



4 May 2012

Our ref: ICAEW Rep 68/12

Jan Munro
IESBA Deputy Director
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Dear Ms Munro

IESBA PROPOSES CHANGES TO THE CODE OF ETHICS DEFINITION OF “ENGAGEMENT TEAM”

ICAEW is pleased to respond to your request for comments on the IESBA Exposure Draft *Proposed Change to the Definition of “Engagement Team”*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

IESBA PROPOSES CHANGES TO THE CODE OF ETHICS DEFINITION OF “ENGAGEMENT TEAM”

Memorandum of comment submitted in May 2012 by ICAEW, in response to the IESBA Exposure Draft *Proposed Change to the Definition of “Engagement Team”* published in February 2012

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the IESBA Exposure Draft *Proposed Change to the Definition of “Engagement Team”* published on 28 February 2012, a copy of which is available from this [link](#).

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW’s regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Audit and Assurance Faculty is a leading authority on external audit and other assurance activities and is recognised internationally as a source of expertise on audit issues. It is responsible for technical audit and assurance submissions on behalf of ICAEW as a whole. The faculty membership consists of nearly 8,000 members drawn from practising firms and organisations of all sizes from both the private and public sectors. Members receive a range of services including the monthly Audit & Beyond newsletter.

COMMENTS

Support for the proposed change

5. The IAASB has recently issued a revised version of [ISA 610](#) *Using the Work of Internal Auditors*. We note that the material on the use of internal auditors to provide direct assistance during the audit, already approved by the IAASB, has not been included in the revised ISA 610 at this stage, but that the IAASB intends to include this material in the standard once the IESBA has concluded its deliberations on this consultation.
6. At the moment there is a perceived uncertainty as to whether the IESBA Code of Ethics definition of “engagement team” captures individuals in the audited entity’s internal audit function providing direct assistance on the audit engagement. The change to the definition that is proposed by the IESBA in this Exposure Draft makes it absolutely clear that such individuals are excluded from the definition.
7. ICAEW responded to the IAASB’s consultation on revising ISA 610 in October 2010 ([ICAEW Rep 119/10](#)). We welcomed the proposal for ISA 610 to address the use by auditors of internal audit direct assistance and made a number of comments regarding the restrictions that should be in place in the standard on such use, including appropriate safeguards to ensure the objectivity of internal auditors involved in the audit.
8. We note that subsequently there was extensive discussion at the IAASB and the IAASB CAG regarding direct assistance and the concerns raised about it in responses to the IAASB’s consultation. The end result of those discussions is the IAASB’s approval for inclusion in ISA 610 of material regarding direct assistance, including the shaded paragraphs on pages 6 and 7 of this Exposure Draft. We agree that the IAASB has in these paragraphs addressed the threats to independence of using internal auditors for direct assistance and the related safeguards designed to reduce such threats to an acceptable level.

9. Given that the revised ISA 610 (including the shaded paragraphs) will allow the use by auditors of direct assistance from internal audit, albeit in restricted circumstances, we support the Exposure Draft's proposed change to the definition of "engagement team" in the IESBA Code of Ethics so that it specifically excludes internal auditors providing direct assistance. With the restrictions in place in the shaded paragraphs, it seems reasonable that direct assistance is permissible and therefore such internal auditors used in the audit should not be regarded as being part of the engagement team, members of which need to be independent of the audited entity.
10. With respect to the effective date for the change, we note the need to align this with the date that the new (shaded) paragraphs in ISA 610 will come into effect.

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