

1 June 2012

To

Mr. Dakdduk
Chair of the International Ethics Standards Board for Accountants

And

Mr. Schilder
Chair of the International Auditing and Assurance Standards Board

**Re.: Comment letter from European Audit Regulators relating to IESBA's Exposure Draft,
*Proposed Change to the Definition of "Engagement Team"***

Dear Sirs,

A number of independent European audit regulators and/or oversight bodies ("the audit regulators") appreciates the opportunity to comment on the IESBA's Exposure Draft, *Proposed Change to the Definition of "engagement team"* ("the Exposure Draft"). The content of this letter has been discussed and agreed between audit regulators, representing the following countries:

- Czech Republic – Audit Public Oversight Council
- France – Haut Conseil du Commissariat aux Comptes
- Luxembourg – Commission de Surveillance du Secteur Financier
- Malta – Accountancy Board
- The Netherlands – Netherlands Authority for the Financial Markets
- Norway – Financial Supervisory Authority of Norway
- Portugal – Conselho Nacional de Supervisão de Auditoria
- Romania – Council for the Public Oversight of the Activity of the Statutory Audit of Romania
- Slovenia – Agencija Republike Slovenije za javni nadzor nad revidiranjem (Agency for Public Oversight of Auditing)
- Spain – Instituto de Contabilidad y Auditoria de Cuentas
- Switzerland – Federal Audit Oversight Authority

As European audit regulators we consider it important to pursue continuing improvement of standard setting for professional accountants, including auditing and ethics. Our comments in this letter reflect those matters on which we have achieved a consensus amongst the above mentioned audit regulators; however, they are not intended to include all comments that might be provided by individual regulators and their respective jurisdictions.

As the discussion on direct assistance by internal auditors has an impact on the Code of Ethics as developed by IESBA and on the Auditing Standards as developed by IAASB, we consider it necessary to share our comments on the proposed changes to the definition of the Engagement Team and on ISA 610 *Using the Work of Internal Auditors* with IESBA and IAASB at the same time. As a result, we have addressed this letter to both Boards.

We appreciate IESBA's and IAASB's efforts to define how external auditors should deal with the work of internal auditors in its broadest way. However, we still do not support the concept of internal auditors providing direct assistance to the external auditor for the following reasons:

- The independence of the external auditor cannot be ensured as the internal auditors providing direct assistance to the external auditor are not independent of the audit client, as they are employed by the audit client.
- The competence and objectivity of internal auditors providing direct assistance are not subject to the same level of regulation that applies to external auditors.
- There is a risk that management of the audit client puts undue pressure on the external auditor to utilize the client's internal audit personnel resources, in order to reduce the audit fee.

The Exposure Draft excludes internal auditors that provide direct assistance in accordance with ISA 610 from the Engagement Team definition. We believe it is conceptually inappropriate to exclude internal auditors from the Engagement Team definition, when apparently their work is expected to be subject to the same direction, supervision and review (ref. ISA 220) as the work performed by the ordinary engagement team members. Thus, since the IAASB in this way requires internal auditors providing direct assistance to be treated in the same way as ordinary engagement team members, it is a contradiction in terms to exclude them from the engagement team definition. In any case, excluding internal auditors that provide direct assistance from the engagement team definition doesn't resolve the lack of independence of these individuals.

In case the Boards, despite our disapproval of direct assistance, still would like to set standards regarding direct assistance, we would like to raise the following concerns on the approach the Boards have chosen to set new standards relating to external auditors requiring direct assistance from internal auditors. We believe that, even in countries where independence regulation may not prohibit direct assistance, the requirements of the revised ISA 610 provide too little guidance concerning threats that would be considered unacceptable versus threats that could be overcome by appropriate safeguards.

As a related matter, we see a room for improvement regarding the alignment of the standard setting processes between the IAASB and the IESBA. The proposed changes to the Code are directly related to certain provisions in ISA 610, which is no longer open for comments. Clearly, each Board has its own responsibilities in the standards setting process. However, as there are clear relations between certain standards, we suggest the Boards to cooperate more closely.

Finally, we note that outsourcing of the internal audit function to the external auditor is occurring in certain jurisdictions. We think that outsourcing of the internal audit function creates new challenges and risks, which have not been addressed in the current standards. We believe the standard should clarify that outsourcing of the internal audit function to the external auditor represents a serious threat to the external auditor's independence, and that it is consequently prohibited in some countries.

Thank you for the opportunity to comment on the Exposure Draft. If you have any questions or would like to further discuss the matters noted in this letter, please contact Janine van Diggelen, head of the audit oversight division of the AFM in The Netherlands, at +31 20 797 2833.

Sincerely,

Audit regulator of:

Czech Republic
France
Luxembourg
Malta

The Netherlands
Norway
Portugal
Romania

Slovenia
Spain
Switzerland