

ASA 610
(November 2013)

Explanatory Statement

ASA 610 Using the Work of Internal Auditors

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Level 7, 600 Bourke Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007
AUSTRALIA

Reasons for Issuing Auditing Standard ASA 610

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 610 *Using the Work of Internal Auditors*, pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001* (as amended) (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

The Auditing Standard conforms with ISA 610 *Using the Work of Internal Auditors* issued by the International Auditing and Assurance Standards Board (IAASB) in March 2013.

Purpose of Auditing Standard ASA 610 *Using the Work of Internal Auditors*

The purpose of this Auditing Standard is to revise existing standard ASA 610 *Using the Work of Internal Auditors* (October 2009).

Main Features

This Auditing Standard is a comprehensive revision of ASA 610 *Using the Work of Internal Auditors* (October 2009) that:

1. Reflects recent developments in the internal auditing environment;
2. Provides a more robust framework for the evaluation and, where appropriate, use of the work of the internal audit function; and
3. Prohibits the use of internal auditors to provide direct assistance in an independent audit or review conducted in accordance with the Australian Auditing Standards. For a group audit, this prohibition extends to the use of internal auditors to provide direct assistance in an audit or review of a component, including an overseas component, conducted in accordance with the Australian Auditing Standards.

The revised Auditing Standard, therefore, does not include the paragraphs relating to the use of internal auditors to provide direct assistance that are included in ISA 610 *Using the Work of Internal Auditors* and such paragraphs have been replaced with the words “[Deleted by the AUASB. Refer Aus 1.2]”.

This prohibition, which has been made to preserve auditor independence, 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.

This Auditing Standard contains both new and revised requirements. The revised requirements clarify existing requirements and make explicit matters that are implicit in ASA 610 (October 2009). The new requirements, in most instances, articulate what would ordinarily be expected to occur in current practice.

The main proposals in this Auditing Standard are:

- (a) Revised requirements relating to the external auditor:

- (i) Determining whether, in which areas, and to what extent, the work of the internal audit function can be used; and
 - (ii) Determining the adequacy of the work of the internal audit function for the purposes of the audit.
- (b) New requirements for the external auditor, if planning to use the work of the internal audit function, to:
- (i) Evaluate whether using the work of the internal audit function would still result in the external auditor being sufficiently involved in the audit;
 - (ii) Communicate with those charged with governance the planned use of the work of the internal audit function;
 - (iii) Communicate with the internal audit function, to co-ordinate the relevant activities of the internal and external auditors; and
 - (iv) Re-perform some of the work of the internal audit function that is planned to be used.
- (c) A clear link between ASA 610 and ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* (as amended), which contains a new requirement for the auditor's risk assessment procedures to include enquiries of appropriate individuals within the internal audit function (if the function exists), whether or not the auditor expects to use the work of that function.

Operative Date

ASA 610 *Using the Work of Internal Auditors* is operative for financial reporting periods commencing on or after 1 January 2014. Early adoption is permitted.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 02/13 Proposed Auditing Standard ASA 610 *Using the Work of Internal Auditors* was issued on 2 August 2013 with a 60 day comment period. At the same time, the AUASB issued ED 03/13 Proposed Auditing Standard ASA 2013-2 *Amendments to Australian Auditing Standards*, which makes consequential amendments to Australian Auditing Standards arising from the revision of ASA 610, with a 60 day comment period.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulatory Impact Analysis

A Regulation Impact Assessment (RIA) has been prepared in connection with the preparation of ASA 610. The RIA has been cleared by the Office of Best Practice Regulation (OBPR).

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standard ASA 610 *Using the Work of Internal Auditors***

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard ASA 610

The purpose of ASA 610 is to revise the existing auditing standard ASA 610 *Using the Work of Internal Auditors* (issued October 2009).

Main Features

ASA 610 is a comprehensive revision of the existing ASA 610 *Using the Work of Internal Auditors* (issued in October 2009) that:

1. Reflects recent developments in the internal auditing environment;
2. Provides a more robust framework for the evaluation and, where appropriate, use of the work of the internal audit function; and
3. Prohibits the use of internal auditors to provide direct assistance in an independent external audit or review conducted in accordance with the Australian Auditing Standards. For a group audit, this prohibition extends to the use of internal auditors to provide direct assistance in an audit or review of a component entity, including an overseas component entity, conducted in accordance with the Australian Auditing Standards.

Human Rights Implications

This Legislative Instrument does not engage any of the applicable rights or freedoms due to the nature and content of the amendments to ASA 610 (October 2009).

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.