



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

Agenda Item



Committee: IAASB Consultative Advisory Group

Meeting Location: Prague

Meeting Date: September 12–13, 2011

Using the Work of Internal Auditors— Report Back and Further Discussion of Significant Issues Raised by Respondents on Exposure

Objectives of Agenda Item

1. The objectives of this Agenda Item are to:
 - (a) Provide a report back on proposals of the Representatives on this project as discussed at the March 2011 CAG Meeting; and
 - (b) Obtain the Representatives' views on the significant issues raised by respondents on the Exposure Draft (ED) of proposed revised ISAs 315 and 610.¹

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper.

Project Status and Timeline

3. The IAASB approved the Exposure Draft (ED) of proposed revised ISAs 315 and 610 at its June 2010 meeting. The ED was released for public comment on July 15, 2010 and comments were requested by November 15, 2010. Fifty seven responses were received. A list of respondents is provided in Appendix 2 of this paper. All comments letters can be accessed from the IAASB website at www.ifac.org/Guidance/EXD-Details.php?EDID=0141.
4. In March 2011, the IAASB CAG and the IAASB discussed a number of significant issues raised by respondents on the ED. In June 2011, the IAASB undertook a full review of the comments received on the ED and considered recommendations of the Task Force as well as revised drafts of the proposed standards. The IAASB will continue its consideration of significant issues and revised drafts of the standards in September 2011 with a view to approving proposed revised ISAs 315 and 610 in December 2011.
5. For reference only, the issues papers for the June 2011 and September 2011 IAASB meetings as well as the clean drafts of proposed revised ISAs 315 and 610 to be considered

¹ Proposed International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Identifying Environment* and proposed ISA 610 (Revised), *Using the Work of Internal Auditors*

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by the IAASB in September 2011 are included as CAG Reference Papers. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

March 8-9, 2011 CAG Discussion

6. Below are extracts from the draft minutes of the March 2011 CAG meeting,² and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
USING THE WORK OF THE INTERNAL AUDIT FUNCTION	
<i>Relationship between Internal Audit Function and Internal Control</i>	
<p>Mr. Koktvedgaard expressed the view that there could be different implications if regulators were of the view that the internal audit function was a single internal control as opposed to functioning as a monitoring function over the entity's internal control processes as a whole. He clarified that if the internal audit function is performing a number of control tests, this activity could be perceived as an internal control and the external auditor may be able to rely on this work because if such a control did not exist, the external auditor would need to perform substantive testing, noting that this could also depend on how frequently internal audit performed the substantive tests.</p>	<p>Ms. Hillier agreed with the point, but noted that it may not always be clear as to whether this would be the case.</p> <p>Point taken into account.</p> <p>To bring about further clarity to such considerations, the Task Force proposes to better explain in the revised drafts of ISAs 315 and 610 all of the various ways in which the external auditor may be able to use the knowledge and work of the internal audit function, and internal auditors, in the external audit. Particular emphasis is given to making clear the difference between external auditors' use of knowledge obtained about and insights obtained from an internal audit function in assessing risks of material misstatement (addressed in ISA 315), and using work of internal auditors, which the external auditors would otherwise have to perform themselves, as audit evidence (addressed in ISA 610).</p> <p>See paragraph A4 of Agenda Item 9-E of the September 2011 IAASB meeting.</p>
<p>Mr. Diomeda questioned whether external</p>	<p>Ms. Hillier noted that responses from</p>

² The minutes will be approved at the September 2011 IAASB CAG meeting.

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<p>auditors in the jurisdictions that believed internal audit is part of internal control should be able to apply the proposed ISA in light of this conflict.</p> <p>Mr. Hallqvist did not agree that internal audit would be part of an entity's internal control, as he believes that internal control is a system. He cited the external auditor's management letter as a useful tool to highlight weaknesses in internal controls for the audit committee to consider, which can then be discussed with the internal audit function. Mr. Koktvedgaard was of the view that not all internal controls are systems, highlighting oversight such as audit committees as important internal controls.</p>	<p>regulators reflected a wide spectrum of viewpoints. For example, she noted that some regulators, while suggesting improvements that could be made to the requirements in the proposed standard, broadly supported the direction proposed in the Exposure Draft. They did not share the same view, or at least did not see the same implications, as those expressing the most restrictive view regarding the use of the work of internal audit.</p> <p><i>See Section C of this CAG paper.</i></p>
<i>Determining Whether to Use the Work of Internal Auditors</i>	
<p>Ms. Bastolla noted that the Institute of Internal Auditors (IIA) supported the discussion in the ED about the professional criteria that the external auditor should consider in determining whether to use the work of internal auditor (that is, objectivity, competency, and a systematic approach). In her view, if such criteria exist, the external auditor should be encouraged to use the work of internal audit, noting that regulators and legislation often require entities to have an internal audit function, which speaks to its inherent value. However, she noted IIA's continued view that internal auditors can be deemed to be independent of the entity as they typically have a dual reporting structure to the audit committee and the CEO.</p> <p>She also believed the standard could be more positive in encouraging the external auditor to use the work of internal audit rather than merely setting negative requirements relating to when their work should not be used. Finally,</p>	<p>Support noted.</p> <p>Point taken into account.</p> <p>In the revised draft of ISA 610 to be presented for the IAASB's consideration in September 2011, the Task Force proposes a balanced</p>

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<p>Ms. Bastolla noted that IIA does not view internal audit to be an internal control, as their role is to provide assurance to the entity's Board.</p>	<p>approach to the drafting of the standard— one that highlights not just the pitfalls of over and undue use of the work of internal auditors for purposes of the audit, but also the importance of the external auditor engaging with the internal audit function in a constructive and complementary manner, where appropriate, to foster coordination and cooperation in the interest of audit quality.</p> <p><i>See Section C of this CAG paper.</i></p>
<p>Mr. James noted that, within IOSCO, some jurisdictions prohibit the use of the work of internal audit while internal audit is used extensively in other jurisdictions. He also voiced IOSCO's support for clarifying the view that internal auditors are not independent from an external perspective, and agreed with the proposals in the standard that re-performance is necessary when the external auditor intends to substitute internal audit's work for his own. He also supported the proposals made to revise ISA 315 to require the external auditor to make inquiries of the internal audit function.</p>	<p>Support noted.</p> <p>In the revised draft of ISA 610, the importance of reperformance has been given greater visibility by elevating it into the requirements</p> <p><i>See paragraph 23 of Agenda Item 9-E of the September 2011 IAASB meeting.</i></p>
<p>Mr. White asked Ms. Hillier whether regulators had cited findings from inspections as cause for concern about the increasing use of the work of internal auditors in light of pressures from audit committees.</p>	<p>Ms. Hillier noted that, while a few cases of significant overuse were noted, most stakeholders whom the IAASB had engaged prior to issuing the ED did not cite an overwhelming concern in this area.</p>
<p><i>Strengthening Proposals in the ED</i></p>	
<p>Mr. Hallqvist did not believe it was appropriate for the external auditor to ever rely on the work of internal audit.</p>	<p>Point not accepted.</p> <p>Both extant and proposed revised ISA 610 deals with the external auditor's use of the work of the internal audit function under the appropriate circumstances, and the Task Force believes it is appropriate to continue to do so.</p>

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<p>Instead, he suggested that close and open communication between the external auditor, internal auditor and audit committee should exist, so that the internal auditors can highlight possible areas of concern for the external auditor.</p>	<p>In revising ISA 610, the Task Force proposes a balanced approach to the drafting of the standard—one that highlights not just the pitfalls of over and undue use of the work of internal auditors for purposes of the audit, but also the possibility for the external auditor to make use of the work of the internal audit function in a constructive and complementary manner, where appropriate, to foster coordination and cooperation.</p> <p>Point accepted.</p> <p>The revised draft of ISA 610 proposes guidance to remind external auditors that communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the work of the external auditor to the external auditor's attention.³ The external auditor is then able to take such information into account in the external auditor's identification and assessment of risks of material misstatement. In addition, if such information may be indicative of a heightened risk of a material misstatement of the financial statements or, regarding any actual, suspected or alleged fraud, the external auditor can take this into account in the external auditor's identification of risk of material misstatement due to fraud in accordance with ISA 240.⁴</p> <p><i>See paragraph A25 of Agenda Item 9-E of the September 2011 IAASB meeting.</i></p>
<p>Mr. Ratnayake supported the proposals in the ED that the auditor should not outsource significant judgments to internal audit. In his</p>	<p>Support noted.</p> <p>Point taken into account.</p>

³ ISA 315 (Revised), paragraph A108

⁴ ISA 315 (Revised), paragraph A11

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<p>view, the standard should explicitly prohibit the external auditor from using the internal auditor to review work performed by senior management; if work had been done by junior staff, the external auditor might be able to rely on internal audit's review of such work.</p> <p>Ms. Bastolla suggested that, for some significant judgments, internal auditors might be best placed to evaluate management's work as they may be more familiar with the basis on which the judgments are being made. In such cases, she believed that re-performance by the external auditor would likely be appropriate to mitigate the concern that the external auditor is responsible for the audit opinion. Mr. Roussey noted that smaller audit firms that did not possess expertise in relation to auditing complex computer systems may find great benefit in being able to consult with, and possible use the work of internal auditors in this regard.</p>	<p>Proposed revised ISA 610 prohibits the external auditor from using an internal auditor to provide direct assistance if there are significant threats to the objectivity of the internal auditor or the internal auditor lacks the necessary competence to perform the proposed work.</p> <p><i>See paragraph 26 of Agenda Item 9-E of the September 2011 IAASB meeting.</i></p>
<p>Mr. Baumann noted that in the US auditors are under extensive fee pressure and have been challenged to reduce audit fees by audit committees, in part by being pushed to increase reliance on the work of the internal audit function. He believed that this is an area of high audit risk and explained that within audit inspections one area that is considered is whether audit hours are decreasing as fees decrease.</p> <p>Mr. Baumann also expressed the concern that, while the proposed standard indicates that the external auditor has to performed enough work to form an opinion on the financial statements, there is a disconnect when the external auditor would be relying on the internal audit function to do work that would have been done by the</p>	<p>Ms. Hillier responded that the use of the word "rely" may be contributing to this concern, as the external auditor needs an evidence base on which to form the opinion and remains responsible for the judgments in the audit, including the judgment as to whether it is appropriate to use the work of the internal audit feature based on evidence about the work itself.</p> <p>Point taken into account.</p> <p>The Task Force proposes revisions to the revised draft of ISA 610 to clarify that the intention is to require the external auditor to evaluate whether using the <i>overall</i> body of work of the internal audit function as planned would result in the external auditor being sufficiently involved,</p>

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external auditor.	<p>given the external auditor's sole responsibility for the audit opinion expressed.</p> <p><i>See paragraph 19 of Agenda Item 9-E of the September 2011 IAASB meeting.</i></p>
<p>Mr. Hansen suggested the most appropriate use of internal audit would be for the external auditor to consider internal audit's findings in its risk assessment and to understand the entity's internal control. He did not believe it would be appropriate for the external auditor to consider whether to use the work of internal audit solely to respond to pressures to reduce the cost of the external audit.</p>	<p>Point taken into account.</p> <p>Proposed revised ISA 315 deals with the external auditors' use of the knowledge and work of an internal audit function for assessing risks of material misstatement. Proposed revised ISA 610 deals with using such work which the external auditors would otherwise have to perform themselves, as audit evidence. Importantly, the ISA emphasizes that work of the internal audit function can be used only when the external auditor is satisfied that the internal audit function are of sufficient quality and meet the conditions set out in the ISA.</p> <p><i>See paragraphs 5-10 of Agenda Item 9-E of the September 2011 IAASB meeting.</i></p>
<p>Mr. Baumann, supported by Mr. Roussey, agreed with the comments of some respondents that certain application guidance should be elevated to requirements. In particular, Mr. Baumann suggested it was necessary to ensure that there are enough checks and balances within the standard to establish how much work of internal audit can be used by the external auditor. Ms. Bastolla cautioned that if certain guidance was repositioned, other guidance relating to evaluating the objectivity and competence of the internal audit function may also need to be repositioned to ensure the requirements remained balanced.</p>	<p>Point taken into account.</p> <p>The revision of ISA 610 is the first revision since the completion of the Clarity project and the IAASB is aware that it is important to ensure an appropriate balance between requirements and application guidance is an important strategic priority.</p> <p>In response to comments, a number of matters that had been in the application material in the Exposure Draft have been elevated to the requirements, including the need to perform some reperformance (for example, paragraphs 18(a) and 23 of Agenda Item 9-E of the September 2011 IAASB meeting). The revised draft of ISA 610 proposes a strengthened framework for the external auditor's judgments regarding whether, in which areas and to what extent work of internal auditors</p>

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	<p>can be used for purposes of the audit is proposed. Importantly, the ISA emphasizes that work of the internal audit function can be used only when the external auditor is satisfied that the internal audit function are of sufficient quality and meet the conditions set out in the ISA as well as the fact that 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.</p> <p>See Section B of Agenda Item 2-A of the June 2011 IAASB meeting.</p>
<i>Cost-Benefit of the External Auditor Using the Work of Internal Audit</i>	
<p>Mr. Pannier expressed support for the direction of the standard to strengthen controls around the use of the work of internal audit. He suggested that reliance on the work of internal audit represented an opportunity for the resources of both internal audit and the external auditor to be used most effectively. He suggested that balancing both the internal and external audit resources would allow for more risks within an entity to be evaluated, and this would enable the audit to be cost-effective. Ms. Bastolla noted that, while using the work of internal audit can reduce the cost of the external audit, the primary purpose of an entity establishing an internal audit function is to cover a broad scope of activities within the entity.</p> <p>Mr. Morris agreed, noting that the owners of many private entities decide to establish an internal audit function as a means of managing the entity's risks and costs, and have an expectation that the costs of the external audit can be reduced because an internal audit function is present and such work can be</p>	<p>Support noted.</p> <p>Point taken into account.</p> <p>The Task Force and Board have taken into account Representatives' views that cost-benefit is a relevant consideration in weighing the public interest. At the June IAASB meeting, the Board thought that the Task Force had gone too far in its proposed changes to the Exposure Draft, such that external auditors might be dissuaded from considering the work of internal audit, which could inadvertently have a negative impact on audit quality. In the revised draft of ISA 610 to be presented for the IAASB's consideration in September 2011, the Task Force proposes a balanced approach to the drafting of the standard—one that highlights not just the pitfalls of over and undue use of the work of internal auditors for purposes of the audit, but also the possibility for the external auditor to make use of the work of the internal audit function in a constructive and complementary manner, where appropriate, to foster coordination and</p>

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<p>leveraged by the external auditor (versus the external auditor performing all relevant procedures). In his view, care should be taken in responding to the concerns of regulators that the standard does not become overly focused on public interest entities and instead acknowledges that private companies are often structured to manage costs. Mr. Koktvedgaard supported this view, noting it is not efficient to require the external auditor to perform all audit procedures if a strong internal audit function is present in an entity.</p> <p>Mr. Pickeur noted that banking supervisors expect banks to have internal audit functions in place and have developed supervisory guidance addressing this circumstance, acknowledging that cost should be considered in the debates. Accordingly, he supported the proposed requirement in ISA 315 that the external auditor be aware of the findings of internal audit. He noted the Basel Committee on Banking Supervision's (BCBS) view that, once the external auditor has evaluated the internal audit function using the criteria in the proposed standard, the external auditor can consider using the work of the internal audit function, similar to the assessment that is made in determining whether to rely on a well-functioning control environment. He supported Mr. Pannier's point that the complement of internal and external auditor allows for the most risks to be evaluated, and noted the inefficiency in requiring the external auditor to redo work that had already been robustly performed by internal audit.</p>	<p>cooperation.</p> <p><i>See Section C of Agenda Item 9-A of the September 2011 IAASB meeting.</i></p>
<p>Mr. Peyret believed that an entity's resourcing of its internal audit function typically follows a cycle of regulation or scandal, and that it would be a step forward in the future when</p>	<p>Point noted.</p> <p>Proposed revised ISA 610 explains that one of the determinants of the level of competence of the internal audit function is whether the</p>

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internal audit functions can have a reasonable number of personnel.	function is adequately and appropriately resourced relative to the size of the entity and the nature of its operations. <i>See paragraph A9 of Agenda Item 9-E of the September 2011 IAASB meeting.</i>
DIRECT ASSISTANCE	
Ms. Bastolla noted that IIA agreed that the ISA should acknowledge direct assistance. However, IIA's view is that using internal audit for direct assistance, in particular in relation to areas of low risk, inappropriately diverts their skills and knowledge from the consideration of more important areas such as risk management and internal control.	Support and comment noted.
Mr. Pickeur noted that the BCBS does not support direct assistance. Mr. Hansen also did not support using internal audit for direct assistance. Mr. Fleck explained that his concern with the concept of direct assistance relates to the perception that an entity may be seen as auditing itself. While he acknowledged that this perception may be lessened in jurisdictions where the regulatory framework requires and oversees internal audit, because comfort can be taken as to the competence and skills of the internal audit function, as internal audit is part of the entity this continues to create a perception issue.	Points taken into account. In June 2011, the IAASB considered the two options for dealing with direct assistance either by (i) further limiting the circumstances in which external auditors can use internal auditors to provide direct assistance on the audit and strengthening the framework for the external auditor's judgment in this regard; or (ii) prohibiting direct assistance in all circumstances. The IESBA is separately reflecting on the ED comments on direct assistance and how it is addressed in the Code of Ethics. IAASB looks forward to the IESBA's views on this matter. In the meantime, the IAASB is considering additional safeguards that would be appropriate in these circumstances that had been recommended in the ED responses. The IAASB also had a preliminary discussion regarding placement of material relating to direct assistance mainly within proposed revised ISA 610 or in a separate ISA. The Task Force felt that, if addressed, materials relating to direct

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	assistance should be contained within ISA 610. The IAASB will continue its consideration of these matters at its September 2011 meeting. See Section A of this CAG paper.

Structure of this CAG Paper

7. The remainder of this CAG paper sets out the Task Force's recommendations on the significant matters in relation to comments received on the ED that were considered by the IAASB at its June 2011 meeting and that will be considered at the September 2011 meeting. The paper is structured as follows:
 - (a) **Section A: Using Internal Auditors to Provide Direct Assistance.** Discusses the Task Force's recommendations to strengthen the framework for the external auditor's judgments regarding whether, in which areas and to what extent internal auditors can be used to provide direct assistance for purposes of the audit, and the placement of materials on direct assistance.
 - (b) **Section B: Using the Work of the Internal Audit Function.** Discusses the Task Force's recommendations to strengthen the framework for the external auditor's judgments regarding whether, in which areas and to what extent internal auditors can use the work of the internal audit function for purposes of the audit.
 - (c) **Section C: Other Matters.** Discusses the Task Force's recommendations to improve the overall tone of proposed revised ISA 610 and to achieve a better-balanced standard, and its consideration of respondents' comments relating to the audit risk model.

Matters for CAG Consideration

A. Using Internal Auditors to Provide Direct Assistance on the Audit

8. The Explanatory Memorandum (EM) in the ED asked respondents for their views on the following:
 4. Do respondents believe that it is desirable for the scope of ISA 610 to be expanded to address the matter of direct assistance? If so, do respondents believe that when obtaining the direct assistance of internal auditors the external auditor should be required to:
 - (a) Consider the factors that have been proposed in determining the work that may be assigned to individual internal auditors; and
 - (b) Direct, supervise, and review the audit procedures performed by the internal auditors in a way that recognizes they are not independent of the entity?

Significant Comments Made by Respondents

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9. Almost all the respondents agreed that it is undesirable for the ISAs to continue to be silent on the matter of direct assistance. These respondents expressed that the IAASB should remove the ambiguity regarding whether or not external auditors are permitted to use internal auditors to provide direct assistance on the audit and, if so, provide appropriate direction on the procedures that need to be performed by the external auditor.
10. Respondents' views on whether the ISAs should permit direct assistance were, however, polarized. This is as expected and consistent with the views heard by the IAASB during the development of the ED. Regulators and oversight bodies⁵ expressed the least support for permitting external auditors to use internal auditors to provide direct assistance on the audit. Those who accept the use of internal audit in this way generally expressed that, if permitted, direct assistance should be restricted to more limited circumstances than the ED allowed and, in some cases, respondents indicated being comfortable with its use in only very limited circumstances.⁶
11. Respondents who disagreed that external auditors should be permitted to use internal auditors to provide direct assistance on the engagement broadly argued one or more of the following:
 - (a) The distinct differences between the external audit team and the internal audit function are blurred under these circumstances. It is argued that, since internal auditors are employees of the entity, this could negatively impact on the perceived independence of the external audit. Some argued that the independence of the external auditor may also be compromised in fact because the internal auditor is permitted to work at such close proximity with external auditors in these circumstances.
 - (b) Involving internal auditors who are not independent of the entity in the performance of audit procedures for purposes of the engagement seems incompatible with the International Ethics Standards Board for Accountants (IESBA) Code,⁷ which requires members of the external audit engagement team to be independent. For this reason, several respondents also noted that it should be made clear whether internal auditors are considered to be members of the engagement team in such circumstances. Some of these respondents suggest that the IESBA Code could be revised to clarify that they are not considered part of the engagement team, which is something that has been done in some jurisdictions.
 - (c) Because internal auditors are employed by the entity, they are ultimately accountable to management or those charged with governance as opposed to the external auditor, even though they are "seconded" to the external auditor to provide assistance on the

⁵ 14AR, CEBS, CESR and FAOA. Other stakeholders who did not support permitting direct assistance include IDW, D. Juvenal and SNAO.

⁶ AAA, AIU & APB, BCBS, CPAB, FEE, IOSCO, IRBA, JICPA, LS and NZICA

⁷ IESBA's *Code of Ethics for Professional Accountants* (IESBA Code)

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- audit. Therefore, as their first loyalty is to management or those charged with governance, the seconded internal auditors may share confidential information regarding the audit with them that could undermine the external audit.
- (d) The external auditor may engage in inappropriate use (that is, over or undue use) of internal auditors to provide direct assistance on the audit as a result of pressure from management. These scenarios typically arise when management is attempting to lower audit fees.
12. Respondents⁸ felt that, should the IAASB decide to permit direct assistance, the safeguards to be applied by the external auditor would need to be strengthened in any case (for example, through requiring a minimum level of procedures (such as that which is required in ISA 600)⁹ and reperformance on the work performed by internal auditors). Of these, there was the view that external auditors should only be permitted to obtain direct assistance in a limited range of circumstances which should be clearly outlined in the ISA. In particular, it was indicated that it is essential that the external auditor gives consideration to the assessed risk of material misstatement when determining the nature and extent of work to assign to the internal auditors.

Task Force's Recommendations

13. The Task Force believes that there are two options that the IAASB may consider: either (i) further limiting the circumstances in which external auditors can use internal auditors to provide direct assistance on the audit and strengthening the framework for the external auditor's judgment in this regard; or (ii) prohibiting direct assistance in all circumstances.
14. This will be a finely balanced decision that the IAASB needs to make. It will require carefully weighing the deeply-divided views that exist, the possible impact that introducing requirements regarding direct assistance may have in practice (particularly in jurisdictions where direct assistance is not well-established), and the implications for practice globally if such practices were to be prohibited in the ISAs.
15. Views have also been expressed that direct assistance appears to be in conflict with the IESBA Code. The IESBA had debated this matter during the development of the ED and concluded that is not the case. It believed that the threats and safeguards approach proposed in the ED was appropriate and dealt with the issue sufficiently such that no further clarification in the IESBA Code was required. Some respondents disagreed,¹⁰ and either asked for further clarification in the IESBA Code (for example, amend the IESBA Code to

⁸ 14AR, ACCA, AIU & APB, AICPA, BCBS, CESR, CPAB, FEE, FSR, HC, IOSCO, IRBA, JICPA, KPMG, NZICA and SAICA

⁹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹⁰ 14AR, AIU & APB, ACCA, BCBS, BDO, CEBS, CESR, CNCC & CSOEC, D. Juvenal, FAOA, FARSRS, FEE, FSR, ICPAK, IDW, IOSCO, IRBA, NIVRA and P. Angulo

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allow for direct assistance), or, if they did not support direct assistance, argued that the ISA not allow it.

16. At its June 2011 meeting, the IESBA was presented with an overview of respondents' comments on ethical matters relating to proposals in the ED. The IESBA agreed to set up a task force ("IESBA ISA 610 Task Force") to give further consideration to the matters raised by respondents and to put forward recommendations for the IESBA's consideration at its October 2011 meeting.¹¹ It is anticipated that the IESBA's final decision on the actions it may take will not be known until after its October 2011 meeting. For this reason, approval of proposed revised ISAs 315 and 610 as final standards is slated for the December 2011 IAASB meeting.
17. If a decision is made that it is permissible, the Task Force accepts that, at a minimum, further limiting the circumstances (beyond the restrictions already in the ED) in which external auditors can use internal auditors to provide direct assistance on the audit is necessary to address reservations that some respondents have expressed over permitting such practices.
18. Accordingly, the Task Force proposes the following amendments to the ED to strengthen the framework for the external auditor's judgments when determining the nature and extent of work that may be assigned, and the nature, timing and extent of direction, supervision and review that is appropriate:
 - (a) Requiring the external auditor to consider the assessed risk of material misstatement when determining the nature and extent of work that may be assigned to internal auditors providing direct assistance and the nature, timing and extent of direction, supervision and review that is appropriate in the circumstances, as well as whether judgment is involved in performing the procedures and evaluating the audit evidence gathered.
 - (b) Prohibiting external auditors from using internal auditors to provide direct assistance where the procedures relate to work on which the internal audit function has already reported or will report to management or those charged with governance with which the internal auditors have been involved.
 - (c) Requiring external auditors to formalize arrangements with the entity prior to obtaining the direct assistance of internal auditors including:
 - Obtaining agreement in written form from an appropriate representative of the entity that the internal auditors will be allowed to follow the external auditor's

¹¹ The IAASB ISA 610 Task Force Chair has been invited to participate as a correspondent member on the IESBA ISA 610 Task Force which is scheduled to meet for the first time on September 5, 2011. Relevant matters arising from the IESBA ISA 610 Task Force meeting will be referred to during the Task Force Chair's presentation.

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- instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and
- Obtaining agreement in written form from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and will inform the external auditor of any threat to their objectivity.
- (d) Strengthening the safeguards—external auditors’ review of the work performed by internal auditors—through inclusion of a requirement for external auditors to check back to the underlying audit evidence for some of such work performed.
- (e) Removing ambiguity in the ISA by clarifying the circumstances in which internal auditors may be used to provide direct assistance, and those in which it would be inappropriate to do so.
19. The Task Force felt that these amendments would also go a long way towards safeguarding against over or undue use of internal auditors on the audit as a result of management pressure. However, the Task Force is aware that they are unlikely to go far enough for some respondents.
20. The Task Force is cognizant that varying practices exist today regarding the use of internal auditors to provide direct assistance on the audit. Some jurisdictions¹² have elected to disallow such practices entirely for one or more of the reasons discussed in paragraph 11, and the fact that the practice may be prohibited was clearly recognized in the ED.
21. In other jurisdictions, however, it is widely practiced. The Task Force has not been made aware of circumstances when direct assistance has negatively impacted audit quality. It is aware, however, that some believe it could impact the perception of audit quality because overuse may undermine perceptions that it is an independent external audit. Views have also been expressed that external auditors may be facing increasing pressure to use more direct assistance to help reduce audit fees, which some believe could pose a risk to audit quality in future.
22. In those jurisdictions where direct assistance is currently allowed and used in practice, prohibition in the ISAs would impact on audit cost, although this should, of course, not be a decisive factor if stakeholders believe it is warranted because they perceive a commensurate increase in audit quality. In addition, however, introduction of a prohibition in international standards but not in national auditing standards would create a conundrum for auditors who are members of the Forum of Firms (FoF).¹³ This may explain why some, although not supporting direct assistance, thought the ISAs should allow it, albeit in limited circumstances and with robust safeguards.

¹² For example, France, India and Japan

¹³ Members of the FoF are obliged, as a condition of their membership, to apply the ISAs in their respective methodologies to the extent practicable.

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23. The IAASB CAG and IAASB's views on the possible risks to audit quality (or perceptions thereof) and whether those risks outweigh the potential benefits from increased audit efficiency are essential in determining the way forward.
24. The Task Force also considered it may be possible that the combination of (i) introducing further limitations of the circumstances in which external auditors can use internal auditors to provide direct assistance on the audit and (ii) requiring strengthened safeguards to be applied when using internal auditors on the audit would help address the initial reservations that some may have over permitting such practices (including the view that such use is driven purely by cost considerations).

Matters for CAG Consideration

Representatives of the CAG are asked:

1. Whether it is desirable for the scope of ISA 610 to be expanded to address the matter of direct assistance.
2. Whether taken together, the proposals described in paragraph 18 are sufficient to safeguard audit quality when internal auditors are used to provide direct assistance on the audit, and whether the proposals strike the right balance between benefits and costs; and
3. Whether the revisions would have significant impact on practice.

Placement of Materials Relating to Direct Assistance

25. In June 2011, the IAASB considered two options for placement of requirements and guidance relating to direct assistance: either (i) within revised ISA 610 or (ii) in a separate ISA. Mixed views were expressed. Some members noted that dealing with the matter of direct assistance in a separate standard may be viewed positively in jurisdictions where such practices are prohibited. This is because it presents these jurisdictions with the option of electing not to adopt the ISA dealing with direct assistance. The IAASB instructed the Task Force to give this matter further consideration.

Task Force Recommendations

26. The majority of Task Force members felt that materials relating to the matter of direct assistance should be contained within ISA 610 as opposed to in a separate ISA for the following reasons:
 - (a) There are significant overlaps in the external auditor's considerations and responsibilities under the two circumstances: using the work of the internal audit function and using internal auditors to provide direct assistance. Dealing with each circumstance in a separate ISA would result in some duplication in the suite of ISAs.
 - (b) Also related to (a), splitting the two circumstances may result in the materials regarding the external auditor's use of the work of internal auditors being less coherent in the suite of ISAs. The introductory section of proposed revised ISA 610 provides an integrated

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discussion of the relationship between the external auditor's responsibilities (relating to the internal audit function) when obtaining an understanding the entity and its environment under ISA 315 and those relating to the use of the work of internal auditors under ISA 610. Also contained in the introduction are key messages that emphasize the external auditor's sole responsibility for the audit opinion expressed. In the event the two circumstances (using the work of the internal audit function and using internal auditors to provide direct assistance) are dealt with in separate ISAs, consideration would need to be given to how best to address these contextual materials so as to ensure minimal duplication in the suite of ISAs.

Notably, a respondent¹⁴ raised that clear recognition in revised ISA 610 of all the potential uses of the internal audit function and/or internal auditors as addressed in the ISAs is important. This is to recognize the fact that the various types of use may be aimed at achieving different purposes and therefore carry different considerations required of the external auditor.

- (c) Importantly, a separate ISA on direct assistance would accord such practices a higher profile in the suite of ISA. The Task Force questioned whether this is indeed the message that the IAASB wants to convey.
- (d) Although addressing direct assistance in a separate ISA might more easily allow jurisdictions that do not permit such practices not to adopt that ISA, this might not be an effective solution. Group auditors in such jurisdictions would nonetheless need to be aware that direct assistance may exist in other jurisdictions as it is relevant to the instructions they may need to give to component auditors for purposes of the audit.

Matter for CAG Consideration

- 4. Representatives of the CAG are asked for their views regarding the placement of materials relating to direct assistance. In particular, Representatives are asked whether it is preferable to deal with direct assistance within proposed revised ISA 610 or in a separate ISA.

Section B: Using the Work of the Internal Audit Function

27. The EM asked respondents for their views on the following:

- 2. Do respondents believe that that appropriate factors have been proposed to be evaluated by the external auditor in determining:
 - (a) Whether the work of the internal audit function can be used for purposes of the audit engagement; and
 - (b) The planned use of the work of the internal audit function?

¹⁴ IOSCO

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Significant Comments Made by Respondents

28. While there was substantial support for the proposals in the ED, some stakeholders, especially regulators and oversight bodies,¹⁵ noted that, in their view, it would allow for *significantly* greater use of work of the internal audit function by the external auditor. Concern was expressed that this could result in pressure on external auditors to use more of such work for efficiency reasons alone. Cases were cited where in practice the extent of use of the work of the internal audit function observed in inspections was viewed by the respondents as being unjustified.
29. These respondents felt that extensive use of such work is inappropriate as it could result in the impairment of the external auditor's independence, or at least the perception of it. In addition, some expressed the view that external auditors must themselves perform procedures directly to gather and corroborate audit evidence sufficient to support the external auditor's full and sole responsibility for the audit, although views on the nature and extent of that involvement that would be considered necessary varied amongst respondents. It was questioned whether the requirements in the ED are sufficient to ensure that the use of such work is within acceptable levels. In particular, the proposed prohibitions and standback on the overall use of the work of the internal audit function introduced in the ED were not viewed as sufficient to prevent over or undue use of such work.
30. Respondents offered a number of suggestions to strengthen the framework for the external auditor's judgments regarding the evaluation of the internal audit function for determining the nature and extent of work of the internal audit function that can be used for purposes of the audit. Respondents,¹⁶ including regulators and oversight bodies, recommended that some of the application material be elevated to requirements. In particular, it was felt that the assessed risk of material misstatement is an important factor to the external auditor's determination. Respondents believe that, if included, it would not only provide a better link to the risk-based approach underlying the ISAs, but also more explicitly limit the use of work of the internal audit function in relation to significant risks. The range of suggestions on this point included:
 - Elevating the guidance proposed in the ED relating to the assessed risk of material misstatement to explicitly require external auditors to place less reliance on the work of the internal audit function the higher the level of assessed risk.
 - Including the assessed risk of material misstatement as a factor to be considered by external auditors when making judgments regarding the nature and extent of use of the work of the internal audit function.

¹⁵ 14AR, CESR, IRBA, IOSCO

¹⁶ 14AR, AICPA, AIU & APB, BDO, CEBS, CESR, CPAB, DTT, FAOA, IOSCO, IRBA, JICPA and NZICA

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- Introducing the safeguard that, where the risk of material misstatement is high (particularly for significant risks), external auditors are required to perform tests directly as consideration of work of the internal audit function alone cannot reduce audit risk to an acceptably low level.
 - Prohibiting using the work of the internal audit function in relation to significant risks.
31. There was substantial support for the factors proposed in the ED related to the external auditor’s objectivity, competence and application of a systematic and disciplined approach, including quality control. However, the following were suggested:
- (a) Respondents¹⁷ noted that objectivity is a state of mind and cannot as such be evaluated absent evidence of how it has or has not been exercised, which may not be available to the external auditor. It was suggested that restating the construct “degree of objectivity” as “threats to the objectivity” would be more appropriate.
 - (b) Respondents¹⁸ asked for clarification about the application of “a systematic and disciplined approach, including quality control” as a required attribute in the external auditor determination of whether work of the internal audit function may be used for purposes of the audit.
 - (c) Respondents¹⁹ were also concerned that the phrase “systematic and disciplined approach” implies a level of formality which may limit the use of the work of the internal audit function in small- and medium-sized entities (SME), and thereby unnecessarily limiting the application of proposed revised ISA 610.
32. Some regulators²⁰ also asked for greater prescription for the audit procedures that the external auditor needs to perform in order to have a sufficiently robust basis to use the work of the internal audit function. The most common suggestion was to require a certain level of reperformance by the external auditor on the work of the internal audit function that is planned to be used. However, the level of reperformance thought necessary varied. Most believed it appropriate to do some reperformance on the body of work being used, with particular focus on higher risks. A respondent²¹ suggested that some reperformance was necessary on each piece of work used in response to an assessed risk.

Task Force’s Recommendations

33. The Task Force understands the reservations expressed by some of the respondents regarding the external auditor’s use of the work of the internal audit function for purposes

¹⁷ AIU & APB, CEBS, EYG, HC, IDW and IRBA

¹⁸ ACAG, AUAASB, C. Bernard, CESR, D. Juvenal, IRBA, JICPA, MOFBC and R. Ramchurun

¹⁹ AICPA and DTT

²⁰ 14AR, CEBS, CPAB and IOSCO

²¹ IOSCO

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of the audit. The Task Force agrees that the external auditor has sole responsibility for the opinion expressed and that further emphasis of that point would set an appropriate mindset for the ISA. The Task Force also agrees that the circumstances in which such use should be prohibited needs to be clear in order to avoid external auditors adopting different interpretations. Notwithstanding this, the Task Force continues to believe that there are a range of circumstances and that the auditor's judgments regarding the possible nature and extent of work of the internal audit function that can be used, and the nature and extent of the procedures the external auditor needs to do to be satisfied regarding the quality of that work, should vary according to the circumstances. The Task Force also agrees that the framework would be strengthened by including the risk of material misstatement in the requirements specifically as a factor that the external auditor has to consider when determining the nature and extent of work of the internal audit function that can be used, and the procedures required to be performed. However, the Task Force also believes that, in doing so, the guidance needs to clarify how consideration of the risk of material misstatement applies in relation to the other factors.

34. With regards to the factors to be considered in evaluating the internal audit function itself, the Task Force agrees that it is more appropriate to direct external auditors to assess the *threats* to the objectivity of the internal auditors than to determine the *degree* of objectivity of the internal audit function. This approach is also more aligned to the IESBA Code.
35. The Task Force further agrees with the need to clarify that the application of “a systematic and disciplined approach, including quality control” is a required attribute in the external auditor's determination of whether work of the internal audit function may be used for purposes of the audit. The Task Force believes that, in order to safeguard the quality of the work of the internal audit function that external auditors use for purposes of the audit, application of a systematic and disciplined approach by the function when performing work is an essential attribute. Importantly, it is also a necessary underpinning to the approach adopted in the ISA, which is based on the function exercising its own quality control. While this may limit the extent to which the ISA will be applicable in an SME environment, it is important to recognize that it will not preclude the external auditor from using the work of staff performing procedures similar to internal audit in organizations with less developed internal audit functions. In doing so, however, those activities would be considered control activities and their effectiveness tested in accordance with ISA 330.²²
36. The Task Force also accepts the argument that, because the internal audit function is not independent of the entity (as is required of the external auditor when expressing an opinion on financial statements), it would be appropriate to require the external auditor to perform some reperformance of the function's work that is planned to be used in order to establish its adequacy for use in the audit.

²² ISA 330, *The Auditor's Response to Assessed Risks*

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37. Accordingly, the Task Force proposes the following amendments to the ED:

- (a) Amending the introductory paragraphs to establish a balanced and appropriate overarching tone for the ISA (see also **Section C: Other Matters** of this CAG paper below):
 - Relevant material has been reorganized and cautionary language added, to emphasize more clearly up front that the external auditor has sole responsibility for the audit opinion expressed, which is not reduced by the external auditor's decision to use the work of the internal audit function and that, when using such work on the audit, external auditors should guard against over or undue use.
 - The introductory paragraphs also emphasize that work of the internal audit function can only be used if the external auditor is satisfied that it meets all of the required conditions set out in the ISA, and the external auditor is able to demonstrate that the function is of an adequate level of quality.
- (b) Establishing more robust safeguards against undue use of internal audit work by clarifying the circumstances when the work of the internal audit function cannot be used and therefore is prohibited. These cases are as follows:
 - The function's organizational status and relevant policies and procedures do not adequately support, and therefore pose significant threats to, the objectivity of internal auditors;
 - The function lacks sufficient competence; or
 - The function does not apply a systematic and disciplined approach, including quality control. In doing so, also clarifying that "systematic and disciplined approach" is a scalable concept that should be applied with appropriate consideration for the size and nature of the entity being audited.
- (c) Where use is permissible, ensuring there are adequate safeguards against over or undue use of work of the internal audit function by strengthening the external auditor's decision-making framework for determining the planned nature and extent of work of the internal audit function that can be used. In particular, more clearly articulating in the requirements that the external auditor must plan to use less of the work of the internal audit function and perform more of the work directly in circumstances where the assessed risk of material misstatement is higher. The external auditor is also required to give special consideration to risks identified as significant. Similarly, for the other factors,²³ elevating application material to incorporate in the requirement how the factors should influence the auditor's judgments.

²³ These factors are: (a) judgment involved in planning and performing relevant audit procedures, and evaluating the audit evidence gathered; (b) objectivity of the internal auditors; and (c) competence of the internal audit function.

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- (d) Introducing a safeguard against overuse of internal audit work *in aggregate* by requiring the external auditor to evaluate whether using the *overall* body of work of the internal audit function as planned would result in the external auditor being sufficiently involved, given the external auditor's sole responsibility for the audit opinion expressed.
- (e) Requiring safeguards against using work that is not adequate for purposes of the external audit by:
 - More clearly defining the necessary work effort to obtain sufficient appropriate evidence regarding the work of the internal audit function that the external auditor plans to use.
 - Clarifying that the external auditor's procedures need to be responsive to the external auditor's evaluations of the function and the work to be used.
 - Introducing a requirement for some reperformance on the body of work of internal audit function that the external auditor plans to use.

Matters for CAG Consideration

5. The Representatives are asked whether they agree with the proposals described in paragraph 37.

Section C: Other Matters

Balanced Tone on the Use the Work of Internal Auditors

38. A wide range of suggestions were offered by respondents to further strengthen the framework for the external auditor's judgments relating to evaluation of the internal audit function for determining the nature and extent of the function's work that can be used for purposes of the audit. A number of respondents, in particular regulators and oversight bodies, felt strongly that the requirements in certain areas of the ED needed strengthening and that inclusion of stronger messages to alert the external auditor to over and undue use of internal audit work is desirable.
39. In June 2011, some IAASB members felt that, in the Task Force's attempt to accommodate these comments, the resulting revised ISA 610 conveyed an overly negative tone regarding use of the work of internal auditors by external auditors. These members believed that a more balanced approach is preferred—one that highlights not just the pitfalls of over and undue use of the work of internal auditors for purposes of the audit, but also the possibility for the external auditor to make use of the work of the internal audit function in a constructive and complementary manner, where appropriate, to foster coordination and cooperation.

Task Force Recommendations

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40. The Task Force agrees that revised ISA 610 should contain a balance of messages regarding the external auditor's use of the work of internal audit function for purposes of the audit. To better achieve this, the Task Force proposes the following:
- (a) Including a cross-reference in the introductory paragraphs in ISA 315²⁴ that explains how the external auditor's relationship with the internal audit function provides insights that help to inform the external auditor's understanding of the entity and its environment and risk assessments, and how effective communication between the internal and external auditors also creates an environment in which the external auditor can be informed of significant matters that may affect the external auditor's work.
 - (b) Explaining more clearly in the introductory paragraphs that the external auditor may also be able to use the work of the internal audit function in a constructive and complementary manner, but such decisions depend on whether the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competency of the internal audit function and whether the function applies a systematic and disciplined approach.
 - (c) Drawing on the guidance in ISA 315²⁵ regarding the external auditor's responsibility to plan and perform the audit with professional skepticism, introducing guidance to emphasize that communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the work of the external auditor to the external auditor's attention. The external auditor is then able to take such information into account in the external auditor's identification and assessment of risks of material misstatement. The guidance further points out that if such information may be indicative of a heightened risk of a material misstatement of the financial statements or, regarding any actual, suspected or alleged fraud, the external auditor can take this into account in the external auditor's identification of risk of material misstatement due to fraud in accordance with ISA 240.²⁶

Matter for CAG Consideration

6. Representatives of the CAG are asked whether the revisions proposed in paragraph 40 improve the overall tone of proposed revised ISA 610 and achieve a better-balanced standard.

²⁴ ISA 315 (Revised), paragraph A108

²⁵ ISA 315 (Revised), paragraph A108

²⁶ ISA 315 (Revised), paragraph A11

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Audit Risk Model

41. A response letter²⁷ noted that, because internal audit function is internal to the entity, by definition, it is an internal control. It was argued that, as a result, the work of the function can only be considered, under the audit risk model, to reduce control risk, and only the external auditor can reduce detection risk. The implications of this interpretation included not being able to use any work of internal auditors in relation to significant risks and the need to do the same amount of reperformance for each piece of internal audit work used that is required in testing internal controls under ISA 330.
42. The IAASB considered, and provided preliminary views on, this issue at its March 2011 meeting. Also in March 2011, views of the Representatives of the CAG were sought. The general advice given by Representatives was the importance of balancing technical considerations in light of the practical considerations when developing responses to comments received on the ED. Further, while support for strengthening the safeguards against over or undue use of internal audit work was expressed, and, in particular, for giving greater recognition to the importance of considering the risks of material misstatement as in the decision-framework, there was not full support for the view expressed for the reasons explained below.
43. The Task Force believes that draft revised ISA 610 is consistent with the suite of ISAs. ISA 610 is grouped with those ISAs addressing how the work of others – experts, component auditors and internal auditors – may be used in complying with the requirements in other ISAs. As explained in ISA 315, while the internal audit function is part of the entity’s monitoring of controls, the function’s work that the external auditor can use is distinct from other monitoring controls because it involves procedures similar to those performed by the external auditor. Further, ISA 610 only applies if the internal audit function applies a systematic and disciplined approach, including quality control. However, the internal audit function is not independent of the entity and, therefore, it is appropriate for the ISA to define the conditions that are necessary in order for the external auditor to be able to use such work, and the work effort needed to obtain sufficient appropriate evidence that the work is adequate for purposes of the audit.

Matter for CAG Consideration

7. Representatives of the CAG are asked whether they agree with the conclusions drawn in paragraph 43.

²⁷ 14AR

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IAASB Interaction with the IAASB CAG

44. The substantive issues being raised on the project for the purposes of the September 2011 IAASB meeting are included in this paper. Accordingly, this serves as the final discussion of the project prior to its anticipated approval by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development and finalization of proposed ISA 610 (Revised) and proposed ISA 315 (Revised). Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

Other Matters Considered by the IAASB

45. The CAG Reference Papers (in particular Agenda Item 2-A of the June 2011 IAASB meeting and Agenda Item 9-A of the September 2011 IAASB meeting) include discussion of the following other matters considered by the IAASB:

- Inquiries by the external auditor of appropriate individuals within the internal audit function;
- Reading reports of the internal audit function;
- Definitions;
- Explaining how the internal audit function and internal auditors can be used;
- Impact analysis; and
- The effective date of the revised standards.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 2-A of the June 2011 IAASB Meeting, Using the Work of the Internal Audit Function and Internal Auditors to Provide Direct Assistance—Summary of Comments on Exposure Draft and IAASB Task Force Proposals www.ifac.org/IAASB/Meeting-FileDL.php?FID=6208

Agenda Item 9-A of the September 2011 IAASB Meeting, Using the Work of Internal Auditors—IAASB Task Force Recommendations in Response to IAASB's Consideration of Significant Comments on Exposure www.ifac.org/IAASB/Meeting-FileDL.php?FID=6422

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Agenda Item 9-D of the September 2011
IAASB meeting, Draft ISA 315 (Revised)
dated September 2011 (Clean)

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6420

Agenda Item 9-E of the September 2011
IAASB meeting, Draft ISA 610 (Revised)
dated September 2011 (Clean)

www.ifac.org/IAASB/Meeting-FileDL.php?FID=6421

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Appendix 1

Project History

Project: Proposed ISA 610 (Revised), *Using the Work of Internal Auditors (Including Revisions to ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2009	March 2009
Development of Proposed International Pronouncement (up to Exposure)	September 2009 March 2010	September 2009 March 2010 June 2010
Exposure – July 2010		
Consideration of Respondents' Comments on Exposure	March 2011 September 2011	March 2011 June 2011 September 2011
Final approval of proposed pronouncement	September 2011	Planned for December 2011

CAG Discussions: Detailed References

Project Commencement	<p><u>March 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0170&ViewCat=1062</p> <p>See CAG meeting minutes (in Agenda Item D.1 of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</p> <p>See report back on March 2009 CAG meeting (in paragraph 19 of the following): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4967</p>
Development of	<u>September 2009</u>

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<p>Proposed International Pronouncement (Up to Exposure)</p>	<p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4967</p> <p>See CAG meeting minutes (in Agenda Item M of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5305</p> <p>See report back on September 2009 CAG meeting (in paragraph 15 of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5252</p> <p><u>March 2010</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5252</p> <p>See CAG meeting minutes (in Agenda Item C of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5882</p> <p>See report back on March 2010 CAG meeting (in paragraph 6 of the following): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5609</p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5609</p> <p>See CAG meeting minutes (in Agenda Item I of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186</p> <p>See report back on September 2010 CAG meeting (in paragraph 6 of the following): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6029</p>
<p>Consideration of Respondents' Comments on Exposure</p>	<p><u>March 2011</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6029</p> <p>See CAG meeting minutes (in Agenda Item H of the following):</p> <p>See draft March 2011 CAG meeting minutes at Agenda Item A.</p> <p>See report back on March 2011 CAG meeting in paragraph 6 of this CAG paper.</p>

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Final Approval of Proposed Pronouncement	This agenda paper serves as the final discussion of the project prior to its anticipated approval by the IAASB.
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Appendix 2

List of Respondents to the Exposure Draft

#	Abbreviation	Respondent (Total)
Regulators and Oversight Authorities (9)		
1.	14 AR	14 Independent European Regulators
2.	AIU & APB	Audit Inspection Unit & Auditing Practices Board, Financial Reporting Council, United Kingdom
3.	BCBS	Basel Committee on Banking Supervision
4.	CEBS	Committee of European Banking Supervisors
5.	CESR	Committee of European Securities Regulators
6.	CPAB	Canadian Public Accountability Board
7.	FAOA	Federal Audit Oversight Authority (Switzerland)
8.	IOSCO	International Organization of Securities Commissions
9.	IRBA	Independent Regulatory Board for Auditors (South Africa)
National Auditing Standard Setters (3)²⁸		
10.	AUAASB	Australian Auditing and Assurance Standards Board
11.	CAASB	Canadian Auditing and Assurance Standards Board
12.	NZICA	New Zealand Institute of Chartered Accountants (Professional Standards Board)
Public Sector Organizations (8)		
13.	AAA	American Accounting Association (Auditing Standards Committee)
14.	ACAG	Australasian Council of Auditors-General
15.	DGRV	Deutscher Genossenschafts- und Raiffeisenverband e. V. (German Cooperative and Raiffeisen Confederation)
16.	GAO	United States Government Accountability Office
17.	MOFBC	Ministry of Finance British Columbia
18.	PAS	Provincial Auditor Saskatchewan

²⁸ For the purpose of this table only, the joint response letter from the AIU & APB has been listed only once under the “Regulators and Oversight Authorities” category.

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Using the Work of Internal Auditors— Report Back and Further Discussion of Significant Issues Raised by Respondents on Exposure

19.	SNAO	Swedish National Audit Office
20.	WAO	Wales Audit Office
Accounting Firms (8)		
21.	BDO	BDO Global Coordination B.V.
22.	DTT	Deloitte Touche Tohmatsu
23.	EYG	Ernst & Young Global
24.	GT	Grant Thornton International
25.	KPMG	KPMG
26.	LS	Levi & Sinclair
27.	PwC	PricewaterhouseCoopers
28.	RSM	RSM International Limited
IFAC Member Bodies & Other Professional Bodies (21)		
29.	ACCA	Association of Chartered Certified Accountants
30.	AICPA	American Institute of Certified Public Accountants
31.	CIPFA	Chartered Institute of Public Finance and Accountancy
32.	CNCC & CSOEC	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables
33.	DnR	Norwegian Institute of Public Accountants (Revisorforeningen)
34.	FARSRS	Svenska Revisorsamfundet SRS
35.	FEE	Federation des Experts Comptables Europeens
36.	FSR	Foreningen af Statsautoriserede Revisorer
37.	HKICPA	Hong Kong Institute of Certified Public Accountants
38.	ICAEW	Institute of Chartered Accountants in England and Wales
39.	ICAI	Institute of Chartered Accountants in Ireland
40.	ICPAK	Institute of Certified Public Accountants of Kenya
41.	ICPAS	Institute of Certified Public Accountants of Singapore
42.	IDW	Institut der Wirtschaftsprüfer
43.	IIA	Institute of Internal Auditors
44.	ISACA	Information Systems Audit and Control Association

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45.	JICPA	Japanese Institute of Certified Public Accountants
46.	MIA	Malaysian Institute of Accountants
47.	NIVRA	Koninklijk Nederlands Instituut van Registeraccountants
48.	NYSSCPA	New York State Society of Certified Public Accountants
49.	SAICA	South African Institute of Chartered Accountants
Others (including individuals) (8)		
50.	C. Barnard	Chris Barnard
51.	D. Juvenal	Denise Silva Ferreira Juvenal
52.	H. Jaegtnes	Harald Jaegtnes
53.	HC	Hunter College
54.	J. Maresca	Joseph Maresca
55.	P. Angulo	Paulino Angulo
56.	R. Ramchurun	Rajnish Ramchurun
57.	R. Mahadevan	Ramachandran Mahadevan