PROPOSED INTERNATIONAL STANDARD ON AUDITING 610 (REVISED)
USING THE WORK OF INTERNAL AUDITORS

[MARKED FROM EXTANT ISA 610]

(Effective for audits of financial statements for periods [beginning/ending] on or after December 15, 2009 [XX])

CONTENTS

Paragraph

Introduction
Scope of this ISA ................................................................. 1–32
Relationship between the Internal Audit Function and the External Auditor ....... 34–410
Effective Date ........................................................................ 511

Objectives ........................................................................... 612

Definitions ........................................................................... 7

Requirements
Determining Whether and to What Extent to Use the Work of the Internal Auditors Function ................................................................. 813–170
Using Specific Work of the Internal Auditors Function ......................... 181–120
Obtaining the Direct Assistance of Internal Auditors ................................. 21–24

Documentation ....................................................................... 1325–26

Application and Other Explanatory Material
Scope of this ISA ....................................................................... A1–A2
Relationship between Objectives of the Internal Audit Function and the External Auditor ................................................................. A3–A43
Determining Whether and to What Extent to Use the Work of the Internal Auditors Function ................................................................. A54–A516
Using Specific Work of the Internal Auditors Function ................. A17–A622
Obtaining the Direct Assistance of Internal Auditors .......................... A23–A27

International Standard on Auditing (ISA) 610 (Revised), “Using the Work of Internal Auditors” should be read in conjunction with ISA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”
Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the external auditor’s responsibilities relating to using the work of internal auditors.

2. ISA 315 addresses the understanding the external auditor obtains of an entity’s internal audit function (if one exists) and inquiries the external auditor makes of internal auditors to obtain information relevant to the external auditor’s risk assessment. This ISA addresses the use of the work of the internal audit function when the external auditor has determined, in accordance with ISA 315,1 that the internal audit function is likely to be relevant to the overall audit strategy and audit plan. This ISA does not apply if an internal audit function does not exist or the function’s responsibilities and activities are not related to the entity’s financial reporting. In addition, the external auditor need not apply this ISA if the external auditor does not expect to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed.

3. This ISA also addresses the external auditor’s responsibilities when using internal auditors to provide direct assistance, under the direction and supervision of the external auditor. (Ref: Para. A1-A2)

4. This ISA does not deal with instances when individual internal auditors provide direct assistance to the external auditor in carrying out audit procedures.

Relationship between the Internal Audit Function and the External Auditor

43. The objectives of the internal audit function are determined by management and, where applicable, those charged with governance and may include assurance and consulting activities within an entity designed to evaluate and improve the effectiveness of the entity’s risk management, internal control, and governance processes. While the objectives of the internal audit function and the external auditor are different, some of the ways in which the internal audit function and the external auditor achieve their respective objectives may be similar. An entity’s internal audit function may perform audit procedures similar to those performed by the external auditor in an audit of financial statements. For example, the internal audit function might plan and perform tests or other procedures to provide assurance regarding the design, implementation and operating effectiveness of internal controls relevant to the external audit. (Ref: Para. A3-A4)

5. External auditors may be able to use such work rather than perform that work themselves in obtaining sufficient appropriate audit evidence on which to base the auditor’s opinion. Internal auditors may also provide direct assistance on the engagement by performing audit procedures under the direction and supervision of the external auditor. In using the work of internal auditors, however, external auditors take into account that neither the internal audit

---

function nor the internal auditors are independent of the entity as is required of the external auditor in an audit of financial statements in accordance with ISA 200.\textsuperscript{2} (Ref: Para. A3-A4)

6. Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is not independent of the entity as is required of the external auditor when expressing an opinion on financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor’s use of the work of the internal auditors function. For this reason, even if some of the internal audit function’s activities appear relevant to the external audit, the external auditor may decide not to use the work of the internal audit function.

7. This ISA addresses how the external auditor determines whether and to what extent to use the work of the internal audit function and the external auditor’s evaluation of the adequacy of the work of the internal audit function for purposes of the audit. It also addresses relevant considerations, including the types of procedures needed, when contemplating whether to use internal auditors to provide direct assistance.

8. In some jurisdictions, the external auditor may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function, from obtaining direct assistance from internal auditors, or from communicating with the internal audit function to the extent contemplated in this ISA. The ISAs do not override laws or regulations that govern an audit of financial statements.\textsuperscript{3} However, such prohibitions or restrictions will not prevent the external auditor from complying with the ISAs as this ISA does not require the external auditor to use the work of the internal audit function or to obtain direct assistance from internal auditors.

9. Activities similar to those performed by an internal audit function may be conducted by functions within an entity with other titles. Some or all of the activities of an internal audit function may also be outsourced to a third-party service provider. Neither the title of the function, nor whether it is performed by the entity or a third-party service provider, are determinants of whether or not the external auditor can use the work of the internal audit function. Rather it is the nature of the activities, and the objectivity and competence of the function that are relevant.

10. There may be individuals within an entity that perform ad hoc procedures similar to those performed within an internal audit function. However, unless performed within an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered control activities and obtaining evidence regarding the effectiveness of such controls would be part of the auditor’s responses to assessed risks in accordance with ISA 330.\textsuperscript{4}

\textsuperscript{2} ISA 200, paragraph 14.
\textsuperscript{3} ISA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing,” paragraph A55.
\textsuperscript{4} ISA 330, “The Auditor’s Responses to Assessed Risks”
Effective Date

511. This ISA is effective for audits of financial statements for periods [beginning/ending] on or after December 15, 2009[XX].

Objectives

612. The objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the overall audit strategy and audit plan, are:

(a) To determine whether, and to what extent, to use the work of the internal auditors function; and

(b) If using the work of the internal auditors function or obtaining direct assistance from internal auditors, to determine whether that work is adequate for the purposes of the audit.

Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:

   (a) Internal audit function—An appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.

   (b) Internal auditors—Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.

Requirements

Determining Whether and to What Extent to Use the Work of the Internal Auditors Function

8. The external auditor shall determine:

   (a) Whether the work of the internal auditors function is likely to be adequate for purposes of the audit; and

   (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor’s procedures.

Determining Whether the Work of the Internal Audit Function Can Be Used for Purposes of the Audit

913. The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by in determining whether the work of the internal auditors function is likely to be adequate for purposes of the audit, the external auditor shall evaluating the following:

   (a) The extent to which degree of objectivity of the internal audit function’s organizational status and relevant policies and procedures support the objectivity of
the internal auditors (which for purposes of this ISA is referred to as the degree of objectivity); (Ref: Para. A5-A8)

(b) The technical level of competence of the internal auditors function; and (Ref: Para. A5-A8)

(c) Whether the work of the internal audit function applies a systematic and disciplined approach, including quality control is likely to be carried out with due professional care; and (Ref: Para. A9-A10)

(d) Whether there is likely to be effective communication between the internal auditors and the external auditor. (Ref: Para. A4)

14. The external auditor shall not use the work of the internal audit function if it has:

(a) a low degree of objectivity, regardless of its level of competence; or

(b) a low level of competence, regardless of its degree of objectivity. (Ref: Para. A8)

Determining the Planned Use of the Work of the Internal Audit Function

105. In determining the planned use of the work of the internal auditors function on the nature, timing or extent of the external auditor’s procedures, the external auditor shall consider:

(a) The external auditor’s evaluation of the degree of objectivity and level of competence of the internal audit function;

(b) The nature and scope of specific work performed, or to be performed, by the internal auditors function and its relevance to the external auditor’s overall audit strategy and audit plan; and

(b) The assessed risks of material misstatement at the assertion level for particular classes of transactions, account balances, and disclosures; and

(c) The degree amount of judgment subjectivity involved in:

(i) Planning and performing relevant audit procedures for particular classes of transactions, account balances and disclosures; and

(ii) Evaluating the audit evidence gathered by the internal auditors function in support of the relevant assertions. (Ref: Para. A511-A13)

16. Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor shall:

(a) Make the significant judgments in the audit engagement; and

(b) Plan to perform sufficient procedures directly to be able to draw reasonable conclusions on which to base the external auditor’s opinion, regardless of the external auditor’s decision to use the work of the internal audit function. (Ref: Para. A14)
17. If the external auditor plans to use the work of the internal audit function, the external auditor shall discuss the planned use of their work with the internal audit function as a basis for coordinating the respective activities. (Ref: Para. A15-A16)

Using **Specific-the Work of the Internal Auditors Function**

18. The external auditor shall read the reports of the internal audit function relating to the work of the function that the external auditor plans to use. (Ref: Para. A17)

19. In order for the external auditor to use specific have a sufficient basis to support the use of work of the internal auditors function, the external auditor shall evaluate and perform audit procedures that are appropriate in the circumstances on that work to determine its adequacy for the external auditor’s purposes of the audit engagement. (Ref: Para. A18-A21)

420. To determine the adequacy of specific the work performed by the internal auditors function for the external auditor’s purposes of the audit, the external auditor shall evaluate whether:

(a) The work was performed by internal auditors having adequate technical training and proficiency;

(ab) The work was properly planned, performed, supervised, reviewed and documented;

(b) Adequate audit evidence has been obtained to enable the internal auditors function to draw reasonable conclusions; and

(cd) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors function are consistent with the results of the work performed; and

(e) Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

**Obtaining Direct Assistance from Internal Auditors** (Ref: Para. A23-A27)

21. If the external auditor plans to use internal auditors to provide direct assistance on the audit engagement, the external auditor shall evaluate the degree of objectivity and level of competence of the internal auditors who will be providing such assistance.

22. In determining the work that may be assigned to individual internal auditors and the amount of direction, supervision and review that is appropriate in the circumstances, the external auditor shall apply similar considerations to those in paragraphs 15 and 16.

23. The external auditor shall not obtain direct assistance from internal auditors to perform procedures to determine whether the work of the internal audit function can be used for purposes of the audit or to provide a sufficient basis to support the external auditor’s use of the work of the internal audit function.

24. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220. The level of direction,

---

5 ISA 220, “Quality Control for an Audit of Financial Statements”
supervision and review shall recognize that internal auditors are not independent of the entity.

Documentation

If the external auditor uses the specific work of the internal auditors function, the external auditor shall include in the audit documentation:

(a) The evaluation of the degree of objectivity and level of competence of the internal audit function, and whether it applies a systematic and disciplined approach, including quality control;

(b) The nature and extent of the work used and the basis for that decision; and

(c) The evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor to evaluate the adequacy of the work on that work, in accordance with paragraph 11.

26. The working papers prepared by the internal auditors who provided direct assistance on the audit engagement shall be included in the audit documentation.

***

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1-2)

A1. As described in ISA 315, the entity’s internal audit function is likely to be relevant to the audit if the nature of the internal audit function’s responsibilities and activities are related to the entity’s financial reporting, and the external auditor expects to use the work of the internal auditors function to modify the nature or timing, or reduce the extent, of audit procedures to be performed.

A2. Carrying out procedures in accordance with this ISA may cause the external auditor to re-evaluate the external auditor’s assessment of the risks of material misstatement. Consequently, this may affect the external auditor’s determination of the relevance of the internal audit function to the audit and whether further application of this ISA is necessary. Similarly, the external auditor may decide not to otherwise use the work of the internal auditors function to affect the nature, timing or extent of the external auditor’s procedures, or to receive direct assistance from internal auditors. In such circumstances, the external auditor’s further application of this ISA may be necessary.


ISA 315, paragraph A1042a.
**Relationship between Objectives of the Internal Audit Function and the External Auditor**

(Ref: Para. 34-10)

**A3.** As set out in ISA 315, internal auditing refers to assurance and consulting activities within an entity designed to evaluate and improve the effectiveness of the entity’s risk management, internal control, and governance processes.

**A43.** The objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance. The activities of the internal audit function may include one or more of the following:

**Activities relating to risk management**

- The internal audit function may assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control.

**Activities relating to internal control**

- Monitoring–Evaluation of internal control. The internal audit function may be assigned specific responsibility for reviewing controls, monitoring-evaluating their operation and recommending improvements thereto. In doing so, the internal audit function provides assurance on the operating effectiveness of the entity’s internal control.

- Examination of financial and operating information. The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.

- Review of operating activities. The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non-financial activities of an entity.

- Review of compliance with laws and regulations. The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

**Activities relating to governance**

- Governance. The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

---

-- ISA 315, paragraph A101.
Determining Whether and to What Extent to Use the Work of the Internal Auditor's Function

Determining Whether the Work of the Internal Auditor's Function Is Likely to Can Be Adequate Used for Purposes of the Audit (Ref: Para. 9)

Objectivity and Competence (Ref: Para. 13(a)-(b), 14)

A5. The external auditor exercises professional judgment in determining whether the work of the internal audit function is likely to be adequate for purposes of the audit, and the nature and extent to which it may use the work of the internal audit function in the circumstances.

A6. The degree of objectivity and level of competence of the internal audit function are particularly important in determining the nature and extent of the use of the work of the internal audit function that is appropriate in the circumstances. Objectivity refers to the ability to perform those tasks without allowing bias, conflict of interest or undue influence of others to override professional judgments. Competence refers to the attainment and maintenance of knowledge and skills at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards.

A47. Factors that may affect the external auditor’s determination of whether the work of the internal auditors is likely to be adequate for the purposes of the audit include the following:

Objectivity

- The organizational status of the internal audit function within the entity and the effect such status has on the ability of the internal audit function to be objective free from bias, conflict of interest or undue influence of others to override professional judgments.

- Whether the internal audit function reports to those charged with governance or an officer with appropriate authority, and whether the internal audit function has direct access to those charged with governance.

- Whether the internal auditors are free of any conflicting responsibilities.

- Whether those charged with governance oversee employment decisions related to the internal audit function.

- Whether there are any constraints or restrictions placed on the internal audit function by management or those charged with governance for example, in communicating internal audit findings to the external auditor.

- Whether, and to what extent, management acts on the recommendations of the internal audit function, and how such action is evidenced.

Competence

- Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements.

- Whether the internal auditors have adequate technical training and proficiency as internal auditors including possession of the required knowledge relating to the
entity’s financial reporting and the applicable financial reporting framework. Relevant criteria which may be considered by the external auditor in making the assessment may include for example, the internal auditors’ possession of a relevant professional designation.

- Whether the internal auditors are members of relevant professional bodies and are obligated to comply with the relevant professional standards and continuing professional development requirements.

A8. Objectivity and competence may be viewed on a sliding scale. The higher the degree of objectivity and level of competence, the more likely the external auditor may make use of the work of the internal audit function and in more areas. However, a high degree of objectivity cannot compensate for a low level of competence, and equally, a high level of competence cannot compensate for a lack of objectivity. In accordance with paragraph 14, if, after consideration of factors such as those in paragraph A7, the external auditor evaluates the degree of objectivity or level of competence of the internal audit function as low, the external auditor shall not use the work of the internal audit function.

Application of a Systematic and Disciplined Approach (Ref: Para. 13(c))

A9. The application of a systematic and disciplined approach is an important characteristic that distinguishes the activities of the internal audit function from other monitoring control activities that may be performed within the entity.

A10. Factors that may affect the external auditor’s determination of whether the internal audit function applies a systematic and disciplined approach include the following:

- The existence and adequacy of internal audit manuals or other similar documents, work programs, and documentation and reports prepared by the internal audit function for determining whether its activities are properly planned, supervised, reviewed and documented.

- Whether the internal audit function has appropriate quality control policies and procedures.

Determining the Planned Use Effect of the Work of the Internal Audit Function on the Nature, Timing or Extent of the External Auditor’s Procedures

Factors Affecting the Determination of the Planned Use of the Work of the Internal Audit Function (Ref: Para. 15-16)

A11. Once the external auditor has determined that the work of the internal audit function can be used for purposes of the audit, the determination of the nature and extent of the work of the internal audit function that the external auditor may decide to use in the circumstances will be influenced by the external auditor’s evaluation of the degree of objectivity and level of competence of the internal audit function, as well as whether the work of the internal audit function is relevant to the overall audit strategy and audit plan and the amount of judgment needed in planning, performing and evaluating such work.
A12. The greater the amount of judgment that is needed to be exercised in planning and performing the audit procedures and evaluating the results thereof, the more likely that the external auditor may need to perform some procedures directly because consideration of the work of the internal audit function alone is unlikely to provide the external auditor with sufficient appropriate audit evidence.

A13. For a particular account balance, class of transaction or disclosure, the higher an assessed risk of material misstatement at the assertion level (in particular for significant risks), the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In such circumstances, it is less likely that the external auditor can make substantial use of the work of the internal audit function in obtaining sufficient appropriate audit evidence.

A14. In addition, since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement in accordance with paragraph 16. Significant judgments include assessments of inherent and control risks, materiality of misstatements, sufficiency of tests performed, appropriateness of management’s use of the going-concern assumption, evaluation of significant accounting estimates, adequacy of disclosures in the financial statements, and other matters affecting the auditor’s report.

Discussion and Coordination with the Internal Audit Function (Ref: Para. 17)

A15. In discussing the planned use of their work with the work of the internal auditors as a basis for coordinating the respective activities, it may be useful to agree in advance-address the following matters with the internal auditors:

- The timing of such work;
- The extent of audit coverage;
- Materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures), and performance materiality;
- Proposed methods of item selection;
- Documentation of the work performed; and
- Review and reporting procedures.

A16. Coordination between the external auditor and the internal audit function is effective when:

- Discussions take place at appropriate intervals throughout the period;
- The external auditor is advised of and has access to relevant internal audit reports and is informed of any significant matters that come to the attention of the internal audit function when such matters may affect the work of the external auditor so that the external auditor may consider the implications of such matters for the audit engagement; and
• The external auditor informs the internal audit function of any significant matters that may affect the internal audit function.

Using **Specific work of the Internal Auditors Function** (Ref: Para. 11)

**Reading Reports of the Internal Audit Function** (Ref: Para. 18)

A17. Reading reports of the internal audit function relating to the work of the function that the external auditor intends to use assists the external auditor in obtaining an understanding of the nature and extent of audit procedures performed and the related findings.

**Procedures to Determine the Adequacy of Work of the Internal Audit Function** (Ref: Para. 19-20)

A18. Examples of work of the internal audit function that may be used by the external auditor include the following:

- Testing of the operating effectiveness of controls
- Substantive procedures (for example, checking reconciliations)
- Observations of inventory counts
- Tracing transactions through the information system relevant to financial reporting
- Audits or reviews of the financial information, or specified procedures on the financial information of subsidiaries that are not significant components to the group

A19. The procedures the external auditor may perform to appraise the quality of the work performed and the conclusions reached by the internal audit function include the following:

- Reviewing the internal audit function’s work program and working papers
- Reperforming some of the work of the internal audit function
- Observing the procedures performed by the internal audit function

A620. The nature, timing and extent of the audit procedures that the external auditor performed on specific work of the internal auditors function in order to have a sufficient basis for the use of that work will depend on the external auditor’s assessment of the risk of material misstatement, the evaluation of the internal audit function, the degree of objectivity and level of competence of the internal audit function, and the amount of judgment exercised by the function in planning and performing relevant audit procedures for particular classes of transactions, account balances and disclosures. The evaluation of the specific work of the internal auditors. The lower the degree of objectivity or level of competence, or the more judgment involved, the more audit procedures are needed to be performed by the external auditor to support the decision to use the work of the internal audit function in obtaining sufficient appropriate audit evidence on which to base the audit opinion. Such audit procedures may include:

- Examination of items already examined by the internal auditors;
- Examination of other similar items; and
Observation of procedures performed by the internal auditors.

A21. Reperformance involves the external auditor’s independent execution of procedures that were originally performed by the internal audit function. It involves examining items already examined by the internal audit function, or other similar items. While it is not necessary for the external auditor to do some reperformance in each area of work of the internal audit function that is being used, reperformance of some of such work provides a strong form of evidence regarding the adequacy of the work of the internal audit function for purposes of the audit. Accordingly, in most circumstances, some reperformance of such work will be appropriate. Moreover, the external auditor is more likely to focus reperformance in those areas where more judgment was exercised by the internal audit function in planning, performing and evaluating the results of the audit procedures.

A22. In determining the adequacy of the work performed by the internal audit function, the external auditor may consider whether any exceptions or unusual matters disclosed by the function such as misstatements or control deficiencies are properly addressed by the entity and in the event they are not, whether the internal audit function followed-up on these matters.

Obtaining Direct Assistance from Internal Auditors (Ref: Para. 21-24)

A23. In addition to using the work of the internal audit function, the external auditor may obtain direct assistance from the internal auditors in carrying out audit procedures. Such assistance is obtained when external auditors use internal auditors, under the direction, supervision and review of the external audit team, to perform audit procedures directly on the engagement which otherwise would be performed by the external auditors themselves.

A24. As described in paragraph 6, the external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor’s decision to obtain the direct assistance of internal auditors on the audit engagement.

A25. In accordance with paragraph 21, the external auditor evaluates the degree of objectivity and level of competence of the internal auditors who are providing direct assistance before assigning them to specific tasks.

A26. As individuals in the internal audit function are not independent of the entity as is required of the external auditor when expressing an opinion on financial statements, the direction, supervision or review of the audit procedures performed by the internal auditors will ordinarily be more extensive than if members of the engagement team perform the work.

A27. The extent of direction, supervision or review of the audit procedures performed by the internal auditors is also dependent on the external auditor’s evaluation of the degree of objectivity and level of competence of, and the nature and extent of audit procedures to be performed by, the internal auditors. In reviewing the work performed by internal auditors, the external auditor may place particular attention on whether the evidence obtained is sufficient and appropriate in the circumstances, and that it supports the conclusions reached. Copies of the supporting records examined by the internal audit staff may be available during the review, enabling the external auditor to trace the procedures performed by the internal auditors.