



Financial Reporting Council

June 2013

International Standard on Auditing (UK and Ireland) 610 Using the work of internal auditors

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INTERNATIONAL STANDARD ON AUDITING (UK AND IRELAND) 610 (REVISED JUNE 2013)

USING THE WORK OF INTERNAL AUDITORS

(Effective for audits of financial statements for periods ending on or after 15 June 2014)

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International Standard on Auditing (ISA) (UK and Ireland) 610 (Revised June 2013), *Using the Work of Internal Auditors*, should be read in conjunction with ISA (UK and Ireland) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Introduction

Scope of this ISA (UK and Ireland)

1. This International Standard on Auditing (ISA) (UK and Ireland) deals with the external auditor's responsibilities if using the work of internal auditors. This includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.
2. This ISA (UK and Ireland) does not apply if the entity does not have an internal audit function. (Ref: Para. A2)
3. If the entity has an internal audit function, the requirements in this ISA (UK and Ireland) relating to using the work of that function do not apply if:
 - (a) The responsibilities and activities of the function are not relevant to the audit; or
 - (b) Based on the auditor's preliminary understanding of the function obtained as a result of procedures performed under ISA (UK and Ireland) 315 (Revised June 2013),¹ the external auditor does not expect to use the work of the function in obtaining audit evidence.

Nothing in this ISA (UK and Ireland) requires the external auditor to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor; it remains a decision of the external auditor in establishing the overall audit strategy.

4. Furthermore, the requirements in this ISA (UK and Ireland) relating to direct assistance do not apply if the external auditor does not plan to use internal auditors to provide direct assistance.
5. In some jurisdictions, the external auditor may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance. The ISAs (UK and Ireland) do not override laws or regulations that govern an audit of financial statements.² Such prohibitions or restrictions will therefore not prevent the external auditor from complying with the ISAs (UK and Ireland). (Ref: Para. A31)

¹ ISA (UK and Ireland) 315 (Revised June 2013), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

² ISA (UK and Ireland) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A55.

5-1. The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland). For a group audit this prohibition extends to the work of any component auditor which is relied upon by the group auditor, including for overseas components. Accordingly, the requirements and related application material in this ISA (UK and Ireland) relating to direct assistance are not applicable^{2a}.

Relationship between ISA (UK and Ireland) 315 (Revised June 2013) and ISA (UK and Ireland) 610 (Revised June 2013)

6. Many entities establish internal audit functions as part of their internal control and governance structures. The objectives and scope of an internal audit function, the nature of its responsibilities and its organizational status, including the function's authority and accountability, vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance.
7. ISA (UK and Ireland) 315 (Revised June 2013) addresses how the knowledge and experience of the internal audit function can inform the external auditor's understanding of the entity and its environment and identification and assessment of risks of material misstatement. ISA (UK and Ireland) 315 (Revised 2013)³ also explains how effective communication between the internal and external auditors also creates an environment in which the external auditor can be informed of significant matters that may affect the external auditor's work.
8. Depending on whether the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors, the level of competency of the internal audit function, and whether the function applies a systematic and disciplined approach, the external auditor may also be able to use the work of the internal audit function in a constructive and complementary manner. This ISA (UK and Ireland) addresses the external auditor's responsibilities when, based on the external auditor's preliminary understanding of the internal audit function obtained as a result of procedures performed under ISA (UK and Ireland) 315 (Revised 2013), the external auditor expects to use the work of the internal audit function as part of the audit evidence obtained.⁴ Such use of that work modifies the nature or timing, or reduces the extent, of audit procedures to be performed directly by the external auditor.

^{2a} The non-applicable requirements are those set out in paragraphs 27-35 and 37. The non-applicable application material is that set out in paragraphs A32-A41.

³ ISA UK and Ireland) 315 (Revised June 2013), paragraph A116.

⁴ See paragraphs 15–25.

9. In addition, this ISA (UK and Ireland) also addresses the external auditor's responsibilities if considering using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.
10. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with ISA (UK and Ireland) 330.⁵

The External Auditor's Responsibility for the Audit

11. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement. Although they may perform audit procedures similar to those performed by the external auditor, neither the internal audit function nor the internal auditors are independent of the entity as is required of the external auditor in an audit of financial statements in accordance with ISA (UK and Ireland) 200.⁶ This ISA (UK and Ireland), therefore, defines the conditions that are necessary for the external auditor to be able to use the work of internal auditors. It also defines the necessary work effort to obtain sufficient appropriate evidence that the work of the internal audit function, or internal auditors providing direct assistance, is adequate for the purposes of the audit. The requirements are designed to provide a framework for the external auditor's judgments regarding the use of the work of internal auditors to prevent over or undue use of such work.

Effective Date

12. This ISA (UK and Ireland) is effective for audits of financial statements for periods ending on or after 15 June 2014^{6a}.

Objectives

13. The objectives of the external auditor, where the entity has an internal audit function and the external auditor expects to use the work of the function to modify the nature or

⁵ ISA (UK and Ireland) 330, *The Auditor's Responses to Assessed Risks*.

⁶ ISA (UK and Ireland) 200, paragraph 14.

^{6a} For the purpose of audits under ISAs as issued by the IAASB, the material pertaining to the use of direct assistance has an effective date of audits of financial statements for periods ending on or after 15 December 2014. However, as stated in paragraph 5-1, the use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland) – such prohibition being effective from the effective date of this ISA (UK and Ireland), audits of financial statements for periods ending on or after 15 June 2014.

timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, or to use internal auditors to provide direct assistance, are:

- (a) 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;

and having made that determination:

- (b) If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit; and
- (c) If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.

Definitions

14. For purposes of the ISAs (UK and Ireland), the following terms have the meanings attributed below:

- (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. (Ref: Para. A1–A4)
- (b) Direct assistance – The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.

Requirements

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

Evaluating the Internal Audit Function

15. 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:

- (a) The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors; (Ref: Para. A5–A9)
- (b) The level of competence of the internal audit function; and (Ref: Para. A5–A9)
- (c) Whether the internal audit function applies a systematic and disciplined approach, including quality control. (Ref: Para. A10–A11)

16. The external auditor shall not use the work of the internal audit function if the external auditor determines that:
 - (a) The function’s organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;
 - (b) The function lacks sufficient competence; or
 - (c) The function does not apply a systematic and disciplined approach, including quality control. (Ref: Para. A12–A14)

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

17. As a basis for determining the areas and the extent to which the work of the internal audit function 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. (Ref: Para. A15–A17)
18. 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: (Ref: Para. A15–A17)
 - (a) The more judgment is involved in:
 - (i) Planning and performing relevant audit procedures; and
 - (ii) Evaluating the audit evidence gathered; (Ref: Para. A18–A19)
 - (b) The higher the assessed risk of material misstatement at the assertion level, with special consideration given to risks identified as significant; (Ref: Para. A20–A22)
 - (c) The less the internal audit function’s organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and
 - (d) The lower the level of competence of the internal audit function.
19. 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. (Ref: Para. A15–A22)
20. The external auditor shall, in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with ISA (UK and

Ireland) 260,⁷ communicate how the external auditor has planned to use the work of the internal audit function. (Ref: Para. A23)

Using the Work of the Internal Audit Function

21. 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 with the function as a basis for coordinating their respective activities. (Ref: Para. A24–A26)
22. 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.
23. The external auditor shall perform sufficient audit procedures on the body of 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:
 - (a) The work of the function had been properly planned, performed, supervised, reviewed and documented;
 - (b) Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions; and
 - (c) Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed. (Ref: Para. A27–A30)
24. The nature and extent of the external auditor's audit procedures shall be responsive to the external auditor's evaluation of:
 - (a) The amount of judgment involved;
 - (b) The assessed risk of material misstatement;
 - (c) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; and
 - (d) The level of competence of the function;⁸ (Ref: Para. A27–A29)and shall include reperformance of some of the work. (Ref: Para. A30)

⁷ ISA (UK and Ireland) 260, *Communication with Those Charged with Governance*, paragraph 15.

⁸ See paragraph 18.

25. The external auditor shall also evaluate whether the external auditor's conclusions regarding the internal audit function in paragraph 15 of this ISA (UK and Ireland) and the determination of the nature and extent of use of the work of the function for purposes of the audit in paragraphs 18–19 of this ISA (UK and Ireland) remain appropriate.

Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit

26. The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. If so, paragraphs 27–35 and 37 do not apply^{8a}. (Ref: Para. A31)
27. 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's evaluation of the existence and significance of threats to the internal auditors' objectivity shall include inquiry of the internal auditors regarding interests and relationships that may create a threat to their objectivity. (Ref: Para. A32–A34)
28. The external auditor shall not use an internal auditor to provide direct assistance if:
- (a) There are significant threats to the objectivity of the internal auditor; or
 - (b) The internal auditor lacks sufficient competence to perform the proposed work. (Ref: Para. A32–A34)

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance

29. In determining the nature and extent of work that may be assigned to internal auditors and the nature, timing and extent of direction, supervision and review that is appropriate in the circumstances, the external auditor shall consider:
- (a) The amount of judgment involved in:
 - (i) Planning and performing relevant audit procedures; and

^{8a} The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland). See paragraph 5-1 above of this ISA (UK and Ireland).

- (ii) Evaluating the audit evidence gathered;
 - (b) The assessed risk of material misstatement; and
 - (c) 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. (Ref: Para. A35–A39)
30. The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:
- (a) Involve making significant judgments in the audit; (Ref: Para. A19)
 - (b) Relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited; (Ref: Para. A38)
 - (c) Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or
 - (d) Relate to decisions the external auditor makes in accordance with this ISA (UK and Ireland) regarding the internal audit function and the use of its work or direct assistance. (Ref: Para. A35–A39)
31. Having appropriately evaluated whether and, if so, to what extent internal auditors can be used to provide direct assistance on the audit, the external auditor shall, in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with ISA (UK and Ireland) 260,⁹ communicate the nature and extent of the planned use of internal auditors to provide direct assistance so as to reach a mutual understanding that such use is not excessive in the circumstances of the engagement. (Ref: Para. A39)
32. The external auditor shall evaluate whether, in aggregate, using internal auditors to provide direct assistance to the extent planned, together with the planned use of the work of the internal audit function, 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.

⁹ ISA (UK and Ireland) 260, paragraph 15.

Using Internal Auditors to Provide Direct Assistance

33. Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:
- (a) 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
 - (b) 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.
34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA (UK and Ireland) 220.¹⁰ In so doing:
- (a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA (UK and Ireland); and
 - (b) The review procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to be satisfied that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

35. In directing, supervising and reviewing the work performed by internal auditors, the external auditor shall remain alert for indications that the external auditor’s evaluations in paragraph 27 are no longer appropriate.

Documentation

36. If the external auditor uses the work of the internal audit function, the external auditor shall include in the audit documentation:
- (a) The evaluation of:
 - (i) Whether the function’s organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors;

¹⁰ ISA (UK and Ireland) 220, *Quality Control for an Audit of Financial Statements*.

- (ii) The level of competence of the function; and
 - (iii) Whether the function applies a systematic and disciplined approach, including quality control;
 - (b) The nature and extent of the work used and the basis for that decision; and
 - (c) The audit procedures performed by the external auditor to evaluate the adequacy of the work used.
37. If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:
- (a) The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;
 - (b) The basis for the decision regarding the nature and extent of the work performed by the internal auditors;
 - (c) Who reviewed the work performed and the date and extent of that review in accordance with ISA (UK and Ireland) 230;¹¹
 - (d) The written agreements obtained from an authorized representative of the entity and the internal auditors under paragraph 33 of this ISA (UK and Ireland); and
 - (e) The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

Application and Other Explanatory Material

Definition of Internal Audit Function (Ref: Para. 2, 14(a))

- A1. The objectives and scope of internal audit functions typically include assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance processes, risk management and internal control such as the following:

Activities Relating to Governance

- The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management

¹¹ ISA (UK and Ireland) 230, *Audit Documentation*.

and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

Activities Relating to Risk Management

- The internal audit function may assist the entity by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control (including effectiveness of the financial reporting process).
- The internal audit function may perform procedures to assist the entity in the detection of fraud.

Activities Relating to Internal Control

- Evaluation of internal control. The internal audit function may be assigned specific responsibility for reviewing controls, evaluating their operation and recommending improvements thereto. In doing so, the internal audit function provides assurance on the control. For example, the internal audit function might plan and perform tests or other procedures to provide assurance to management and those charged with governance regarding the design, implementation and operating effectiveness of internal control, including those controls that are relevant to the audit.
 - Examination of financial and operating information. The internal audit function may be assigned to review the means used to identify, recognize, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
 - Review of operating activities. The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non-financial activities of an entity.
 - Review of compliance with laws and regulations. The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
- A2. Activities similar to those performed by an internal audit function may be conducted by functions with other titles within an entity. Some or all of the activities of an internal audit function may also be outsourced to a third-party service provider. Neither the title of the function, nor whether it is performed by the entity or a third-party service provider, are sole determinants of whether or not the external auditor can use the work of the function. Rather, it is the nature of the activities; the extent to which the internal audit

function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; competence; and systematic and disciplined approach of the function that are relevant. References in this ISA (UK and Ireland) to the work of the internal audit function include relevant activities of other functions or third-party providers that have these characteristics.

- A3. In addition, those in the entity with operational and managerial duties and responsibilities outside of the internal audit function would ordinarily face threats to their objectivity that would preclude them from being treated as part of an internal audit function for the purpose of this ISA (UK and Ireland), although they may perform control activities that can be tested in accordance with ISA (UK and Ireland) 330.¹² For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.
- A4. While the objectives of an entity's internal audit function and the external auditor differ, the function may perform audit procedures similar to those performed by the external auditor in an audit of financial statements. If so, the external auditor may make use of the function for purposes of the audit in one or more of the following ways:
- To obtain information that is relevant to the external auditor's assessments of the risks of material misstatement due to error or fraud. In this regard, ISA (UK and Ireland) 315 (Revised June 2013)¹³ requires the external auditor to obtain an understanding of the nature of the internal audit function's responsibilities, its status within the organization, and the activities performed, or to be performed, and make inquiries of appropriate individuals within the internal audit function (if the entity has such a function); or
 - Unless prohibited, or restricted to some extent, by law or regulation, the external auditor, after appropriate evaluation, may decide to use work that has been performed by the internal audit function during the period in partial substitution for audit evidence to be obtained directly by the external auditor.¹⁴

In addition, unless prohibited, or restricted to some extent, by law or regulation, the external auditor may use internal auditors to perform audit procedures under the direction, supervision and review of the external auditor (referred to as "direct assistance" in this ISA (UK and Ireland)).¹⁵

¹² See paragraph 10.

¹³ ISA (UK and Ireland) 315 (Revised June 2013), paragraph 6(a).

¹⁴ See paragraphs 15–25.

¹⁵ See paragraphs 26–35. The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland) – see paragraph 5-1.

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

Evaluating the Internal Audit Function

Objectivity and Competence (Ref: Para. 15(a)–(b))

- A5. The external auditor exercises professional judgment in determining whether the work of the internal audit function can be used for purposes of the audit, and the nature and extent to which the work of the internal audit function can be used in the circumstances.
- A6. The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors and the level of competence of the function are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of the function that is appropriate in the circumstances.
- A7. 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 include the following:
- Whether the organizational status of the internal audit function, including the function’s authority and accountability, 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 the internal audit function reports to those charged with governance or an officer with appropriate authority, or if the function reports to management, whether it has direct access to those charged with governance.
 - Whether the internal audit function is free of any conflicting responsibilities, for example, having managerial or operational duties or responsibilities that are outside of the internal audit function.
 - Whether those charged with governance oversee employment decisions related to the internal audit function, for example, determining the appropriate remuneration policy.
 - Whether there are any constraints or restrictions placed on the internal audit function by management or those charged with governance, for example, in communicating the internal audit function’s findings to the external auditor.
 - Whether the internal auditors are members of relevant professional bodies and their memberships obligate their compliance with relevant professional standards relating to objectivity, or whether their internal policies achieve the same objectives.

A8. 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 include the following:

- 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 to internal audit engagements.
- Whether the internal auditors have adequate technical training and proficiency in auditing. Relevant criteria that may be considered by the external auditor in making the assessment may include, for example, the internal auditors' possession of a relevant professional designation and experience.
- Whether the internal auditors possess the required knowledge relating to the entity's financial reporting and the applicable financial reporting framework and whether the internal audit function possesses the necessary skills (for example, industry-specific knowledge) to perform work related to the entity's financial statements.
- Whether the internal auditors are members of relevant professional bodies that oblige them to comply with the relevant professional standards including continuing professional development requirements.

A9. Objectivity and competence may be viewed as a continuum. The more the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors and the higher the level of competence of the function, the more likely the external auditor may make use of the work of the function and in more areas. However, an organizational status and relevant policies and procedures that provide strong support for the objectivity of the internal auditors cannot compensate for the lack of sufficient competence of the internal audit function. Equally, a high level of competence of the internal audit function cannot compensate for an organizational status and policies and procedures that do not adequately support the objectivity of the internal auditors.

Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))

A10. The application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities distinguishes the activities of the internal audit function from other monitoring control activities that may be performed within the entity.

A11. Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:

- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
- Whether the internal audit function has appropriate quality control policies and procedures, for example, such as those policies and procedures in ISQC (UK and Ireland) ¹⁶ that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

Circumstances When Work of the Internal Audit Function Cannot Be Used (Ref: Para. 16)

A12. The external auditor's evaluation of whether the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether it applies a systematic and disciplined approach may indicate that the risks to the quality of the work of the function are too significant and therefore it is not appropriate to use any of the work of the function as audit evidence.

A13. Consideration of the factors in paragraphs A7, A8 and A11 of this ISA (UK and Ireland) individually and in aggregate is important because an individual factor is often not sufficient to conclude that the work of the internal audit function cannot be used for purposes of the audit. For example, the internal audit function's organizational status is particularly important in evaluating threats to the objectivity of the internal auditors. If the internal audit function reports to management, this would be considered a significant threat to the function's objectivity unless other factors such as those described in paragraph A7 of this ISA (UK and Ireland) collectively provide sufficient safeguards to reduce the threat to an acceptable level.

A14. In addition, the IESBA Code¹⁷ states that a self-review threat is created when the external auditor accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the audit. This is

¹⁶ International Standard on Quality Control (ISQC) (UK and Ireland) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

¹⁷ The International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (IESBA Code), Section 290.199.

because of the possibility that the engagement team will use the results of the internal audit service without properly evaluating those results or without exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The IESBA Code¹⁸ discusses the prohibitions that apply in certain circumstances and the threats and the safeguards that can be applied to reduce the threats to an acceptable level in other circumstances.

A14-1. Auditors in the UK and Ireland are subject to ethical requirements from two sources: the APB Ethical Standards for Auditors (ESs) concerning the integrity, objectivity and independence of the auditor, and the ethical pronouncements established by the auditor's relevant professional body. Requirements and guidance concerning the provision of internal audit services, including to address the self-review threat, are set out in ES 5^{18a}.

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that Can Be Used (Ref: Para. 17–19)

A15. Once the external auditor has determined that the work of the internal audit function can be used for purposes of the audit, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the overall audit strategy and audit plan that the external auditor has established in accordance with ISA (UK and Ireland) 300.¹⁹

A16. Examples of work of the internal audit function that can be used by the external auditor include the following:

- 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.
- In some circumstances, audits or reviews of the financial information of subsidiaries

¹⁸ IESBA Code, Section 290.195–290.200.

^{18a} ES 5, *Non-audit services provided to audited entities*, paragraphs 58–69.

¹⁹ ISA (UK and Ireland) 300, *Planning an Audit of Financial Statements*.

that are not significant components to the group (where this does not conflict with the requirements of ISA (UK and Ireland) 600).²⁰

A17. The external auditor's determination of the planned nature and extent of use of the work of the internal audit function will be influenced by the external auditor's evaluation of the extent to which the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors and the level of competence of the internal audit function in paragraph 18 of this ISA (UK and Ireland). In addition, the amount of judgment needed in planning, performing and evaluating such work and the assessed risk of material misstatement at the assertion level are inputs to the external auditor's determination. Further, there are circumstances in which the external auditor cannot use the work of the internal audit function for purpose of the audit as described in paragraph 16 of this ISA (UK and Ireland).

Judgments in planning and performing audit procedures and evaluating results
(Ref: Para. 18(a), 30(a))

A18. The greater the judgment needed to be exercised in planning and performing the audit procedures and evaluating the audit evidence, the external auditor will need to perform more procedures directly in accordance with paragraph 18 of this ISA (UK and Ireland), because using the work of the internal audit function alone will not provide the external auditor with sufficient appropriate audit evidence.

A19. Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement in accordance with paragraph 18. 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.

²⁰ ISA (UK and Ireland) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

Assessed risk of material misstatement (Ref: Para. 18(b))

- A20. For a particular account balance, class of transaction or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In such circumstances, the external auditor will need to perform more procedures directly in accordance with paragraph 18 of this ISA (UK and Ireland), and accordingly, make less use of the work of the internal audit function in obtaining sufficient appropriate audit evidence. Furthermore, as explained in ISA (UK and Ireland) 200,²¹ the higher the assessed risks of material misstatement, the more persuasive the audit evidence required by the external auditor will need to be, and, therefore, the external auditor will need to perform more of the work directly.
- A21. As explained in ISA (UK and Ireland) 315 (Revised June 2013),²² significant risks require special audit consideration and therefore the external auditor's ability to use the work of the internal audit function in relation to significant risks will be restricted to procedures that involve limited judgment. In addition, where the risk of material misstatement is other than low, the use of the work of the internal audit function alone is unlikely to reduce audit risk to an acceptably low level and eliminate the need for the external auditor to perform some tests directly.
- A22. Carrying out procedures in accordance with this ISA (UK and Ireland) may cause the external auditor to reevaluate the external auditor's assessment of the risks of material misstatement. Consequently, this may affect the external auditor's determination of whether to use the work of the internal audit function and whether further application of this ISA (UK and Ireland) is necessary.

Communication with Those Charged with Governance (Ref: Para. 20)

- A23. In accordance with ISA (UK and Ireland) 260,²³ the external auditor is required to communicate with those charged with governance an overview of the planned scope and timing of the audit. The planned use of the work of the internal audit function is an integral part of the external auditor's overall audit strategy and is therefore relevant to those charged with governance for their understanding of the proposed audit approach.

Using the Work of the Internal Audit Function

Discussion and Coordination with the Internal Audit Function (Ref: Para. 21)

- A24. In discussing the planned use of their work with the internal audit function as a basis for coordinating the respective activities, it may be useful to address the following:

²¹ ISA (UK and Ireland) 200, paragraph A29.

²² ISA (UK and Ireland) 315 (Revised June 2013), paragraph 4(e).

²³ ISA (UK and Ireland) 260, paragraph 15.

- The timing of such work.
- The nature of the work performed.
- The extent of audit coverage.
- Materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures), and performance materiality.
- Proposed methods of item selection and sample sizes.
- Documentation of the work performed.
- Review and reporting procedures.

A25. Coordination between the external auditor and the internal audit function is effective when, for example:

- Discussions take place at appropriate intervals throughout the period.
- The external auditor informs the internal audit function of significant matters that may affect the function.
- The external auditor is advised of and has access to relevant reports of the internal audit function and is informed of any significant matters that come to the attention of the function when such matters may affect the work of the external auditor so that the external auditor is able to consider the implications of such matters for the audit engagement.

A26. ISA (UK and Ireland) 200²⁴ discusses the importance of the auditor planning and performing the audit with professional skepticism, including being alert to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the work of the external auditor to the external auditor's attention.²⁵ The external auditor is then able to take such information into account in the external auditor's identification and assessment of risks of material misstatement. In addition, if such information may be indicative of a heightened risk of a material misstatement of the financial statements or may be regarding any actual, suspected or alleged fraud, the external auditor can take this into account in the external auditor's

²⁴ ISA (UK and Ireland) 200, paragraphs 15 and A18.

²⁵ ISA (UK and Ireland) 315 (Revised June 2013), paragraph A116.

identification of risk of material misstatement due to fraud in accordance with ISA (UK and Ireland) 240.²⁶

Procedures to Determine the Adequacy of Work of the Internal Audit Function (Ref: Para. 23–24)

- A27. The external auditor's audit procedures on the body of work of the internal audit function as a whole that the external auditor plans to use provide a basis for evaluating the overall quality of the function's work and the objectivity with which it has been performed.
- A28. The procedures the external auditor may perform to evaluate the quality of the work performed and the conclusions reached by the internal audit function, in addition to reperformance in accordance with paragraph 24, include the following:
- Making inquiries of appropriate individuals within the internal audit function.
 - Observing procedures performed by the internal audit function.
 - Reviewing the internal audit function's work program and working papers.
- A29. The more judgment involved, the higher the assessed risk of material misstatement, the less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors, or the lower the level of competence of the internal audit function, the more audit procedures are needed to be performed by the external auditor on the overall body of work of the function to support the decision to use the work of the function in obtaining sufficient appropriate audit evidence on which to base the audit opinion.

Reperformance (Ref: Para. 24)

- A30. For purposes of this ISA (UK and Ireland), reperformance involves the external auditor's independent execution of procedures to validate the conclusions reached by the internal audit function. This objective may be accomplished by examining items already examined by the internal audit function, or where it is not possible to do so, the same objective may also be accomplished by examining sufficient other similar items not actually examined by the internal audit function. Reperformance provides more persuasive evidence regarding the adequacy of the work of the internal audit function compared to other procedures the external auditor may perform in paragraph A28. While it is not necessary for the external auditor to do reperformance in each area of work of the internal audit function that is being used, some reperformance is required on the body of work of the internal audit function as a whole that the external auditor plans

²⁶ ISA (UK and Ireland) 315 (Revised June 2013), paragraph A11 in relation to ISA (UK and Ireland) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

to use in accordance with paragraph 24. The external auditor is more likely to focus reperformance in those areas where more judgment was exercised by the internal audit function in planning, performing and evaluating the results of the audit procedures and in areas of higher risk of material misstatement.

Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit (Ref: Para. 5, 26–28)

- A31. In jurisdictions where the external auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant for the group auditors to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.²⁷
- A32. As stated in paragraph A7 of this ISA (UK and Ireland), objectivity refers to the ability to perform the proposed work without allowing bias, conflict of interest or undue influence of others to override professional judgments. In evaluating the existence and significance of threats to the objectivity of an internal auditor, the following factors may be relevant:
- The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors.²⁸
 - Family and personal relationships with an individual working in, or responsible for, the aspect of the entity to which the work relates.
 - Association with the division or department in the entity to which the work relates.
 - Significant financial interests in the entity other than remuneration on terms consistent with those applicable to other employees at a similar level of seniority.

Material issued by relevant professional bodies for internal auditors may provide additional useful guidance.

- A33. There may also be some circumstances in which the significance of the threats to the objectivity of an internal auditor is such that there are no safeguards that could reduce

²⁷ ISA 600, paragraph 40(b). The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland). For a group audit this prohibition extends to the work of any component auditor which is relied upon by the group auditor, including for overseas components – see paragraph 5-1 above of this ISA (UK and Ireland).

²⁸ See paragraph A7.

them to an acceptable level. For example, because the adequacy of safeguards is influenced by the significance of the work in the context of the audit, paragraph 30 (a) and (b) prohibits the use of internal auditors to provide direct assistance in relation to performing procedures that involve making significant judgments in the audit or that relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited. This would also be the case where the work involved creates a self-review threat, which is why internal auditors are prohibited from performing procedures in the circumstances described in paragraph 30 (c) and (d).

A34. In evaluating the level of competence of an internal auditor, many of the factors in paragraph A8 of this ISA (UK and Ireland) may also be relevant applied in the context of individual internal auditors and the work to which they may be assigned.

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance (Ref: Para. 29–31)

A35. Paragraphs A15-A22 of this ISA (UK and Ireland) provide relevant guidance in determining the nature and extent of work that may be assigned to internal auditors.

A36. In determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned. Examples of activities and tasks that would not be appropriate to use internal auditors to provide direct assistance include the following:

- Discussion of fraud risks. However, the external auditors may make inquiries of internal auditors about fraud risks in the organization in accordance with ISA (UK and Ireland) 315 (Revised June 2013).²⁹
- Determination of unannounced audit procedures as addressed in ISA (UK and Ireland) 240.

A37. Similarly, since in accordance with ISA (UK and Ireland) 505³⁰ the external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditors. However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.

A38. The amount of judgment involved and the risk of material misstatement are also relevant in determining the work that may be assigned to internal auditors providing direct

²⁹ ISA 315 (Revised), paragraph 6(a).

³⁰ ISA 505, *External Confirmations*, paragraphs 7 and 16.

assistance. For example, in circumstances where the valuation of accounts receivable is assessed as an area of higher risk, the external auditor could assign the checking of the accuracy of the aging to an internal auditor providing direct assistance. However, because the evaluation of the adequacy of the provision based on the aging would involve more than limited judgment, it would not be appropriate to assign that latter procedure to an internal auditor providing direct assistance.

- A39. Notwithstanding the direction, supervision and review by the external auditor, excessive use of internal auditors to provide direct assistance may affect perceptions regarding the independence of the external audit engagement.

Using Internal Auditors to Provide Direct Assistance (Ref: Para. 34)

- A40. As individuals in the internal audit function are not independent of the entity as is required of the external auditor when expressing an opinion on financial statements, the external auditor's direction, supervision and review of the work performed by internal auditors providing direct assistance will generally be of a different nature and more extensive than if members of the engagement team perform the work.
- A41. In directing the internal auditors, the external auditor may for example, remind the internal auditors to bring accounting and auditing issues identified during the audit to the attention of the external auditor. In reviewing the work performed by the internal auditors, the external auditor's considerations include whether the evidence obtained is sufficient and appropriate in the circumstances, and that it supports the conclusions reached.

CONFORMING AMENDMENTS TO OTHER ISAs (UK AND IRELAND)

This annexure shows the conforming amendments to ISQC (UK and Ireland) 1 and other ISAs (UK and Ireland) as a result of ISA (UK and Ireland) 610 (Revised June 2013), *Using the Work of Internal Auditors*. These amendments are effective for audits of financial statements for periods ending on or after 15 June 2014¹. The footnote numbers within these amendments do not align with the ISAs (UK and Ireland) that will be amended, and reference should be made to those ISAs (UK and Ireland).

ISQC (UK and Ireland) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Definitions

12. In this ISQC (UK and Ireland), the following terms have the meanings attributed below:

- (f) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor's external experts engaged by the firm or by a network firm. The term "engagement team" also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA (UK and Ireland) 610 (Revised June 2013)².

¹ For the purpose of audits under ISAs as issued by the IAASB, the material pertaining to the use of direct assistance has an effective date of audits of financial statements for periods ending on or after 15 December 2014. However, as stated in paragraph 5-1 of ISA (UK and Ireland) 610 (Revised June 2013), the use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland) – such prohibition being effective from the effective date of ISA (UK and Ireland) 610 (Revised June 2013), audits of financial statements for periods ending on or after 15 June 2014.

² ISA 610 (Revised June 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted. The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland) – see ISA (UK and Ireland) 610 (Revised June 2013), paragraph 5-1.

ISA (UK and Ireland) 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

A72. In some cases, an ISA (UK and Ireland) (and therefore all of its requirements) may not be relevant in the circumstances. For example, if an entity does not have an internal audit function, nothing in ISA (UK and Ireland) 610 (Revised June 2013)³ is relevant.

ISA (UK and Ireland) 220, Quality Control for an Audit of Financial Statements

Definitions

7. For purposes of the ISAs (UK and Ireland), the following terms have the meanings attributed below:

- (d) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor’s external expert engaged by the firm or by a network firm.⁴ The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA (UK and Ireland) 610 (Revised June 2013).⁵

ISA (UK and Ireland) 230, Audit Documentation

A19. The documentation requirement applies only to requirements that are relevant in the circumstances. A requirement is not relevant⁶ only in the cases where:

- (a) The entire ISA (UK and Ireland) is not relevant (for example, if an entity does not have an internal audit function, nothing in ISA (UK and Ireland) 610 (Revised June 2013)⁷ is relevant); or

³ ISA (UK and Ireland) 610 (Revised June 2013), *Using the Work of Internal Auditors*, paragraph 2.

⁴ ISA (UK and Ireland) 620, *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

⁵ ISA 610 (Revised June 2013), Using the Work of Internal Auditors, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted. The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland) – see ISA (UK and Ireland) 610 (Revised June 2013), paragraph 5-1.

⁶ ISA (UK and Ireland) 200, paragraph 22.

⁷ ISA (UK and Ireland) 610 (Revised June 2013), *Using the Work of Internal Auditors*, paragraph 2.

- (b) The requirement is conditional and the condition does not exist (for example, the requirement to modify the auditor's opinion where there is an inability to obtain sufficient appropriate audit evidence, and there is no such inability).

ISA (UK and Ireland) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

19. For those entities that have an internal audit function, the auditor shall make inquiries of appropriate individuals within the function ~~internal audit~~ to determine whether ~~they~~ they ~~have~~ knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud. (Ref: Para. A18)

Inquiries of the Internal Audit Function (Ref: Para. 19)

A18. ISA (UK and Ireland) 315 (Revised June 2013) and ISA (UK and Ireland) 610 (Revised June 2013) establish requirements and provide guidance relevant to ~~in~~ audits of those entities that have an internal audit function.⁸ In carrying out the requirements of those ISAs (UK and Ireland) in the context of fraud, the auditor may inquire about specific activities of the function ~~internal audit activities~~ including, for example:

- The procedures performed, if any, by the internal auditors ~~function~~ during the year to detect fraud.
- Whether management has satisfactorily responded to any findings resulting from those procedures.

Appendix 1

Examples of Fraud Risk Factors

Internal control components are deficient as a result of the following:

- Inadequate monitoring of controls, including automated controls and controls over interim financial reporting (where external reporting is required).
- High turnover rates or employment of staff in accounting, internal audit, or information technology, or the internal audit function ~~staff~~ that are not effective.

⁸ ISA (UK and Ireland) 315 (Revised June 2013), paragraphs 6(a) and 23, and ISA (UK and Ireland) 610 (Revised June 2013), *Using the Work of Internal Auditors*.

ISA (UK and Ireland) 260, *Communication with Those Charged with Governance*

A14. Other planning matters that it may be appropriate to discuss with those charged with governance include:

- Where the entity has an internal audit function, ~~the extent to which~~ how the external auditor ~~will use the work of internal audit, and how the external~~ and internal auditors can ~~best work together~~ in a constructive and complementary manner, including any planned use of the work of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance.⁹
- ...

A33. Before communicating matters with those charged with governance, the auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management's competence or integrity with management. In addition to recognizing management's executive responsibility, these initial discussions may clarify facts and issues, and give management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with ~~the~~ appropriate individuals within the function ~~internal auditor~~ before communicating with those charged with governance.

A43. As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, ISA (UK and Ireland) 315 (Revised June 2013) identifies participation by those charged with governance, including their interaction with the internal audit function, if any, and external auditors, as an element of the entity's control environment.¹⁰ Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the risks of material misstatements. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements.

⁹ ISA (UK and Ireland) 610 (Revised June 2013), *Using the Work of Internal Auditors*, paragraphs 20 and 31. The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland) – see ISA (UK and Ireland) 610 (Revised June 2013), paragraph 5-1.

¹⁰ ISA (UK and Ireland) 315 (Revised June 2013), paragraph A777-9.

ISA (UK and Ireland) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

A24. If the auditor has communicated deficiencies in internal control other than significant deficiencies to management in a prior period and management has chosen not to remedy them for cost or other reasons, the auditor need not repeat the communication in the current period. The auditor is also not required to repeat information about such deficiencies if it has been previously communicated to management by other parties, such as the internal auditors function or regulators. It may, however, be appropriate for the auditor to re-communicate these other deficiencies if there has been a change of management, or if new information has come to the auditor's attention that alters the prior understanding of the auditor and management regarding the deficiencies. ...

ISA (UK and Ireland) 300, *Planning an Audit of Financial Statements*

Appendix

Characteristics of the Engagement

...

- The need for a statutory audit of standalone financial statements in addition to an audit for consolidation purposes.
- ~~The availability of the work of internal auditors and the extent of the auditor's potential reliance on such work~~ Whether the entity has an internal audit function and if so, whether, in which areas and to what extent, the work of the function can be used, or internal auditors can be used to provide direct assistance¹¹, for purposes of the audit.

...

¹¹ The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland) – see ISA (UK and Ireland) 610 (Revised June 2013), *Using the Work of Internal Auditors*, paragraph 5-1.

ISA (UK and Ireland) 402, *Audit Considerations Relating to an Entity Using a Service Organization*

- A1. Information on the nature of the services provided by a service organization may be available from a wide variety of sources, such as:
- User manuals.
 - System overviews.
 - Technical manuals.
 - The contract or service level agreement between the user entity and the service organization.
 - Reports by service organizations, the internal auditors function or regulatory authorities on controls at the service organization.
 - Reports by the service auditor, including management letters, if available.

ISA (UK and Ireland) 500, *Audit Evidence*

- A51. In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to make use of the entity's performance measures for the purpose of analytical procedures, or to make use of the entity's information produced for monitoring activities, such as ~~internal auditor's reports of the internal audit function~~. In such cases, the appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Inconsistency in, or Doubts over Reliability of, Audit Evidence (Ref: Para. 11)

- A57. Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, responses to inquiries of management, internal auditors, and others are inconsistent, or when responses to inquiries of those charged with governance made to corroborate the responses to inquiries of management are inconsistent with the response by management. ISA (UK and Ireland) 230 includes a specific documentation requirement if the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter.¹²

¹² ISA (UK and Ireland) 230, *Audit Documentation*, paragraph 11.

ISA (UK and Ireland) 550, *Related Parties*

A15. Others within the entity are those considered likely to have knowledge of the entity's related party relationships and transactions, and the entity's controls over such relationships and transactions. These may include, to the extent that they do not form part of management:

- Those charged with governance;
- Personnel in a position to initiate, process, or record transactions that are both significant and outside the entity's normal course of business, and those who supervise or monitor such personnel;
- The internal auditors function;
- In-house legal counsel; and
- The chief ethics officer or equivalent person.

A17. In meeting the ISA (UK and Ireland) 315 (Revised June 2013) requirement to obtain an understanding of the control environment,¹³ the auditor may consider features of the control environment relevant to mitigating the risks of material misstatement associated with related party relationships and transactions, such as:

- Internal ethical codes, appropriately communicated to the entity's personnel and enforced, governing the circumstances in which the entity may enter into specific types of related party transactions.

...

- Periodic reviews by the internal auditors function, where applicable.

...

A22. During the audit, the auditor may inspect records or documents that may provide information about related party relationships and transactions, for example:

- Third-party confirmations obtained by the auditor (in addition to bank and legal confirmations).

¹³ ISA (UK and Ireland) 315 (Revised June 2013), paragraph 14.

...

- ~~Internal auditors' Reports of the internal audit function.~~

...

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

A27. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.¹⁴ Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

...

- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group engagement team's *inquiry* whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

A51. The group engagement team's decision as to how many components to select in accordance with paragraph 29, which components to select, and the type of work to be performed on the financial information of the individual components selected may be affected by factors such as the following:

- ...
- Whether the internal audit function has performed work at the component and any effect of that work on the group audit.
- ...

¹⁴ ISA (UK and Ireland) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

Appendix 2

Examples of Matters about Which the Group Engagement Team Obtains an Understanding

The examples provided cover a broad range of matters; however, not all matters are relevant to every group audit engagement and the list of examples is not necessarily complete.

Group-Wide Controls

1. Group-wide controls may include a combination of the following:
 - ...
 - Monitoring of controls, including activities of the internal audit function and self-assessment programs.
 - ...
2. The internal audit function may be regarded as part of group-wide controls, for example, when the internal audit function is centralized. ISA (UK and Ireland) 610 (Revised June 2013)¹⁵ deals with the group engagement team's evaluation of the whether the internal audit function's organizational status and relevant policies and procedures adequately supports the competence and objectivity of the internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group engagement team expects it plans to use their the function's work.

Appendix 5

Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Matters required by this ISA (UK and Ireland) to be communicated to the component auditor are shown in italicized text.

Matters that are relevant to the planning of the work of the component auditor:

- *The ethical requirements that are relevant to the group audit and, in particular, the independence requirements, for example, where the group auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant for the group auditor to consider whether the prohibition also extends to*

¹⁵ ISA (UK and Ireland) 610 (Revised June 2013), *Using the Work of Internal Auditors*, paragraphs 15-16 9.

component auditors and, if so, to address this in the communication to the component auditors.¹⁶

...

Matters that are relevant to the conduct of the work of the component auditor:

- ...
- The findings of the internal audit function, based on work performed on controls at or relevant to components...

¹⁶ ISA 610 (Revised June 2013), Using the Work of Internal Auditors, paragraph A31. The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland). For a group audit this prohibition extends to the work of any component auditor which is relied upon by the group auditor, including for overseas components – see ISA (UK and Ireland) 610 (Revised June 2013), paragraph 5-1.



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