <li>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</li> <li>(iii) Those who <u>are involved in providing</u> quality <u>management control</u> for the assurance engagement, including those who perform the engagement quality <u>control</u> review for the assurance engagement.</li> </ul>
Audit client	<p>An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. <i>(See also paragraph R400.20.)</i></p> <p><i>In Part 4A, the term “audit client” applies equally to “review client.”</i></p>
Audit team	<p>(a) All members of the engagement team;</p> <p>(b) All others within <u>the a-firm, or engaged by the firm</u>, who can directly influence the outcome of the audit engagement, including:</p> <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);</li> <li>(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and</li> <li>(iii) Those who <u>are involved in providing</u> quality <u>management control</u> for the engagement, including those who perform the engagement quality <u>control</u> review for the engagement; and</li> </ul> <p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p> <p><i>In Part 4A, the term “audit team” applies equally to “review team.”</i></p>

<p>Engagement team</p>	<p>All partners and staff performing the engagement, and any <u>other</u> individuals <del>engaged by the firm or a network firm</del> who perform <u>assurance</u> procedures on the engagement, <del>excluding an</del> <del>– This excludes</del> external experts <del>engaged by the firm or by a network firm</del> and internal auditors who provide direct assistance on an engagement.</p> <p><del>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), Using the Work of Internal Auditors.</del></p> <p><del>In Part 4A, the term “engagement team” refers to individuals performing the audit or review procedures on the audit or review engagement.</del></p> <p><del>For further guidance on the definition of engagement team in the context of an audit of financial statements, see ISA 220 (Revised) issued by International Auditing and Assurance standards Board.</del></p> <p><del>In Part 4B, the term “engagement team” refers to individuals performing the assurance procedures on the assurance engagement.</del></p>
<p>Review team</p>	<p>(a) All members of the engagement team for the review engagement; and</p> <p>(b) All others within <del>the a</del>-firm, <u>or engaged by the firm</u>, who can directly influence the outcome of the review engagement, including:</p> <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, manage-ment or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);</li> <li>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</li> <li>(iii) Those who <u>are involved in providinge</u> quality <u>management control</u> <del>control</del> for the engagement, including those who perform the engagement quality <del>control</del> review for the engagement; and</li> </ul> <p>(c) All those within a network firm who can directly influence the outcome of the review engagement.</p>