

SA 600 - "USING THE WORK OF OTHER AUDITOR"

- SA 600 applies in situation where an auditor (principal auditor), reporting on the financial information of an entity, uses the work of another auditor (other auditor) with respect to the financial information of one or more components included in the financial information of the entity.
- This Standard does not deal with those instances where two or more auditors are appointed as joint auditors nor does it deal with the auditor's relationship with a predecessor auditor.

Acceptance as Principal Auditor

The auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor. For this purpose, the auditor would consider:

- The materiality of the portion of the financial information which the principal auditor audits;
- The principal auditor's degree of knowledge regarding the business of the components;
- The risk of material misstatements in the financial information of the components audited by the other auditor; and
- The performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

The Principal Auditor's Procedures

(a). Visit Component and examine books of account, if essential

- Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and / or to examine the books of account and other records of the said component, if he thinks it necessary to do so.
- In certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine

(b). Consider the professional competence of Other Auditor, if Other Auditor is not a Member of ICAI

When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of specific assignment if the other auditor is not a member of the ICAI.

(c). Perform Procedures to obtain SAAE, that the work of the OA is Adequate for the PA purposes

When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:

- (1) Principal auditor would inform the other auditor of matters such as
 - (i) areas requiring special consideration,
 - (ii) procedures for the identification of inter component transactions that may require disclosure and
 - (iii) The time-table for completion of audit.
- (2) Advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

(d). Review a Written Summary of OA procedures

The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check list.

(e). Consider Significant Findings of OA

- The PA may consider it appropriate to discuss with the OA and the management of the component, the audit findings or other matters affecting the financial information of the components.
- He may also decide that supplemental tests of the records or the financial statements of the component are necessary. Such tests may, depending upon the circumstances, be performed by the principal auditor or the other auditor.

Coordination between Auditors

- There should be sufficient liaison between the principal auditor and the other auditor.
- For this purpose, the principal auditor may find it necessary to issue written communication(s) to the other auditor.
- The other auditor, knowing the context in which his work is to be used by the principal auditor, should co-ordinate with the principal auditor.
 - (1) Adhering to time-table.
 - (2) Bringing to the attention of PA any significant finding.
 - (3) Compliance with relevant statutory requirements.
 - (4) Respond to detailed questionnaire.

Reporting Considerations

- When the principal auditor concludes, based on his procedures, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express **a qualified opinion or disclaimer of opinion** because there is a limitation on the scope of audit.
- In all circumstances, if the other auditor issues, or intends to issue, a modified auditor's report, the PA should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting, that it requires a modification of the principal auditor's report.

Division of Responsibility

- The principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.
- When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors.

SA 610 - "USING THE WORK OF INTERNAL AUDITOR"

Scope of SA 610

- This SA deals with the external auditor's responsibilities if using the work of internal auditors. This includes:
 - (1) Using the work of the internal audit function in obtaining audit evidence and
 - (2) Using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.
- This SA does not apply if the entity does not have an internal Audit function.

Objectives of Auditor

- To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent;
- If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit; and
- If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.

Definitions

(a) Internal Audit Function

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.

(b) Direct Assistance

The use of internal auditors to perform audit procedures under the direction, supervision and review of external auditor.

Requirements of SA 610

Determining whether, in which areas, and to what extent the work of the Internal Audit Function can be used

(a) Evaluating the Internal Audit Function

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

- Objectivity of the internal auditors;
- Level of competence; and
- Application of Systematic and disciplined approach.

The external auditor shall not use the work of the internal audit function if the external auditor 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.

(b) Determining the nature and Extent of Work of the Internal Audit that can be used

- The external auditor shall consider the nature and scope of the work that has been performed, or is planned to be performed, by the internal audit function and its relevance to the external auditor's overall audit strategy and audit plan.
- The external auditor shall make all significant judgments in the audit engagement and, to prevent undue use of the work of the internal audit function, shall plan to use less of the work of the function and perform more of the work directly.
- The external auditor shall also evaluate whether, in aggregate, using the work of the internal audit function to the extent planned would still result in the external auditor being sufficiently involved in the audit, given the external auditor's sole responsibility for the audit opinion expressed.
- 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 how the external auditor has planned to use the work of the internal audit function.

Examples of work of the Internal audit function that can be used by the external auditor

- Testing of the operating effectiveness of controls.
- Substantive procedures involving limited judgment.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to financial reporting.
- Testing of compliance with regulatory requirements.
- Audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of SA 600).

Using the Work of the Internal Audit Function

- If the external auditor plans to use the work of the internal audit function, the external auditor shall discuss the planned use of its work.
 - The external auditor shall read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.
 - The external auditor shall perform sufficient audit procedures on the work of the internal audit function as a whole that the external auditor plans to use to determine its adequacy for purposes of the audit, including evaluating whether:
 - (1) The work of the function had been properly planned.
 - (2) Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions; and
 - (3) Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed.
 - The nature and extent of the external auditor's audit procedures shall be responsive to the external auditor's evaluation of:
 - (1) The amount of judgment involved;
 - (2) The assessed risk of material misstatement;
 - (3) The extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors; and
 - (4) The level of competence of the function; and
 - (5) Shall include reperformance of some of the work.

- The external auditor shall also evaluate whether the external auditor's conclusions regarding the internal audit function and the determination of the nature and extent of use of the work of the function for purposes of the audit remain appropriate.

Determining whether, in which areas, and to what extent Internal Auditors can be used to provide Direct Assistance

(a) Determining whether Internal Auditors can be used to provide direct assistance for purposes of audit

- The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors.
- If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance.
- The external auditor shall not use an internal auditor to provide direct assistance if:
 - (1) There are significant threats to the objectivity of the internal auditor; or
 - (2) The internal auditor lacks sufficient competence to perform the proposed work.

(b) Determining the nature and Extent of Work that can be assigned by Internal Auditors providing direct assistance

- In determining the nature and extent of work that may be assigned to internal auditors and the NTE of direction, supervision and review that is appropriate in the circumstances, the external auditor shall consider:
 - (1) The amount of judgment involved in Planning and performing relevant audit procedures; and evaluating the audit evidence gathered;
 - (2) The assessed risk of material misstatement; and
 - (3) The external auditor's evaluation of the existence and significance of threats to the objectivity and level of competence of the internal auditors who will be providing such assistance.
- The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:
 - (1) Involve making significant judgments in the audit; Significant judgments include the following:
 - Assessing the risks of material misstatement;
 - Evaluating the sufficiency of tests performed;
 - Evaluating the appropriateness of management's use of the going concern assumption;
 - Evaluating significant accounting estimates; and
 - Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report
 - (2) Relate to higher assessed risks of material misstatement;
 - (3) Relate to work with which the internal auditors have been involved; or
 - (4) 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.

Using Internal Auditors to Provide Direct Assistance

- Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:
 - (1) 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 that the entity will not intervene in the work the internal auditor performs for the external auditor; and
 - (2) 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.
- The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with SA 220.

Review of the work performed by internal auditors

External auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with SA 220.