



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **15(c)**
Meeting Date: 16 April 2012
Subject: ISA 610 (Revised) and ISA 315 (Revised) – Implications for AUASB Standards
Date Prepared: 28 March 2012

Action Required

For Information Purposes Only

Agenda Item Objectives

To inform the AUASB of ISA 610 (Revised) *Using the Work of Internal Auditors* and ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* issued by the IAASB in March 2012 and obtain direction from the AUASB about the approach to be taken in amending ASA 610, ASA 315 and other Australian Auditing Standards impacted by the revised IAASB standards.

Background

The IAASB project on using the work of internal auditors commenced in 2009-10. The project aims to address both:

- Developments in the internal auditing environment and national audit practices since the last revision of ISA 610 (in 1994); and
- The ambiguity in existing ISA 610 regarding direct assistance (i.e. the use of internal auditors to perform audit procedures, under the direction, supervision, and review of the external auditor).

The IAASB issued an exposure draft in July 2010 relating to proposed changes to ISA 610 and ISA 315, to which the AUASB responded. In relation to direct assistance, the AUASB response indicated that:

In Australia, it is not considered best practice for the external auditor to obtain direct assistance from internal auditors. However, from a global perspective, obtaining direct

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assistance from internal auditors may be appropriate in some circumstances, provided that there are adequate safeguards and parameters that clearly define the nature and extent of direct assistance which the external auditor may obtain from internal auditors.

Overall, the responses regarding direct assistance were mixed. After further consultation with relevant parties, including the IESBA, the IAASB made changes to the requirements and application material in ISA 610 (Revised) to ensure that the safeguards around direct assistance adequately address the threats to the external auditor's objectivity.

However, some respondents to the IAASB exposure draft also commented that there was an inconsistency between the use of internal auditors to perform external audit procedures (direct assistance) and the requirement in the IESBA *Code of Ethics for Professional Accountants* (the Code) for external auditors to be independent of the audit client. As a result, the IESBA has issued an exposure draft relating to proposed changes to the definition of "engagement team" in the Code intended to clarify that individuals in an internal audit function providing direct assistance do not meet the definition of the engagement team. The exposure draft is open for comment until 31 May 2012.

Based on feedback from stakeholders that revised guidance on using the work of internal auditors generally is needed now, and should not be further delayed pending the outcome of IESBA considerations on direct assistance, the IAASB, in March 2012, issued an abbreviated version of ISA 610 (Revised) dealing only with using the work of the internal audit function (and not direct assistance), ISA 315 (Revised) and conforming amendments to a further 10 ISAs.

The IAASB proposes to issue the full version of ISA 610 (Revised) (including sections on direct assistance) after the IESBA concludes its consideration of changes to the Code. This is unlikely to be before the last quarter of 2012, given that IESBA ED comments close on 31 May and IESBA meetings dates are 15-17 October and 10-12 December 2012.

Matters to Consider

1. Amending the Australian Auditing Standards

The AUASB is requested to provide direction on the approach to be taken in amending the Australian Auditing Standards. The options include:

Option 1 - Act now.

The AUASB could amend ASA 610, ASA 315 and other ASAs now, based on the revised ISAs issued by the IAASB in March 2012. The amended ASAs would need to be exposed and regulatory compliance processes would need to be completed.

After the IESBA finalises its considerations (possibly late 2012), if the Code is amended and the IAASB issues the full version of ISA 610 (Revised), the AUASB would need to re-expose ASA 610 and undertake further regulatory compliance processes.

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Option 2 - Await the outcome of the IESBA considerations relating to direct assistance.

There are two possible outcomes:

- (a) If the IESBA does not amend the Code as proposed, the AUASB will be in the same position as it is currently, i.e. amend ASA 610, ASA 315 and other ASAs, based on revised ISAs issued by the IAASB in March 2012.
- (b) If the IESBA amends the Code as proposed and the IAASB issues the full version of ISA 610 (Revised); the AUASB would amend ASA 610 based on the full version of ISA 610 (Revised), and ASA 315 and other ASAs based on the March 2012 ISAs.

Under option 2, the amended ASAs would be exposed and regulatory compliance processes undertaken once only.

Preferred Option

Option 2 is the preferred option, given the timing of the IESBA considerations regarding direct assistance and the flow on consequences for the AUASB. Option 2 enables the outcomes relating to direct assistance to be known and provides a clear way forward for the AUASB (subject to APESB consideration of the implications for APES 110). Option 1 is not preferred as it appears to be an interim step and may result in the AUASB having to expose proposed changes to ASA 610 twice within a short period of time.

2. APES 110

If the IESBA amends the Code, the APESB is likely to consider the implications for APES 110.

The APESB will not commence a review of APES 110 until after the IESBA finalises its processes in October or December 2012. Allowing for due process, the APESB is unlikely to finalise any changes to APES 110 before mid-2013.

AUASB Technical Group Recommendations

That the AUASB:

1. note the IAASB's approach to revising ISA 610; and
2. approve Option 2 as the approach to be taken by the AUASB in amending to the Australian Auditing Standards.

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Material Presented

Agenda Item 15(c)	AUASB Board Meeting Summary Paper
Agenda Item 15(c).1	ISA 610 (Revised) <i>Using the Work of Internal Auditors and Conforming Amendments to Other ISAs</i> , March 2012 – does not include direct assistance
Agenda Item 15(c).2	ISA 315 (Revised) <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i> , March 2012
Agenda Item 15(c).3	ISA 610 (Revised) – full text, including direct assistance (as highlighted) – proposed to be issued after the IESBA concludes its consideration of changes to the IESBA code

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Direction on approach to be taken in amending ASA 610, ASA 315 and other ASAs	AUASB direction	AUASB	16 April 2012	

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