

SA 610 (REVISED)

USING THE WORK OF INTERNAL AUDITORS

What do you mean by internal audit function?

The Preface to the Standards on Internal Audit, issued by the Institute of Chartered Accountants of India, issued in November 2004 describes internal audit as “an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to

- suggest improvements thereto and
- add value to and strengthen the overall governance mechanism of the entity, including the
 1. entity's strategic risk management and
 2. internal control system.

Internal audit, therefore, provides assurance that there is transparency in reporting, as a part of good governance.”

What is objective of External auditor under this SA?

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. 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 to determine:

- (a) Whether, and to what extent, to use specific work of the internal auditors; and
- (b) If so, whether such work is adequate for the purposes of the audit.

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

According to SA610 Revised 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.

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.

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.

How to Use Specific Work of the Internal Auditors ?

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. 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.

What to Document?

When the external auditor uses specific work of the internal auditors, the external auditor shall document conclusions 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 this SA.

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