Thursday, 28 November 2024

Mr. Doug Niven
Chair, Australian Auditing and Assurance Standards Board
Level 20
500 Collins Street
Melbourne 3000

Via website: www.auasb.gov.au/projects/open-for-comment/

Dear Doug

Consultation Paper on Prohibiting Sustainability Assurance Practitioners from using Direct Assistance by Internal Auditors

As the representatives of over 310,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on the AUASB's Consultation Paper on Prohibiting Sustainability Assurance Practitioners from using Direct Assistance by Internal Auditors (the CP). We make this submission on behalf of our members and in the public interest.

We appreciate the AUASB's commitment to aligning the proposed sustainability assurance standard ISSA 5000 with current principles in Australian auditing practice while also considering the importance of auditor independence and public trust. In forming our responses, we have attended roundtables and performed other outreach with members.

Overall comments:

- Currently, the use of direct assistance by internal auditors is prohibited in Australian financial statement audits under ASA 610 *Using the Work of Internal Auditors* (ASA 610). Therefore, we support extending this prohibition to sustainability assurance engagements to ensure consistency and acknowledge the interconnected nature of information in the financial report and sustainability report.
- However, consistent with feedback received, we recommend that the AUASB reconsiders the prohibition on internal auditors providing direct assistance in ASA 610 and therefore, on sustainability assurance in the near future.

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Our responses to the specific questions raised in the CP are included in the **Appendix** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Sincerely

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Appendix

Responses to specific questions

Question 1

Should assurance practitioners be prohibited from using direct assistance by internal auditors in a sustainability assurance engagement conducted in accordance with the Australian Standards on Sustainability Assurance? If not, why not?

Yes, we support extending the prohibition of using direct assistance by internal auditors in a sustainability assurance engagement at this point in time.

Having considered the current practice, laws and regulations in Australia, we are of the view that, maintaining consistency between ASA 610 and any new standards related to sustainability assurance is crucial. Diverging approaches could create confusion and undermine the credibility of both the financial and sustainability reports.

While we support extending the prohibition to sustainability assurance, we encourage the AUASB to consider developing specific guidance to assist Australian auditors in assessing the implications of this prohibition in the international context. Please refer to our comments below in relation to the unintended consequences of this prohibition.

Question 2

Do you think the AUASB should consider the approach in Australian Standards on Sustainability Assurance separately from the approach in ASA 610? If so, why?

We do not believe the AUASB should consider the approach in Australian Standards on Sustainability Assurance separately from the approach in ASA 610. Please refer to our response to Question 1.

Question 3

Would you like to see the AUASB reconsider the prohibition on the use of internal auditors to provide direct assistance in ASA 610? If so, what are your reasons?

Yes.

We would like to see the AUASB reconsider the prohibition on the use of internal auditors to provide direct assistance in ASA 610 sooner rather than later.

The primary reason Australia departed from ISA 610 in 2013, prohibiting internal auditors from providing direct assistance, was that the board, at the time, determined it was necessary to preserve the independence of the external assurance process. This decision

was aimed at maintaining market and investor confidence, as the use of internal auditors' work was seen as potentially compromising the external auditor's independence.

However, with over a decade since this decision, the landscape of auditing, corporate governance, and assurance has evolved significantly. We strongly encourage the AUASB to revisit its original position to ensure it remains aligned with the rapidly changing corporate environment and auditing landscape.

We outline further arguments supporting this reassessment below.

Alignment with international standards

The International Standard on Auditing (ISA) 610 does not prohibit the use of internal auditors to provide direct assistance. Consistent with ISA 610, the proposed standard for sustainability assurance, ISSA 5000 also does not prohibit the use of internal auditors to provide direct assistance in sustainability assurance engagements.

Therefore, we remain concerned about the potential unintended consequences, especially in the international context. Jurisdictions such as the United States, Canada and New Zealand permit the use of direct assistance by internal auditors in external audits under certain conditions.

There may be instances where certain financial or sustainability reporting components of an Australian group's operations are prepared by a service centre in a country that permits direct assistance. If auditors in that country operate under local auditing standards and use direct assistance per ISA 610 or ISSA 5000, Australian auditors will need to evaluate the impact of this practice on the overseas auditors' work and on the audit evidence required under Australian standards. Guidance from the AUASB on this matter will be essential to ensure the consistent application of the sustainability assurance standard.

Evolving nature of auditing

The landscape of auditing is rapidly changing, particularly with the increasing importance of sustainability reporting. Allowing internal auditors to assist in assurance could leverage their familiarity with the organisation's operations and controls, potentially improving the quality and efficiency of these assurance engagements. This could be particularly beneficial in areas where internal auditors have developed specialised knowledge and expertise such as in sustainability reporting.

In our submission on ED 02/24 *Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* (ED 02/24), we emphasised the existing shortage of financial statement auditors in financial reporting, a situation that is likely to intensify with the increasing demand for sustainability assurance. Enabling internal auditors to provide direct assistance—within a robust framework and under the independence safeguards detailed in

ISA 610—should help alleviate these pressures, particularly as the sustainability assurance ecosystem continues to mature.

Furthermore, in recent years, the role of experts in the auditing process has evolved significantly. We encourage the AUASB to consider whether internal auditors are better viewed as experts within their specific domains. This perspective invites a reassessment of whether their independence is a necessary prerequisite for providing direct assistance in the external assurance process. As an expert, they will be assessed based on their objectivity.

Maintaining Independence with Safeguards

While independence is a critical concern, the AUASB should remove the prohibition and realign ASA 610 with ISA 610 when permitting internal auditors to provide direct assistance. The safeguards in ISA 610 are designed to ensure that independence is not impaired when using internal auditors to provide direct assistance and, in the responses to the 2013 consultation on ASA 610, most respondents stated that these safeguards would be sufficient.

Question 4

Have applicable laws and regulations been appropriately addressed in the proposal?

Yes, we believe applicable laws and regulations have been appropriately addressed.

However, we note that there has been no consultation with the Institute of Internal Auditors (IIA) to date. We recommend the AUASB to consult with the IIA.

Question 5

Are there any laws or regulations that may, or do, prevent or impede the application of the proposal, or may conflict with the proposal?

We have not heard any concerns regarding laws and regulations.

Question 6

Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposal, or may conflict with the proposal?

Please refer to our earlier comments.

Question 7

What, if any, are the additional significant costs to/benefits for auditors and assurance practitioners and the business community arising from compliance with the requirements of this proposal? If significant costs are expected, the AUASB would like to understand:

- **(i) Where those costs are likely to occur;**
- **(ii) The estimated extent of costs, in percentage terms (relative to audit fees); and**
- **(iii) Whether expected costs outweigh the benefits to the users of sustainability assurance services?**

No comment.

Question 8

Are there any other significant public interest matters that stakeholders wish to raise?

We have not heard of any other significant public interest matters.