

Ms Merran Kelsall  
Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
VIC 8009

30<sup>th</sup> September 2013

Dear Ms Kelsall

**Re: Exposure Drafts 02/13 and 03/13 Using the Work of Internal Audit**

Deloitte is pleased to respond to the Australian Auditing and Assurance Standards Board (AUASB) on Exposure Drafts ED 02/13 Proposed Auditing Standard ASA 610 (Revised) *Using the Work of Internal Auditors* (ED 02/13) and ED 03/13 Proposed Auditing Standard ASA 2013-2 *Amendments to Australian Auditing Standards* (ED 03/13).

We believe that the AUASB's proposed prohibition of the use of internal auditors to provide direct assistance in an audit or review conducted in accordance with Australian Auditing Standards is unnecessary. We are of the view that the AUASB should issue the International Auditing and Assurance Standards Board's (IAASB) ISA 610 (revised 2013) *Using the Work of Internal Auditors and Related Conforming Amendments* (ISA 610) without modification other than minor wording and spelling changes as permitted by paragraph 15 of the *Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board (IAASB) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB)* (AUASB Principles of Convergence and Harmonisation) paper issued by the AUASB in November 2012. In our opinion, the compelling reason test<sup>1</sup> as set out in paragraph 10<sup>2</sup> of the AUASB Principles of Convergence and Harmonisation has not been met.

Our reasons for this conclusion are as follows:

- a) There is currently no regulatory arrangement in Australia that specifically prohibits direct assistance.

<sup>1</sup> Paragraph 9 - The international standards should be adopted, and should be amended only if there are compelling reasons to do so.

<sup>2</sup> Paragraph 10. In the case of an international standard that is being reviewed for the purpose of adoption in Australia, compelling reasons for modifications in the public interest include where:

- (1) the international standard does not reflect, or is not consistent with:
  - a) the Australian regulatory arrangements; or
  - b) principles and practices that are considered appropriate in Australia (including in the use of significant terminology); and
- (2) the standard can be modified so as to result in a standard that:
  - a) promotes significant improvement in audit quality in the Australian environment; and
  - b) does not conflict with, or result in lesser requirements than the international standard; and
- (3) the relative benefits of making a change outweigh the costs (with costs primarily being compliance costs and benefits primarily relating to audit quality).



- b) The prohibition of direct assistance does not “promote a significant improvement in audit quality in the Australian environment” as
- i. There is a low incidence of the provision of direct assistance by internal audit teams to the auditor of an Australian entity.
  - ii. It is a longstanding practice in the US to use auditors in a direct assistance capacity. The exposure draft relating to the use of the work by internal audit issued by AICPA Auditing Standards Board in April 2013 allows for the continuation of this practice.
  - v. In the *Basis for Conclusions: ISA 610 (Revised 2013)* paper, issued along with the revised ISA 610, the IAASB “did not believe it in the public interest to prohibit direct assistance, with it noting there has been no indication that the use of direct assistance has led to deficiencies in audit quality, nor perceptions thereof.”
  - vi. ISA 610 imposes specific restrictions on the areas where assistance can be provided thus any direct assistance would be subject to close supervision and is not in areas of self-review or judgement.
- c) The consequences of making this change outweigh the benefits. This view is supported by the IAASB in their *Basis for Conclusions: ISA 610 (Revised 2013)* paper where they make the following statement “there are potential benefits, such as strengthened relationship and more effective dialogue with the internal audit function, additional insights into the entity based on the knowledge of the internal auditors, and the use of individuals that may have relevant expertise in particular areas. Direct assistance may also enable the external audit team to focus on the more significant audit issues.”

There is a low incidence of the provision of direct assistance by internal audit and as such, except as noted in the following paragraphs, we do not believe that there will be significant impact on the cost of audit services should the proposed ban be implemented:

- i. In a group audit scenario where the entity makes use of a shared service centre and Australia is the component auditor; there may be instances where direct assistance is permitted in the group auditor’s jurisdiction (e.g. the US). If direct assistance is used by the group auditor, and the component auditor is not in a position to dictate that direct assistance is banned there may be significant additional costs if an Australian component auditor is unable to rely on work carried out by the group auditor. The Australian component auditor may be required to travel to the relevant location and re-perform the work solely for the purpose of finalising the Australian statutory audit.
- ii. A similar scenario can arise where an Australian entity uses a Service Organisation. ASAE 3402 *Assurance Reports on Controls at a Service Organisation* considers the use of third party service organisations. The standard allows the use of the work of the internal audit function. ASAE 3402 does not deal with instances when direct assistance is provided to the service auditor by individual internal auditors. There may, however, be circumstances for example in a one-to-many situation, where it may be impractical for the Australian auditor to make enquiries of the service auditor based in jurisdiction, e.g. US, where direct assistance is permissible and common place, on whose work they wish to rely. It may also be impractical for the user auditor located in Australia to carry out additional work to address areas where internal audit has provided direct assistance.

As noted above it is our strong preference that the AUASB issue ASA 610 (revised 2013) and conforming amendments to Australian Auditing Standards on a basis similar to ISA 610, as it provides a robust framework and establishes a set of safeguards for the use of direct assistance. However, should the AUASB proceed with its proposals our responses to the specific items requested for comment are included in the Appendix to this letter.

If you have any questions concerning our comments please contact me on 02 9322 7288.

Yours sincerely



Caithlin Mc Cabe

Partner

Deloitte Touche Tohmatsu

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Appendix – AUASB Specific Matters for Comment

**1. Have applicable laws and regulations been appropriately addressed in the proposed standard?**

One of the key principles of the AUASB Principles of Convergence and Harmonisation paper issued by the AUASB is the adoption of the IAASB standards with minimal modification other than for compelling reasons. In our view, this compelling reasons test has not been met (please refer to item a) of our letter).

**2. Are there any references to relevant laws or regulations that have been omitted?**

As far as we aware there are none.

**3. Are there any laws or regulations that may, or do, prevent or impede application of the proposed standard, or may conflict with the proposed standard?**

Section 307(A)(1) of the Corporations Act 2001 requires auditors to conduct their audit in accordance with the auditing standards. If direct assistance is banned in Australia an auditor could inadvertently breach this requirement of the law in two scenarios:

- i. if the Australian component auditor unknowingly relies on audit evidence relating to a share service centre provided by a group auditor who uses direct assistance, or
- ii. if the Australian auditor of an entity that uses a shared service centre unknowingly relies on audit evidence provided by the auditor of the share service provider and that auditor has used direct assistance.

**4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed Auditing Standard? If there are any significant costs, do these outweigh the benefits to the users of audit services?**

In item c) of our letter we have described two scenarios where we believe that there could be significant costs in re-performing work completed by the internal audit team.

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

ISA 610 was issued by the IAASB after an extensive consultation process. The standard provides a robust framework and has established a set of safeguards, around the use of direct assistance. By allowing direct assistance the external auditor can focus on the more significant areas of the audit and potentially gain more benefits from a closer relationship with the internal audit function.

