

Meeting: IAASB
Meeting Location: Brussels
Meeting Date: February 12-14, 2013

Agenda Item 4

Using the Work of Internal Auditors (Including Direct Assistance)

Objective of Agenda Item

1. To approve ISA 610 (Revised 2013)¹ (which now includes material addressing Direct Assistance) as a final standard, and related conforming amendments.

Task Force

2. Members:
 - Diana Hillier, Chair, former IAASB Deputy Chair
 - Dan Montgomery, IAASB Deputy Chair
 - Cédric Gélard, IAASB Member
 - Marek Grabowski, IAASB Technical Advisor
3. Correspondent member:
 - Robert Franchini, IESBA Engagement Team Task Force Chair, IESBA Member

Activities Since the December 2012 IAASB Meeting

4. At its December 2012 meeting, following coordinated discussions with the International Ethics Standards Board for Accountants (IESBA),² the IAASB agreed limited amendments to the requirements and application material on direct assistance previously approved at its December 2011 meeting, but which had been withheld from the release of ISA 610 (Revised) pending IESBA's exposure of proposed changes to the definition of 'engagement team' in the IESBA Code of Ethics (the Code). In December 2012, the IESBA also agreed amendments to the definition of engagement team. The IESBA, however, did not take a final vote on the revised definition pending consultation with the IESBA Consultative Advisory Group (CAG) on the significant comments received on the IESBA exposure draft. The IAASB also deferred its final voting pending that consultation.
5. Subject to the IESBA's finalisation of changes to the Code's definition of engagement team, the IAASB also agreed to set the effective date for the material on direct assistance for a period one

¹ International Standard on Auditing, ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

² [Agenda Item 4-A](#) of the December 2012 IAASB meeting provides a recapitulation of the IAASB's key decisions on the ISA 610 project pertaining to direct assistance and IESBA-IAASB interactions.

year later than the effective date for ISA 610 (Revised). It also supported the Task Force recommendation that ISA 610 (Revised) be re-released using a title that distinguishes it from the version released in March 2012 (e.g., “ISA 610 (Revised 2013)”) and for the re-released standard to indicate those aspects that come into effect for audits of financial statements for periods ending on or after December 15, 2013 (i.e., the part addressing the use of the work of the internal audit function), and those aspects that come into effect a year later.

6. In January 2013, after consulting with its CAG, the IESBA unanimously³ approved its revised definition of engagement team. The ISA 610 Task Force Chair participated, as requested, in both the IESBA CAG and IESBA January meetings. Subject to the Public Interest Oversight Board’s review of due process applied, the final IESBA definition of engagement team is as follows:

“Engagement team—All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.

The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*.¹

Footnote 1: ISA 610 (Revised 2013) establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.”

7. The IESBA agreed to align the effective date for the revised engagement team definition with that for the final material on direct assistance in ISA 610 (Revised 2013), i.e., for audits of financial statements for periods ending on or after December 15, 2014, with earlier application permitted.

Matters for IAASB Consideration

Editorial Changes

8. Minor drafting changes have been proposed to clarify paragraph A40 of ISA 610 (Revised 2013). In the IESBA CAG discussion, a CAG member noted that, as a result of the drafting changes made at the December 2012 IAASB meeting, the words “in these circumstances” in is difficult to understand without further context. See paragraph A40 in Agenda Item 4-B for proposed marked changes.
9. In addition, a minor editorial change has been made to address a missing comma in paragraph A34.

Related Conforming Amendment to ISQC 1 and ISA 200 Definitions of Engagement Team

10. At its December 2011 meeting, the IAASB noted that subject to the outcome of the IESBA’s deliberations on changes to the Code’s definition of engagement team, conforming amendments to the definition of engagement team in the ISA 220⁴ and ISQC 1⁵ may be required for purposes of alignment with the IESBA Code.

³ Sixteen of the eighteen IESBA members were present at the January 31, 2013 IESBA teleconference meeting.

⁴ ISA 220, *Quality Control for an Audit of Financial Statements*

11. For this purpose, the Appendix to this Agenda Item presents the proposed conforming amendments to ISA 220 and ISQC 1. Note that the conforming amendments include the footnote to the IESBA definition. That footnote highlights that ISA 610 establishes limits on the use of direct assistance and that its use may be prohibited. Though ISQC 1 and ISA 220 are published within the same body of standards as ISA 610, and these points are made very clearly in the Introduction section of ISA 610 (Revised 2013), the footnote was critical to the definition being acceptable to the IESBA. Accordingly, for purposes of consistency with the Code, the full text of the proposed changes, including the footnote, has been proposed as conforming amendments to ISQC 1 and ISA 220.
12. These conforming amendments will be noted as coming into effective at the same time the material on direct assistance in ISA 610 (Revised 2013) and the IESBA Code's revised definition come into effect i.e., for audits of financial statements for periods ending on or after December 15, 2014, with earlier application permitted.

Due Process Matters

13. Consistent with its representation in the December 2012 IAASB agenda material:
 - In the IAASB Task Force's view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its considerations therein, have all been reflected in the issues papers presented to the IAASB at its meetings. In the IAASB Task Force's view, there are no significant matters it has discussed in this project that have not been brought to the IAASB's attention.
 - The IAASB Task Force believes that the limited changes to the final ISA wording are fine-tuning changes in response to matters raised by respondents to the IESBA's exposure draft on engagement team, and do not represent substantive changes to the final ISA wording agreed at the December 2011 IAASB meeting. (Note: The IAASB had already considered at its December 2011 meeting the matter of re-exposure in light of respondents' comments on the ISA 610 ED.) Accordingly, the IAASB Task Force believes that re-exposure is not necessary.

Material Presented

Agenda Item 4-A	Proposed ISA 610 (Revised 2013), Including Material on Direct Assistance – Clean
Agenda Item 4-B	Proposed ISA 610 (Revised 2013), Select Paragraphs Marked to Show Changes Since the December 2012 IAASB Meeting
Agenda Item 4-C	Proposed ISA 610 (Revised 2013) – Marked to Show Changes to the December 2011 Approved Version of ISA 610 (Revised)

⁵ International Standard on Quality Control (ISQC 1), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services*

Action Requested

14. While recognizing that the IAASB had previously deliberated, concluded on and approved the text of the ISA 610 material addressing direct assistance in accordance with due process at its December 2011 meeting, the IAASB is asked to approve:
- ISA 610 (Revised 2013), which includes limited amendments to the material on direct assistance, as a final standard; and
 - The proposed related conforming amendments to the definitions of engagement team in ISA 220 and ISQC 1.

Appendix

Proposed Conforming Amendments

The following conforming amendments to ISA 220 and ISQC 1 are proposed:

ISA 220

Definitions

“Paragraph 7(d) – Engagement team - All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm.”⁶

The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*.⁷

ISQC 1

Definitions

“Paragraph 12(f) – Engagement team - All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm.

The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*.⁸

⁶ ISA 620, “Using the Work of an Auditor’s Expert,” paragraph 6(a), defines the term “auditor’s expert.”

⁷ ISA 610 (Revised 2013) establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

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