INTERNATIONAL STANDARD ON AUDITING 610 (REDAFRAFED)  
USING THE WORK OF INTERNAL AUDITORS  
(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

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International Standard on Auditing (ISA) 610 (Redrafted), “Using the Work of Internal Auditors,” should be read in conjunction with ISA 200 (Revised and Redrafted), “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 regarding the work of internal auditors when the internal audit function is likely to be relevant to the audit as determined in accordance with ISA 315 (Redrafted),¹ and the external auditor intends to use the work of the internal auditor.
2. This ISA does not deal with instances when internal auditors provide direct assistance to the external auditor in carrying out audit procedures.

Relationship Between the Internal Audit Function and the External Auditor
3. The role and objectives of the internal audit function are determined by management and those charged with governance. 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. (Ref: Para. A1)
4. 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 internal auditors.

Effective Date
5. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

Objectives
6. 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 audit, and the external auditor intends to use the work of the internal auditors, are to determine:
   (a) How to use specific work of internal auditors; and
   (b) Whether such 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 as a service to the entity. Its functions include, amongst other things, monitoring internal control.
   (b) Internal auditors – Those individuals who perform the activities of the internal audit function. (Ref: Para. A2)

Requirements


8. In determining the effect of the work of the internal auditors on the nature, timing and extent of the external auditor’s procedures, the external auditor shall consider:
   (a) The assessed risks of material misstatement at the assertion level for particular classes of transactions, account balances, and disclosures; and
   (b) The degree of subjectivity involved in the evaluation of the audit evidence gathered by the internal auditors in support of the relevant assertions.

Evaluation of the Internal Audit Function

9. If the external auditor intends to use the work of the internal auditors, the external auditor shall obtain an understanding of:
   (a) The objectivity of the internal audit function;
   (b) The technical competence of the internal auditors;
   (c) Whether the work of internal auditors is likely to be carried out with due professional care; and
   (d) Whether there is likely to be effective communication between internal auditors and the external auditor,

in order to determine whether the work of the internal auditors is likely to be adequate for the purposes of the audit. (Ref: Para. A3)

Using the Work of the Internal Auditors

10. If the external auditor intends to use specific work of the internal auditors, the external auditor shall evaluate and perform audit procedures on that work to confirm its adequacy for the external auditor’s purposes. (Ref: Para. A4)

11. When evaluating specific work performed by the internal auditors in accordance with paragraph 10, the external auditor shall evaluate whether:
   (a) The work was performed by internal auditors having adequate technical training and proficiency;
   (b) The work was properly supervised, reviewed and documented;
   (c) Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
   (d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and

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2 As required by ISA 315 (Redrafted), paragraph 22x.
(e) Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

Documentation

12. When the external auditor uses specific work of the internal auditors, the external auditor shall document conclusions regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work, in accordance with paragraph 10.

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Application and Other Explanatory Material

Scope and Objectives of the Internal Audit Function (Ref: Para. 3)

A1. The objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. The activities of the internal audit function may include one or more of the following:

- Monitoring of internal control. The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto.
- 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.
- 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 control systems.
- 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.
Definitions (Ref: Para. 7(b))

A2. Internal auditors may belong to an internal audit department or equivalent function. Internal audit services also may be contracted from an external service provider.

Evaluation of the Internal Audit Function (Ref: Para. 9)

A3. 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:

Objectivity:
- The status of the internal audit function within the entity and the effect such status has on the ability of internal auditors to be objective.
- Whether the internal audit function reports to those charged with governance or an officer with appropriate authority, and whether the internal auditors have 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.
- Whether, and to what extent, management acts on the recommendations of the internal audit function, and how such action is evidenced.

Technical competence:
- Whether the internal auditors are members of relevant professional bodies.
- Whether the internal auditors have adequate technical training and proficiency as internal auditors.
- Whether there are established policies for hiring and training internal auditors.

Due professional care:
- Whether activities of the internal audit function are properly planned, supervised, reviewed and documented.
- The existence and adequacy of audit manuals or other similar documents, work programs and internal audit documentation.

Communication

Communication between the external auditor and the internal auditors may be most effective when:
- Meetings are held 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 auditors when such matters may affect the work of the external auditor.

• The external auditor informs the internal auditors of any significant matters that may affect the internal audit function.

**Using the Work of the Internal Auditors** (Ref: Para. 10)

A4. The nature, timing and extent of the audit procedures performed on the specific work of the internal auditors will depend on the external auditor’s assessment of the risk of material misstatement of the area concerned, the evaluation of the internal audit function, and the evaluation of the specific work of internal auditors. Such audit procedures may include:

- Examination of items already examined by internal auditors;
- Examination of other similar items; and
- Observation of procedures performed by internal auditors.
Proposed Amendment to ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment”

Requirements

22. The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates corrective actions to its controls. (Ref: Para. A94-96)

22x. If the entity has an internal audit function, the auditor shall obtain an understanding of the following in order to determine whether the internal audit function is likely to be relevant to the audit: (Ref: Para. A96a-A96c)

(a) The nature of the internal audit function’s responsibilities and how fits in the entity’s organizational structure; and
(b) The nature and scope of the specific work performed, or to be performed, by the internal auditors. (Ref: Para. A96d)

23. The auditor shall obtain an understanding of the sources of the information used in the entity’s monitoring activities, and the basis upon which management considers the information to be sufficiently reliable for that purpose. (Ref: Para. A97)

Application Material

Components of Internal Control – Monitoring of Controls (Ref: Para. 22)

A94. Monitoring of controls is a process to assess the effectiveness of internal control performance over time. It involves assessing the effectiveness of controls on a timely basis and taking necessary corrective actions. Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and include regular management and supervisory activities.

A95. ISA 610, “Considering the Work of Internal Audit” establishes requirements and provides guidance on the auditor’s consideration of the work of internal auditing. Management’s monitoring activities may also include using information from communications from external parties, such as customer complaints and regulator comments that may indicate problems or highlight areas in need of improvement.

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3 The term “internal audit function” is defined in ISA 610 (Redrafted) as, “An appraisal activity established as a service to the entity. Its functions include, amongst other things, monitoring internal control.”
Considerations Specific to Smaller Entities

A96. Management’s monitoring of control is often accomplished by management’s or the owner-manager’s close involvement in operations. This involvement often will identify significant variances from expectations and inaccuracies in financial data leading to corrective action to the control.

Internal Audit Functions (Ref: Para. 22x)

A96a. Many entities establish an internal audit function. The objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. The activities of an internal audit function may include, for example, monitoring of internal control, risk management, and review of compliance with laws and regulations. The internal audit function is likely to be relevant to the audit if, based on the understanding obtained in accordance with paragraph 22x, the nature of the internal audit function’s responsibilities and activities are related to the entity’s financial reporting.

A96b. In some cases, even if the activities of the internal audit function are relevant to the audit, the external auditor may decide that the work of the internal auditors will have no effect on the nature, timing and extent of audit procedures to be performed.

A96c. When the auditor determines that the internal audit function is likely to be relevant to the audit and the auditor intends to use the work of the internal auditors, ISA 610 “Using the Work of Internal Auditors” applies.

Nature and Scope of Specific Work of Internal Auditors (Ref: Para. 22x(b))

A96d. The external auditor’s consideration of the nature and scope of the specific work to be performed by the internal auditors may include review of the internal audit function’s tentative audit plan for the period, if any, and discussion of that plan with the internal auditors. It may also be useful to agree in advance 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.
Sources of Information (Ref: Para. 23)

A97. Much of the information used in monitoring may be produced by the entity’s information system. If management assumes that data used for monitoring are accurate without having a basis for that assumption, errors that may exist in the information could potentially lead management to incorrect conclusions from its monitoring activities. Accordingly, an understanding of:

- the sources of the information related to the entity’s monitoring activities; and
- the basis upon which management considers the information to be sufficiently reliable for the purpose

is required as part of the auditor’s understanding of the entity’s monitoring activities as a component of internal control.
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