

2 September 2014

Ms Merran Kelsall
Chairman
Auditing and Assurance Standards Board
Level 7
600 Bourke Street
MELBOURNE VIC 3000

ABN 80 001 797 557
PO Box A2311
Sydney South NSW 1235
T +61 2 9267 9155
F +61 2 9264 9240
enquiry@iia.org.au
www.iia.org.au
Level 7, 133 Castlereagh Street
Sydney NSW 2000

By Email: edcomments@auasb.gov.au

Dear Merran

The Institute of Internal Auditors –Australia (IIA-Australia) supports the work of the AUASB and congratulates the AUASB in developing this proposed standard, refining the existing AUS810.

The IIA-Australia represents the internal audit profession in Australia. Internal auditors are one of the key professional groups supporting Australian businesses to operate effective controls over business risks, and as such have a direct and significant interest in the development and implementation of the proposed standard on *Assurance Engagements on Controls*.

About us

The Institute of Internal Auditors (IIA) internationally is the peak body for internal auditing. Established in 1941, the IIA is an international professional association with global headquarters in the USA. The IIA is the Internal Audit profession's global voice, recognised authority, acknowledged leader, chief advocate, and principal educator. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security. Globally the IIA has more than 180,000 members.

Internal audit standards

Internal auditing is a profession with its own professional standards. The global professional body, The IIA, supports a standard-setting structure that produces and maintains The International Professional Practices Framework (IPPF).

The IPPF provides authoritative guidance for internal auditors around the world, covering aspects of establishing an internal audit activity, ie a function, department or outsourced service, and performing internal audit work. IIA members rely on their training, expertise and experience to understand and apply the principles in the guidance to each situation they face.

The IPPF therefore directly covers many of the areas of professional practice within the scope of the proposed standard, and as such, the IIA-Australia is concerned that both standards of practice complement each other to support best practice assurance activities.

Directly relevant to IIA-Australia members

The proposed standard is also directly relevant to the work of IIA-Australia members. While the scope of the proposed standard is external assurance providers, the nature of the four assurance tasks identified in the proposed standard is very similar to internal audit activity, and internal auditors are likely to find that they contribute to all of these engagements.

For attestation engagements involving all four types of engagements identified by the proposed standard, internal audit activities are likely to be responsible for preparation of the subject matter of the engagement.

Some direct engagements falling into the *voluntary engagements* category are likely to be undertaken as part of an integrated audit approach, using an external assurance provider to provide a report suitable for sharing with external stakeholders, on what would otherwise be an internal audit activity.

Our submission

Our submission generally supports the proposed standard, as it will promote higher standards in the oversight and assurance of controls over business risks. The attached submission responds to the discussion questions proposed by the AUASB.

The IIA-Australia also makes some suggestions for improvement to the proposed standard, to promote cost-effective assurance practice through:

- direct linkages to the IIA IPPF, and
- adoption of integrated assurance planning, across both internal and external assurance providers.

The IIA-Australia offers to work with the AUASB to develop guidance to help both internal auditors and external assurance providers to best collaborate to achieve more cost-effective integrated assurance practice.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Jones', written in a cursive style. The signature is positioned above a long, thin horizontal line that extends to the left.

Peter Jones
Chief Executive Officer

SUBMISSION

The Institute of Internal Auditors – Australia (IIA-Australia) submits the following responses to the discussion questions.

1. *Does this standard address the scope of all common engagements where assurance practitioners are requested, or required to provide assurance on controls?*

The IIA-Australia:

- supports the proposed selection of the four types of engagements
- stresses the significant relevance of these engagements to IIA-Australia members, as IIA-Australia members may be contributing to the subject matter of all these engagements, and may be undertaking similar activities for the purposes of risk-based internal audit plans.

2. *Is it appropriate that all engagements are required to conclude on the suitability of the design to meet the identified control objectives and, in addition, may include: (a) fair presentation of the description of the system (attestation engagements only); (b) implementation of controls as designed; and/or (c) operating effectiveness of controls as designed?*

The IIA-Australia:

- supports the proposed approach that all engagements should conclude on the suitability of design.
- supports the proposed approach that engagements may conclude on a) fair presentation, b) implementation, and c) operating effectiveness.
- highlights that internal auditors currently consider all aspects the conclusions proposed, for example, IIA *Standard 2130 – Controls* requires the chief audit executive (CAE) to form an overall opinion about the adequacy and effectiveness of control processes, which includes the concepts of suitability of design, implementation and effectiveness. The IIA-Australia considers that the adequacy of controls, which links the design and the implementation, must be considered alongside the effectiveness of controls, which links the implementation and operating effectiveness.

3. *Is it appropriate that the scope of a controls engagement may cover, either: (a) a specified date for engagements including the description, design and/or implementation of controls; or (b) throughout the specified period for engagements which include operating effectiveness of controls?*

The IIA-Australia:

- supports the proposed approach to scoping engagement conclusions regarding description, design and implementation to a specified date.

- supports the proposed approach of scoping engagement conclusions regarding operating effectiveness to a specified period.

4. *Are the considerations for conducting a direct engagement adequately differentiated from an attestation engagement?*

The IIA-Australia:

- supports the proposed wording that differentiates between considerations for conducting direct and attestation engagements. In particular the IIA-Australia considers that the guidance provided at A8 of the proposed standard is useful in this regard.
- suggests that the wording of clause 84 could be improved to provide greater clarity, by these suggested edits:

84. The assurance practitioner shall prepare the assurance report in accordance with ASAE 3000 for (both) attestation engagements and ~~shall also apply those requirements for~~ direct engagements.

5. *Is the objective of an assurance practitioner in ASAE 3000 to obtain assurance about “whether the subject matter information is free from material misstatement” appropriately adapted for an engagement on controls to obtain assurance about whether there are material: (a) misstatements in the description of the system; (b) deficiencies in the suitability of the design to achieve the control objectives; (c) deficiencies in the implementation of controls as designed; or (d) deviations in the operating effectiveness of controls as designed?*

The IIA-Australia:

- supports the proposed approach to materiality within the proposed standard.
- suggests that development of guidance materials to develop cost-effective links between the work of internal audit and external assurance providers, through application of best practice integrated assurance. The IIA-Australia offers to work with the AUASB in this regard.

6. *Are the procedures required for limited and reasonable assurance appropriate and adequately distinguished?*

The IIA-Australia:

- supports the proposed description of required procedures, as they follow other similar ASAEs under ASAE 3000, such as ASAE 3410 greenhouse gas engagements and ASAE 3610 water engagements.
- identifies that IIA IPPF does not recognise differing levels of assurance in the way the proposed ASAE does, and therefore does not specify particular procedures. For internal audit activity, both the degree of assurance and the procedures to be conducted would be identified within the terms of each engagement. This has relevance for interactions between internal audit

functions and the external assurance provider, dealt with in particular in clauses 36-38 and clauses 73-75 of the proposed standard.

7. *Is a limited assurance engagement on controls a meaningful engagement?*

The IIA-Australia:

- supports the use of limited assurance engagements on controls as meaningful.
- suggests that the audience for the report should be allowed to set the level of assurance that it requires, including selecting limited assurance engagements where the required assurance level is lower. This will facilitate more efficient use of assurance activity.

8. *Are the appendices included appropriate and are sufficient example assurance reports included to address the most common engagements on controls?*

The IIA-Australia:

- supports the inclusion of the appendices of the proposed standard
- suggests the inclusion of wording regarding internal audit functions within the example management representation letters (at Appendix 5)

9. *What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the requirements of this proposed Standard? If there are significant costs, do these outweigh the benefits to the users of assurance services?*

The IIA-Australia:

- considers that the relative benefits of compliance with the requirements of the proposed standard are likely to depend on the scale of the engagement, with smaller engagements likely to incur engagement costs that outweigh the benefits to users.
- suggests that integrated assurance planning is likely to deliver more cost-effective assurance results, through strongest possible use of internal and external audit resources.

10. *Are there any other significant public interest matters that constituents wish to raise?*

Communication with related professional groups

The IIA-Australia:

- suggests that the proposed standard be communicated to groups preparing subject matter for the engagements covered by the proposed ASAE, such as

internal auditors, and regulatory compliance professionals. These groups may not usually be directly engaged with AUASB activities.

- identifies that internationally and within Australia, the IIA has spent considerable time developing practices that support effective risk management and control, that may provide useful material for guidance statements around the role of internal auditors in contributing to the external assurance covered by the proposed standard.
 - Three Lines of Defense (Position Paper)
 - Auditing the Control Environment (Practice Guide)
- identifies that IIA-Australia has worked with other standards setters to develop joint guidance, for example with Standards Australia to produce the Handbook on applying 31000 to internal audit activities.
- offers to work with the AUASB to develop a joint guidance statement regarding how the work of internal auditors and external assurance providers could complement each other through application of the proposed ASAE.

Supporting broader professional standards

The IIA-Australia:

- suggests that proposed standard could further support improved professional standards in internal audit by directly referencing the IIA IPPF.
- identifies that the proposed standard addresses how assurance providers are to plan for, and use of the work of the internal audit function (clauses 36, 37 and 38 regarding planning and clauses 73, 74 and 75 regarding use), but that neither section identifies specific standards or qualifications for internal auditors or accreditation requirements for internal audit functions as a whole. The IIA would expect that internal auditors are members of IIA, and are therefore bound to undertake work in accordance with the IPPF, and that the internal audit function as a whole is compliant with the requirements of the IPPF.
- suggests that both areas of the proposed standard could be improved with reference to the IPPF as an accepted standard of best practice for internal audit.

Clause 34 could be improved by adding the following:

*During the planning phase, the assurance practitioner shall determine whether the entity has an internal audit function (**that is compliant with industry standards such as the IIA IPPF**)*

Clause 73 could be improved with the following additions:

(a) the work was performed by internal auditors having adequate technical training and proficiency (such as would be held by Certified Internal Auditors);

(b) the work was properly supervised, reviewed and documented (in a manner that would be compliant with the IIA IPPF);