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Standards on Audit

classmate
Date
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→ Engagement :-

An arrangement to do something.

→ Assurance Engagement :-

Practitioner Express → conclusion → to enhance degree of confidence of users other than responsible party

→ Elements of Assurance Engagement :-

Three party ⇒ P R U
Practitioner Related party User

↓
Broader than Auditor

- Subject matter ⇒ Audit of FS, Review
- Suitable criteria ⇒ Bench mark ⇒ SA, Law, Regulation
- Sufficient & appropriate Audit Evidence ⇒ Refer SA 500
- Assurance Report ⇒ Refer SA 700 + Others

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Audit

Review

- | | |
|---------------------------|---|
| • Related to Historical | • Related to Historical FS. |
| • Reasonable Assurance | • Limited assurance |
| • High level of assurance | • Lower level of Assurance / moderate level |
| • More procedure | • Less procedure |
| • Conclusion | • Limited conclusion |

Other engagement Related to Prospective Financial Information & may be related to assurance on internal control.

FOR Prospective Financial Information

- obtain S&A audit evidence for management assumption.
- Financials are properly assumptions.
- Disclosures
- Opinion can't be expressed.

Report on Assuring that nothing has come to practitioner attention to suggest that these assumption don't provide a reasonable basis for protection.

- SA'S ⇒ Historical Financial Statement (SA 200, 210)
- SRE'S ⇒ Standard on Review Engagement (SRE 2400, 2410)
- SAE'S ⇒ Standard on Assurance Engagement (SAE 3400, 3420)
- SRS'S ⇒ Standards on Related Service (SRS 4400), SRS 4450
- SQC'S ⇒ Standards on Quality Control (SQC 1)

SA 610

Using the work of Internal Auditor

1. Using the work

• Step 1: Evaluating internal audit function (★)

The external auditor shall determine whether work of internal audit function can be used for purpose of audit by evaluating following:-

- Organisational status & objectivity of internal audit function.
- Level of competence of internal audit function.
- Systematic, disciplined approach with quality control in internal audit function.

• Step 2:- Determine Nature & Extent of work of internal Audit function that can be used.

→ Examples of work of internal audit function that can be used by external auditor include the following:-

- Testing of operating effectiveness of controls.
- Substantive procedures involving limited judgement.
- Observations of inventory counts.
- Tracing transactions through information system relevant to FR
- Testing of compliance with regulatory requirement.

• Step 3: Using work of Internal Audit Function — Auditor Responsibility.

→ If external auditor plans to use work of internal audit function, external auditor shall:

- Discuss planned use of internal audit work for co-ordination.
- Read reports of internal audit to understand nature, extent & findings.
- Perform sufficient audit procedures to check adequacy for audit purposes.

2. Using internal Auditor for Direct Assistance

• Step 1: Determining whether in which areas, & to what extent internal auditors can be used to provide direct assistance.

→ The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors.

- Check legal or regulatory prohibition on using internal auditors for direct assistance.
- Evaluate threats to objectivity before using direct assistance.
- Assess competence & quality of internal auditors for providing direct assistance.

• Step 2: Prior to using internal auditors to provide direct assistance for purpose of audit, external auditor shall:

- Obtain written agreement from entity's representative allowing internal auditors to follow external auditor's instructions without interference.
- Obtain written agreement from internal auditor to maintain confidentiality & report any threats to objectivity.

* General Questions

| | Using the work | IN FOR DA |
|--|---|--|
| 1) Use less work or can't be used of the function/DA | 1) External auditor shall use less work of internal audit when more judgement is required. 2) High judgement areas include planning audit procedures & evaluating the audit evidence. 3) Higher Romm at assertion level ↳ Less reliance on internal audit. 4) Weaker organisational status & policies of internal audit → Less reliance 5) Lower competence of internal audit function → Less reliance | 1) work already done or to be reported by internal auditors to management or RWh. 2) External auditor's decision on using internal audit's work or direct assistance. |

* Discussion & co-ordination with internal Audit Function

1. In discussing planned use of their work as a basis for co-ordinating respective activities, it may be useful to address following:-

- Timing of such work
- Nature of work performed.
- Extent of audit coverage.
- materiality for FS ~~are~~ as a whole & performance materiality.
- Proposed methods of item selection & sample sizes.
- Documentation of work performed.
- Review & reporting procedures.

2. Co-ordination between external auditor & internal audit function is effective when, For E.g.:-

- a) Discussions take place at appropriate intervals throughout period.
- b) External auditor informs internal audit function of significant matters that may affect function.

★ STEP 1 :-

(A) Objectivity & its evaluation :-

Factors that may affect external auditor's evaluation in relation to objectivity include following :-

- a) Organisational status of internal audit function.
- b) Independence from areas being audited
- c) Freedom from management interference in work or reporting.
- d) Governance oversights of internal audit function.

(B) Completeness & its evaluation :-

Factors that may affect external auditor's determination in relation to competence include following :-

- a) Adequately & appropriately resourced relative to size of entity.
- b) Established policies for hiring, training & assigning internal auditors to internal audit engagements.
- c) Adequate technical training & proficiency in auditing.
- d) Knowledge relating to entity's FR & applicable FRF.

Objectivity & competence may be viewed as a continuum.

(C) Application of a Systematic & Disciplined Approach :-

Factors that may affect external auditor's determination of whether internal audit function applies a systematic & disciplined approach include following :-

- a) Existence, adequacy & use of documented internal audit procedures or guidance covering such areas as risk assessment
- b) Whether internal audit function has appropriate quality control policies & procedures.