



International Organization of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaç o Internacional das Comiss es de Valores  
Organizaci n Internacional de Comisiones de Valores

31 July 2012

Deputy Director  
International Ethics Standards Board for Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017 USA

And

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, NY 10017 USA

Our Ref: 2012/JE/IB/IESBA/55

**Subject Line: IESBA Exposure Draft, *Proposed Change to the Definition of "Engagement Team"***

Dear Madam/Sir:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the IESBA's Exposure Draft, *Proposed Change to the Definition of "Engagement Team"* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing and professional standards.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns, and pursuit of improved global financial



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reporting. Our comments in this letter reflect those matters on which we have achieved a consensus among the members of Committee 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

### ***Purpose of the Project***

We appreciate the IESBA being responsive to concerns expressed by a number of respondents to the IAASB's exposure draft of ISA 610 (Revised), *Using the Work of Internal Auditors* (revised ISA 610) and thus undertaking this project to review which individuals who contribute to the completion of an audit fall within the term 'engagement team' for purposes of the application of the IFAC Ethics Code.

### ***Applicability of the Paper***

Our members' jurisdictions have varying policies regarding whether the use of internal audit by external auditors is or is not acceptable, particularly in regard to direct assistance. We note that paragraph 26 of the IAASB's recent deliberations on ISA 610 states that: "The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. If so, paragraphs 27-34 and 36 do not apply." As such, our understanding is that the IESBA is not debating this "whether" question in its current project; rather, the IESBA is attempting to make the Code more functional for use in the jurisdictions in which such assistance is allowed. Accordingly, we think the resulting amended Code should make clear that its guidance is provided to help an external auditor conduct its work in situations in which assistance from internal auditors is allowed, versus being provided to establish or imply whether such assistance is appropriate.

### ***Independence and Objectivity Considerations***

We have addressed this letter to both the IESBA and the IAASB as we believe a broader issue exists than simply potentially modifying the definition of engagement team that is within the Ethics Code. We believe the considerations associated with using the work of internal auditors is an example of a matter that could benefit from both Boards jointly discussing the broader notion of auditor objectivity. We believe this would help in addressing



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objectivity concerns, including those associated with independence when using the internal auditor employees to perform audit procedures under the direction of the external auditor.

We believe that auditor independence in both fact and appearance is critical to an auditor's objectivity, which is a key to providing reliable audited financial statements and promoting investor confidence in the capital markets. To be credible, the auditor's work effort must be objective, must be performed with integrity and must be absent of any undue influences from the audit client, management or its owners. Public confidence in the audited financial statements will be eroded by evidence of, or a perception that, the auditor was lacking objectivity due to a lack of independence.

***Exclusion of Internal Auditors Who Provide Direct Assistance from the Definition of 'Engagement Team' in the Code***

We understand that in examining the term 'engagement team' in this project the emphasis is on how to handle those internal auditors who provide direct assistance in jurisdictions where it is allowed. The issue of whether or not those who provide direct assistance should be included in the definition of engagement team is magnified particularly as a result of the auditor independence requirements that those who provide direct assistance could be subject to, and for which such individuals would be unable to fully comply because they are employees of the audit client. Nonetheless, we believe it is important for the IESBA to carefully consider and establish supportable reasons regarding why they propose these individuals should be excluded from the definition of an engagement team.

We note that with respect to individuals in the internal audit function providing direct assistance, in the Paper the IESBA concluded that such individuals do not meet the definition of a member of the engagement team because they are not partners or a member of the professional staff of the firm or network firm, nor are they engaged by the firm or network firm. The IESBA has therefore proposed language to clarify that these individuals do not fall within the definition of the audit engagement team under the Code. However, in reaching this conclusion has the Board considered that from a functional perspective internal auditors providing direct assistance, as defined, are performing procedures under the direction, supervision and review of the external auditor?



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We believe the use of direct assistance, where permitted, to conduct the same audit procedures and/or perform the same role as an engagement team member can raise the question of independence in appearance, at a minimum. Given that external auditors are subject to specific independence requirements under the Code it follows that direct assistance, where permitted, should also be subject to specific objectivity requirements of some sort and the application of appropriate safeguards and professional skepticism to mitigate independence concerns. Establishing objectivity requirements would enable external auditors to utilize consistent, specific guidance when assessing the work and environment of the internal audit direct assistance function.

One possible way to address this under ISA 610 is to go further in the IAASB's recent deliberations on it. Specifically, to modify the safeguarding requirements included therein along the lines of those included in our letter to the IAASB dated December 2, 2010 regarding the IAASB Exposure Draft of proposed International Standards on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* and ISA 610 (Revised), *Using the Work of Internal Auditors*. These modifications would be as follows:

1. For the work of internal auditors providing direct assistance 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.
2. The totality of procedures performed by internal auditors providing direct assistance and by the internal audit function and relied upon by the external auditor should not form a significant portion of the total audit work.
3. Work performed by the internal audit function and relied upon by the external auditor should not include matters that involve high risk or a high need for judgment.
4. 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



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function besides the threat that internal auditors are employees of the audit client and are therefore not independent.

To emphasize the importance of these provisions to the position taken in the Code regarding the role of internal auditors, we believe it would be appropriate to make reference in the Code to the fact that ISA 610 contains them.

*The Definition of Direct Assistance and Its Impact on ISA 610*

We note that direct assistance, and by extension the audit procedures direct assistance performs, are subject to requirements specific to direct assistance within ISA 610. However, if the external auditor uses the reports or other work performed by the internal audit function as audit evidence in executing its compliance and substantive testing but not in a “direct assistance” capacity as that term is defined in ISA 610, then this has a similar effect on its work. As such, we are concerned that the safeguards applied in both scenarios may not be consistent. We therefore suggest that the IAASB consider expanding the definition of direct assistance to include the external auditors’ use of reports and other work performed by the internal audit function as audit evidence in executing its compliance and substantive testing. Alternatively, the IAASB could provide the same safeguards for this use of the internal audit function’s work.

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Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact Nigel James or me at 202-551-5300.

Sincerely,

Julie A. Erhardt  
Chair  
Committee I  
International Organization of Securities Commissions