

Using the Work of the Internal Audit Function and Internal Auditors to Provide Direct Assistance—Summary of Comments on Exposure Draft and IAASB Task Force Proposals**Objective of this Paper**

1. To consider:
 - (a) Significant matters raised by respondents on the Exposure Draft (ED); and
 - (b) Draft revised ISAs 315¹ and 610.²

Background

2. Extant ISA 610 was last revised in March 1994.³ As part of the Clarity project, ISA 610 was redrafted, but not revised, for conformity with the Clarity drafting conventions. Some respondents to the Clarity ED of ISA 610 encouraged the IAASB to consider a more comprehensive revision of the ISA, a view shared by the IAASB Consultative Advisory Group (CAG) Representatives and some national auditing standard setters (NSS). Using the work of internal auditors can be important particularly in audits of financial institutions and other larger entities. There were concerns that the extant ISA failed to reflect developments in the internal auditing environment and national audit practices. The IAASB was also encouraged to remove the current ambiguity in the scope of the extant ISA 610 regarding using internal auditors to provide direct assistance.
3. At the time this revision project was commenced, the IAASB had not received indications that the overall structure and requirements of extant ISA 610 no longer remained sound. Accordingly, it did not anticipate the need for a major overhaul of the ISA. Rather, its aim was to enhance the performance of external auditors by:
 - (a) Enabling better consideration and leveraging, as appropriate, of the knowledge and findings of the internal audit function in making risk assessments; and
 - (b) Strengthening the framework for the evaluation and, where appropriate, use of the work of internal auditors in obtaining audit evidence.
4. In July 2010, the IAASB issued an ED proposing revisions to ISAs 315 and 610. Fifty-seven comment letters have been received (representing the views of a total of 72 organizations and individuals). Responses belong broadly to the groups shown below:⁴

¹ Draft ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

² Draft ISA 610 (Revised), *Using the Work of the Internal Audit Function and Internal Auditors to Provide Direct Assistance*

³ Conforming amendments were made when the IAASB issued the audit risk standards in October 2003.

⁴ A list of respondents to the ED is provided in the Appendix of this Issues Paper. All comments letters can be accessed from the IAASB website at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0141>.

Respondents (By Main Groupings)	Number
Regulators and Oversight Authorities ⁵	9
National Auditing Standard Setters	3
Public Sector Organizations	8
Accounting Firms	8
IFAC Member Bodies & Other Professional Bodies	21
Others (including individuals)	8
Total Responses	57

Overview of Responses and Key Proposals

5. Based on the number of responses alone, there was substantial support for the ED, although some significant issues were also raised.
6. With respect to ISA 315, there is significant and widespread support for the proposed requirements and guidance that were aimed at providing a basis for the auditor to better use the knowledge and understanding of the internal audit function if the entity has such a function.
7. With respect to ISA 610, there was substantial support for the proposed requirements and guidance on how external auditors determine whether and to what extent to use the work of an internal audit function. However, regulators and oversight bodies in particular felt that the requirements in certain areas needed strengthening to varying degrees. There were also mixed views on the desirability of direct assistance. These are discussed in this Issues Paper.
8. Most of the respondents commented on the questions posed in the Explanatory Memorandum (EM) to the ED which relate broadly to four main areas as shown below. The areas are listed in descending order of emphasis placed by respondents generally in terms of the focus of their comments:
 - A. Determining whether the work of the internal audit function can be used for purpose of the audit and if so, to what extent (mainly, the factors to consider when making such determinations);
 - B. Determining whether and to what extent to use internal auditors to provide direct assistance;
 - C. Inquiries by external auditor of the appropriate individuals within the internal audit function; and
 - D. Reading reports of the internal audit function.

⁵ Responses included: (i) Audit Inspection Unit & Auditing Practices Board, Financial Reporting Council, UK; (ii) Basel Committee on Banking Supervision; (iii) Committee of European Banking Supervisors; (iv) Committee of European Securities Regulators; (v) Canadian Public Accountability Board; (vi) Federal Audit Oversight Authority, Switzerland; (vii) International Organization of Securities Commissions; (viii) Independent Regulatory Board for Auditors, South Africa; and (ix) 14 independent European audit regulators/oversight bodies: Bulgaria, Estonia, Finland, Greece, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Portugal, Slovakia, Slovenia, Spain and Sweden (referred to as 14AR).

9. The Task Force proposes a number of recommendations to respond to the matters raised by respondents. These are presented in the drafts of revised ISA 315 and ISA 610 as shown in in **Agenda Item 2-B** and **Agenda Item 2-C** respectively.
10. Key proposals, in addition to a number of clarifications made based on respondents' suggestions, are as follows:

ISA 315

- Clarifying that inquiries by the external auditor of the appropriate individuals within the internal audit function (if the entity has such a function) are made even if the external auditor does not expect to use the work of the function for purpose of the audit.

ISA 610

- Providing an explanation of all of the various ways in which the external auditor may be able to use the knowledge and work of the internal audit function, and internal auditors, in the external audit. Particular emphasis is given to making clear the difference between external auditors' use of the knowledge and work of an internal audit function for assessing risks of material misstatement (addressed in ISA 315), and using such work which the external auditors would otherwise have to perform themselves, as audit evidence (addressed in ISA 610).
- Clear messaging that the external auditor has sole responsibility for the audit opinion expressed and that this is not reduced by the external auditor's decision to use of the work of the internal audit function or to use direct assistance of internal auditors on the engagement.
- Strengthened emphasis in the ISA that work of the internal audit function and direct assistance of internal auditors can be used only when the external auditor is satisfied that the internal audit function and the internal auditors are of sufficient quality and meet the conditions set out in the ISA.
- Strengthened framework for the external auditor's judgments regarding whether, in which areas and to what extent work of the internal audit function and internal auditors can be used for purpose of the audit.

Importantly, the framework is designed to prevent over or undue use by external auditors of the work of the internal audit function and direct assistance from internal auditors. It does so by:

- (a) Stipulating the factors that are required to be evaluated to determine whether work of the internal audit function and internal auditors can be used for purpose of the audit;
- (b) Including clear boundaries which prohibit such use in certain circumstances;
- (c) Where use is possible, introducing safeguards regarding the nature and extent of use that is acceptable in the circumstances by clearly articulating the factors to be taken into account and boundaries in applying them;

- (d) Requiring further safeguards to be applied before using that work by specifying the work effort necessary to obtain sufficient appropriate audit evidence that the work of the internal audit function is adequate for use in the audit, which includes some reperformance on the body of the function’s work that the external auditor plans to use; and
 - (e) Requiring safeguards to be applied when internal auditors provide direct assistance, which includes putting in place formal arrangements with the entity and the internal auditors, and appropriate direction, supervision and review (including the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors).
- Introducing definitions of the terms “internal audit function,” “internal auditors” and “direct assistance” to help the application of the ISAs.

Significant Issues

A. Using the Work of the Internal Audit Function

11. The EM asked respondents for their views on the following:
 2. Do respondents believe that that appropriate factors have been proposed to be evaluated by the external auditor in determining:
 - (a) Whether the work of the internal audit function can be used for purposes of the audit engagement; and
 - (b) The planned use of the work of the internal audit function?

Significant Comments Made by Respondents

12. While there is substantial support for the proposals in the ED, some stakeholders, especially regulators and oversight bodies,⁶ noted that, in their view, it would allow for *significantly* greater use of work of the internal audit function by the external auditor. Concern was expressed that this could result in pressure on external auditors to use more of such work for efficiency reasons alone. Cases were cited where in practice the extent of use of the work of the internal audit function observed in inspections were viewed by the respondents as being unjustified.
13. These respondents felt that extensive use of such work is inappropriate as it could result in the impairment of the external auditor's independence, or at least the perception of it. In addition, some expressed the view that external auditors must themselves perform procedures directly to gather and corroborate audit evidence sufficient to support the external auditor’s full and sole responsibility for the audit, although views on the nature and extent of that involvement that would be considered necessary varied amongst respondents. It was questioned whether the requirements in the ED are sufficient to ensure that the use of such work is within acceptable levels. In particular, the proposed prohibitions and standback on the overall use of the work of the internal audit function

⁶ 14AR, CESR, IRBA, IOSCO

introduced in the ED were not viewed as sufficient to prevent over or undue use of such work.

14. Respondents offered a number of suggestions to strengthen the framework for the external auditor’s judgments regarding the evaluation of the internal audit function for determining the nature and extent of work of the internal audit function that can be used for purpose of the audit. Respondents,⁷ including regulators and oversight bodies, recommended that some of the application material be elevated to requirements. In particular, it was felt that the assessed risk of material misstatement is an important factor to the external auditor’s determination. Respondents believe that if included, it would not only provide a better link to the risk-based approach underlying the ISAs, but also more explicitly limit the use of work of the internal audit function in relation to significant risks. The range of suggestions on this point included:
- Elevating the guidance proposed in the ED relating to the assessed risk of material misstatement to explicitly require external auditors to place less reliance on the work of the internal audit function the higher the level of assessed risk.
 - Including the assessed risk of material misstatement as a factor to be considered by external auditors when making judgments regarding the nature and extent of use of the work of the internal audit function.
 - Introducing the safeguard that where the risk of material misstatement is high (particularly for significant risks), external auditors are required to perform tests directly as consideration of work of the internal audit function alone cannot reduce audit risk to an acceptably low level.
 - Prohibiting using the work of the internal audit function in relation to significant risks.
15. There was substantial support for the factors proposed in the ED related to the external auditor’s objectivity, competence and application of a systematic and disciplined approach, including quality control. However, the following were suggested:
- (a) Respondents⁸ noted that objectivity is a state of mind and cannot as such be evaluated absent evidence of how it has or has not been exercised, which may not be available to the external auditor. It was suggested that restating the construct “degree of objectivity” as “threats to the objectivity” would be more appropriate.
 - (b) Respondents⁹ asked for clarification about the application of “a systematic and disciplined approach, including quality control” as a required attribute in the external auditor determination of whether work of the internal audit function may be used for purpose of the audit.
 - (c) Respondents¹⁰ were also concerned that the phrase “systematic and disciplined approach” implies a level of formality which may limit the use of the work of the

⁷ 14AR, AICPA, AIU & APB, BDO, CEBS, CESR, CPAB, DTT, FAOA, IOSCO, IRBA, JICPA and NZICA

⁸ AIU & APB, CEBS, EYG, HC, IDW and IRBA

⁹ ACAG, AUAASB, C. Bernard, CESR, D. Juvenal, IRBA, JICPA, MOFBC and R. Ramchurun

¹⁰ AICPA and DTT

internal audit function in small- and medium-sized entities (SME), and thereby unnecessarily limiting the application of proposed revised ISA 610.

16. Some regulators¹¹ also asked for greater prescription for the audit procedures that the external auditor needs to perform in order to have a sufficiently robust basis to use the work of the internal audit function. The most common suggestion was to require a certain level of reperformance by the external auditor on the work of the internal audit function that is planned to be used. However, the level of reperformance thought necessary varied. Most believed it appropriate to do some reperformance on the body of work being used, with particular focus on higher risks. A respondent¹² suggested that some reperformance was necessary on each piece of work used in response to an assessed risk.

Task Force's Recommendations

17. The Task Force understands the reservations expressed by some of the respondents regarding the external auditor's use of the work of the internal audit function for purpose of the audit. The Task Force agrees that the external auditor has sole responsibility for the opinion expressed and that further emphasis of that point would set an appropriate mindset for the ISA. The Task Force also agrees that the circumstances in which such use should be prohibited needs to be clear in order to avoid external auditors adopting different interpretations. Notwithstanding this, the Task Force continues to believe that there are a range of circumstances and that the auditor's judgments regarding the possible nature and extent of work of the internal audit function that can be used, and the nature and extent of the procedures the external auditor needs to do to be satisfied regarding the quality of that work, should vary according to the circumstances. The Task Force also agrees that the framework would be strengthened by including the risk of material misstatement in the requirements specifically as a factor that the external auditor has to consider when determining the nature and extent of work of the internal audit function that can be used, and the procedures required to be performed. However, the Task Force also believes that, in doing so, the guidance needs to clarify how consideration of the risk of material misstatement applies in relation to the other factors.
18. With regards to the factors to be considered in evaluating the internal audit function itself, the Task Force agrees that it is more appropriate to direct external auditors to assess the *threats* to the objectivity of the internal auditors than to determine the *degree* of objectivity of the internal audit function. This approach is also more aligned to the IESBA Code.¹³
19. The Task Force further agrees with the need to clarify that the application of "a systematic and disciplined approach, including quality control" is a required attribute in the external auditor's determination of whether work of the internal audit function may be used for purpose of the audit. The Task Force believes that in order to safeguard the quality of the work of the internal audit function that external auditors use for purpose of the audit, application of a systematic and disciplined approach by the function when performing work is an essential attribute. Importantly, it is also a necessary underpinning to the approach

¹¹ 14AR, CEBS, CPAB and IOSCO

¹² IOSCO

¹³ IESBA's *Code of Ethics for Professional Accountants* (IESBA Code)

adopted in the ISA, which is based on the function exercising its own quality control. Whilst this may limit the extent to which the ISA will be applicable in an SME environment, it is important to recognize that it will not preclude the external auditor from using the work of staff performing procedures similar to internal audit in organizations with less developed internal audit functions. In doing so, however, those activities would be considered control activities and their effectiveness tested in accordance with ISA 330.

20. The Task Force also accepts the argument that because the internal audit function is not independent of the entity (as is required of the external auditor when expressing an opinion on financial statements), it would be appropriate to require the external auditor to perform some reperformance of the function's work that is planned to be used in order to establish its adequacy for use on the audit.
21. Accordingly, the Task Force proposes the following amendments to the ED:
 - (a) Amending the introductory paragraphs to establish an appropriate overarching tone for the ISA. In particular:
 - Relevant material has been reorganized and cautionary language added, to emphasize more clearly up front that the external auditor has sole responsibility for the audit opinion expressed which is not reduced by the external auditor's decision to use the work of the internal audit function, and that when using such work on the audit, external auditors should guard against over or undue use.
 - The introductory paragraphs also emphasize that work of the internal audit function can only be used if the external auditor is satisfied that it meets all of the required conditions set out in the ISA, and the external auditor is able to demonstrate that the function is of an adequate level of quality. **[See paragraph 7 in Agenda item 2-C]**
 - (b) Establishing more robust safeguards against undue use of internal audit work by clarifying the circumstances when the work of the internal audit function cannot be used and therefore is prohibited. These cases are as follows:
 - The function's organizational status and relevant policies and procedures do not adequately support, and therefore pose significant threats to, the objectivity of internal auditors;
 - The function lacks sufficient competence; or
 - The function does not apply a systematic and disciplined approach, including quality control. **[See paragraph 14 in Agenda item 2-C]**
 - (c) Where use is permissible, ensuring there are adequate safeguards against over or undue use of work of the internal audit function by strengthening the external auditor's decision-making framework for determining the planned nature and extent of work of the internal audit function that can be used. In particular, more clearly articulating in the requirements that the external auditor must plan to use less of the work of the internal audit function and perform more of the work directly in circumstances where the assessed risk of material misstatement is higher. The external auditor is also required to give special consideration to risks identified as significant.

Similarly, for the other factors,¹⁴ elevating application material to incorporate in the requirement how the factors should influence the auditor's judgments. **[See paragraphs 15–16 in Agenda item 2-C]**

- (d) Introducing a safeguard against overuse of internal audit work *overall* by introducing a requirement that, having made preliminary judgments on the nature and extent of use, to reflect on whether the overall planned nature and extent of such work that can be used would be such that it would prevent the external auditor from being sufficiently involved to be able to demonstrate sole responsibility for the audit opinion expressed. **[See paragraph 16a in Agenda item 2-C]**
- (e) Requiring safeguards against using work that is not adequate for purposes of the external audit by:
- More clearly defining the necessary work effort to obtain sufficient appropriate evidence regarding the work of the internal audit function that the external auditor plans to use.
 - Clarifying that the external auditor's procedures need to be responsive to the external auditor's evaluations of the function and the work to be used.
 - Introducing a requirement for some reperformance on the body of work of internal audit function that the external auditor plans to use. **[See paragraphs 19–19c in Agenda item 2-C]**

Matters for IAASB Consideration

The IAASB is asked whether it agrees with the proposals described in paragraph 21 above.

B. Using Internal Auditors to Provide Direct Assistance on the Audit

22. The EM asked respondents for their views on the following:
4. Do respondents believe that it is desirable for the scope of ISA 610 to be expanded to address the matter of direct assistance? If so, do respondents believe that when obtaining the direct assistance of internal auditors the external auditor should be required to:
- (a) Consider the factors that have been proposed in determining the work that may be assigned to individual internal auditors; and
- (b) Direct, supervise, and review the audit procedures performed by the internal auditors in a way that recognizes they are not independent of the entity?

Significant Comments Made by Respondents

23. Almost all the respondents agreed that it is undesirable for the ISAs to continue to be silent on the matter of direct assistance. These respondents expressed that the IAASB should

¹⁴ These factors are: (a) judgment involved in planning and performing relevant audit procedures, and evaluating the audit evidence gathered; (b) objectivity of the internal auditors; and (c) competence of the internal audit function.

remove the ambiguity regarding whether or not external auditors are permitted to use internal auditors to provide direct assistance on the audit, and if so, provide appropriate direction on the procedures that need to be performed by the external auditor.

24. Respondents' views on whether the ISAs should permit direct assistance were, however, polarized. This is as expected and consistent with the views heard by the IAASB during the development of the ED. Regulators and oversight bodies¹⁵ expressed the least support for permitting external auditors to use internal auditors to provide direct assistance on the audit. Those who accept the use of internal audit in this way, generally expressed that if permitted, direct assistance should be restricted to more limited circumstances than the ED allowed and, in some cases, respondents indicated being comfortable with its use in only very limited circumstances.¹⁶
25. Respondents who disagreed that external auditors should be permitted to use internal auditors to provide direct assistance on the engagement broadly argued one or more of the following:
 - (a) The distinct differences between the external audit team and the internal audit function are blurred under these circumstances. It is argued that since internal auditors are employees of the entity, this could negatively impact on the perceived independence of the external audit. Some argued that the independence of the external auditor may also be compromised in fact because the internal auditor is permitted to work at such close proximity with external auditors in these circumstances.
 - (b) Involving internal auditors who are not independent of the entity in the performance of audit procedures for purpose of the engagement seems incompatible with the IESBA Code which requires members of the external audit engagement team to be independent. For this reason, several respondents also noted that it should be made clear whether internal auditors are considered to be members of the engagement team in such circumstances. Some of these respondents suggest that the IESBA Code could be revised to clarify that they are not considered part of the engagement team, which is something that has been done in some jurisdictions.
 - (c) Because internal auditors are employed by the entity, they are ultimately accountable to management or those charged with governance as opposed to the external auditor, even though they are "seconded" to the external auditor to provide assistance on the audit. Therefore, as their first loyalty is to management or those charged with governance, the seconded internal auditors may share confidential information regarding the audit with them that could undermine the external audit.
 - (d) The external auditor may engage in inappropriate use (that is, over or due use) of internal auditors to provide direct assistance on the audit as a result of pressure from

¹⁵ 14AR, CEBS, CESR and FAOA. Other stakeholders who did not support permitting direct assistance include, IDW, D. Juvenal and SNAO.

¹⁶ AAA, AIU & APB, BCBS, CPAB, FEE, IOSCO, IRBA, JICPA, LS and NZICA

management. These scenarios typically arise when management is attempting to lower audit fees.

26. Respondents¹⁷ felt that should the IAASB decide to permit direct assistance, the safeguards to be applied by the external auditor would need to be strengthened in any case (for example, through requiring a minimum level of procedures (such as that which is required in ISA 600)¹⁸ and reperformance on the work performed by internal auditors). Of these, there was the view that external auditors should only be permitted to obtain direct assistance in a limited range of circumstances which should be clearly outlined in the ISA. In particular, it was indicated that it is essential that the external auditor gives consideration to the assessed risk of material misstatement when determining the nature and extent of work to assign to the internal auditors.
27. The following enhancements to the ED were also suggested:
 - (a) Formalizing arrangements with the entity prior to obtaining the direct assistance of internal auditors.¹⁹
 - (b) Providing examples of specific situations or audit procedures where it is appropriate to engage the direct assistance of internal auditors, and where it would be inappropriate to do so.²⁰

Task Force's Recommendations

28. The Task Force believes that there are two options that the IAASB may consider: either (i) further limiting the circumstances in which external auditors can use internal auditors to provide direct assistance on the audit and strengthening the framework for the external auditor's judgment in this regard; or (ii) prohibiting direct assistance in all circumstances.
29. This will be a finely balanced decision that the IAASB needs to make. It will require carefully weighing the deeply-divided views that exist, the possible impact that introducing requirements regarding direct assistance may have in practice (particularly in jurisdictions where direct assistance is not well established), and the implications for practice globally if such practices were to be prohibited in the ISAs.
30. Views have also been expressed that direct assistance appears to be in conflict with the IESBA Code. The IESBA had debated this matter during the development of the ED and concluded that is not the case. It believed that the threats and safeguards approach proposed in the ED was appropriate and dealt with the issue sufficiently such that no further clarification in the IESBA Code was required. Some respondents disagreed,²¹ and either asked for further clarification in the IESBA Code (for example, amend the IESBA Code to

¹⁷ 14AR, ACCA, AIU & APB, AICPA, BCBS, CESR, CPAB, FEE, FSR, HC, IOSCO, IRBA, JICPA, KPMG, NZICA and SAICA

¹⁸ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹⁹ AIU & APB, FAR, FEE, FSR, ICAEW, JICPA and NIVRA

²⁰ AAA, AUAASB, BCBS, CEBS, CESR, IRBA and LS

²¹ 14AR, AIU & APB, ACCA, BCBS, BDO, CEBS, CESR, CNCC & CSOEC, D. Juvenal, FAOA, FARSRS, FEE, FSR, ICPAK, IDW, IOSCO, IRBA, NIVRA and P. Angulo

allow for direct assistance), or, if they did not support direct assistance, argued that the ISA not allow it. These matters will be raised with the IESBA for discussion at its June 15–17, 2011 meeting. Given the importance of IESBA’s views to the IAASB’s own decisions regarding direct assistance, the IESBA’s discussions at its June 2011 meeting will be referred to during the IAASB’s discussion of the related matters. It is however likely that, in view of the significance of the comments received, the IESBA will require additional time to discuss this issue before it reaches a conclusion.

31. If a decision is made that it is permissible, the Task Force accepts that, at a minimum, further limiting the circumstances (beyond the restrictions already in the ED) in which external auditors can use internal auditors to provide direct assistance on the audit is necessary to address reservations that some respondents have expressed over permitting such practices.
32. Accordingly, in Agenda item 2-C, the Task Force proposes the following amendments to the ED to strengthen the framework for the external auditor’s judgments when determining the nature and extent of work that may be assigned, and the nature, timing and extent of direction, supervision and review that is appropriate:
 - (a) Prohibiting external auditors from using internal auditors to provide direct assistance to perform procedures that:
 - Are designed to respond to a significant risk of material misstatement; and
 - Relate to areas on which the internal audit function have already reported on to management or those charged with governance with which the internal auditors have been involved. **[See paragraph 23 in Agenda item 2-C]**
 - (b) Requiring external auditors to formalize arrangements with the entity prior to obtaining the direct assistance of internal auditors including:
 - Obtaining agreement from an appropriate 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
 - Obtaining agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and will inform the external auditor of any threat to their objectivity. **[See paragraph 23a in Agenda item 2-C]**
 - (c) Strengthening the safeguards—external auditors’ review of the work performed by internal auditors—through inclusion of a requirement for external auditors to check back to the underlying audit evidence for some of such work performed. **[See paragraph 24 in Agenda item 2-C]**
 - (d) Removing ambiguity in the ISA by clarifying the circumstances in which internal auditors may be used to provide direct assistance, and those in which it would be inappropriate to do so. **[See paragraphs A26a–A26b in Agenda item 2-C]**

33. The Task Force felt that these amendments would also go a long way towards safeguarding against over or undue use of internal auditors on the audit as a result of management pressure. However, the Task Force is aware that they are unlikely to go far enough for some respondents.
34. The Task Force is cognizant that varying practices exist today regarding the use of internal auditors to provide direct assistance on the audit. Some jurisdictions²² have elected to disallow such practices entirely for one or more of the reasons discussed in paragraph 25, and the fact that the practice may be prohibited was clearly recognized in the ED.
35. In other jurisdictions, however, it is widely practiced. The Task Force has not been made aware of circumstances when direct assistance has negatively impacted audit quality. It is aware, however, that some believe it could impact the perception of audit quality because overuse may undermine perceptions that it is an independent external audit. Views have also been expressed that external auditors may be facing increasing pressure to use more direct assistance to help reduce audit fees, which some believe could pose a risk to audit quality in future.
36. In those jurisdictions where direct assistance is currently allowed and used in practice, prohibition in the ISAs would impact on audit cost, although this should, of course, not be a decisive factor if stakeholders believe it is warranted because they perceive a commensurate increase in audit quality. In addition, however, introduction of a prohibition in international standards but not in national auditing standards would create a conundrum for auditors who are members of the Forum of Firms (FoF).²³ This may explain why some, although not supporting direct assistance, thought the ISAs should allow it, albeit in limited circumstances and with robust safeguards.
37. The IAASB's view on the possible risks to audit quality (or perceptions thereof) and whether those risks outweigh the potential benefits from increased audit efficiency is essential in determining the way forward.
38. The Task Force also considered it may be possible that the combination of (i) introducing further limitations of the circumstances in which external auditors can use internal auditors to provide direct assistance on the audit and (ii) requiring strengthened safeguards to be applied when using internal auditors on the audit would help address the initial reservations that some may have over permitting such practices (including the view that such use is driven purely by cost considerations).

²² For example, France, India and Japan

²³ Member of the FoF are obliged, as a condition of their membership, to apply the ISAs in their respective methodologies to the extent practicable.

Matters for IAASB Consideration

The IAASB is asked:

- (a) Whether it is desirable for the scope of ISA 610 to be expanded to address the matter of direct assistance and if so, whether it is appropriate to permit such practices in the limited circumstances outlined in Agenda Item 2-C.
- (b) Whether taken together, the proposals described in paragraph 32 are sufficient to safeguard audit quality when internal auditors are used to provide direct assistance on the audit, and whether the proposals strike the right balance between benefits and costs; and
- (c) Whether the revisions would have significant impact on practice.

C. Inquiries by the External Auditor of Appropriate Individuals Within the Internal Audit Function

39. The EM asked respondents for their views on the following:

1. Do respondents believe it is appropriate to require the external auditor to make inquiries of appropriate individuals within the internal audit function? If so, do respondents agree such a requirement is appropriately placed in ISA 315?

Significant Comments Made by Respondents

40. Almost all of those who responded agreed that it is appropriate to require the external auditor to make inquiries of appropriate individuals within the internal audit function and that such a requirement is appropriately placed in ISA 315. A few respondents noted that it is unclear whether the external auditor should make inquiries if the objectivity or the integrity of the internal audit function is determined by the external auditor to be too low.
41. Respondents²⁴ who did not agree generally questioned the value of the IAASB's proposals. It was noted that mandating inquiries would result in the external auditor performing the procedure despite determining that it is unnecessary to do so for example, because the auditor does not expect to use the work of the internal audit function. This was seen as encouraging a 'tick box' approach which is generally undesirable.
42. Views were also expressed that external auditors may benefit from obtaining and reading the formalized planning and risk assessment documents prepared by the function. This is in addition to the proposals in the ED for external auditors to make inquiries with the internal audit function and to read reports of the function related to specific work being used.

Task Force's Recommendations

43. The Task Force supports the suggestion to clarify the ambiguity in the ED on whether inquiries need to be made in all audits. For that reason, guidance has been added to clarify that, because such inquiries may provide useful information relevant to the external auditor's risk assessments, they should be made even if the auditor does not expect to use

²⁴ ACCA and D. Juvenal

the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed. [See paragraph A6f in Agenda item 2-B]

44. The Task Force did not feel that it is appropriate to mandate the external auditor to obtain and read, in all circumstances, the formalized planning and risk assessment documents prepared by the function, in view of the fact that the external auditor has sole responsibility for identifying and assessing the risks of material misstatement in conducting the audit. The Task Force felt, however, that it is useful to specifically refer to those documents as reports that the external auditor may decide to read. A further example provided is reports that have been prepared for management or those charged with governance describing the findings of the internal audit function's examinations. [See paragraph A6g in Agenda item 2-B]

Matters for IAASB Consideration

The IAASB is asked whether it agrees with the proposals described in paragraphs 43–44.

D. Reading Reports of the Internal Audit Function

45. The EM asked respondents for their views on, the following:
3. Do respondents believe it is appropriate to require the external auditor to read reports produced by the internal audit function relating to the work of the internal audit function that is planned to be used by the external auditor?

Significant Comments Made by Respondents and Task Force's Recommendations

46. Almost all respondents expressed agreement with the proposal in the ED. A respondent²⁵ however, disagreed, arguing that due to differing internal audit reporting policies such a requirement may be too onerous. The respondent suggested restating the proposed requirement as guidance to indicate best practice.
47. The Task Force does not agree that restating the requirement as guidance is appropriate, because the reports produced by the internal audit function serve as evidence of the conclusions reached as a result of the work performed by the function. Such understanding is important to the external auditor since the external auditor is planning to use the work of the internal audit function to which the reports relate. Accordingly, the Task Force does not believe that changes are required to be made to the ED.

Matters for IAASB Consideration

The IAASB is asked whether it agrees with the Task Force's conclusion in paragraph 47.

²⁵ NZICA

E. Audit Risk Model, Definitions, and How the Internal Audit Function and Internal Auditors Can Be Used

Audit Risk Model

48. A response letter²⁶ noted that because internal audit function is internal to the entity, by definition, it is an internal control. It was argued that, as a result, the work of the function can only be considered, under the audit risk model, to reduce control risk, and only the external auditor can reduce detection risk.
49. The IAASB considered, and provided preliminary views on this issue at its March 2011 meeting. As part of the outreach conducted, the Task Force sought the views of the Representatives of the CAG. The general advice given by the Representatives was the importance of balancing technical considerations in light of the practical considerations when developing responses to comments received on the ED. Further, whilst support for strengthening the safeguards against over or undue use of internal audit work was expressed, and, in particular, for giving greater recognition to the importance of considering the risks of material misstatement as in the decision-framework, these views were not shared by any other respondents.
50. The Task Force believes that draft revised ISA 610 is consistent with the suite of ISAs. ISA 610 is grouped with those ISAs addressing how the work of others – experts, component auditors and internal auditors – may be used in complying with the requirements in other ISAs. As explained in ISA 315, while the internal audit function is part of the entity’s monitoring of controls, the function’s work that the external auditor can use is distinct from other monitoring controls because it involves procedures similar to those performed by the external auditor. Further, ISA 610 only applies if the internal audit function applies a systematic and disciplined approach, including quality control. However, the internal audit function is not independent of the entity and, therefore, it is appropriate for the ISA to define the conditions that are necessary in order for the external auditor to be able to use such work, and the work effort needed to obtain sufficient appropriate evidence that the work is adequate for purpose of the audit.

Definitions

51. Respondents²⁷ were of the view that including definitions of the key terms used in the ED specifically, internal audit function, internal auditors and direct assistance, would be especially helpful to the application of the final revised ISAs, for example, in determining whether the entity has an internal audit function as envisaged by revised ISA 610. The Task Force agrees and proposes definitions of “internal audit function,” “internal auditor” and “direct assistance” for inclusion in proposed revised ISA 610. **[See paragraphs 12a–12c in Agenda item 2-C]**

²⁶ 14AR

²⁷ ACAG, AUAASB, BDO, DTT, EYG, FEE, FSR, ICPAK, IDW, IIA, IOSCO, IRBA, JICPA, KPMG, NIVRA, NZICA and PWC

Explaining How the Internal Audit Function and Internal Auditors Can Be Used

52. A respondent²⁸ suggested including a description of the different ways in which the external auditor could use the knowledge and work of the internal audit function and on internal auditors. This respondent indicated that clear recognition of the potential uses of the internal audit function and/or internal auditors as addressed in the ISAs is important, as the various types of use may be aimed at achieving different purposes and therefore carry different considerations required of the external auditor. The Task Force agrees, and proposes an explanation of the various ways in which the external auditor may be able to use the knowledge and work of internal audit function, and internal auditors, in the audit.
[See paragraph A3c in Agenda item 2-C]

Matters for IAASB Consideration

The IAASB is asked whether it agrees with the proposals described in paragraphs 51–52.

Other Matters

Effective Date

53. The majority of respondents were supportive of revised ISAs 315 and 610 becoming effective for audits of financial statements for periods ending on or after December 15, 2013. Some respondents²⁹ expressed a preference for an earlier effective date, mainly arguing that they do not anticipate the proposals to necessitate a significant change to current practices and therefore earlier implementation is desirable. Many were also supportive of early implementation of the revised ISAs 315 and 610.³⁰
54. However, there were others³¹ who held the view that the approach to determining the effective date of the revised ISAs should be aligned to that adopted for the existing suite of clarified ISAs (that is, effective for audits of financial statements for periods *beginning* on or after).³² Of these, a respondent³³ questioned the appropriateness of setting an effective date based on “periods ending” mainly due to the consideration of audits that cover a shorter period (that is, less than 12 months). Another respondent³⁴ expressed a preference for aligning the effective date to the date of the issue of an audit report or to the

²⁸ IOSCO

²⁹ FAOA, ICAI, R. Ramchurun, SNAO and WAO

³⁰ *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, paragraph 17

³¹ IDW, IRBA

³² The clarified ISAs are effective for audits of financial statements for periods beginning on or after December 15, 2009. However, it is explained on the IAASB website (<http://web.ifac.org/clarity-center/faqs-and-other-clarity-resources>) that for transitional purposes and taking into consideration the necessary implementation efforts, in the first year of implementation the effective date of the clarified ISAs may be read as not including audits of financial statements for periods (whether annual or shorter) ending before December 14, 2010.

³³ IDW

³⁴ ICPAK

commencement of the audit. As the matter of effective dates also concerns some other IAASB projects that are currently at the stage of analyzing respondents' comments, the Task Force will liaise with these Task Forces as necessary in developing a recommendation for consideration by the IAASB at a future meeting.

Impact Analysis

55. The ED piloted a framework for analyzing impacts of its proposals. Respondents' views on the merits of the proposals in the ED have been incorporated into the discussion of significant issues earlier in the Issues Paper. Comments regarding the format and presentation of the proposed framework have been raised with the relevant IFAC staff for consideration together with the comments received by other Public Interest Activities Committees (PIACs). The Task Force will continue to liaise with the relevant IFAC staff leading up to the approval of proposed revised ISAs 315 and 610.
56. The Task Force is aware that weighing the respective costs and benefits continues to be important as the IAASB considers the Task Force's proposed responses to comments.
57. The Task Force believes that it has been diligent in reflecting on all comments raised by respondents. It is also aware that the requirements in the ED, while setting out to prevent over or undue use of work of the internal audit function or internal auditors and to provide a better framework for decision-making, would, in essence, have codified best practice. As discussed in the context of direct assistance, there are some finely balanced decisions to be made. The Task Force continues to reflect on the possible implications of the proposed changes, including impact on behavior, from a cost-benefit perspective and an audit quality perspective (recognizing that, as Representatives of the CAG pointed out, they are not mutually exclusive). The Task Force welcomes the IAASB's views on this point.

APPENDIX

List of Respondents to the Exposure Draft

#	Abbreviation	Respondent (Total)
Regulators and Oversight Authorities (9)		
1.	14 AR	14 Independent European Regulators
2.	AIU & APB	Audit Inspection Unit & Auditing Practices Board, Financial Reporting Council, United Kingdom
3.	BCBS	Basel Committee on Banking Supervision
4.	CEBS	Committee of European Banking Supervisors
5.	CESR	Committee of European Securities Regulators
6.	CPAB	Canadian Public Accountability Board
7.	FAOA	Federal Audit Oversight Authority (Switzerland)
8.	IOSCO	International Organization of Securities Commissions
9.	IRBA	Independent Regulatory Board for Auditors (South Africa)
National Auditing Standard Setters (3)³⁵		
10.	AUAASB	Australian Auditing and Assurance Standards Board
11.	CAASB	Canadian Auditing and Assurance Standards Board
12.	NZICA	New Zealand Institute of Chartered Accountants (Professional Standards Board)
Public Sector Organizations (8)		
13.	AAA	American Accounting Association (Auditing Standards Committee)
14.	ACAG	Australasian Council of Auditors-General
15.	DGRV	Deutscher Genossenschafts- und Raiffeisenverband e. V. (German Cooperative and Raiffeisen Confederation)
16.	GAO	United States Government Accountability Office
17.	MOFBC	Ministry of Finance British Columbia
18.	PAS	Provincial Auditor Saskatchewan
19.	SNAO	Swedish National Audit Office
20.	WAO	Wales Audit Office
Accounting Firms (8)		
21.	BDO	BDO Global Coordination B.V.
22.	DTT	Deloitte Touche Tohmatsu
23.	EYG	Ernst & Young Global
24.	GT	Grant Thornton International
25.	KPMG	KPMG
26.	LS	Levi & Sinclair
27.	PwC	PricewaterhouseCoopers
28.	RSM	RSM International Limited

³⁵ For the purpose of this table only, the joint response letter from the AIU & APB has been listed only once under the “Regulators and Oversight Authorities” category.

Using the Work of the Internal Audit Function and Internal Auditors to Provide Direct Assistance—Summary of
Comments on Exposure Draft and IAASB Task Force Proposals
IAASB Main Agenda (June 2011)

IFAC Member Bodies & Other Professional Bodies (21)		
29.	ACCA	Association of Chartered Certified Accountants
30.	AICPA	American Institute of Certified Public Accountants
31.	CIPFA	Chartered Institute of Public Finance and Accountancy
32.	CNCC & CSOEC	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables
33.	DnR	Norwegian Institute of Public Accountants (Revisorforeningen)
34.	FARSRS	Svenska Revisorsamfundet SRS
35.	FEE	Federation des Experts Comptables Europeens
36.	FSR	Foreningen af Statsautoriserede Revisorer
37.	HKICPA	Hong Kong Institute of Certified Public Accountants
38.	ICAEW	Institute of Chartered Accountants in England and Wales
39.	ICAI	Institute of Chartered Accountants in Ireland
40.	ICPAK	Institute of Certified Public Accountants of Kenya
41.	ICPAS	Institute of Certified Public Accountants of Singapore
42.	IDW	Institut der Wirtschaftsprüfer
43.	IIA	Institute of Internal Auditors
44.	ISACA	Information Systems Audit and Control Association
45.	JICPA	Japanese Institute of Certified Public Accountants
46.	MIA	Malaysian Institute of Accountants
47.	NIVRA	Koninklijk Nederlands Instituut van Registeraccountants
48.	NYSSCPA	New York State Society of Certified Public Accountants
49.	SAICA	South African Institute of Chartered Accountants
Others (including individuals) (8)		
50.	C. Barnard	Chris Barnard
51.	D. Juvenal	Denise Silva Ferreira Juvenal
52.	H. Jaegtnes	Harald Jaegtnes
53.	HC	Hunter College
54.	J. Maresca	Joseph Maresca
55.	P. Angulo	Paulino Angulo
56.	R. Ramchurun	Rajnish Ramchurun
57.	R. Mahadevan	Ramachandran Mahadevan