

SA 610 “Using the work of Internal Auditors”

Definition of Internal Audit Function

Internal audit function refers to

- 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

Objectives and scope of internal audit functions

Same as given in the definition.

Activities Related to Governance

Assess Governance Process & its Accomplishment of objectives on Ethics, Values, Accountability, communicating risk to appropriate areas of the organization

Activities Related to Risk Management

Assist by identifying & assessing Risk
Improving Risk Mgt & IC

Activities Related to IC

Evaluation of IC

Review – Control

Evaluate – Operation

Recommend – Improvement

Examination of Fin. & operation info

How Entity identify, recognize, measure, classify, and report its financial and operational data

Review of operating Activities

Review economy, efficiency and effectiveness of activities

Review of compliance with L/R

Review compliance with law and regulation and with management policies

Ways in which the external auditor may make use of the internal audit function

Risk Assessment

- Gather information relevant to evaluating risks of material misstatement.

Using the work of the internal audit function in obtaining audit evidence

- Consider internal audit’s work as part of audit evidence. following legal and regulatory guidelines.

Direct Assistance

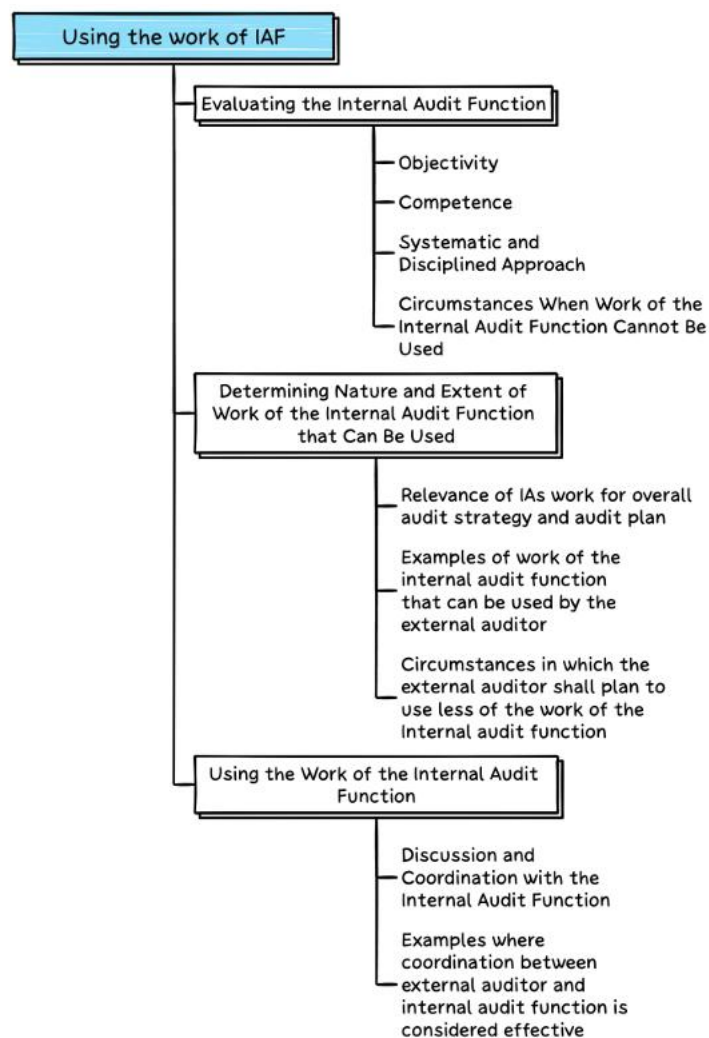
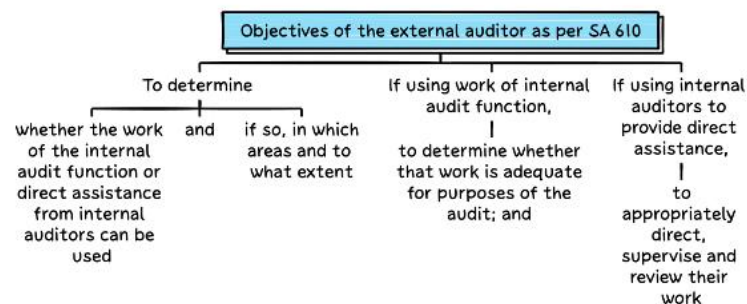
- Unless prohibited, or restricted by law or regulation, external auditor may use internal auditors to perform audit procedures

under the direction, supervision and review of the external auditor (“direct assistance”)

Using internal auditor’s work does not require external auditor to modify nature, extent and timing of audit procedures to be performed It remains the decision of the auditor

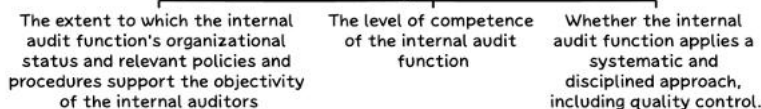
External Auditor’s Responsibility for the Audit

- Sole Responsibility: The external auditor alone is responsible for the audit opinion and this responsibility is not reduced by using the internal audit function or direct.
- Internal auditors are not independent as required by sa 200.
- Work of an internal auditor can be used but only subject to the conditions specified in sA 610.



Evaluating the Internal Audit Function

Determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following



Objectivity and its evaluation

Meaning

Objectivity refers to the ability to perform those tasks without allowing bias, conflict of interest or undue influence of others to override professional judgments.

Factors that may affect the external auditor's evaluation in relation to Objectivity

- Whether the organizational status of the internal audit function supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgments.
 - For example, whether internal audit function reports to TCWG
- Whether TCWG oversees employment decisions related to the internal audit function.
 - For example, determining the appropriate remuneration policy.
- Whether there are any constraints placed on the internal audit function by MGT or TCWG
 - For example, communicating internal audit function's findings to external auditor.
- Whether internal audit function is free of any conflicting responsibilities,
 - For example, having managerial duties or responsibilities that are outside of the internal audit function.

Competence and its evaluation

Meaning

Competence of the internal audit function refers to the attainment and maintenance of knowledge and skills of the function as a whole at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards.

Factors that may affect the external auditor's determination in relation to competence

- Whether the internal audit function is adequately and appropriately resourced relative to the size of the entity and the nature of its operations.
- Whether there are established policies for hiring, training and assigning internal auditors
- Whether internal auditors have adequate technical training and proficiency in auditing.

- Whether internal auditors possess required knowledge relating to the entity's financial reporting and AFRF

Application of a Systematic and Disciplined Approach Meaning

Internal audit's systematic, disciplined approach to planning, performing, supervising, reviewing, and documenting activities sets it apart from other monitoring controls within the entity

Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach

- Existence, adequacy, and use of documented procedures/guidance (risk assessment, work programs, documentation, reporting) commensurate with entity size and circumstances.
- Whether the internal audit function has appropriate quality control policies and procedures.

Circumstances When Work of the Internal Audit Function Cannot Be Used

The external auditor shall not use the work of the internal audit function if he determines that:

- The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;
- The function lacks sufficient competence; or
- The function does not apply a systematic and disciplined approach, including quality control.

DPQ – PQR & Co., Chartered Accountants, has been appointed as statutory auditor of MGM Ltd. The financial statements of the company have material amounts outstanding as debtors. Ageing of debtors is being done by the internal auditors and is given by them in their monthly report. This issue was also discussed with the management. The engagement partner from PQR & Co. decided to give the age wise debtors as per the report of the internal auditor due to shortage of time. After the audit report was released, the engagement partner realized that the disclosure of the debtors is misleading and the ageing was not done by the internal auditor on correct principles due to which the provision made against old debtors was wrong. The engagement partner held the internal auditor responsible for this. Is he correct in making the statement that the internal auditor is responsible for false provisioning? What considerations PQR & Co. should have undertaken before relying on the work of the internal auditor?