

# FRC to adopt improved auditing standards on using the work of internal audit

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The FRC today confirms it will adopt the proposed international improvements to the auditing standards on the external auditor using the work of internal audit. In doing so, subject to consulting on the timing of implementation, it will rule out the direct use of internal audit staff as members of audit engagement teams, with the aim of preserving auditor independence.

The improvements reflect changes to the IAASB's International Standards on Auditing, the aim of which was to:

- enable better use, in making the external auditor's risk assessments, of the knowledge and findings of the internal audit function;
- strengthen the external auditor's evaluation of the work of the internal audit function in obtaining audit evidence; and
- resolve the ambiguity as to whether the ISAs permit the use of internal audit staff as members of the external audit engagement team to perform audit procedures (referred to as 'direct assistance').

Prior to these revisions, the IAASB's standards were not explicit about whether or not direct assistance by internal audit staff was permitted. The FRC's own standards included additional guidance that allowed direct assistance in certain circumstances, subject to appropriate safeguards. The IAASB's proposed revised ISAs are expected to take a similar approach. The FRC Board concluded that, because using internal audit staff as members of the audit engagement team is contrary to the principle of independence, this should no longer be permitted. This was also the advice of the Audit and Assurance Council.

Nick Land, FRC Board member and chairman of the Audit and Assurance Council, said,

"Direct assistance involves some of the audit being undertaken by individuals that are not independent of the audited entity. Shareholders generally expect that external auditors should be seen to be free from threats to their independence. Permitting the direct use of internal auditors involves agreeing lower independence standards for some members of the audit engagement team, which leans against this expectation. Accordingly, the FRC has concluded that this should no longer be allowed."

The consultation on timing of implementation will remain open for a period of two months to 12 April 2013.

## Notes to editors:

1. The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.
2. The proposed changes set out in the original 2012 consultation paper are to International Standards on Auditing (ISAs) (UK and Ireland):

315 (Revised) *Identifying and assessing risks of material misstatement through understanding the entity and its environment*

610 (Revised) *Using the work of internal auditors*

with conforming amendments to other ISAs (UK and Ireland).

They are intended to implement changes to the corresponding ISAs issued by the International Auditing and Assurance Standards Board (IAASB). That consultation paper can be obtained from here:

[www.frc.org.uk/Our-Work/Publications/APB/Consultation-Paper-Revision-of-ISAs-\(UK-and-Ir.aspx](http://www.frc.org.uk/Our-Work/Publications/APB/Consultation-Paper-Revision-of-ISAs-(UK-and-Ir.aspx)

3. The Feedback Statement describes the changes that will be made to the proposed revised ISA (UK and Ireland) 610, as issued for consultation by the FRC in May 2012, to implement the prohibition on obtaining direct assistance from internal auditors.
4. Not permitting direct assistance would not represent a divergence from ISA 610 (Revised). The IAASB makes clear that its requirements and guidance in this area will not be applicable in jurisdictions where direct assistance is prohibited.
5. All Press enquiries should be directed to: Sophie Broom, Communications Executive, on telephone: 020 7492 2395 or email: [s.broom@frc.org.uk](mailto:s.broom@frc.org.uk).