

**Extracts from Using the Work of Internal Auditors—
[Proposed] International Standard on Auditing 610 (Revised)**

[Marked from September 2011 IAASB Meeting]

(Effective for audits of financial statements for periods ending on or after December 15, 2013)

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the external auditor's responsibilities if using the work of internal auditors. This includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.
2. This ISA does not apply if the entity does not have an internal audit function. (Ref. Para A2)
3. If the entity has an internal audit function, the requirements in this ISA relating to using the work of that function do not apply if:
 - (a) ~~with~~ The responsibilities and activities of the function that are not relevant to the audit; or
 - (b) Based on the auditor's preliminary understanding of the function obtained as a result of procedures performed under ISA 315 (Revised), the external auditor does not expect to use the work of the function in obtaining audit evidence.

~~Even if the internal audit function has performed work that may be relevant to the audit,~~
Nothing in this ISA requires the external auditor to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor; it remains a decision of the external auditor in establishing the overall audit strategy.
- ~~43.~~ Furthermore, the requirements in this ISA relating to direct assistance do not apply if the external auditor does not plan to use internal auditors to provide direct assistance.
- ~~54.~~ In some jurisdictions, the external auditor may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal auditors function or, using internal auditors to provide direct assistance. The ISAs do not override laws or regulations that govern an audit of financial statements.¹ Such prohibitions or restrictions will therefore not prevent the external auditor from complying with the ISAs. (Ref. Para A31)

Relationship between ISA 315 (Revised) and ISA 610 (Revised)

- ~~65.~~ Many entities establish internal audit functions as part of their internal control and governance structures. The objectives and scope of an internal audit function, the nature of its responsibilities and its organizational status, including the function's authority and accountability, vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance.

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A55

- [76.](#) ISA 315 (Revised)² addresses how the knowledge and experience of the internal audit function can inform the external auditor's understanding of the entity and its environment and identification and assessment of risks of material misstatement. ISA 315 (Revised)³ also explains 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.
- [87.](#) Depending on whether the internal audit function's organizational status and relevant policies and procedures [adequately](#) supports 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, the external auditor may also be able to use the work of the internal audit function in a constructive and complementary manner. This ISA addresses the external auditor's responsibilities when, based on the external auditor's preliminary understanding of the internal audit function obtained as a result of procedures performed under ISA 315 (Revised), the external auditor expects to use the work of the internal audit function as part of the audit evidence obtained.⁴ Such use of that work modifies the nature or timing, or reduces the extent, of audit procedures to be performed directly by the external auditor.
- [98.](#) In addition, this ISA also addresses the external auditor's responsibilities if considering using internal auditors to provide direct assistance [under the direction, supervision and review of the external auditor](#).
- [109.](#) There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with ISA 330.

The External Auditor's Responsibility for the Audit

- [110.](#) 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 audit function or internal auditors to provide direct assistance on the engagement. Although they may perform audit procedures similar to those performed by the external auditor, neither the internal audit function nor the internal auditors are independent of the entity as is required of the external auditor in an audit of financial statements in accordance with ISA 200.⁵ This ISA, therefore, defines the conditions that are necessary for the external auditor to be able to use the work of internal auditors. It also defines the necessary work

² ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

³ ISA 315 (Revised), paragraph A108

⁴ See paragraphs [165](#)–[264](#) of this ISA.

⁵ ISA 200, paragraph 14

effort to obtain sufficient appropriate evidence that the work of the internal audit function, or internal auditors providing direct assistance, is adequate for the purposes of the audit. The requirements are designed to provide a framework for the external auditor's judgments regarding the use of the work of internal auditors to prevent over or undue use of such work.

Effective Date

124. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2013.

Objectives

132. The objectives of the external auditor, where the entity has an internal audit function and the external auditor expects to use the work of the function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, or to use internal auditors to provide direct assistance, are:
- (a) To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent; and having made that determination:
 - (b) If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit; and
 - (c) If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.

Definitions

For purposes of the ISAs, the following terms have the meanings attributed below:

- ~~143. Direct assistance – The use of internal auditors to perform audit procedures, under the direction, supervision and review of the external auditor.~~
1544. Internal audit function – A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes. (Ref: Para. A1–A45)
15. Direct assistance – The use of internal auditors to perform audit procedures, under the direction, supervision and review of the external auditor.

Requirements

Paragraphs 16-26 removed.

Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit

265. The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. If so, paragraphs 287-354 and 36 do not apply. (Ref: Para. A32)
27. ~~However, if using internal auditors to provide direct assistance the external auditor is permitted not prohibited by law or regulation, and the external auditor plans, to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the~~ existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance. (Ref: Para. ~~A332-A36A33~~)
286. The external auditor shall not use an internal auditor to provide direct assistance if:
- (a) There are significant threats to the objectivity of the internal auditor; or
 - (b) The internal auditor lacks ~~the necessary~~sufficient competence to perform the proposed work. (Ref: Para. A3~~32-A36A33~~)

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance

2927. In determining the nature and extent of work that may be assigned to internal auditors and the nature, timing and extent of direction, supervision and review that is appropriate in the circumstances, the external auditor shall consider:
- ~~(a) [moved to (b) and (c) below] The external auditor's evaluation of the existence and significance of threats to the objectivity and level of competence of the internal auditors who will be providing such assistance;~~
 - ~~(b) The assessed risk of material misstatement; and~~
 - ~~(ea) The amount of judgment involved in:~~
 - ~~(i) Planning and performing relevant audit procedures; and~~
 - ~~(ii) Evaluating the audit evidence gathered.~~
 - (b) The assessed risk of material misstatement; and
 - (c) The external auditor's evaluation of the existence and significance of threats to the objectivity and level of competence of the internal auditors who will be providing such assistance. (Ref: Para. ~~A37A34-A39A38~~)
3028. The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:
- (a) Involves making significant judgments in the audit; (Ref: Para. A2019)

- (b) Relate to higher assessed risks of material misstatement ~~and require more than limited~~ where the judgment in performing the relevant audit procedures or evaluating the audit evidence gathered ~~is more than limited~~; (Ref. Para A37)
- (c) Relate to work ~~with which the internal auditors have been involved on and~~ which ~~the internal audit function~~ has already ~~been reported~~ or will ~~be reported~~ to management or those charged with governance ~~by the internal audit function with which the internal auditors have been involved~~; or
- (d) Relate to decisions the external auditor makes in accordance with this ISA regarding the internal audit function and the use of its work or direct assistance. (Ref: Para. ~~A37A34–A39A38~~)

31. The external auditor shall, in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with ISA 260,⁶ communicate the nature and extent of the planned use of internal auditors to provide direct assistance so as to reach a mutual understanding that such use is not excessive in the circumstances of the engagement.-(Ref. A38)

Using Internal Auditors to Provide Direct Assistance

~~32~~29. Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:

- (a) Obtain written agreement from an ~~appropriate authorized~~ representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and
- (b) Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity. (~~Ref: Para. A40–A41~~)

~~34~~0. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220.⁷ In so doing:

- (a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph ~~3029~~27 of this ISA; and-
- (b) The review procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.
(Ref: Para. A40–A41)

⁶ ISA 260, *Communication with Those Charged with Governance*, paragraph 15

⁷ ISA 220, *Quality Control for an Audit of Financial Statements*

354. In directing, supervising and reviewing the work performed by internal auditors, the external auditor shall remain alert for indications that the external auditor's evaluations in paragraph 2785 ~~is~~ are no longer appropriate.

Documentation

Paragraph 36 deleted.

373. If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:

- (a) The evaluation of the existence and significance of threats to whether the internal audit function's organizational status and relevant policies and procedures supports the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;
- (b) The basis for that-the decision regarding the nature and extent of the work performed by the internal auditors;
- (c) Who reviewed the work performed and tThe nature-date and extent of the external auditor's-that review of the audit work in accordance with ISA 230;
- (d) The written agreements obtained from an appropriate-authorized representative of the entity and the internal auditors under paragraph 3329 of this ISA; and
- (e) The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

Application and Other Explanatory Material

Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit (Ref: Para. 5,265–286)

A32. Even-iIn jurisdictions where the external auditor is prohibited by law or regulation from obtaining direct assistance from using internal auditors to provide direct assistance, it is relevant for the group auditors to consider whether the prohibition also extends to in those jurisdictions to be aware that component auditors may be in jurisdictions where such practices are allowed-and, if so, to address this in the communication to the component auditorsthe group auditor may need to address the prohibition in their group engagement team's letter of engagement.⁸

A332. The external auditor may obtain direct assistance from the internal auditors to carry out audit procedures which otherwise would be performed directly by the external auditors themselves. In such circumstances, the internal auditors are under the direction, supervision and review of the external auditor.

⁸ ISA 600, paragraph 40.

~~A33. [redrafted and elevated to paragraph 32] In accordance with ISA 260,⁹ the external auditor communicates with those charged with governance an overview of the planned scope and timing of the audit. In doing so, the external auditor may discuss matters such as the planned use of direct assistance.~~

~~A34. In accordance with paragraph 285 of this ISA, the external auditor evaluates the existence and significance of any threats to the objectivity and the level of competence of the internal auditors who are used to provide direct assistance on the audit before assigning them to specific tasks.~~

A325. As stated in paragraph A78 of this ISA, objectivity refers to the ability to perform the proposed work without allowing bias, conflict of interest or undue influence of others to ~~compromise or override professional judgments. Factors that may affect the external auditor's evaluation of~~ In evaluating the existence and significance of any threats to the objectivity of an internal auditor, ~~include~~ the following factors may be relevant:

- The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors¹⁰
- Family and personal relationships
- Association with the division or department in the entity to which the work relates
- Financial interests that are exceptional in the circumstances

~~A36~~A33. In evaluating the level of competence of an internal auditor, many of the factors in paragraph ~~A9~~A8 of this ISA may also be relevant ~~but~~ applied in the context of individual internal auditors and the work to which they may be assigned.

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance (Ref: Para. ~~302927~~3128)

~~A37~~A34. Paragraphs ~~A16~~A15-A2~~322~~ of this ISA provide relevant guidance in determining the nature and extent of work that may be assigned to internal auditors.

A358. In determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned. Examples of activities and tasks that would not be appropriate to use internal auditors to provide direct assistance include the following:

- Discussion of fraud risks. However, the external auditors may make inquiries of internal auditors about fraud risks in the organization in accordance with ISA 315 (Revised)¹¹
- ~~Discussion of matters relating to the audit opinion~~
- ~~Determination of locations for inventory counts~~

⁹ ~~ISA 260, Communication with Those Charged with Governance, paragraph 15~~

¹⁰ See paragraph A8

¹¹ ISA 315 (Revised), paragraph 6(a)

- Determination of unannounced audit procedures as addressed in ISA 240

A369. Similarly, since in accordance with ISA 505¹² the external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditors. However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.

A37. The amount of judgment involved and the risk of material misstatement are also relevant in determining the work that may be assigned to internal auditors providing direct assistance. For example, in circumstances where the valuation of accounts receivable is assessed as an area of higher risk, the external auditor could assign the checking of the accuracy of the aging to an internal auditor providing direct assistance. However, because the evaluation of the adequacy of the provision based on the aging would involve more than limited judgment, it would not be appropriate to assign that latter procedures to an internal auditor providing direct assistance.

A38. Notwithstanding the direction, supervision and review by the external auditor, excessive use of internal auditors to provide direct assistance may affect perceptions regarding the independent of the external audit engagement.

Using Internal Auditors to Provide Direct Assistance (Ref: Para. ~~33429-30~~)

~~A40~~A39. The direction, supervision and review by the external auditor of the audit procedures performed by the internal auditors need to be sufficient in order for the external auditor to be satisfied that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. As individuals in the internal audit function are not independent of the entity as is required of the external auditor when expressing an opinion on financial statements, the external auditor's involvement in these circumstances will generally be of a different nature and more extensive than if members of the engagement team perform the work.

~~A41~~A40. ~~The nature, timing and extent of direction, supervision and review of the audit procedures performed by the internal auditors is also dependent on the outcome of the external auditor's evaluation of the existence and significance of any threats to the objectivity and the level of competence of, and the nature and extent of audit procedures to be performed by, the internal auditors.~~ In directing the internal auditors, the external auditor may for example, remind the internal auditors to bring all significant accounting and auditing issues identified during the audit to the attention of the external auditor. In reviewing the work performed by the internal auditors, the external auditor's considerations include whether the evidence obtained is sufficient and appropriate in the circumstances, and that it supports the conclusions reached.

¹² ISA 505, paragraphs 7 and 16