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Consultation Paper

Prohibiting Sustainability Assurance Practitioners from using Direct Assistance by Internal Auditors

Comments Due: 1 December 2024 (75-day comment period)

Issued for comment by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Important Note and Disclaimer

This Consultation Paper is issued by the AUASB to provide information to auditors, assurance practitioners and other stakeholders about *Prohibiting Sustainability Assurance Practitioners from Using Direct Assistance by Internal Auditors*.

This Consultation Paper contains proposals to amend a proposed AUASB Standard and does not establish or extend the requirements under existing AUASB Standards and is not intended to be a substitute for compliance with the relevant AUASB Standards with which assurance practitioners are required to comply when conducting an assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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CONSULTATION PAPER

Prohibiting Sustainability Assurance Practitioners from Using Direct Assistance by Internal Auditors

Introduction

1. In August 2023, the Australian Auditing and Assurance Standards Board (AUASB) exposed the International Auditing and Assurance Standards Board's (IAASB) [Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards](#) (proposed ISSA 5000) in Australia for a 75-day comment period.
2. The proposed ISSA 5000 has since been updated by the IAASB and includes references to the use of internal auditors to provide direct assistance by an assurance practitioner. In Australia ASA 610¹ prohibits auditors from using internal auditors to provide direct assistance in an independent audit or review of a financial report conducted in accordance with the Australian Auditing Standards.
3. The AUASB has identified prohibiting the use of internal auditors to provide direct assistance as a potential compelling reason² to modify proposed ISSA 5000 for application in Australia and is seeking feedback from stakeholders on this matter.

Legislation and other standards

4. This consultation paper was issued on 17 September 2024. The proposed amendments are subject to the finalisation of legislation and other standards, and will be updated as necessary for any changes in the final versions of the following:
 - (a) The [Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Bill 2024](#), which had passed both Houses of Parliament on 9 September 2024 and was awaiting Royal Assent at the time this consultation paper was issued;
 - (b) The Australian Accounting Standards Board's Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures*; and
 - (c) ISSA 5000 which is expected to be approved by the IAASB in September 2024, subject to consideration by the Public Interest Oversight Board.

Overview

Purpose

5. The purpose of this Consultation Paper is to:
 - (a) provide stakeholders with information on the approach to the use of internal audit by sustainability assurance practitioners in the latest publicly available draft of ISSA 5000³;

¹ ASA 610 *Using the Work of Internal Auditors*.

² Refer to paragraph 18 of this Consultation Paper for an explanation of compelling reasons.

³ See [20240916 - Agenda Item 2-B.3 Sustainability Assurance - Proposed ISSA 5000 - Requirements \(clean\).pdf \(iaasb.org\)](#) and [20240916 - Agenda Item 2-B.4 Sustainability Assurance - Proposed ISSA 5000 - Application Material \(clean\).pdf \(iaasb.org\)](#).

- (b) provide stakeholders with information as to why the AUASB identified the use of direct assistance by internal auditors as a potential compelling reason to modify ISSA 5000; and
- (c) seek stakeholder feedback.

Request for Comments

- 6. The AUASB requests stakeholders to provide responses to the questions contained in this Consultation Paper and include the rationale for the responses provided where appropriate. It is not necessary to respond to all questions.
- 7. Comments are requested by 1 December 2024. Respondents are asked to submit their comments electronically through the AUASB website (www.auasb.gov.au/projects/open-for-comment/). Please submit comments in both PDF and Word formats.

Background

- 8. In August 2023, the AUASB exposed the IAASB's [*Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards*](#) without modification in Australia for a 90-day comment period.
- 9. In April 2024, the AUASB issued its [*Consultation Paper Assurance over Climate and Other Sustainability Information*](#) seeking feedback on several matters including a proposal to adopt the standard on assurance over sustainability information being developed by the IAASB, *ISSA 5000 General Requirements for Sustainability Assurance Engagements*. All respondents agreed that ISSA 5000 should apply to:
 - (a) assurance over climate disclosures mandated under the Australian reporting framework and early voluntary assurance; and
 - (b) voluntary assurance over any other sustainability information.
- 10. The draft of ISSA 5000⁴ to be considered by the IAASB at its September 2024 meeting includes the following paragraphs on the use of internal auditors to provide direct assistance by an assurance practitioner:
 - (a) Paragraph 42 states that:

“The engagement leader shall determine that members of the engagement team, and any practitioner’s external experts and internal auditors who provide direct assistance, collectively have the appropriate sustainability competence, competence and capabilities in assurance skills and techniques, and sufficient time, to perform the engagement.”
 - (b) Application material paragraph A30 states that:

“Internal auditors who provide direct assistance refers to the use of internal auditors to perform procedures under the direction, supervision and review of the practitioner. Although they may perform procedures similar to those performed by the practitioner, such internal auditors are not independent of the entity as is required of the practitioner. They are therefore not members of the engagement team. In some jurisdictions, the practitioners may be prohibited, or restricted to some extent, by law

⁴ See [20240916 - Agenda Item 2-B.3 Sustainability Assurance - Proposed ISSA 5000 - Requirements \(clean\).pdf \(iaasb.org\)](#) and [20240916 - Agenda Item 2-B.4 Sustainability Assurance - Proposed ISSA 5000 - Application Material \(clean\).pdf \(iaasb.org\)](#).

or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance.”

11. In Australia, Auditing Standard ASA 610 *Using the Work of Internal Auditors* conforms with the equivalent International Standard on Auditing (ISA 610) except that ASA 610 prohibits the auditor from using internal auditors to provide direct assistance in an independent audit or review conducted in accordance with the Australian Auditing Standards.
12. ASA 610 deals with the external auditor’s responsibilities if using the work of internal auditors. This includes using the work of the internal audit function in obtaining audit evidence. However, the use of internal auditors to provide direct assistance is prohibited in an audit or review conducted in accordance with the Australian Auditing Standards. Direct assistance is defined in ISA 610 as “The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor”. The AUASB’s prohibition does not differentiate as to whether direct assistance is provided by internal auditors internal to the entity (employed by the entity) or external to the entity (outsourced).
13. The AUASB’s justification for the prohibition as per paragraph 4 of the [Basis for Conclusions](#) to ASA 610 was:

“... In considering whether or not to prohibit direct assistance, the AUASB considered the views of all stakeholders and concluded that a prohibition on direct assistance is justified as it reinforces the principle of auditor independence, which is critical to overall audit quality and the integrity of the external audit process. The AUASB is of the view that internal auditors are not independent of the audit client and are not subject to the same independence requirements as external auditors. A prohibition on the use of internal auditors to provide direct assistance creates a clearer division of responsibility between internal and external audit teams to safeguard against conflicts of interest and supports stakeholders’ expectations that external auditors should be free from threats to their independence.

This prohibition on direct assistance does not represent a divergence from ISA 610, as the IAASB makes it clear that its requirements and guidance in this area will not be applicable in jurisdictions where the use of internal auditors to provide direct assistance is prohibited.”
14. There are similar prohibitions in auditing standards in other jurisdictions including the UK and Germany. The New Zealand Auditing and Assurance Standards Board (NZAuASB) did not identify any compelling reasons to amend ISA 610 and accordingly did not prohibit the auditor from using internal auditors to provide direct assistance.

The AUASB’s Approach in Seeking Stakeholder Feedback

15. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing and Assurance Standards.

Criteria for modifying international standards

16. Under subsections 227B(3) and (4) of the *Australian Securities and Investments Commission Act 2001*, the AUASB “may make or formulate an auditing standard by issuing the text of an international auditing standard” and “the text of an international auditing standard may be modified to the extent necessary to take account of the Australian legal or institutional environment”.
17. Under paragraph (d) of the Financial Reporting Council’s AUASB [Strategic Direction](#), “where appropriate and considered to be in the public interest and necessary to producing standards of the highest quality, the AUASB should incorporate additional requirements in Australian Auditing Standards”.

18. Sub-paragraph 8(c) of the [AUASB Policy and Process for International Conformance and Harmonisation of Standards \(the Policy\)](#) says that international standards should only be modified if there are compelling reasons to do so. Under paragraph 12, the Compelling Reason Test⁵ for modification of an international standard is triggered when the international standard does not reflect, or is not consistent with:
- (a) Australian legal and regulatory arrangements; or
 - (b) principles and practices that are considered appropriate in maintaining or improving audit or assurance quality in Australia.
19. Under paragraph 13 of the Policy, where (a) above applies, a new or modification requirement will:
- (a) ensure effective and efficient compliance with the legal and/or regulatory framework in Australia; and
 - (b) not result in a requirement that is lesser than or in conflict with the requirements of the equivalent international standard.
20. Under paragraph 14 of the Policy, where paragraph (b) above applies, “any modification to the standard must:
- (a) ensure compliance with principles and practices that the AUASB considers appropriate and in the public interest in Australia;
 - (b) be clear and promote consistent application by all practitioners in Australia;
 - (c) promote significant improvement in audit/assurance quality (as described by the IAASB’s Framework for Audit Quality) in the Australian environment;
 - (d) not result in a standard that conflicts with, or results in lesser requirements than the international standard;
 - (e) not be overly complex and confusing; and
 - (f) not change the meaning or intent of the international standard by imposing more onerous requirements on practitioners in Australia than are necessary.”
21. Under paragraph 15 of the Policy, the AUASB will consider, and be satisfied that, whether any modification under (a) or (b) the benefits of modifying the standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).
22. Any addition or modification from the international standard will be clearly marked as an Australian paragraph (“Aus” prefix). However, minor wording and spelling changes (as opposed to significant terminology changes) need not be reflected in the Australian standard as a modification to the international standard where the intent remains unchanged.

Proposed modification of ISSA 5000

23. The AUASB proposes to amend the following paragraphs in the proposed ISSA 5000 which will be marked as Australian paragraphs should these proposals be approved.

⁵ Refer to [AUASB Policy and Process for International Conformance and Harmonisation of Standards](#), for an explanation of the compelling reasons for modification of international standards and application of the Compelling Reasons Test.

24. Amend the definition of ‘engagement team’ in the table in paragraph 18 in the proposed ISSA 5000 as follows:
- “The engagement leader and other personnel performing the engagement, and any other individuals who perform procedures on the engagement, excluding a practitioner’s external expert ~~and internal auditors who provide direct assistance on the engagement~~. (Ref: Para. A29-A30)”
25. Amend paragraph 42 of proposed ISSA 5000 and add a new paragraph Aus 42.1 as follows:
- “42. The engagement leader shall determine that members of the engagement team, and any practitioner’s external experts ~~and internal auditors~~, collectively have the appropriate sustainability competence, competence and capabilities in assurance skills and techniques, and sufficient time, to perform the engagement.
- Aus 42.1 The practitioner shall not use internal auditors to provide direct assistance on the sustainability assurance engagement. This extends to the use of internal auditors for direct assistance for components in the context of a group sustainability assurance engagement.”
26. Application material paragraph A30 of proposed ISSA 5000 would be deleted:
- ~~“A30. Internal auditors who provide direct assistance refers to the use of internal auditors to perform procedures under the direction, supervision and review of the practitioner. Although they may perform procedures similar to those performed by the practitioner, such internal auditors are not independent of the entity as is required of the practitioner. They are therefore not members of the engagement team. In some jurisdictions, the practitioners may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance.”~~

Application of ‘Compelling Reasons’ test (as applied for ASA 610)

27. APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board (APESB) requires auditors and audit firms to be independent when undertaking audit and review engagements. Audit engagement teams in Australia specifically exclude individuals within an entity’s internal audit function, as direct assistance by the internal audit function to the external auditor is prohibited.
28. The approach in draft ISSA 5000 would not be consistent with current audit principles and practices in Australia. This is underscored by the approach taken in ASA 610 and APES 110 for audits of financial reports and the standard of auditor independence that is considered appropriate within Australia.
29. On the same basis as described in paragraph 13 of this Consultation Paper, the AUASB is considering prohibiting the use of direct assistance of internal auditors in the Australian equivalent of ISSA 5000. In reference to the compelling reasons criteria in paragraph 18 above, it is suggested that the proposed prohibition would:
- (a) be clear and promote consistent application by all practitioners in Australia;
 - (b) promote significant improvement in audit/assurance quality in the Australian environment;
 - (c) not result in a standard that conflicts with, or results in lesser requirements than the international standard;
 - (d) not be overly complex and confusing; and

- (e) not change the meaning or intent of the international standard by imposing more onerous requirements on practitioners in Australia than are necessary.
- 30. A prohibition may also be necessary for consistency with the auditor independence requirements of the *Corporations Act 2001* in the context of engagement for the audit or review of information in a sustainability report, as well as given possible interconnectivity with information in the financial report which is subject to ASA 610.
- 31. Consistent with the prohibition for financial report audits, current practice, the proposed prohibition would include direct assistance provided by internal auditors who are directly employed by the entity and those who are external providers.
- 32. As with the prohibition for financial report audit, the proposed prohibition would be intended to ensure that confidence in the quality of the sustainability information is supported by the quality of the independent audit.
- 33. The Australian equivalent of ISSA 5000 would still be compliant with the international standard. The applicable material to ISSA 5000 specifically acknowledges that in some jurisdictions, direct assistance may be prohibited.
- 34. The AUASB changes would apply for the same reporting periods as ISSA 5000. The AUASB amendments would be effective from the application date of ISSA 5000.

Proposed Application Date

- 35. The application date of the proposed prohibition would coincide with the application date of an Australian equivalent to ISSA 5000.
- 36. The IAASB proposes that the final ISSA 5000 will be applicable for periods beginning on or after approximately 18 months after the approval of the final ISSA 5000. However, the possible application of the Australian equivalent to ISSA 5000 for mandatory audits of sustainability reports under the *Corporations Act 2001* is covered in AUASB Exposure Draft ED 02/24 *Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*.

Next Steps

- 37. The International Ethics Standards Board for Accountants (IESBA) has recently consulted on the Proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting. The APESB has yet to consider the use of direct assistance by internal auditors by sustainability assurance practitioners. The AUASB will continue to monitor developments at the APESB on this matter.
- 38. This Consultation Paper will be open for 75-day comment period closing on 1 December 2024. The AUASB is also conducting roundtables, the details of which are available on the AUASB website (www.auasb.gov.au).

Questions

1. Should assurance practitioners be prohibited from using direct assistance by internal auditors in a sustainability assurance engagement conducted in accordance with the Australian Standards on Sustainability Assurance? If not, why not?
2. Do you think the AUASB should consider the approach in Australian Standards on Sustainability Assurance separately from the approach in ASA 610? If so, why?
3. Would you like to see the AUASB reconsider the prohibition on the use of internal auditors to provide direct assistance in ASA 610? If so, what are your reasons?

For questions 4 to 8, stakeholders are asked to comment on the AUASB's proposed prohibition on the use of internal auditors to provide direct assistance in a sustainability assurance engagement conducted in accordance with the Australian Standards on Sustainability Assurance (the proposal).

4. Have applicable laws and regulations been appropriately addressed in the proposal?
5. Are there any laws or regulations that may, or do, prevent or impede the application of the proposal, or may conflict with the proposal?
6. Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposal, or may conflict with the proposal?
7. What, if any, are the additional significant costs to/benefits for auditors and assurance practitioners and the business community arising from compliance with the requirements of this proposal? If significant costs are expected, the AUASB would like to understand:
 - (i) Where those costs are likely to occur;
 - (ii) The estimated extent of costs, in percentage terms (relative to audit fees); and
 - (iii) Whether expected costs outweigh the benefits to the users of sustainability assurance services?
8. Are there any other significant public interest matters that stakeholders wish to raise?