

INTERNATIONAL STANDARD ON AUDITING 610
CONSIDERING THE WORK OF INTERNAL AUDIT

(Effective for audits of financial statements for periods
beginning on or after December 15, 2004)*

CONTENTS

	Paragraph
Introduction	1-4
Scope and Objectives of Internal Auditing	5
Relationship Between Internal Auditing and the External Auditor	6-8
Understanding and Assessment of Internal Auditing	9-13
Timing of Liaison and Coordination	14-15
Evaluating the Work of Internal Auditing	16-19

International Standard on Auditing (ISA) 610, “Considering the Work of Internal Audit” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,” which sets out the application and authority of ISAs.



* ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement,” ISA 330, “The Auditor’s Procedures in Response to Assessed Risks,” and ISA 500, “Audit Evidence” gave rise to conforming amendments to ISA 610. The conforming amendments are effective for audits of financial statements for periods beginning on or after December 15, 2004 and have been incorporated in the text of ISA 610.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance to external auditors in considering the work of internal auditing. This ISA does not deal with instances when personnel from internal auditing assist the external auditor in carrying out external audit procedures. The audit procedures noted in this ISA need only be applied to internal auditing activities which are relevant to the audit of the financial statements.
2. **The external auditor should consider the activities of internal auditing and their effect, if any, on external audit procedures.**
3. “Internal auditing” means an appraisal activity established within an entity as a service to the entity. Its functions include, amongst other things, monitoring internal control.
4. While the external auditor has sole responsibility for the audit opinion expressed and for determining the nature, timing and extent of external audit procedures, certain parts of internal auditing work may be useful to the external auditor.

Scope and Objectives of Internal Auditing

5. The scope and objectives of internal auditing vary widely and depend on the size and structure of the entity and the requirements of its management. Ordinarily, internal auditing activities include one or more of the following:
 - Monitoring of internal control. The establishment of adequate internal control is a responsibility of management which demands proper attention on a continuous basis. Internal auditing is ordinarily assigned specific responsibility by management for reviewing controls, monitoring their operation and recommending improvements thereto.
 - Examination of financial and operating information. This may include review of the means used to identify, measure, classify and report such information and specific inquiry into individual items including detailed testing of transactions, balances and procedures.
 - Review of the economy, efficiency and effectiveness of operations including non-financial controls of an entity.
 - Review of compliance with laws, regulations and other external requirements and with management policies and directives and other internal requirements.

Relationship Between Internal Auditing and the External Auditor

6. The role of internal auditing is determined by management, and its objectives differ from those of the external auditor who is appointed to report

independently on the financial statements. The internal audit function's objectives vary according to management's requirements. The external auditor's primary concern is whether the financial statements are free of material misstatements.

7. Nevertheless some of the means of achieving their respective objectives are often similar and thus certain aspects of internal auditing may be useful in determining the nature, timing and extent of external audit procedures.
8. Internal auditing is part of the entity. Irrespective of the degree of autonomy and objectivity of internal auditing, it cannot achieve the same degree of independence as required of the external auditor when expressing an opinion on the financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by any use made of internal auditing. All judgments relating to the audit of the financial statements are those of the external auditor.

Understanding and Preliminary Assessment of Internal Auditing

9. **The external auditor should obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures.**
10. Effective internal auditing will often allow a modification in the nature and timing, and a reduction in the extent of audit procedures performed by the external auditor but cannot eliminate them entirely. In some cases, however, having considered the activities of internal auditing, the external auditor may decide that internal auditing will have no effect on external audit procedures.
11. **The external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment.**
12. The external auditor's assessment of the internal audit function will influence the external auditor's judgment about the use which may be made of internal auditing in making risk assessments and thereby modifying the nature, timing and extent of further external audit procedures.
13. When obtaining an understanding and performing an assessment of the internal audit function, the important criteria are the following:
 - (a) *Organizational status*: Specific status of internal auditing in the entity and the effect this has on its ability to be objective. In the ideal situation, internal auditing will report to the highest level of management and be free of any other operating responsibility. Any constraints or restrictions placed on internal auditing by management would need to be carefully considered. In particular, the internal



auditors will need to be free to communicate fully with the external auditor.

- (b) *Scope of function:* The nature and extent of internal auditing assignments performed. The external auditor would also need to consider whether management acts on internal audit recommendations and how this is evidenced.
- (c) *Technical competence:* Whether internal auditing is performed by persons having adequate technical training and proficiency as internal auditors. The external auditor may, for example, review the policies for hiring and training the internal auditing staff and their experience and professional qualifications.
- (d) *Due professional care:* Whether internal auditing is properly planned, supervised, reviewed and documented. The existence of adequate audit manuals, work programs and working papers would be considered.

Timing of Liaison and Coordination

- 14. When planning to use the work of internal auditing, the external auditor will need to consider internal auditing's tentative plan for the period and discuss it at as early a stage as possible. Where the work of internal auditing is to be a factor in determining the nature, timing and extent of the external auditor's procedures, it is desirable to agree in advance the timing of such work, the extent of audit coverage, materiality levels and proposed methods of sample selection, documentation of the work performed and review and reporting procedures.
- 15. Liaison with internal auditing is more effective when meetings are held at appropriate intervals during the period. The external auditor would need to be advised of and have access to relevant internal auditing reports and be kept informed of any significant matter that comes to the internal auditor's attention which may affect the work of the external auditor. Similarly, the external auditor would ordinarily inform the internal auditor of any significant matters which may affect internal auditing.

Evaluating the Work of Internal Auditing

- 16. **When the external auditor intends to use specific work of internal auditing, the external auditor should evaluate and perform audit procedures on that work to confirm its adequacy for the external auditor's purposes.**
- 17. The evaluation of specific work of internal auditing involves consideration of the adequacy of the scope of work and related programs and whether the

assessment of the internal auditing remains appropriate. This evaluation may include consideration of whether:

- (a) The work is performed by persons having adequate technical training and proficiency as internal auditors and the work of assistants is properly supervised, reviewed and documented;
 - (b) Sufficient appropriate audit evidence is obtained to be able to draw reasonable conclusions;
 - (c) Conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed; and
 - (d) Any exceptions or unusual matters disclosed by internal auditing are properly resolved.
18. The nature, timing and extent of the audit procedures performed on the specific work of internal auditing will depend on the external auditor’s judgment as to the risk of material misstatement of the area concerned, the assessment of internal auditing and the evaluation of the specific work by internal auditing. Such audit procedures may include examination of items already examined by internal auditing, examination of other similar items and observation of internal auditing procedures.
19. The external auditor would record conclusions regarding the specific internal auditing work that has been evaluated and the audit procedures performed on the internal auditor’s work.

Public Sector Perspective

1. *The basic principles in this ISA apply to the audit of financial statements in the public sector. Supplementary guidance on additional considerations, when considering the work of internal auditing in the public sector is provided in the Public Sector Committee’s¹ Study 4, “Using the Work of Other Auditors—A Public Sector Perspective.”*

¹ In November 2004 the Public Sector Committee’s name was changed to the International Public Sector Accounting Standards Board.

