

# ISSAI 1610

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## INTOSAI



*Financial Audit Guideline*

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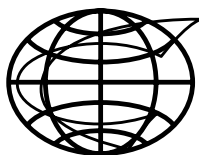
## *Using the Work of Internal Auditors*

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*This Financial Audit Guideline draws on International Standard on Auditing (ISA) 610 "Using the Work of Internal Auditors" developed by the International Auditing and Assurance Standards Board (IAASB) and published by the International Federation of Accountants (IFAC). The ISA is included in this Guideline with the permission of IFAC.*

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*Practice Note<sup>1</sup> to International Standard on Auditing (ISA) 610*

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# Using the Work of Internal Auditors

## Background

This Practice Note provides supplementary guidance on ISA 610— Using the Work of Internal Auditors. It is read together with the ISA. ISA 610 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

## Introduction to the ISA

ISA 610 deals with the external auditor’s responsibilities relating to the work of internal auditors when the external auditor has determined, in accordance with ISA 315 that the internal audit function is likely to be relevant to the audit.

ISA 610 does not deal with instances when individual internal auditors provide direct assistance to the external auditor in carrying out audit procedures.

## Content of the Practice Note

- P1. The Practice Note provides additional guidance for public sector auditors related to:
- (a) Overall Considerations.
  - (b) Determining Whether and to What Extent to Use the Work of the Internal Auditors.

## Applicability of the ISA in Public Sector Auditing

- P2. ISA 610 is applicable to auditors of public sector entities in their role as auditors of financial statements.

## Additional Guidance on Public Sector Issues

### Overall Considerations

- P3. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance

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<sup>1</sup> All Practice Notes are considered together with ISSAI 1000, “General Introduction to the INTOSAI Financial Audit Guidelines.”

<sup>2</sup> ISA 315, “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment.” paragraph 23.

with the applicable financial reporting framework (i.e. the scope of the ISAs). Additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the public sector auditors found any instances of non-compliance with authorities, including budgets and accountability frameworks, and/or reporting on the effectiveness of internal control. Public sector auditors may find activities carried out by the internal audit function relating to the entity's non-compliance with authorities including budget and accountability and the entity's effectiveness of internal control relevant to the audit. In such cases public sector auditors may use the work of the internal auditors to supplement the external audit work in these areas.

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

- P4. Public sector auditors in their determination of whether the work of the internal auditors are likely to be objective for the purposes of the audit, as noted in paragraph 9(a) of the ISA, consider any relevant INTOSAI guidance related to assessing the objectivity of the internal auditors and, if relevant, the existence and reports of any public sector internal audit function oversight body. However, where the internal audit function is established by legislation or regulation, and the following criteria are met, there is a strong indication that the internal audit function may be presumed to be objective:
- (a) Is accountable to top management, for example the head or deputy head of the government entity, and to those charged with governance;
  - (b) Reports the audit results both to top management, for example the head or deputy head of the government entity, and those charged with governance;
  - (c) Is located organizationally outside the staff and management function of the unit under audit;
  - (d) Is sufficiently removed from political pressure to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal;
  - (e) Does not permit internal audit staff to audit operations for which they have previously been responsible for to avoid any perceived conflict of interest; and
  - (f) Has access to those charged with governance.

*International Standard on Auditing*

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# Using the Work of Internal Auditors



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This International Standard on Auditing (ISA) 610, “Using the Work of Internal Auditors” was prepared by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC). The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

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# INTERNATIONAL STANDARD ON AUDITING 610 USING THE WORK OF INTERNAL AUDITORS

(Effective for audits of financial statements for periods  
beginning on or after December 15, 2009)

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

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the external auditor's responsibilities relating to the work of internal auditors when the external auditor has determined, in accordance with ISA 315,<sup>1</sup> that the internal audit function is likely to be relevant to the audit. (Ref: Para. A1-A2)
2. This ISA does not deal with instances when individual internal auditors provide direct assistance to the external auditor in carrying out audit procedures.

### Relationship between the Internal Audit Function and the External Auditor

3. The objectives of the internal audit function are determined by management and, where applicable, those charged with governance. While the objectives of the internal audit function and the external auditor are different, some of the ways in which the internal audit function and the external auditor achieve their respective objectives may be similar. (Ref: Para. A3)
4. Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is not independent of the entity as is required of the external auditor when expressing an opinion on financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal auditors.

### Effective Date

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

### Objectives

6. The objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit, are:
  - (a) To determine whether, and to what extent, to use specific work of the internal auditors; and
  - (b) If using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit.

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<sup>1</sup> ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 23.

## Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Internal audit function – An appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.
  - (b) Internal auditors – Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.

## Requirements

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

8. The external auditor shall determine:
  - (a) Whether the work of the internal auditors is likely to be adequate for purposes of the audit; and
  - (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures.
9. In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall evaluate:
  - (a) The objectivity of the internal audit function;
  - (b) The technical competence of the internal auditors;
  - (c) Whether the work of the internal auditors is likely to be carried out with due professional care; and
  - (d) Whether there is likely to be effective communication between the internal auditors and the external auditor. (Ref: Para. A4)
10. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures, the external auditor shall consider:
  - (a) The nature and scope of specific work performed, or to be performed, by the internal auditors;
  - (b) The assessed risks of material misstatement at the assertion level for particular classes of transactions, account balances, and disclosures; and
  - (c) The degree of subjectivity involved in the evaluation of the audit evidence gathered by the internal auditors in support of the relevant assertions. (Ref: Para. A5)

## Using Specific Work of the Internal Auditors

11. In order for the external auditor to use specific work of the internal auditors, the external auditor shall evaluate and perform audit procedures on that work to determine its adequacy for the external auditor's purposes. (Ref: Para. A6)
12. To determine the adequacy of specific work performed by the internal auditors for the external auditor's purposes, the external auditor shall evaluate whether:
  - (a) The work was performed by internal auditors having adequate technical training and proficiency;
  - (b) The work was properly supervised, reviewed and documented;
  - (c) Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
  - (d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
  - (e) Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

## Documentation

13. If the external auditor uses specific work of the internal auditors, the external auditor shall include in the audit documentation the conclusions reached regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work, in accordance with paragraph 11.<sup>2</sup>

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## Application and Other Explanatory Material

### Scope of this ISA (Ref: Para. 1)

- A1. As described in ISA 315,<sup>3</sup> the entity's internal audit function is likely to be relevant to the audit if the nature of the internal audit function's responsibilities and activities are related to the entity's financial reporting, and the auditor expects to use the work of the internal auditors to modify the nature or timing, or reduce the extent, of audit procedures to be performed.
- A2. Carrying out procedures in accordance with this ISA may cause the external auditor to re-evaluate the external auditor's assessment of the risks of material misstatement. Consequently, this may affect the external auditor's determination

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<sup>2</sup> ISA 230, "Audit Documentation," paragraphs 8-11, and paragraph A6.

<sup>3</sup> ISA 315, paragraph A101.

of the relevance of the internal audit function to the audit. Similarly, the external auditor may decide not to otherwise use the work of the internal auditors to affect the nature, timing or extent of the external auditor's procedures. In such circumstances, the external auditor's further application of this ISA may not be necessary.

### **Objectives of the Internal Audit Function (Ref: Para. 3)**

- A3. The objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance. The activities of the internal audit function may include one or more of the following:
- **Monitoring of internal control.** The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto.
  - **Examination of financial and operating information.** The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
  - **Review of operating activities.** The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non-financial activities of an entity.
  - **Review of compliance with laws and regulations.** The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
  - **Risk management.** The internal audit function may assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
  - **Governance.** The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

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

*Whether the Work of the Internal Auditors Is Likely to Be Adequate for Purposes of the Audit* (Ref: Para. 9)

- A4. Factors that may affect the external auditor's determination of whether the work of the internal auditors is likely to be adequate for the purposes of the audit include:

### Objectivity

- The status of the internal audit function within the entity and the effect such status has on the ability of the internal auditors to be objective.
- Whether the internal audit function reports to those charged with governance or an officer with appropriate authority, and whether the internal auditors have direct access to those charged with governance.
- Whether the internal auditors are free of any conflicting responsibilities.
- Whether those charged with governance oversee employment decisions related to the internal audit function.
- Whether there are any constraints or restrictions placed on the internal audit function by management or those charged with governance.
- Whether, and to what extent, management acts on the recommendations of the internal audit function, and how such action is evidenced.

### Technical competence

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

### Due professional care

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

## Communication

Communication between the external auditor and the internal auditors may be most effective when the internal auditors are free to communicate openly with the external auditors, and:

- Meetings are held at appropriate intervals throughout the period;
- The external auditor is advised of and has access to relevant internal audit reports and is informed of any significant matters that come to the attention of the internal auditors when such matters may affect the work of the external auditor; and
- The external auditor informs the internal auditors of any significant matters that may affect the internal audit function.

### *Planned Effect of the Work of the Internal Auditors on the Nature, Timing or Extent of the External Auditor's Procedures (Ref: Para. 10)*

A5. Where the work of the internal auditors is to be a factor in determining the nature, timing or extent of the external auditor's procedures, it may be useful to agree in advance the following matters with the internal auditors:

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

### **Using Specific Work of the Internal Auditors (Ref: Para. 11)**

A6. The nature, timing and extent of the audit procedures performed on specific work of the internal auditors will depend on the external auditor's assessment of the risk of material misstatement, the evaluation of the internal audit function, and the evaluation of the specific work of the internal auditors. Such audit procedures may include:

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

