

BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 610, Using the Work of Internal Auditors

May 2013

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard (CAS) 610, *Using the Work of Internal Auditors*.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following:

- (a) A Basis for Conclusions prepared by International Auditing and Assurance Standards Board (IAASB) staff for International Standards on Auditing (ISA) 610 (Revised) and ISA 610 (Revised 2013) is available on the IAASB web site and provides information on how the IAASB dealt with comments received on significant matters in response to its Exposure Draft of ISA 610 (ED-ISA 610).
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft (ED-CAS 610) and matters particular to Canada. This information is set out below.

Background

In July 2010, the IAASB issued its ED-ISA 610. In December 2011, the IAASB approved revisions to ISA 610 and ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, and conforming amendments to a number of other ISAs. In February 2012, the Public Interest Oversight Board (PIOB) confirmed that the IAASB followed due process. ISA 610 (Revised) was issued excluding material pertaining to the use of internal auditors to provide direct assistance.

In February 2013, the IAASB approved limited revisions to add material pertaining to the use of internal auditors to provide direct assistance, and conforming amendments to a number of other ISAs. In February 2013, the PIOB confirmed that the IAASB followed due process. The ISA was relabeled as ISA 610 (Revised 2013) and then issued.

In August 2010, the AASB issued ED-CAS 610 to adopt revisions to:

- (a) ISA 610; and
- (b) certain paragraphs in ISA 315 that deal with the external auditor's consideration of the internal audit function.

There were 4 respondents to ED-CAS 610 (identified below).

The AASB concluded that there were no significant changes between CAS 610 (including revisions to certain paragraphs in CAS 315) and ED-CAS 610 and, therefore, re-exposure was not required. In March 2012, the AASB approved the revisions to CAS 610 and CAS 315, and conforming amendments to a number of other CASs. In June 2012, the Auditing and Assurance Standards Oversight Council (AASOC) confirmed that the AASB followed due process. Revised CAS 610 was issued excluding material pertaining to the use of internal auditors to provide direct assistance.

In February 2013, the AASB approved limited revisions to the material pertaining to the use of internal auditors to provide direct assistance, and conforming amendments to a number of other CASs. In February 2013, AASOC confirmed that the AASB followed due process. CAS 610, including material shaded in gray pertaining to the use of internal auditors to provide direct assistance was then issued.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

Reference to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics

1. CAS 610 contains an amendment to the wording of paragraph A14 of ISA 610 that was not proposed in the ED-CAS 610 because the respective wording was subsequently added to the ISA. For the reasons set out below, the wording "In addition, the IESBA Code states..." and "The IESBA Code discusses..." was replaced with "In addition, in Canada, the relevant ethical requirements may state..." and "In Canada, the relevant ethical requirements may discuss..." respectively.
 - (a) Reference to the "IESBA Code" has been replaced with a reference to "relevant ethical requirements" to recognize that practitioners in Canada are generally required to comply with the code of ethics established by professional accounting bodies whose code may differ from the IESBA Code.
 - (b) The wording prescribed in the code of various professional accounting bodies in Canada may not exactly parallel those in the IESBA Code. Therefore, the amended wording "may state" and "may discuss" allows for flexibility or varied language in the rules and code followed by practitioners in Canada.
2. Other than the amendment noted above, the CAS contains no other amendment to the ISA wording. No respondent requested an amendment.

Other Matters

Direct Assistance

3. An issue arose, internationally, regarding whether to include guidance related to direct assistance provided by internal audit staff in this version of ISA 610 (Revised). The following summarizes the issue as encountered by the IAASB and how the AASB dealt with this matter in Canada.
4. ED-ISA 610 expanded the scope of extant ISA 610 to address instances of internal audit staff providing direct assistance to auditors. A number of respondents to the ED-ISA 610 expressed concern that the use of direct assistance appeared to be in conflict with the IESBA Code. In their view, the definition of "engagement team" ¹ under the IESBA Code could be interpreted as including internal audit staff providing direct assistance. If these internal auditors were part of the engagement team, they would be required to be independent of the audit client. However, ISA 610 specifically recognizes that internal auditors are not independent of the audit client.
5. In March 2012, the IAASB issued ISA 610 (Revised) excluding material pertaining to the use of internal auditors to provide direct assistance, pending IESBA's decision on whether to amend its definition of engagement team in the IESBA Code.
6. In January 2013, to eliminate ambiguity in this matter, the IESBA, after due process, added the following wording to the definition of engagement team in the IESBA Code:

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. In February 2013, the IAASB approved ISA 610 (Revised 2013) and conforming amendments to a number of other ISAs, including amendments to the definition of engagement team in the ISAs and International Standard on Quality control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements and Related Services Engagements*, to align with the revised definition in the IESBA Code.
8. In Canada, the AASB noted that internal auditors have provided direct assistance to external auditors with no issues arising on whether internal auditors are part of the external audit engagement team. Also, the definition of engagement team set out in the code of ethics applicable to the practice of public accounting issued by some Canadian professional accounting bodies is more explicit than that in the IESBA Code. Therefore, the AASB found this definition clarifies that internal auditors providing direct assistance are not part of the external audit engagement team.
9. The AASB decided to mirror the approach taken by the IAASB and exclude material pertaining to the use of internal auditors to provide direct assistance in the CAS 610 version issued in August 2012. This material is now included in updated CAS 610 issued in May 2013.

List of Respondents to ED-CAS 610

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Ordre des comptables agréés du Québec

Provincial Auditor Saskatchewan

The Institute of Internal Auditors Canada

Footnotes

1."Engagement Team" in the IESBA Code is defined as "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 a network firm."

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