

Updated Agenda Item 4-I*

Using the Work of Internal Auditors—Proposed Conforming Amendments

All Changes Agreed at December 2011 IAASB Meeting

Direct Assistance Material Shaded in Gray

Note to the IAASB: Where only changes to paragraph numbers or ISA title are required, these have not been noted in the proposed conforming amendments below.

ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A72

A72. In some cases, an ISA (and therefore all of its requirements) may not be relevant in the circumstances. For example, if an entity does not have an internal audit function, nothing in ISA 610 (Revised)¹ is relevant.

ISA 230, *Audit Documentation*, paragraph A19

A19. The documentation requirement applies only to requirements that are relevant in the circumstances. A requirement is not relevant² only in the cases where:

- (a) The entire ISA is not relevant (for example, if an entity does not have an internal audit function, nothing in ISA 610 (Revised)³ is relevant); or

* [Agenda Item 4-I was updated during the December 5–9, 2011 IAASB meeting to reflect in marked text changes based on decisions taken at the meeting. The IAASB agreed to issue ISA 315 (Revised) and the part of ISA 610 (Revised) that relates to the use of the work of the internal audit function as final standards, subject to confirmation by the Public Interest Oversight Board (PIOB) that due process has been followed. In relation to the part of ISA 610 (Revised) that deals with the use of internal auditors to provide direct assistance (shaded in gray within this document), the IAASB agreed to withhold issuance pending the International Ethics Standards Board for Accountants' (IESBA) resolution in 2012 of how the matter of direct assistance should be addressed from an ethics perspective.

The updated agenda item is included here for information purposes only and is not the final pronouncement. Interested parties are discouraged from distributing, translating or using the updated agenda item for any purpose. They should await the release of the final pronouncement, which may contain minor modifications when compared to the updated agenda item. The final pronouncement is that approved by the IAASB and published by IFAC after the PIOB has confirmed that due process was followed in its development. It will be available at www.ifac.org/auditing-assurance/publications-resources.]

¹ ISA 610 (Revised), *Using the Work of Internal Auditors*, paragraph 2

² ISA 200, paragraph 22

³ ISA 610 (Revised), *Using the Work of Internal Auditors*, paragraph 2

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- (b) The requirement is conditional and the condition does not exist (for example, the requirement to modify the auditor’s opinion where there is an inability to obtain sufficient appropriate audit evidence, and there is no such inability).

ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 19 and A18 and Appendix 1

Deleted: Audit Documentation

19. For those entities that have an internal audit function, the auditor shall make inquiries of appropriate individuals within the function to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud. (Ref: Para. A18)

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Inquiries of the Internal Audit Function (Ref: Para. 19)

A18. ISA 315 (Revised) and ISA 610 (Revised) establish requirements and provide guidance relevant to audits of those entities that have an internal audit function.⁴ In carrying out the requirements of those ISAs in the context of fraud, the auditor may inquire about specific activities of the function including, for example:

- The procedures performed, if any, by the internal audit function during the year to detect fraud.
- Whether management has satisfactorily responded to any findings resulting from those procedures.

Appendix 1

Examples of Fraud Risk Factors

Internal control components are deficient as a result of the following:

- Inadequate monitoring of controls, including automated controls and controls over interim financial reporting (where external reporting is required).
- High turnover rates or employment of staff in accounting, information technology, or the internal audit function that are not effective.

ISA 260, *Communication with Those Charged with Governance*, paragraphs A14, A33 and A43

- A14. Other planning matters that it may be appropriate to discuss with those charged with governance include:

⁴ ISA 315 (Revised), paragraphs 6(a) and 23, and ISA 610 (Revised), *Using the Work of Internal Auditors*

- Where the entity has an internal audit function, how the external auditor and internal auditors can work in a constructive and complementary manner including any planned use of the work of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance.⁵
- ...

A33. Before communicating matters with those charged with governance, the auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management’s competence or integrity with management. In addition to recognizing management’s executive responsibility, these initial discussions may clarify facts and issues, and give management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with appropriate individuals within the function before communicating with those charged with governance.

A43. As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, ISA 315 (Revised) identifies participation by those charged with governance, including their interaction with the internal audit function, if any, and external auditors, as an element of the entity’s control environment.⁶ Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor’s assessment of the risks of material misstatements. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements.

ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph A24

A24. If the auditor has communicated deficiencies in internal control other than significant deficiencies to management in a prior period and management has chosen not to remedy them for cost or other reasons, the auditor need not repeat the communication in the current period. The auditor is also not required to repeat information about such deficiencies if it has been previously communicated to management by other parties, such as the internal audit function or regulators. It may, however, be appropriate for the auditor to re-communicate these other deficiencies if there has been a change of management, or if new information has come to the auditor’s attention that alters the prior understanding of the auditor and management regarding the deficiencies. ...

⁵ ISA 610 (Revised), paragraph 20~~32~~

⁶ ISA 315 (Revised), paragraph A7~~70~~

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ISA 300, *Planning an Audit of Financial Statements*, Appendix

Appendix

Characteristics of the Engagement

...

- The need for a statutory audit of standalone financial statements in addition to an audit for consolidation purposes.
- Whether the entity has an internal audit function and if so, whether, in which areas and to what extent, the work of the function can be used, ~~or internal auditors can be used to provide direct assistance,~~ for purposes of the audit.

...

ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*, paragraph A1

- A1. Information on the nature of the services provided by a service organization may be available from a wide variety of sources, such as:
- User manuals.
 - System overviews.
 - Technical manuals.
 - The contract or service level agreement between the user entity and the service organization.
 - Reports by service organizations, the internal audit function or regulatory authorities on controls at the service organization.
 - Reports by the service auditor, including management letters, if available.

ISA 500, *Audit Evidence*, paragraphs A51 and A57

A51. In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to make use of the entity's performance measures for the purpose of analytical procedures, or to make use of the entity's information produced for monitoring activities, such as reports of the internal audit function. In such cases, the appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Inconsistency in, or Doubts over Reliability of, Audit Evidence (Ref: Para. 11)

A57. Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained

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from one source is inconsistent with that obtained from another. This may be the case when, for example, responses to inquiries of management, internal auditors, and others are inconsistent, or when responses to inquiries of those charged with governance made to corroborate the responses to inquiries of management are inconsistent with the response by management. ISA 230 includes a specific documentation requirement if the auditor identified information that is inconsistent with the auditor’s final conclusion regarding a significant matter.⁷

ISA 550, *Related Parties*, paragraphs A15, A17 and A22

A15. Others within the entity are those considered likely to have knowledge of the entity’s related party relationships and transactions, and the entity’s controls over such relationships and transactions. These may include, to the extent that they do not form part of management:

- Those charged with governance;
- Personnel in a position to initiate, process, or record transactions that are both significant and outside the entity’s normal course of business, and those who supervise or monitor such personnel;
- The internal audit function;
- In-house legal counsel; and
- The chief ethics officer or equivalent person.

A17. In meeting the ISA 315 (**Revised**) requirement to obtain an understanding of the control environment,⁸ the auditor may consider features of the control environment relevant to mitigating the risks of material misstatement associated with related party relationships and transactions, such as:

- Internal ethical codes, appropriately communicated to the entity’s personnel and enforced, governing the circumstances in which the entity may enter into specific types of related party transactions.

...

- Periodic reviews by the internal audit function, where applicable.

...

A22. During the audit, the auditor may inspect records or documents that may provide information about related party relationships and transactions, for example:

- Third-party confirmations obtained by the auditor (in addition to bank and legal confirmations).

⁷ ISA 230, *Audit Documentation*, paragraph 11.

⁸ ISA 315 (**Revised**), paragraph 14.

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- Reports of the internal audit function.

...

ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs A27, A51 and Appendices 2 and 5

A27. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.⁹ Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- ...
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group engagement team’s inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.
- ...

A51. The group engagement team’s decision as to how many components to select in accordance with paragraph 29, which components to select, and the type of work to be performed on the financial information of the individual components selected may be affected by factors such as the following:

- ...
- Whether the internal audit function has performed work at the component and any effect of that work on the group audit.
- ...

Appendix 2

Examples of Matters about Which the Group Engagement Team Obtains an Understanding

The examples provided cover a broad range of matters; however, not all matters are relevant to every group audit engagement and the list of examples is not necessarily complete.

Group-Wide Controls

1. Group-wide controls may include a combination of the following:

⁹ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*.

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- ...
 - Monitoring of controls, including activities of the internal audit function and self-assessment programs.
 - ...
2. The internal audit function may be regarded as part of group-wide controls, for example, when the function is centralized. ISA 610 (Revised)¹⁰ deals with the group engagement team's evaluation of whether the internal audit function's organizational status and relevant policies and procedures adequately supports the objectivity of internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group engagement team expects to use the function's work.

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Appendix 5

Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Matters required by this ISA to be communicated to the component auditor are shown in italicized text.

Matters that are relevant to the planning of the work of the component auditor:

- ...
- *The ethical requirements that are relevant to the group audit and, in particular, the independence requirements, for example, where the auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant for the group auditors to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.*¹¹
- ...

Matters that are relevant to the conduct of the work of the component auditor:

- ...
- The findings of the internal audit function, based on work performed on controls at or relevant to components.
- ...

¹⁰ ISA 610 (Revised), *Using the Work of Internal Auditors*, paragraphs 13-14.

¹¹ ISA 610, *Using the Work of Internal Auditors*, paragraph A31

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