



**International Federation of Accountants**

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**Agenda Item**

**11**

**Committee:** IAASB  
**Meeting Location:** London  
**Meeting Date:** December 4-8, 2006

**Proposed ISA 610 (Redrafted),  
“The Auditor’s Consideration of the Internal Audit Function”**

**Objective of Agenda Item**

1. To approve as an Exposure Draft the proposed ISA 610 (Redrafted), “The Auditor’s Consideration of the Internal Audit Function,” based on the clarity drafting conventions adopted by the IAASB.

**Task Force Members**

2. The members of the Task Force are:  
Craig Crawford (Chair) IAASB Member  
Will Rainey IAASB Member

**General**

3. This Task Force was formed following the July 2006 IAASB meeting for the purpose of redrafting ISA 610 using the clarity conventions adopted by the IAASB.
4. The Task Force has met once and corresponded by e-mail. An earlier version of the redrafted ISA has been reviewed by two members of the Clarity Task Force and the staff member responsible for that project.

**Matters for IAASB Consideration**

**REQUIREMENTS INTRODUCED THAT DO NOT RESULT FROM PRESENT TENSE ELEVATIONS**

5. Extant ISA 610, paragraph 16, requires the auditor to evaluate and perform audit procedures on the work of the internal audit function to confirm its adequacy for the external auditor’s purposes. The Task Force believes that in making this evaluation, it is necessary for the auditor to test a portion of the internal audit function’s work and compare the results of the external auditor’s tests with the results of the work of the internal auditor. Accordingly, the Task Force has added a requirement to this effect. See paragraph 10 of redrafted ISA 610 in Agenda Item 11-A.

<p><b><i>Action Requested</i></b></p> <p>Does the IAASB agree that this additional requirement is appropriate?</p>
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PRESENT TENSE STATEMENTS ELEVATED TO REQUIREMENTS

6. The Task Force proposes elevating two present tense statements to requirements.
7. Paragraph 13(a) of extant ISA 610 states that “any constraints or restrictions placed on internal auditing by management would need to be carefully considered.” The Task Force believes that in performing the preliminary assessment of the internal audit function, it is necessary for the auditor to consider the effect of any constraints or restrictions placed on the internal audit function. Accordingly, a requirement to assess the effect of any constraints or restrictions placed on the internal audit function by management is established in paragraph 8(c) of redrafted ISA 610.
8. Paragraph 17 of extant ISA 610 identifies certain matters that the external auditor may consider in evaluating the work of the internal audit function. The Task Force believes that, in making the evaluation required by extant ISA 610 paragraph 16, it is necessary for the external auditor to consider these matters (i.e., whether:
  - the work is performed by persons having adequate technical training and proficiency as internal auditors;
  - the work of assistants is properly supervised, reviewed and documented;
  - sufficient appropriate audit evidence is obtained to be able to draw reasonable conclusions;
  - conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed; and
  - whether any exceptions or unusual matters disclosed by the internal audit function are properly resolved.)

See paragraph 11 of redrafted ISA 610.

***Action Requested***

Does the IAASB agree with the proposal of the Task Force to elevate these present tense statements to requirements?

DEFINITIONS

9. Extant ISA 610 defined internal auditing as “an appraisal activity established within an entity as a service to the entity. Its functions include, amongst other things, monitoring internal control.”
10. The Task Force does not believe that this definition is helpful in defining the internal audit function. Further, the Task Force questioned whether a definition of the internal audit function is necessary at all. The Task Force proposes deleting the definition of internal auditing and instead providing a description of the some of the responsibilities of the internal audit function. See paragraph A1 of redrafted ISA 610.

***Action requested***

Does the IAASB agree with this variation from extant ISA 610?

## INDEPENDENCE VS. OBJECTIVITY

11. Extant ISA 610, paragraph 8, states that “Irrespective of the degree of autonomy and objectivity of internal auditing, it cannot achieve the same degree of independence as required of the external auditor when expressing an opinion on the financial statements.” The Task Force is of the view that, because the internal auditor is employed by the entity, it cannot be independent of the entity.
12. The internal auditor is unable to obtain the same level of objectivity as the external auditor. Accordingly, the Task Force has redrafted this paragraph to state that the internal audit function cannot achieve the same degree of objectivity required of the external auditor. See paragraph 4 of redrafted ISA 610.

### ***Action requested***

Does the IAASB agree with this revision?

## SCOPE OF ISA 610

13. Extant ISA 610 specifically scopes out instances when the internal audit personnel assist the external auditor in carrying out external audit procedures (i.e., direct assistance). The reason for the distinction between the external auditor using the work of the internal audit function and internal audit personnel assisting the external auditor is not clear to the Task Force. The Task Force recommends that when ISA 610 is revised, the IAASB reconsider whether this distinction is necessary.

### **Material Presented (Note: Agenda Item 11-A will be used for purposes of the discussion at the meeting.)**

Agenda Item 11-A (Pages 3289 - 3288)	Proposed ISA 610 (Redrafted) – Clean
Agenda Item 11-B (Pages 3289 - 3294)	Proposed ISA 610 (Redrafted) – Marked
Agenda Item 11-C (Pages 3295 - 3302)	Proposed Disposition of the Present Tense and Other Statements in Proposed ISA 610 (Redrafted)
Agenda Item 11-D (Pages 3303 - 3310)	Mapping Document – Proposed ISA 610 (Redrafted)

### **Action Requested**

25. The IAASB is asked to approve proposed ISA 610 (Redrafted) in Agenda Item 11-A, for issuance as an Exposure Draft, subject to the Task Force making such changes as may be required to reflect guidance from the IAASB.

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