

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

## Agenda Item

# 7

### Due Process

#### Objective of Agenda Item

1. To advise the IAASB of the status of due process for proposed International Standard on Auditing (ISA) 610 (Revised 2013)<sup>1</sup> scheduled for approval at the February 2013 IAASB meeting.

#### Due Process Up to the Date of the February 2013 IAASB Meeting

2. At its December 2011 meeting, the IAASB approved ISA 610 (Revised) a final standard.<sup>2</sup> The approved ISA included material on both the external auditor's use of the internal audit function and the use of the internal auditor to provide direct assistance.
3. The Technical Director confirmed to the IAASB that the development and finalization of ISA 610 (Revised) (including material on both the use of the internal audit function and the use direct assistance) up to and during the December 2011 meeting had been in accordance with the IAASB's due process. The Appendix to this paper summarizes the due process followed.
4. The IAASB decided in December 2011 to release ISA 610 (Revised) containing only those parts addressing the external auditor's use of the internal audit function, subject to PIOB approval of due process relating thereto.<sup>3</sup> The IAASB agreed to defer the release of the text of the standard addressing direct assistance, and the request for PIOB review of due process relating thereto, pending completion of due process by the International Ethics Standards Board for Accountants (IESBA) relating to changes to the definition of 'engagement team' in the IESBA Code of Ethics for Professional Accountants (the Code).
5. Subject to the IESBA's finalization of changes to Code's definition of engagement team and any new significant issues not previously deliberated by the IAASB arising from comments received on the IESBA's consultation of relevance to the IAASB, it was anticipated that the IAASB would release (subject to PIOB review of due process) an updated ISA 610 (Revised) that includes the direct assistance material as approved by the IAASB in 2011.

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<sup>1</sup> ISA 610 (Revised), *Using the Work of Internal Auditors*

<sup>2</sup> The approval comprised the affirmative votes of 17 out of the 18 IAASB members present or represented by proxy, and one abstention.

At that meeting, the IAASB also approved related amendments to ISA 315, approved as ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

<sup>3</sup> PIOB approval of due process relating to ISA 610 (Revised) – presented without the provisions addressing direct assistance – was subsequently received.

6. At its December 2012 meeting, following coordinated discussions with the IESBA, the IAASB agreed limited amendments to the requirements and application material on direct assistance. 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.
7. Subject to the IESBA's finalization of the Code's definition, the IAASB also decided to set the effective date for the material on direct assistance for a period one year later than the effective date for ISA 610 (Revised). Accordingly, the ISA was re-labeled as ISA 610 (Revised 2013). In December 2012, it was noted that the IAASB in December 2011 considered and concluded on the matter of re-exposure, and the Task Force confirmed its view that the further limited amendments made at the December 2012 meeting did not warrant further consultation.
8. In January 2013, the IESBA finalized its deliberation on the Code's definition of engagement team, including consulting with its CAG, and approved the final definition.

#### **IAASB Action at its February 2013 Meeting**

9. While recognizing that the IAASB had previously deliberated and approved the text of the ISA 610 material addressing direct assistance in accordance with due process, the IAASB is asked whether it votes in favor of ISA 610 (Revised 2013) which includes limited amendments to the material on direct assistance, and related conforming amendments.  
  
If the IAASB is not in favor of the proposed limited amendments, ISA 610 (Revised) that includes material on direct assistance as approved by the IAASB in December 2011 will be submitted to the PIOB for review of due process.
10. Before voting, the IAASB Technical Director will advise on whether due process has been followed during the course of the February 2013 meeting.
11. Following the February 2013 IAASB meeting, Staff will circulate a draft Basis for Conclusions for ISA 610 (Revised 2013) for comment.

### Due Process Relating to ISA 610 (Revised 2013)

(Note: Except for the last bullet point in the list below, the following due process steps were carried out as part of the IAASB's approval in December 2011 of the material for ISA 610 (Revised) addressing both the external auditor's use of the internal audit function and the use direct assistance. The last step in the list below was undertaken in connection with the December 2012 IAASB meeting.)

For ISA 610 (Revised 2013), in summary the IAASB:

- Approved a project proposal for the development of the revised ISA, including the consideration of the issue of direct assistance, and consulted with the IAASB Consultative Advisory Group (CAG) on the proposal.
- Consulted with the IAASB CAG on significant issues during the development of the proposed revised ISA.

Significant comments received through the consultation with the IAASB CAG have been brought to the IAASB's attention, and the Project Task Force has reported back to the IAASB CAG the results of the IAASB's deliberations.

- Approved and issued an exposure draft of the proposed revised ISA for public comment, together with an explanatory memorandum highlighting, amongst other matters, the significant proposals of the IAASB.
- Considered an analysis of the significant issues raised by respondents on the exposure draft, including their proposed disposition and, as appropriate, the reasons significant changes recommended by respondents have, or have not, been accepted.

Having familiarized themselves with the issues raised in comment letters, the IAASB members:

- Deliberated significant matters raised in the comment letters received, including whether there were any issues raised by respondents, in addition to those summarized by the Project Task Force, that they considered should be discussed; and
- Amended the proposed revised ISA accordingly.

As part of its deliberations in 2011, the IAASB held bilateral discussions with regulators to fully understand concerns they had expressed on the exposure draft, as well as to explain more clearly to them the IAASB's proposals.

- Consulted with the IAASB CAG on significant issues raised in comment letters on the exposure draft of the proposed revised ISA and the IAASB's related responses.

Significant comments received through the consultation with the IAASB CAG have been brought to the IAASB's attention, and the Project Task Force has reported back to the IAASB CAG the results of the IAASB's deliberations.

- Considered but did not find need to consult on the proposed revised ISA through, for example, the issue of a consultation paper, the holding of a public forum or roundtable, or the conduct of a field test of the proposals.

- Approved the final wording of the proposed revised ISA.
- Concluded that the amendments to the proposed revised ISA did not warranted re-exposure.
- Confirmed that it followed due process with regard to the proposed revised ISA.
- In light of the exposure by the IESBA on necessary changes to the IESBA's Code in relation to the definition of 'engagement team', the IAASB, in close coordination with the IESBA:
  - Considered an analysis of the significant issues of relevance to the IAASB raised by respondents on the IESBA's exposure draft, including their proposed disposition and, as appropriate, the reasons significant changes recommended by respondents have, or have not, been accepted.
  - Deliberated significant matters raised in the comment letters received; and
  - Agreed limited amendments to the ISA accordingly.

As part of its deliberations in 2012, the IAASB and IESBA jointly held bilateral discussions with regulatory stakeholders to fully understand the concerns they had expressed, as well as to explain more clearly to them the IAASB's proposals and further proposed limited amendments.