SA 610

SCOPE

1. Responsbilties while using IA function

2. Responsibilities while using Internal Auditor in providing direct assistance

MEANING OF INTERNAL AUDIT FUNCTION

Activities to improve the effectiveness of :

(i). Governance Process

(ii). Risk Management - Identifying/Evaluating exposures to risk

- Help in detection of fraud

(iii). Internal Control

a.Evaluation of IC [design/implementation/operating effectiveness]

b. Examination of Financial & Operating Info . [Reviewing methods used to identify, recognize, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.]

c. Review of operating activities [economy, efficiency and effectiveness]

d. Review of compliance with laws and regulations

OBJECTIVES

1. Determine whether work of IAF or diret assistance from IA can be used & also to what extent & which area.
2. If using IAF : whether it is adequate for audit
3. If using IA Direct assistance : Supervise/Direct/Review their work

REQUIREMENTS

A. For Using Internal Audit Function

<u>1. Evaluating IAF (whether work of IAF can be used or not) :</u>

a. Objectivity of IAF

[Factors -

(i). Whether the status, authority and accountability of the IAF supports the ability of the IAF to be free from bias, conflict of interest or undue influence of others to override professional judgments.

(ii). Whether the IAF is free of any conflicting responsibilities

(iii). Whether TCWG oversee employment decisions related to the IAF

(iv). Whether any restrictions on the IAF by Mgmt. or TCWG.

(v). Whether the internal auditors are members of relevant professional bodies.]

b. *level of competence of IAF*
[Factors -
(i). Whether the IAF is adequately and appropriately resourced relative to the size of the entity and the nature of its operations
(ii). Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements.
(iii). Whether the internal auditors have adequate technical training and proficiency in auditing.
(iv). Whether the internal auditors possess the required knowledge relating to the entity's FR and the applicable FRF and whether the IAF possesses the necessary skills.]
c. *Whether the internal audit function applies a systematic and disciplined approach, including quality control*
[Factors -
(i). The existence, adequacy and use of documented internal audit procedures or guidance, the nature and extent of which is commensurate with the size and circumstances of an entity.
(ii). Whether the IAF has appropriate quality control policies and procedures, (SQC 1)]

The external auditor shall not use the work of the internal audit function if :
a. No objectivity of IAF
b. Lack of comptence in IAF
c. the IAF does not apply a systematic and disciplined approach, including quality control.

<u>2. Determining the Nature and Extent of Work of the IAF that Can Be used :</u>
a. By considering the nature ad scope of the work that has been performed and its relevance to the external auditor's overall audit strategy and audit plan.
b. By communicating with TCWG, how you've planned to use the work of IAF.
c. Evaluate whether by using the work of the IAF, it still result in the external auditor being sufficiently involved in the audit.

<u>3. Using the Work of the Internal Audit Function</u>
a. Discuss the planned use with IAF
b. To obtain understanding of the nature and extent of audit procedures IAF performed --> read reports of the IAF wrt work performed, which external auditor want to use
c. Evaluating whether The work of the function had been properly planned, performed, supervised, reviewed and documented
d. Evaluating whether Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions
e. Evaluating whether Conclusions reached are appropriate in the circumstances and reports are consistent with the results
f. NTE of External Auditor's AP depends on his evaluation of :
- The amount of judgment involved
- Asessed ROMM
- Objectivity of IAF
- Competence of IAF

B. For Using Direct Assistance from Internal Auditors :

<u>1. Evaluating IA (whether IA can be used or not to provide direct assistance) :</u>

a. Objectivity of IA
[Factors -
(i). Whether the status, authority and accountability of the IAF supports the ability of the IAF to be free from bias, conflict of interest or undue influence of others to override professional judgments.
(ii). Whether the IAF is free of any conflicting responsibilities
(iii). Whether TCWG oversee employment decisions related to the IAF
(iv). Whether any restrictions on the IAF by Mgmt. or TCWG.
(v). Whether the internal auditors are members of relevant professional bodies.
(vi). Family and personal relationships with an individual working in, or responsible for, the aspect of the entity to which the work relates
(vii). Association with the division or department in the entity to which the work relates
(viii). Significant financial interests in the entity other than remuneration on terms consistent with those applicable to other employees at a similar level of seniority.]

The external auditor shall not use an internal auditor if :
a. Significant threats to objectivity of IA
b. Lack of comptence in IA
c. the IAF does not apply a systematic and disciplined approach, including quality control.

<u>2. Determining the Nature and Extent of Work that can be assigned to Internal Auditors :</u>
a. Consider the amt. of judgement involved in planning & performing relevant AP and evaluating AE gathered.
b. Consider the assessed ROMM.
c. Evluate the existence and significance of threats to the objectivity and level of competence of the internal auditors

The external auditor shall not use internal auditors to provide direct assistance to perform procedures that :
(a). Involve making significant judgments in the audit
(b). Relate to higher assessed ROMM
©. Relate to work with which the internal auditors have been involved
(d). Relate to decisions the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance

The external auditor shall, in communicating with TCWG an overview of the planned scope and timing of the audit in accordance with SA 260, communicate the NTE 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

<u>3. Using Internal Auditors to Provide Direct Assistance :</u>
a. Before using IA for assistance
- Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions and the entity will not intervene in the work the internal auditor performs for the external auditor
- 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
b. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement

DOCUMENTATION

A. If using Internal Audit Function

a. Objectivity of Internal Auditors

b. Competence of IAF

c. Whether the IAF applies a systematic and disciplined approach, including quality control

d. Nature & Extent of the work used and basis for that decision.

e. AP performed to determine the adequacy of the work used.

B. If using Internal Auditor to provide direct assistance

a. threats to objectivity and level of competence of Internal Auditors

b. Nature & Extent of the work performed by the IA and basis for that decision.

c. Who reviewed the work performed and date & extent of that review

d. Written agreements obtained

e. WP prepared by Internal Auditors who provided direct assistance