



6 June 2012

Ms Jan Munro  
Deputy Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017 USA  
By email: [janmunro@ifac.org](mailto:janmunro@ifac.org)

Dear Jan,

**RE: Proposed Change to the Definition of “Engagement Team”**

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on *Proposed Changes to the Definition of “Engagement Team”*.

**APESB’s role**

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, appropriate professional and ethical standards. These standards apply to the membership of the three major Australian professional accounting bodies. A secondary objective of the APESB is to provide the opportunity or forum for the discussion and consideration of issues relating to professional standards for accountants. The APESB is funded by the three major accounting bodies in Australia, but has complete independence in its standard-setting activities.

Our essential function is the setting of standards, and in doing this we endeavour to incorporate a strong emphasis on professionalism and the role of sound judgement in those accountants who are obliged to follow our standards. We believe that setting high quality standards with demanding criteria contributes to the professional standing and behaviour of members of the accounting profession.

## General Comments

APESB is supportive of the changes proposed in the Exposure Draft which aim to clarify that internal auditors providing direct assistance to the external audit function in accordance with ISA 610 *Using the Work of Internal Auditors* (ISA 610) are not to be considered as part of the Engagement Team and accordingly are not required to meet the independence requirements that apply to Engagement Team members.

However, we are concerned that the amendment to ISA 610 proposed by the IAASB to allow external auditors to engage internal auditors to provide direct assistance will result in external auditors more frequently using internal auditors to complete their audit work.

In Australia it is rare for the external auditors to obtain direct assistance for the external audit from the internal auditors of a client. Allowing direct assistance from the client's internal audit function for the purposes of the external audit will introduce new risks for external audit engagements in the future.

We recommend that the Code directly address ethical considerations which the external auditor and the internal auditor should consider in these circumstances. This should include potential threats that the external auditor and internal auditor should identify and appropriate safeguards that may mitigate those threats in order for the internal audit function of a client to provide direct assistance on the external audit engagement.

An appropriate place for the Code to address these threats is under Section 290 *Independence – Audit and Review Engagements* in a similar manner to other specific situations addressed therein such as *Employment with an Audit Client*, *Recent Service with an Audit Client* and *Preparing Accounting Records and Financial Statements*. We recommend that the general provisions should describe the self-interest, intimidation or familiarity threats to the fundamental principles of integrity and objectivity which are created if an internal auditor is used for direct assistance on an external audit engagement. Familiarity or intimidation threats will exist if an employee at the client is able to exert significant influence over the work the internal auditor is asked to perform in a direct assistance arrangement. A self interest threat will exist where the internal auditor is asked to review an area of the business where the internal auditor has previously performed internal audit work or the area is of professional interest to the internal auditor (for example, future employment opportunities). We recommend the Code addresses these threats through identification of safeguards such as those used elsewhere in Section 290:

- Restricting the direct assistance of internal audit to areas where the work performed has minimal impact on the overall audit strategy;
- Having a sufficiently experienced Member of the engagement team supervise and review the work of internal audit under a direct assistance arrangement;
- Evaluating the relationship between the internal auditor providing direct assistance and the key client personnel in the areas where the work is to be performed in order to identify potential conflicts, if any exist; and
- Evaluating the internal auditor's period of employment with the company.

As the Code has higher independence requirements for Public Interest Entities (PIE), IESBA should consider whether direct assistance should be allowed for PIEs and if so, identify safeguards that may eliminate the threats to the fundamental principles or reduce them to an acceptable level. For example, one consideration may be having the internal audit function reporting directly to the audit committee of the PIE.

Furthermore, as you are aware there are different approaches around the world regarding the use of internal audit for external audit work, which ISA 610 acknowledges stating that in some countries direct assistance is not be allowed (Paragraph 27). In Australia, whilst the external auditor may and do make use of the work performed by the internal auditor, the practice of the external auditor obtaining direct assistance of the internal audit function to complete external audit work does not generally occur.

We acknowledge that ISA 610 specifies the circumstances in which internal audit can be used and in particular that an internal auditor is not allowed to assist in areas that require subjective judgement. Whilst we agree with IESBA's proposed amendments to the definition of the Engagement Team, we believe that IESBA should consider whether ISA 610 is the best place to document threats to the fundamental ethical principles arising from the external auditor obtaining direct assistance from the internal auditor, in which case perhaps the Code should include a reference to ISA 610; or whether the Code itself should address these threats and possible safeguards from the perspective of both the internal and external auditors.

We hope you find these comments useful in your final deliberations and if you require any additional information, please do not hesitate to contact me at [kspargo@bigpond.net.au](mailto:kspargo@bigpond.net.au) or Channa Wijesinghe, Technical Director at [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au).

Yours sincerely



Kate Spargo

**Chairman**