FURTHER CONSULTATION ON TIMING OF PROHIBITING THE USE OF INTERNAL AUDITORS TO PROVIDE DIRECT ASSISTANCE

RESPONSE FROM ICAS TO THE FRC

12 APRIL 2013
Background

ICAS welcomes the opportunity to comment on the FRC’s further consultation on timing of prohibiting the use of internal auditors to provide direct assistance.

We are a professional body for over 19,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK’s and the world’s great companies.

Our Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key Points

We believe that a clearer definition of what would constitute direct assistance from internal audit is required, along with some practical examples. Currently, many external audit engagements place reliance on the work undertaken by internal audit, subject to appropriate review, and there needs to be a clear distinction between what would be considered reliance, and what would be considered direct assistance.

This lack of distinction between the two makes it difficult for us to respond to some of the questions specific to the use of direct assistance, in particular, those relating to the potential cost and other significant implications arising from the prohibition of direct assistance.

We also have concerns that the proposed effective date of periods ending on or after 15 March 2014 will not allow sufficient time to implement the measures needed to comply with the new requirements.

Our responses to the specific consultation questions

Question 1

To what extent is direct assistance a feature of current audits?

Response 1

We believe that currently, reliance on the work carried out by internal audit is a feature in many external audit engagements, subject to appropriate review. Whether, in some situations, this reliance would meet the definition of direct assistance as referred to in the question, and in the proposed amendment to the standard, is uncertain due to the lack of clarity over what constitutes direct assistance. As a result, we would welcome a clear definition of the difference between the extent of involvement of internal audit that would represent direct assistance and the extent that would represent reliance during the external audit engagement. Practical examples illustrating the circumstances and situations where using the work of internal audit, subject to appropriate review/assessment, would be both permitted and prohibited would also be helpful.

This definition should also make it clear that it is intended to apply to both:

(1) Internal auditors directly employed by the Group or Company being audited; and
(2) An outsourced internal audit function where the Group/Company engages a third party firm to undertake internal audit work.
**Question 2**
Would the prohibition of direct assistance have a significant proportional impact on the costs of those audits where it is currently a feature? If yes, please give an estimate of the proportional cost.

**Response 2**
The absence of a clear definition of direct assistance and the distinction between that and reliance makes it difficult for us to provide a definitive answer to this question as we are unable to estimate the additional costs that might be incurred as a result of the prohibition of direct assistance.

**Question 3**
Other than cost, are there other significant possible impacts that may result from the prohibition of direct assistance? If yes, please describe them and how difficult, or easy, it would be to overcome them. The FRC is particularly interested to have views on the possible impact, if any, on audit quality.

**Response 3**
The absence of a clear definition of direct assistance and the distinction between that and reliance makes it difficult for us to provide a definitive answer to this question as we are unable to assess the other significant possible impacts that may result from the prohibition of direct assistance.

**Question 4**
Does the proposed effective date of the revised standards that would bring the prohibition into effect (audits of financial periods ending on or after 15 March 2014) allow sufficient time to overcome any practical difficulties that may arise from the prohibition, such as a need for external auditors to assign their own staff with appropriate knowledge and competencies to the work? If not, please explain why and identify what would be an appropriate effective date.

**Response 4**
If the proposed date of periods ending on or after 15 March 2014 becomes effective, then the first period end under the new regime would occur on 31 March 2014. Given that this reporting year would begin on 1 April 2013, and that date has already passed, organisations may already have established the internal audit work programme for the coming year, and the extent to which external audit will rely on/use this work may already have been agreed. We would suggest an implementation date of periods ending on or after 31 December 2014 at the earliest, to provide sufficient time, following the issue of the revised ISA, to implement the measures needed to meet the new requirements.