



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **11**

Meeting Date: 25 February 2013

Subject: ASA 610 (Revised 2013), ASA 315 (Revised) and Conforming Amendments to Other ASAs

Date Prepared: 12 February 2013

Action Required

For Information Purposes Only

Agenda Item Objectives

To obtain the AUASB's direction on the approach to be taken in revising ASA 610 and ASA 315, and related conforming amendments.

Background

International Standards

The IAASB initiated its project to revise ISA 610 *Using the Work of Internal Auditors* and ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* in March 2009. The proposed revisions were intended to address two key issues:

1. developments in the internal audit environment and changes in practice regarding the interactions between external and internal auditors – to be reflected in both ISA 610 and ISA 315; and
2. ambiguity in the scope of the extant ISA 610 regarding the use of internal auditors to provide direct assistance (DA) on the external audit.

In March 2012, the IAASB issued ISA 610 (Revised) [without the DA provisions], ISA 315 (Revised) and conforming amendments to other ISAs, as it was considered to be in the public interest to release the strengthened requirements and guidance relating to using the work of the internal audit function. These revised standards are effective for engagements for periods ending on or after 15 December 2013.

The provisions on DA in ISA 610 were not finally concluded by the IAASB at this time, as some stakeholders had expressed concern that DA appeared to be in conflict with the IESBA *Code of Ethics for Professional Accountants* (the Code) and the IESBA had commenced a review of the definition of "engagement team" in the Code. In particular, the concern was that internal auditors performing external audit procedures at the direction of the external auditor would, in effect, be part of the engagement team and the Code requires that the engagement team be independent of the audit client.

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At this time, in April 2012, the AUASB decided to defer its consideration of changes to ASA 610, ASA 315 and conforming amendments to other standards, pending finalisation of the equivalent international standards, once the IESBA resolved possible changes to the Code and the APESB considered the implications for the Australian Code of Ethics.

Matters to Consider

1. IAASB and IESBA

Recently, following extensive consultation between the IAASB, the IESBA, the European Audit Inspection Group, IOSCO and others, further changes were made to both ISA 610 (Revised) and the definition of “engagement team” in the Code, and:

- (a) On 31 January 2013, the IESBA approved the revised definition of “engagement team” in the Code. The revised definition makes it clear that internal auditors who provide direct assistance on an audit engagement are not part of the engagement team. (see Agenda Item 11.1)
- (b) On 12 February 2013, the IAASB is due to approve ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, including requirements and guidance on DA and conforming amendments to the definition of “engagement team” in ISQC 1 and ISA 220, to align with the definition in the Code. (see Agenda Item 11.2)

The IAASB has taken a “limitations and safeguards” approach in ISA 610 (Revised 2013), and it is this approach that seems to have enabled stakeholders to agree to the DA provisions. (see Agenda Item 11.3)

2. PIOB

The changes to ISA 610, ISQC 1 and ISA 220 being considered by the IAASB on 12 February 2013 are subject to PIOB clearance that due process has been followed.

3. FRC, UK

On 12 February 2013 (the same day as the IAASB meeting to consider ISA 610 (Revised 2013)), the FRC announced that, despite its earlier support for the DA provisions in ISA 610 (Revised 2013), based on support from auditors, professional bodies and others, it has now concluded that DA cannot be justified. The main reasons for the FRC’s conclusion are set out in the *Feedback Statement on Consultation on Proposed Revisions to International Standards on Auditing (UK and Ireland) Addressing the Use of Internal Audit and Further Consultation on Timing of Prohibiting the Use of Internal Auditors to Provide Direct Assistance* (see Agenda Item 11.4)

The FRC now proposes to prohibit the use of DA and to issue ISA 610 (UK and Ireland) (Revised) with the following supplementary paragraph in the introductory section of the standard:

The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland). For a group audit this prohibition extends to the work of any component auditor which is relied upon by the group auditor, including for overseas components. Accordingly, the requirements and related application material in this ISA (UK and Ireland) relating to direct assistance are not applicable.

Before finalising the standard, the FRC is consulting on the possible impacts of a prohibition on the use of DA.

4. APESB

The APESB is expected to note the changes to the definition of “engagement team” in the international Code of Ethics at its 25 February 2013 meeting. If the APESB agrees to proceed with changes to the Australian Code, it may consider an exposure draft for public comment at its meeting on 8 May 2013 and approve final changes at its meeting on 27 August 2013.

5. NZAuASB

In mid-2012, the NZAuASB exposed for public comment the whole ISA 610, including changes related to using the work of the internal audit function and using internal auditors to provide DA. Staff of the NZAuASB advised that there was no concern expressed in New Zealand about adopting the DA provisions.

The NZAuASB deferred finalisation of ISA (NZ) 610, ISA (NZ) 315 and conforming amendments to other standards, pending finalisation of the equivalent international standards by the IAASB.

The NZAuASB is scheduled to consider this matter again at its meeting on 20 February 2013.

6. Effective Dates of Changes

Requirements and guidance in ISA 610 (Revised 2013) on using the work of the internal audit function are effective for audits of financial statements for periods ending on or after 15 December 2013.

Requirements and guidance in ISA 610 (Revised 2013) on using internal auditors to provide direct assistance (highlighted in grey in Agenda Item 11.2), if approved, will be effective for audits of financial statements for periods ending on or after 15 December 2014.

7. Possible Approaches

In considering its approach to revising ASA 610, ASA 315 and other standards, the AUASB needs to decide whether DA is to be included in an exposure draft of ASA 610, or not. There are two possible approaches:

1. Include DA, similar to the IAASB approach.
2. Prohibit the use of DA, similar to the FRC, UK approach.

Under its Principles of Convergence, the AUASB has a stated objective of adopting international auditing and assurance standards in Australia unless there are compelling reasons not to. The question is: is there a compelling reason why the AUASB should not include material on DA in ASA 610 (Revised), at least initially while seeking stakeholder views?

8. Longer Exposure Period

The proposed changes to ASA 610, ASA 315 and conforming amendments to twelve standards are substantial, with or without DA included. (see Agenda Items 11.2, 11.5 and 11.6)

Because of the nature and extent of changes, a longer exposure period of 60 days may be appropriate.

9. Roundtables

It is proposed that roundtables be held during the exposure period to gauge stakeholder sentiment; facilitate discussion of the development and consultation that has occurred internationally; and understand the impacts, if any, for Australia if ASA 610 and ASA 315 are revised to conform with ISA 610 (Revised 2013) and ISA 315 (Revised).

10. Draft Project Timeline

A draft Project Timeline is provided at Agenda Item 11.7, for information only. The timeline will be further developed and amended, consistent with the AUASB's direction, for approval at the AUASB meeting on 8 April 2013.

Action Requested

The AUASB is requested to consider the matters presented in this Board Meeting Summary Paper and provide direction on the approach to be taken in revising ASA 610 and ASA 315, and related conforming amendments. Specifically, the AUASB is requested to provide direction on whether:

- (a) DA should be included in an exposure draft of ASA 610 (Revised);
- (b) a longer exposure period is supported; and
- (c) roundtables should be held to engage with stakeholders.

Material Presented

Agenda Item 11	AUASB Board Meeting Summary Paper
Agenda Item 11.1	Definition of "engagement team" in the IESBA Code of Ethics
Agenda Item 11.2	ISA 610 (Revised 2013), including material on DA shaded in grey (clean version)
Agenda Item 11.3	Key limitations and safeguards in ISA 610 (Revised 2013)
Agenda Item 11.4	Feedback Statement on Consultation on Proposed Revisions to International Standards on Auditing (UK and Ireland) Addressing the Use of Internal Audit and Further Consultation on Timing of Prohibiting the Use of Internal Auditors to Provide Direct Assistance, FRC, UK
Agenda Item 11.5	Changes to ASA 315 – shown in mark up
Agenda Item 11.6	Conforming amendments to other ASAs – shown in mark up
Agenda Item 11.7	Draft Project Timeline

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider and provide direction	Direction on approach to revising ASA 610 and ASA 315, and related conforming amendments	AUASB	25 February 2013	O/S

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