

Proposed revisions to International Standards on Auditing (UK and Ireland) to adopt changes to International Standards on Auditing addressing the use of internal audit:

315 (Revised) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

610 (Revised) Using the Work of Internal Auditors

Conforming Amendments to Other ISAs (UK and Ireland)

response to consultation paper

30 August 2012

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/ 120830 SC0184

Keith Billing
Project Director
Financial Reporting Council
5th Floor
Aldwych House
71-91 Aldwych
LONDON WC2B 4HN

By email to k.billing@frc.org.uk

30 August 2012

Dear Keith

Proposed revisions to International Standards on Auditing (UK and Ireland) to adopt changes to International Standards on Auditing addressing the use of internal audit

CIPFA is pleased to present its comments on this Consultation Paper, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

This UK consultation reflects developments in International Standards on Auditing developed by the IAASB. Each of IFAC's standard setting boards goes through rigorous due process to develop and revise standards having regard to the views and expertise of key stakeholders. CIPFA monitors all IFAC consultations and responds to the majority of standards consultations, particularly in connection with those on audit and assurance issued by the IAASB, and those relating to public sector accounting issued by IPSASB. On some topics CIPFA contributes jointly to responses developed with other UK based IFAC members.

CIPFA responded in November 2010 to the IAASB exposure draft on the basis of which their revised ISAs 610 and 315 were developed. CIPFA agreed with all of the IAASB proposals, suggesting only that some additional explanatory and scene setting information would be helpful.

CIPFA therefore supports the ISA 610 revision on which the proposals developed by the former APB are based.

Detailed comments on the specific questions set out in the consultation paper are attached as an Annex.

I hope this is a helpful contribution to this discussion. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t: +44(0)20 7543 5794).

Yours sincerely

Paul Mason
Assistant Director
Professional Standards and Central Government
CIPFA
3 Robert Street
London WC2N 6RL
t: 020 7543 5691
e:paul.mason@cipfa.org
www.cipfa.org

Responses to specific questions

Q1 Do you agree that the ISAs (UK and Ireland) should be updated to adopt the revised ISAs 315 and 610 and the related conforming changes to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update the ISAs (UK and Ireland) in relation to the use of internal audit.

CIPFA agrees with this proposal.

Q2 If you agree that the ISAs (UK and Ireland) should be updated to adopt the revised ISA 315 (Q1 above), do you agree that APB supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.

CIPFA agrees that the supplementary material proposed is sufficient

Q3 If you agree that the ISAs (UK and Ireland) should be updated to adopt the revised ISA 610 (Q1 above), do you agree that APB supplementary material can be limited to that shown in the exposure draft and described above? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.

Q4 Do you agree that it is acceptable to use internal auditors to provide direct assistance in appropriate, limited, areas as set out in proposed revised ISA (UK and Ireland) 610? If not, please give your reasons.

CIPFA agrees that the supplementary material proposed is sufficient

CIPFA agrees that it is acceptable to use internal auditors to provide direct assistance in line with the proposed ISA(UK and Ireland) 610 revision, which includes in grey shading the IAASB material on direct assistance that has not yet been formally issued.

Q5 If, following the eventual conclusion of the related IESBA consultation, the IAASB does not reissue ISA 610 with the material on direct assistance included, do you believe that the revised ISA (UK and Ireland) 610 should nonetheless be finalised to include that material? If not, please give reasons and explain how you believe direct assistance should be addressed in the revised ISA (UK and Ireland) 610.

The material on direct assistance has already been approved by IAASB but is awaiting the change to the definition of "engagement team" in the Code of Ethics that the IESBA has proposed. In our view this material, and the related material in the proposed ISAs (UK and Ireland) deals successfully with direct assistance and therefore we support it.

In the unlikely event that ISA 610 were not reissued to include this material, then as a matter of principle CIPFA might ideally prefer that this guidance were

published in a separate document to make it clear that the ISA (UK and Ireland) is fully in line with the internationally agreed ISA as issued by the IAASB.

However, we would note that the grey shading does provide basic signposting to distinguish this material from what, under the scenario being discussed, would be non-ISA material. Given our support for the material, we would not in this case suggest that it should be moved into other guidance or standards.

Q6 If you agree that the ISAs (UK and Ireland) should be updated to adopt the revised ISAs and related conforming changes to other ISAs (Q1 above), do you agree that it is not necessary to add APB supplementary material in relation to these conforming changes? If not, please give your reasons and explain what supplementary material you believe should be added.

CIPFA agrees that it is not necessary to add APB supplementary material in relation to the conforming changes.

Q7 Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

CIPFA supports the proposed effective date, which is consistent with the effective date of the IAASB's revised ISAs.

Q8 Do you agree that the associated impact of these revised standards on work effort should not be disproportionate in relation to total audit work effort? If not, please give reasons and your estimate of the level of impact.

Q9 Do you agree that any related increase in work effort will be justified by the benefits of the proposed changes? If not, please give reasons.

CIPFA does not expect the effect of the revised standards to be disproportionate. Indeed, in some cases the proposals reflect existing practice for many audits and may have minimal effect.

Q10 Do you agree that this overarching approach is the right one for the APB/FRC to adopt in dealing with any new/revised ISAs finalised by the IAASB? If not, please describe the approach you believe should be taken.

CIPFA agrees with the overarching approach proposed, although we have some comments to make on how this may be interpreted.

As noted in CIPFA's response earlier in 2012 to ISA revision proposals relating to Effective Company Stewardship, in common with the other accountancy bodies in the UK and Ireland which are members of FEE and IFAC, CIPFA supports the adoption of ISAs internationally, and specifically in the European Union.

We reiterated this position in September 2009 in our response to the European Commission on its Consultation On The Adoption Of International Standards On Auditing (ISAs). In that response we strongly advised against the introduction of add-ons or carve-outs by Member States, expressing concern that a lack of consistency in the introduction and implementation of the standards across the EU would undermine the benefits of common auditing standards.

While the initial reformulation of UK auditing standards as ISAs (UK & Ireland) in 2004 included a large number of ISA pluses, we were very glad to see that these were substantially eliminated during the 2009 adoption of clarified and improved ISAs. The APB also used its existing regime of Practice Notes, Bulletins and other guidance to avoid the need to include within ISAs the wide variety of regulatory arrangements which apply in specific economic sub-sectors such as government, charities, insurance, pensions and investment businesses.

Against this background, CIPFA accepts that the FRC will wish to monitor the position in respect of standards development. We would however hope that issues relating to paragraph 38(i) and (ii) will not be encountered very often given the rigorous IAASB process. The effectiveness of global standards may be undermined if national standard-setters significantly modify or adapt ISA standards, and so we mainly envisage FRC providing additional guidance or standards reflecting the specifics of UK regulatory frameworks, or providing more detail on the application of ISA requirements to the specifics of UK audit environments, either generally or in respect of particular economic sectors.

Q11 Do you agree that we should seek the views of interested parties in the UK and Ireland on IAASB exposure drafts to inform our response to the IAASB consultation? If not, please explain why and whether you believe there are other, more appropriate, ways for us to seek the views of interested parties.

CIPFA supports the FRC intention to seek the views of interested parties in the UK and Ireland when responding to IAASB consultations. There should be processes in place to ensure that the FRC is aware of the views of a wide range of stakeholders on key issues, not just those of the audit profession.