



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

Committee: IAASB Consultative Advisory Group

Meeting Location: Barcelona

Meeting Date: March 1–2, 2010

Using the Work of the Internal Audit Function—ISA 610— Key Issues and Report Back

Objectives of Agenda Item

1. The objectives of this Agenda Item are:
 - (a) To obtain the Representatives' views on a number of key issues to be discussed by the IAASB at its March 2010 meeting; and
 - (b) To provide a brief report back on proposals of the Representatives on this project as discussed at the September 2009 CAG Meeting.

Papers to Be Referred to during Discussion

2. The discussion of this agenda item will follow the structure of this Key Issues Paper and Report Back.
3. Implicit in the discussions of the key issues in Key Issues Paper and Report Back are considerations of the potential benefits and impacts of the Task Force's proposals for each of these issues. In deliberating the technical merits of the proposals, Representatives are also asked to consider and comment on the likely costs and benefits that may be associated with the respective proposals.
4. Hyperlinks presented at the end of this Key Issues Paper and Report Back to the i) Issues Paper for the March 2010 IAASB meeting; ii) draft revised ISA 315;¹ and iii) draft revised ISA 610 are for reference only.

Project Status and Timeline

5. The proposal for this project was considered at the March 2009 CAG meeting and subsequently approved at the March 2009 IAASB meeting.
6. At the September 2009 CAG meeting, Representatives' views were sought on significant matters proposed to be considered in the revision of extant ISA 610.² Similar matters were

¹ ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

² ISA 610 (Redrafted), "Using the Work of Internal Auditors."

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

also considered at the September 2009 IAASB meeting.

7. The IAASB's first read of the draft revised ISA 315 and draft revised ISA 610 is planned for the upcoming meeting in March.

Matters for CAG Consideration

Using the Work of the Internal Audit Function

8. At the September 2009 CAG meeting, Representatives considered and broadly supported a judgment-based approach to the external auditor's determination of whether and to what extent to use the work of the internal audit function. With consideration for the comments provided by the Representatives of the CAG and the IAASB, the Task Force proposes the following in regard to the risk-based model:

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

- Strengthening ISA 610's focus on the external auditor's evaluation of the internal audit function's objectivity, competence and application of a systematic and disciplined approach for determining whether the work of the internal audit function is likely to be adequate for the purposes of the audit.
- Clarifying that the external auditor's assessment of the internal audit function's degree of objectivity and level of competence takes the form of a sliding scale, and establishing minimum thresholds for these attributes under which it would not be appropriate for the external auditor to use any of the work of the internal audit function. These requirements are aimed at providing a framework for determining the nature and extent of the work of the internal audit function that can justifiably be used in the external audit (i.e., the sliding scale), and setting out clear boundaries to guard against undue reliance.
- Introducing the consideration, by the external auditor, of whether the internal audit function applies a systematic and disciplined approach and therefore whether its work is subjected to proper planning, supervision, review and documentation. This is the key distinction between an entity's internal audit function and its internal controls. This is also an important underlying premise to the approach adopted in the ISA, which focuses on obtaining sufficient evidence about the function as a whole, rather than "testing" each individual piece of work.

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

- Strengthening ISA 610's requirements and guidance relating to the external auditor's judgment regarding the internal audit work to use. The requirements and guidance focus on the external auditor's judgment of i) the internal audit function's objectivity and competence; and ii) the amount of judgment involved in planning and performing the audit procedures, and in evaluating the evidence gathered, in determining the planned effect of the work of the internal audit function.

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

- Introducing a further safeguard against over-reliance by adding a new requirement for the external auditor to “stand-back” and consider whether there will be sufficient involvement by the external auditor to be able to conclude on the key audit judgments.
- Establishing the external auditor’s obligation to discuss with the internal audit function the planned use of their work for the purpose of coordinating the relevant activities with the function. This is in response to comments regarding the importance of effective and ongoing dialogue between the internal and external auditors.

Using the Work of the Internal Audit Function

- Building on the premise that the external auditor is obtaining evidence on the body of work of the internal audit function as a whole, it is proposed that ISA 610 be clarified as follows:
 - Introducing examples of the work of the internal audit function that may be used by the external auditors.
 - Clarifying that the degree of objectivity and level of competence of the internal audit function and the amount of judgment exercised by the internal audit function are key considerations when determining the audit procedures that the external auditor needs to do to determine the adequacy of the work of the internal audit function for purposes of the external audit.
 - Clarifying that reperformance is not required on each individual piece of work of the internal audit function that the external auditor decides to use, but emphasizing that reperformance of some of such work provides a strong form of evidence on the adequacy of the work of the internal audit function for purposes of the audit.

Matter for CAG Consideration

1. Do Representatives agree with the factors proposed to be evaluated by the external auditor in determining:
 - Whether the work of the internal audit function is likely to be adequate for purposes of the audit?
 - The planned effect of the work of the internal audit function on the nature, timing or extent of the external auditor’s procedures?

Inquiry of the Internal Audit Function

9. At the September 2009 CAG meeting, Representatives considered the importance of leveraging the internal audit function’s knowledge of the organization and expertise in risk and control insofar as informing the external auditor’s understanding of the entity and its environment as a basis for the external auditor’s risk assessment.
10. With consideration for the comments provided by the Representatives of the CAG and the

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

IAASB, the Task Force proposes a requirement for the external auditor to make inquiries of the internal audit function as follows:

- *Placement of the requirement (and its supporting application material).* It is proposed that a requirement for inquiries to be made by the external auditor with the internal audit function should be introduced in ISA 315. It has been added to paragraph 6 of the extant ISA which requires the external auditor's risk assessment procedures to include making inquiries of management and of others within the entity.
- *The appropriate individuals with whom to inquire.* It is proposed that guidance regarding the appropriate individuals within the internal audit function with whom inquiries should be directed be included in support of the proposed requirement. Specifically, it would be outlined that the knowledge, experience and authority of such individuals are relevant considerations, and the chief internal audit executive would be provided as an example of an appropriate individual.
- *Guidance on reading reports issued by the internal audit function.* Although the IAASB concluded upon considering the benefits and impacts of a requirement for the external auditor to read all internal audit reports that such a requirement would be unduly onerous, it is proposed that guidance be provided that, as a result of inquiries with the internal audit function, the external auditor may decide it would be useful to follow up by reading about certain of the findings in the relevant reports issued by the internal audit function.

Matter for CAG Consideration

2. Do Representatives agree with:

- The inclusion of a requirement for the external auditor to make inquiries of appropriate individuals within the internal audit function?
 - If so, whether it agrees that such a requirement is appropriately placed in ISA 315?
- The proposal regarding the need for the external auditor to read reports produced by the internal audit function?

Direct Assistance

11. At the September 2009 CAG meeting, Representatives considered the matter of expanding the scope of ISA 610 to address circumstances where internal auditors are asked to provide direct assistance to the external auditor in carrying out audit procedures on the engagement.
12. A benefit of expanding the scope of ISA 610 to explicitly address direct assistance is that it will remove any ambiguity about whether direct assistance is allowed by the ISAs. Some have interpreted the paragraph in the scope of the extant ISA³ that it “does not deal with”

³ ISA 610, paragraph 2.

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

instances of direct assistance to imply that an audit conducted in accordance with ISAs cannot, therefore, use direct assistance. Others interpret the paragraph as simply an acknowledgment that the requirements and guidance in ISA 610 do not address that circumstance, but direct assistance is not prohibited in an ISA audit. Importantly, addressing direct assistance in the revised ISA will also enable the IAASB to respond to some stakeholders' concerns about such practices by emphasizing considerations that the external auditor would need to take in directing, supervising and reviewing their work in light of the fact that the internal auditors are not independent of the entity. The International Ethics Standards Board for Accountants (IESBA) will have discussed the ethical implications that may arise in the case of direct assistance at their February 2010 meeting and in doing so gave consideration to the relevant paragraphs in the draft revised ISA 610.⁴ To date, support has been expressed for the Task Force's proposal.

13. The Task Force proposes that ISA 610 address the matter of direct assistance but not require or encourage the external auditor to use, or even to consider using, internal auditors to provide direct assistance on the engagement. This is to avoid inadvertently introducing undue pressures on the external auditor to obtain or consider obtaining the direct assistance. Equally, the Task Force believes it important in the scope of the ISA to acknowledge the fact that direct assistance may not be allowed in some jurisdictions and that it is not the intention of the ISA to override such prohibitions at the national level where present.
14. The proposed new requirements and guidance on obtaining the direct assistance of internal auditors are designed to guard against undue reliance in light of the fact that internal auditors are not independent of the entity. In particular, emphasis is placed on the need for the level of direction, supervision and review by the external auditor of the work performed by internal audit to recognize that the latter are not independent of the entity. This is based on the premise that the work performed by internal auditors is presumed to provide less reliable evidence than work performed directly by the external auditor.

Matter for CAG Consideration

3. Do Representatives agree that the revised ISA 610 should address the matter of direct assistance and, if so, whether the matters outlined above should be addressed in the ISA?

Report Back on the September 9-11, 2009 CAG Proposals

15. Below is an extract from the draft minutes of the September 2009 CAG meeting,⁵ and an indication of how the IAASB or the Task Force responded to the Representatives' comments:

⁴ A full discussion of the IESBA's considerations is presented in Agenda Item 7-A of the March 2010 IAASB meeting.

⁵ The minutes will be approved at the March 2010 IAASB CAG meeting.

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

Representatives' Comments	Task Force/IAASB Response
<i>General</i>	
<p>Ms. Koski-Grafer noted that IOSCO members in preliminary discussions agree that the decision as to whether or not to use the work of internal auditors in the external audit should rest with the external auditor, as that is who is responsible for the audit report. She noted, however, that it would be helpful if the revised ISA discussed the considerations, risks and benefits of whether and how much to use the work of internal auditors. Also, in her view, it is important for external auditors to give particular attention to any concerns and risk factors that have been identified by an entity's internal auditors, for example, any negative information supplied about the entity. Mr. Pickeur supported this view.</p>	<p>Points accepted.</p> <p>The Task Force proposes in revised ISA 610 that, because the external auditor's has sole responsibility for the audit opinion expressed, the decision of whether to use the work of the internal audit function for purposes of the engagement therefore belongs to the external auditor. In this regard, the revised ISA then outlines the factors that should be considered by the external auditor in determining whether and to what extent to use the work of the internal audit function. Measures have been built into the requirements intended to guard against undue reliance.</p> <p>In addition, in order to appropriately learn from and leverage the knowledge and findings of the internal audit function, a requirement is proposed in revised ISA 315 for the external auditor to make inquiries of appropriate individuals within the internal audit function. The supporting guidance explains that the internal audit function may provide information that is useful to the external auditor in obtaining an understanding of the entity and its environment, and in identifying and assessing risks.</p> <p><i>See paragraphs 6 and A6-A6c of Agenda Item 7-B, and paragraphs 4, 9-12 and A3a-A6b of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Fogarty asked the Representatives for their views as to the objective of using the work of internal auditors – for example, for communication or efficiency. Ms. Koski-Grafer's view was that communication with the internal audit function and use of their outputs</p>	<p>Point accepted.</p> <p>The Task Force proposes in revised ISA 315 the requirement for the external auditor to make inquiries with the appropriate individuals within the internal audit function in order to</p>

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

Representatives' Comments	Task Force/IAASB Response
<p>in the external audit, when appropriate, contributes to audit quality. In her view, cost savings and efficiencies alone should not drive the decision whether or not to use the work of internal auditors.</p>	<p>leverage from the internal audit function's knowledge and findings for purposes of the engagement.</p> <p>In addition, requirements and guidance are proposed in revised ISA 610 to provide a more developed framework for the external auditor to make informed judgments on whether and to what extent to use the work of internal audit, with a number of measures introduced to guard against over reliance or undue reliance, or basing on cost-savings alone as the key driver for the use.</p> <p><i>See paragraphs 6 and A6a of Agenda Item 7-B of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Morris suggested the ISA should describe in detail the benefits that preparers attach to the internal audit function, and auditors should be required to consider the internal audit function in all cases. Ms. Hillier cautioned that the external auditor should not be pressured to use the work of internal auditors.</p>	<p>Point accepted in part.</p> <p>The Task Force proposes in revised ISA 315 that, where an internal audit function is present, the external auditor is required to make inquiries with the appropriate individuals in function. In revised ISA 610, however, the decision to use the work of the internal audit function remains with the external auditor. The Task Force recognizes that the likelihood of the external auditor using the work of the internal audit function increases with the quality of the function. Wording is proposed in revised ISA 315 to explain that when the entity has a well-established internal audit function, for example, it is adequately and appropriately resourced, and has a direct reporting relationship to those charged with governance, the external auditor is more likely to be able to use the work of the function.</p> <p><i>See paragraphs 6 and A6a and A102a of Agenda Item 7-B, and paragraph 4 of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

Representatives' Comments	Task Force/IAASB Response
<p>Mr. Roussey noted that internal audit functions often vary in their structure and that the requirement to obtain an understanding of an entity's internal audit function should involve reviewing the internal audit function's charter and purpose in deciding to use the work of internal auditors work, including at what level and in what area.</p>	<p>Point accepted in part.</p> <p>The Task Force proposes in revised ISA 315 that, in obtaining an understanding of the nature of the internal audit function's responsibilities, the external auditor also seek to understand how the function fits in the entity's organizational structure and the activities performed, or to be performed, in order to determine the relevance of the internal audit function to the overall audit strategy and audit plan.</p> <p><i>See paragraph 23 of Agenda Item 7-B of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Pickeur noted the Basel Committee on Banking Supervisions' (BCBS) prior work dealing with the relationship of external and internal audit. A 2001 document explained the importance of internal audit to banks and highlighted BCBS's view that all banks should have an in-house (i.e., not outsourced) internal audit function that is well-established and working in accordance with the principles set out by the Institute of Internal Auditors (IIA). In his view, the ISA should describe this best-practice scenario and encourage the use of the work of internal auditors when such a scenario exists. Supported by Mr. Meishar, he suggested there was scope to encourage greater communication and collaboration between the external and internal auditors in the revised ISA. Ms. Hillier noted this may be possible, but in her view it may be difficult to clearly explain the broad spectrum of internal audit functions in practice and when external auditors might use the work of internal auditors.</p>	<p>Points accepted in part.</p> <p>Revised ISA 610 outlines the attributes of a well-established internal audit function and for each attribute the determinants which may influence the external auditor's evaluation. Further, as noted in the response to Mr. Morris' comments above, guidance is proposed in revised ISA 315 to indicate that the external auditor's ability to use the work of the internal audit function increases when the function is well-established, for example, the function is adequately and appropriately resourced and has a direct reporting relationship to those charged with governance.</p> <p>In regard to the point on the communication and collaboration between the external and internal auditors, the Task Force proposes in revised ISA 315 that, where an internal audit function is present, the external auditor is required to make inquiries with the appropriate individuals in order to obtain information that may be useful to the auditor for purposes of the engagement. Further, revised ISA 610 proposes that when the external auditor intends to use the</p>

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

Representatives' Comments	Task Force/IAASB Response
	<p>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.</p> <p><i>See paragraphs 6, A6a and A102a of Agenda Item 7-B, and paragraphs 10b and A5-A5a of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Koster suggested the ISA might differentiate between larger entities with well-established internal audit functions and other internal audit functions. Doing so would allow for the ISA to describe how the latter is likely to be structured in a way that is independent from management, for example due to direct reporting to those charged with governance. Mr. Hallqvist supported such a reporting structure and noted his view that monthly meetings between the audit committee, internal auditors and external auditors would represent best practice. While Ms. Lione supported the inclusion of material as to the characteristics of well-established internal audit function, she cautioned that the size of the internal audit function and the entity itself does not necessarily mean such a function is less-established or less independent.</p>	<p>Points accepted in part.</p> <p>The Task Force proposes in revised ISA 610 clarification of the attributes of the internal audit function that determine whether its work is likely to be adequate for purposes of the audit. The proposed requirements and guidance recognize that there is a sliding scale to the function's objectivity and competence, and that where an entity's internal audit function is on that scale will be important to the external auditor's judgment on whether and how to use their work. Further, it is proposed that the revised ISA emphasize that discussions at appropriate intervals throughout the period of the engagement facilitates coordination between the external auditor and the internal audit function.</p> <p><i>See paragraphs 9-9a, A3a-A4c and A5a of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Uchino noted in Japan external auditors are encouraged to use the work of internal auditors in particular with respect to work on internal control.</p>	<p>Point noted.</p>
<p>Ms. Koski-Grafer noted the IOSCO members had mixed views as to the direct use of internal auditors to do external audit procedures and that some jurisdictions prohibit this. She said IOSCO will need to further consider the issues.</p>	<p>Point accepted.</p> <p>The Task Force proposes in revised ISA 610 clarification that, in some jurisdictions, the external auditor may be prohibited, or</p>

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

Representatives' Comments	Task Force/IAASB Response
<p>In her view, an important question is the extent to which the work of internal auditors is supplementing rather than replacing work that would have been done by the external auditors. It will also be necessary to further consider what is meant by “reliance upon” the work of internal auditors.</p>	<p>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 ISA 610.</p> <p>In regard to the point on the meaning of “reliance on” the work of internal auditors, the revised ISAs refer to the “use of” the work of the internal audit function as opposed to “reliance” so as to reinforce that the external auditor’s responsibility for the audit opinion is not reduced by the use of the work of the internal audit function.</p> <p><i>See paragraphs 4-4a of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Baumann expressed the view that external auditors should make themselves fully aware of the work of the internal audit function when performing risk assessment procedures. In his view, the external auditor remains responsible for the audit even when the work of the internal auditors is used.</p>	<p>Point accepted.</p> <p>The Task Force proposes in revised ISA 315 clarification that inquiries of the appropriate individuals within the function may provide information that is useful to the auditor for purposes of the engagement. Further, revised ISA 610 emphasizes that the external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by using the work of the internal audit function.</p> <p><i>See paragraph A6a of Agenda Item 7-B and paragraph 4 of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Ms. Koski-Grafer asked for clarification as to the distinction between the auditor’s work to obtain evidence regarding the internal audit function as a whole as compared to the statement that the auditor’s evaluation of the internal audit function is not intended to provide a sufficient basis for forming an</p>	<p>Point noted.</p>

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

Representatives' Comments	Task Force/IAASB Response
<p>opinion about the overall effectiveness of the internal audit function. Ms. Hillier explained that the auditor's view of the internal audit function looks only at their activities related to the financial reporting process, whereas others evaluating the effectiveness of the internal audit function would have a broader remit.</p>	
<p>Mr. Cassel was of the view that it would be helpful for the IAASB to explicitly state in the ISA its view that neither internal auditors nor external auditors constitute part of internal control.</p>	<p>Point accepted.</p> <p>Most recognized internal control frameworks consider internal audit to be part of an entity's monitoring controls (e.g., COSO). However, the Task Force proposes in revised ISA 315 clarification that the activities of an internal audit function are distinct from other monitoring controls that may be relevant to financial reporting.</p> <p><i>See paragraphs A103a of Agenda Item 7-B and paragraph 4c of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Meishar urged the Task Force's decision not to expand the requirements to communicate about the planned use of the work of internal auditors to those charged with governance. In his view, auditors should be mandated to communicate during the planning stages when the work of internal auditors will be used.</p>	<p>Point accepted in part.</p> <p>An entity's internal audit function would have primary responsibility for communicating their planned activities to those charged with governance. In addition, ISA 260⁶ includes as one of the planning matters that the external auditor may communicate with those charged with governance "the extent to which the auditor will use the work of internal audit, and how the external and internal auditors can best work together in a constructive and complementary way." The Task Force is of the view, however, that it is inappropriate to explicitly require the external auditor to discuss with those charged with governance its planned use of internal audit work and the reasons for</p>

⁶ ISA 260, "Communication with Those Charged with Governance," paragraphs 15 and A13- A14.

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

Representatives' Comments	Task Force/IAASB Response
	<p>the nature and extent of use planned, as doing so may inadvertently introduce pressure on the external auditor to use internal audit work or to increase its planned usage to a greater extent. Further, a requirement to explain the external auditor's reasons may also indirectly imply that the external auditor needs to obtain sufficient evidence to evaluate the effectiveness of the entity's internal audit function, which is not the intent of either ISA 315 or ISA 610.</p>
<i>Definition of Internal Audit Function</i>	
<p>Mr. Ratnayake supported the Task Force's rationale in excluding the word "independent" from the definition of the internal audit function, since internal audit cannot be considered independent if they report to management. On the other hand, Mr. Meishar noted that omitting the word "independent" from the definition of the internal audit function would likely have a significant impact on the external auditor's assessment of the internal audit function.</p>	<p>Points accepted.</p> <p>At the suggestion of the IAASB, the Task Force has not attempted to include a definition of internal audit in the ISAs. Rather, the Task Force proposes in revised ISA 315 and ISA 610 a description of internal audit function which focuses on the objectives and activities of such a function. Revised ISA 610 further highlights that, in assessing the internal audit function, the external auditor shall be cognizant of the fact that, irrespective of the function's degree of objectivity, it is not independent of the entity.</p> <p><i>See paragraphs A101 of Agenda Item 7-B, and paragraphs 3-4 and A2a of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Roussey recommended the ISA explicitly state that the reporting structure and the related independence would likely affect the auditor's determination as to whether to use the work of the internal audit function.</p>	<p>Point accepted.</p> <p>The Task Force proposes in revised ISA 610 clarification that the objectivity of the internal audit function is a determinant of whether its work is likely to be adequate for purposes of the audit. The revised ISA further states that organizational structure is a determinant of the internal audit function's degree of objectivity.</p> <p><i>See paragraphs 9 and A4 of Agenda Item 7-D</i></p>

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

Representatives' Comments	Task Force/IAASB Response
	<i>of the March 2010 IAASB Meeting.</i>
<p>Ms. Koski-Grafer encouraged the Task Force to reconsider whether it was necessary to include a specific definition of the internal audit function in the ISA or whether a description of what is envisaged, such as the range of activities that could exist would be preferable. In her view, any definition created by the IAASB's may conflict with other definitions, such as the IIA's or others. By providing a description of internal audit activities instead, the IAASB would have flexibility: to incorporate the points made about considerations relating to how well-established the function may be; to describe the broad spectrum of internal audit functions in practice; and to describe what is expected relative to the function being independent.</p>	<p>Point accepted.</p> <p>The Task Force proposes in revised ISA 315 and ISA 610 a description of internal audit function that focuses on the objectives and activities of such a function. Revised ISA 610 further outlines the attributes of a well-established internal audit function and for each attribute the determinants which may influence the external auditor's evaluation which is made on a sliding scale.</p> <p><i>See paragraphs A101 of Agenda Item 7-B, and paragraphs 3-4, 9-9a and A2a-A4c of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Ms. Lione and Mr. Pickeur were of the view that, if a definition was to be included, it should be the same as the IIA's, with application material added as necessary.</p>	<p>Point accepted in part.</p> <p>The Task Force proposes in revised ISA 315 to include the IIA's definition of "internal auditing" in the form of a footnote.</p> <p><i>See footnote to paragraph 23 of Agenda Item 7-B of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Gutterman asked how the definition of the internal audit function interacted with the concept of a management's expert. Ms. Hillier noted the Task Force's view that the internal audit function is different than a management's expert and that defining the internal audit function (as compared to defining an internal auditor) is important in the context of its objectivity.</p>	<p>Point noted.</p>

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

<i>Direct Assistance</i>	
<p>Mr. Meishar supported the inclusion of new guidance on direct assistance, whereby the internal auditor carries out audit procedures on the external audit under the direction, supervision and review of the external auditor. In his view, direct assistance from internal auditors can increase the efficiency and effectiveness of the external audit.</p>	<p>Point accepted.</p> <p>The Task Force proposes in revised ISA 610 requirements and supporting guidance in this regard.</p> <p><i>See paragraphs 12-12a and A7 of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Roussey suggested that the application material focus on what type of direct assistance may be envisaged and in what areas. In his view, direct assistance is not typically appropriate for audit areas that are highly subjective or material.</p>	<p>Point accepted in part.</p> <p>As opposed to specifying how internal auditors may provide direct assistance on the engagement, the Task Force proposes in revised ISA 610 to emphasize the fact that, as internal auditors are not independent of the entity, audit procedures performed by internal auditors in connection with the external audit are presumed to provide less reliable evidence than work performed directly by the external auditor themselves and therefore, the external auditor's procedures in this regard should reflect this consideration.</p> <p><i>See paragraphs 12-12a and A7 of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Ms. Sucher questioned how direct assistance may be perceived by users of the financial statements in the context of internal auditors doing the work of the external auditor. Mr. Fogarty explained that direct assistance has different dimensions – for example, some internal auditors may be used as staff on an external auditor's engagement team, while other internal auditors may function as a component engagement team executing specific procedures agreed with the external auditor.</p>	<p>Point noted.</p>
<p>Mr. Fleck noted the IESBA was particularly</p>	<p>Point noted.</p>

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

<p>concerned with the fact that internal auditors are employed by the entity and may be influenced by management when providing direct assistance to the external auditors. The IESBA was also apprehensive about external auditors providing internal audit services. In Mr. Fleck's view, the use of internal auditors for direct assistance is dependent on the line of instruction and oversight and the degree to which any judgment is involved – it is not ideal for an internal auditor to be making subjective judgments that affect the audit opinion.</p>	<p>The IESBA representative on the Task Force has raised matters relating to the revision of ISA 610 with a linkage to the IFAC <i>Code of Ethics for Professional Accountants</i> (including the matter of direct assistance) for the IESBA's consideration and input at its October 2009 and February 2010 meetings. Consultation with the IESBA will continue to be undertaken as appropriate.</p> <p><i>See paragraphs 11-13 of Agenda Item 7-A of the March 2010 IAASB Meeting.</i></p>
<p>Ms. Sucher suggested the Task Force should explore whether external auditors can use the same scale in assessing the degree of reliance that should be placed on using the work of internal auditors when deciding about direct assistance.</p>	<p>Point accepted.</p> <p>The Task Force proposes in revised ISA 610 that, as internal auditors are not independent of the entity, audit procedures performed by internal auditors in connection with the external audit are presumed to provide less reliable evidence than work performed directly by the external auditor themselves and therefore, the external auditor's procedures in this regard should reflect this consideration.</p> <p><i>See paragraphs 12-12a and A7 of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
<p>Mr. Hallqvist did not support direct assistance. In his view, the roles of the external and internal auditors are different and should be kept separate, with the external auditor taking full responsibility for his work. Mr. Pickeur noted that while the BCBS had not yet considered the issue of direct assistance, he shares Mr. Hallqvist's view; the responsibility for audit work should remain with the external auditor and cannot be outsourced to the internal auditor.</p>	<p>Point accepted in part.</p> <p>The Task Force agrees that the external auditor has full responsibility for the audit opinion expressed regardless of whether the external auditor uses the work of the internal audit function or obtains the direct assistance of internal auditors. Clarification is proposed in revised ISA 610 in this regard.</p> <p>The Task Force is also cognizant of the fact that direct assistance is a widespread practice in some jurisdictions and therefore does not propose a blanket prohibition of such practices. Notwithstanding this, the Task Force recognizes the importance of, and accordingly proposes, requirements and guidance relating</p>

IAASB CAG PAPER

IAASB CAG Agenda (March 2010)

Agenda Item C

Using the Work of the Internal Audit Function—ISA 610—Issues and Report Back

	<p>to such cases to avoid undue reliance by external auditors on internal auditors.</p> <p><i>See paragraphs 4, 12-12a and A7 of Agenda Item 7-D of the March 2010 IAASB Meeting.</i></p>
--	---

Action Requested

16. The CAG is asked to review and comment on the key issues highlighted in this issues paper, or any other matters which may be of relevance to the project.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 7-A of the March 2010 IAASB Meeting – Using the Work of the Internal Audit Function – Issues and IAASB Task Force Proposals

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5244>

Agenda Item 7-B of the March 2010 IAASB Meeting – Draft Revised ISA 315, “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment” (Marked from Extant ISA 315)

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5245>

Agenda Item 7-D of the March 2010 IAASB Meeting – Draft Revised ISA 610, “Using the Work of the Internal Audit Function” (Marked from Extant ISA 610)

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5247>