



The following is a comparison of International Standard on Auditing (ISA) 610 (Revised 2013), *Using the Work of Internal Auditors*; proposed Statement on Auditing Standards (SAS) *Using the Work of Internal Auditors*; and extant AU section 322 and AU-C section 610, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*). The column containing ISA 610 lists the ISA in numerical order. The column containing the proposed SAS contains ISA 610, which was used as the basis for the proposed SAS, marked to show differences in language between the ISA and the proposed SAS (new and deleted material are shown in colored track changes). The column containing the extant AU section 322 contains the requirements and guidance in extant AU section 322 mapped against the proposed SAS in order to demonstrate how the material in AU section 322 has been reflected in the proposed SAS. The column containing comments includes explanations and rationales for substantive changes that have been made in the proposed SAS.

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
Introduction	Introduction		
Scope of this ISA	Scope of this <u>This ISA</u> <u>Proposed SAS</u>		
1. This International Standard on Auditing (ISA) 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)	1. This <u>proposed International Standard</u> <u>Statement on Auditing Standards (ISASAS)</u> <u>proposed SAS</u> deals with <u>addresses</u> the external auditor's responsibilities if using the work of internal auditors. This includes (a) using the work of the	1. The auditor considers many factors in determining the nature, timing, and extent of auditing procedures to be performed in an audit of an entity's financial statements. One of the factors is the existence of an internal audit	

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using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.	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.	function. This section provides the auditor with guidance on considering the work of internal auditors and on using internal auditors to provide direct assistance to the auditor in an audit performed in accordance with generally accepted auditing standards.	
		2. One of the auditor's responsibilities in an audit conducted in accordance with generally accepted auditing standards is to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinion on the entity's financial statements. In fulfilling this responsibility, the auditor maintains independence from the entity.	
2. This ISA does not apply if the entity does not have an internal audit function. (Ref: Para. A2)	2. This ISA-SAS proposed SAS does not apply if the entity does not have an internal audit function. (Ref: Para. par. A2)		
3. If the entity has an internal audit function, the requirements in this ISA relating to using the work of that function do not apply if: <ul style="list-style-type: none"> a. The responsibilities and activities of the function are not relevant to the audit; or b. Based on the auditor's preliminary understanding 	3. If the entity has an internal audit function, the requirements in this ISA-SAS proposed SAS relating to using the work of that function do not apply if: <ul style="list-style-type: none"> a. The responsibilities and activities of the function are not relevant to the audit; or b. Based on the auditor's 	.06 Certain internal audit activities may not be relevant to an audit of the entity's financial statements. For example, the internal auditors' procedures to evaluate the efficiency of certain management decision-making processes are ordinarily not relevant to a financial statement audit. .08 If, after obtaining an understanding of the internal audit	

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<p>of the function obtained as a result of procedures performed under ISA 315 (Revised),¹ the external auditor does not expect to use the work of the function in obtaining audit evidence.</p> <p>1 ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</p>	<p>preliminary understanding of the function obtained as a result of procedures performed under ISA 315 (Revised) <u>section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i></u>,[†] the external auditor does not expect to use the work of the function in obtaining audit evidence.</p>	<p>function, the auditor concludes that the internal auditors' activities are not relevant to the financial statement audit, the auditor does not have to give further consideration to the internal audit function unless the auditor requests direct assistance from the internal auditors as described in paragraph .27. Even if some of the internal auditors' activities are relevant to the audit, the auditor may conclude that it would not be efficient to consider further the work of the internal auditors. If the auditor decides that it would be efficient to consider how the internal auditors' work might affect the nature, timing, and extent of audit procedures, the auditor should assess the competence and objectivity of the internal audit function in light of the intended effect of the internal auditors' work on the audit.</p>	
<p>Nothing in this ISA requires the external auditor to use the work of the internal audit function to modify the</p>	<p>Nothing in this ISA SAS <u>proposed SAS</u> requires the external auditor to use the work of the internal audit</p>		

[†] ~~ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*~~ AU C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

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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.	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's <u>decision to establish in establishing</u> the overall audit strategy.		
4. Furthermore, the requirements in this ISA relating to direct assistance do not apply if the external auditor does not plan to use internal auditors to provide direct assistance.	4. Furthermore, the requirements in this ISA <u>SAS</u> proposed SAS 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 internal audit function or, using internal auditors to provide direct assistance. The ISAs 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	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 do not override laws or regulations that govern an audit of financial statements.³ Such prohibitions or restrictions will therefore not prevent the external auditor from complying with the		Not relevant as auditors of nonissuers in the United States are not prohibited, or restricted by law or regulation, from using the work of the internal audit function or using internal auditors to provide direct

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

³ ~~ISA AU C 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A55A59~~

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ISAs.	ISAs.		assistance.
Relationship between ISA 315 (Revised) and ISA 610 (Revised 2013)	Relationship between <u>Between ISA 315 (Revised) AU-C Section 315 and ISA 610 (Revised) Proposed AU-C Section 610</u>		
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.	5. 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 <u>when</u> applicable, those charged with governance.		

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<p>7. ISA 315 (Revised) 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 315 (Revised)⁴ 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.</p>	<p>6. ISA 315 (Revised) AU-C section 315 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 315 (Revised) AU-C section 315^{5,3} 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.</p>		
		<p>13. The auditor obtains a sufficient understanding of the design of controls relevant to the audit of financial statements to plan the audit and to determine whether they have been placed in operation. Since a primary objective of many internal audit functions is to review, assess, and monitor controls, the procedures</p>	<p>Addressed by paragraphs .14 and .24 of AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>.</p>

⁴ ISA 315 (Revised), paragraph A116

⁵ ~~Paragraph of A116A 116 of ISA 315~~ AU-C (Revised), 315

³ Paragraph .A116 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

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		<p>performed by the internal auditors in this area may provide useful information to the auditor. For example, internal auditors may develop a flowchart of a new computerized sales and receivables system. The auditor may review the flowchart to obtain information about the design of the related controls. In addition, the auditor may consider the results of procedures performed by the internal auditors on related controls to obtain information about whether the controls have been placed in operation.</p>	
		<p>14. The auditor assesses the risk of material misstatement at both the financial-statement level and the account-balance or class-of-transaction level.</p>	<p>Addressed in paragraph .26 of AU-C section 315.</p>
		<p>15. At the financial-statement level, the auditor makes an overall assessment of the risk of material misstatement. When making this assessment, the auditor should recognize that certain controls may have a pervasive effect on many financial statement assertions. The control environment and accounting system often have a pervasive effect on a number of account balances and</p>	<p>Addressed in application guidance related to paragraph .26(a) of AU-C section 315.</p>

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		<p>transaction classes and therefore can affect many assertions. The auditor's assessment of risk at the financial-statement level often affects the overall audit strategy. The entity's internal audit function may influence this overall assessment of risk as well as the auditor's resulting decisions concerning the nature, timing, and extent of auditing procedures to be performed. For example, if the internal auditors' plan includes relevant audit work at various locations, the auditor may coordinate work with the internal auditors (see paragraph .23) and reduce the number of the entity's locations at which the auditor would otherwise need to perform auditing procedures.</p>	
		<p>16. At the account-balance or class-of-transaction level, the auditor performs procedures to obtain and evaluate audit evidence concerning management's assertions. The auditor assesses control risk for each of the significant assertions and performs tests of controls to support assessments below the maximum. When planning and performing tests of controls, the auditor may consider the results of procedures planned or performed by the internal auditors. For example, the internal auditors'</p>	<p>Addressed in application guidance related to paragraph .26(b) of AU-C section 315.</p>

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		scope may include tests of controls for the completeness of accounts payable. The results of internal auditors' tests may provide appropriate information about the effectiveness of controls and change the nature, timing, and extent of testing the auditor would otherwise need to perform.	
<p>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 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 315 (Revised), the external auditor</p>	<p>7. <u>The external auditor may be able to use the work of the internal audit function in a constructive and complementary manner dependent on the level of competency of the internal audit function.</u>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 <u>SAS</u> proposed SAS <u>SAS</u> addresses the external auditor's responsibilities</p>	<p>12. The internal auditors' work may affect the nature, timing, and extent of the audit, including—</p> <ul style="list-style-type: none"> • Procedures the auditor performs when obtaining an understanding of the entity's internal control (paragraph .13(a)). • Procedures the auditor performs when assessing risk (paragraphs .14 through .16(a)). • Substantive procedures the auditor performs (paragraph .17(a)). <p>When the work of the internal auditors is expected to affect the audit, the guidance in paragraphs .18 through .26(a) should be followed for considering the extent of the effect, coordinating audit work with internal</p>	<p>Deleted word <i>preliminary</i> as it is not used in AU-C section 315 in reference to obtaining an understanding of the entity.</p>

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<p>expects to use the work of the internal audit function as part of the audit evidence obtained.⁶ 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.</p>	<p>when, based on the external auditor's preliminary understanding of the internal audit function obtained as a result of procedures performed under ISA 315 (Revised) AU-C section 315, the external auditor expects to use the work of the internal audit function as part of the audit evidence obtained.⁷ 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.</p>	<p>auditors, and evaluating and testing the effectiveness of internal auditors' work.</p>	
<p>9. In addition, this ISA 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.</p>	<p>8. In addition, this <u>This</u> ISA proposed SAS 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.⁸</p>		
<p>10. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However,</p>	<p>9. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However,</p>		

⁶ See paragraphs 15-25 of this ISA.

⁷ See paragraphs ~~14-22-25~~ of this ~~ISA~~ SAS.

⁸ See paragraphs 26-31 of this proposed SAS.

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<p>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 330.⁹</p>	<p>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 control activities and obtaining evidence regarding the effectiveness of such controls would be part of the auditor’s responses to assessed risks in accordance with ISA <u>AU-C section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained.</i></u>¹⁰</p>		
<p>The External Auditor’s Responsibility for the Audit</p>	<p>The External Auditor’s Responsibility for the Audit</p>		
<p>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</p>	<p>10. 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 the function may perform audit procedures similar</p>	<p>19. The responsibility to report on the financial statements rests solely with the auditor. Unlike the situation in which the auditor uses the work of other independent auditors, this responsibility cannot be shared with the internal auditors. Because the auditor has the ultimate responsibility to express an opinion on the financial</p>	

⁹ ISA 330, *The Auditor’s Responses to Assessed Risks*

¹⁰ ~~AU C 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*~~ ISA 330, *The Auditor’s Responses to Assessed Risks*

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<p>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 200.¹¹ This ISA, 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.</p>	<p>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 <u>ISA- paragraph .15 of AU-C section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards.</u>¹² This ISASAS proposed SAS, 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 the</p>	<p>statements, judgments about assessments of inherent and control risks, the materiality of misstatements, the sufficiency of tests performed, the evaluation of significant accounting estimates, and other matters affecting the auditor's report should always be those of the auditor.</p> <p>.18. Even though the internal auditors' work may affect the auditor's procedures, the auditor should perform procedures to obtain sufficient appropriate audit evidence to support the auditor's report. Evidence obtained through the auditor's direct personal knowledge, including physical examination, observation, computation, and inspection, is generally more persuasive than information obtained indirectly.</p>	

¹¹ ISA 200, paragraph 14

¹² ~~Paragraph 15 of AU_C 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Generally Accepted Auditing Standards~~ ISA , paragraph 14

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	internal auditors' function—to prevent over or undue use of such work.		
		<p>.05 The auditor ordinarily should make inquiries of appropriate management and internal audit personnel about the internal auditors'—</p> <ul style="list-style-type: none"> a. Organizational status within the entity. b. Application of professional standards (see paragraph .11).^(b) c. Audit plan, including the nature, timing, and extent of audit work. d. Access to records and whether there are limitations on the scope of their activities. <p>In addition, the auditor might inquire about the internal audit function's charter, mission statement, or similar directive from management or those charged with governance. This inquiry will normally provide information about the goals and objectives established for the internal audit function.</p>	<p>Addressed by paragraph 6 of the proposed SAS and related application guidance of the conforming amendment to AU-C section 315, as well as paragraph 24 of the proposed SAS.</p>
Effective Date	Effective Date		
12. This ISA is effective for audits	11. This ISA-SAS is effective for	28. This section is effective for audits	

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<p>of financial statements for periods ending on or after December 15, 2013, except for material shaded in gray pertaining to the use of internal auditors to provide direct assistance which is effective for audits of financial statements for periods ending on or after December 15, 2014.</p>	<p>audits of financial statements for periods ending on or after December 15, except for material shaded in gray pertaining to the use of internal auditors to provide direct assistance which is effective for audits of financial statements for periods ending on or after December 15, 2014.</p>	<p>of financial statements for periods ending after December 15, 1991. Early application of the provisions of this section is permissible.</p>	
Objectives	Objectives		
<p>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 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:</p> <p style="padding-left: 40px;">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;</p> <p>and having made that determination:</p>	<p>12. The objectives of the external auditor, where <u>When</u> the entity has an internal audit function and the external auditor expects to use the work of the function internal auditors to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor <u>the objectives of the external auditor</u> are as follows:</p> <p style="padding-left: 40px;">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;</p> <p>and having made that determination:</p> <p style="padding-left: 40px;">b. If using the work of the</p>		<p>Changed <i>the function</i> to <i>internal auditors</i> to encompass work of the function as well as work performed by internal auditors in a direct assistance capacity.</p>

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<p>b. If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit; and</p> <p>c. If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.</p>	<p>internal audit function, to determine whether that work is adequate for purposes of the audit.</p> <p>c. If using internal auditors to provide direct assistance, to appropriately direct, supervise, and review their work.</p>		
Definitions	Definitions		
<p>14. For purposes of the ISAs, the following terms have the meanings attributed below:</p>	<p>13. For purposes of the ISAs GAAS, the following terms have the meaning attributed below:</p>		
<p>(a) Direct assistance – The use of internal auditors to perform audit procedures, under the direction, supervision and review of the external auditor.</p>	<p>Direct assistance. —The use of internal auditors to perform audit procedures, under the direction, supervision, and review of the external auditor.</p>		
<p>(b) 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.</p>	<p>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,</p>		

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A1–A4)	and internal control processes. (Ref: Para. <u>par.</u> A1–A4)		
Requirements	Requirements		
Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used	Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used		
<i>Evaluating the Internal Audit Function</i>	<i>Evaluating the Internal Audit Function</i>		
<p>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:</p> <ul style="list-style-type: none"> 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 	<p>14. The external auditor shall <u>should</u> determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following:</p> <ul style="list-style-type: none"> 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.<u>par.</u> A5–A9) b. The level of competence of the internal audit function; and (Ref: Para.<u>par.</u> A5–A9) c. Whether <u>The application by the internal audit function applies</u> of a systematic and disciplined 	<p>.09 When assessing the internal auditors' competence, the auditor should obtain or update information from prior years about such factors as—</p> <ul style="list-style-type: none"> • Educational level and professional experience of internal auditors. • Professional certification and continuing education. • Audit policies, programs, and procedures. • Practices regarding assignment of internal auditors. • Supervision and review of internal auditors' activities. • Quality of working-paper documentation, reports, and recommendations. 	<p>Removed the word <i>whether</i> from 14(c), as it is not needed; the lead-in already requires the auditor to determine whether additional changes should be made to improve clarity of the sentence.</p>

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<p>quality control. (Ref: Para. A10–A11)</p>	<p>approach, including quality control. (Ref: Para.par. A10–A11–A12)</p>	<ul style="list-style-type: none"> • Evaluation of internal auditors' performance. <p>.10 When assessing the internal auditors' objectivity, the auditor should obtain or update information from prior years about such factors as—</p> <ol style="list-style-type: none"> a. The organizational status of the internal auditor responsible for the internal audit function, including— b. Whether the internal auditor reports to an officer of sufficient status to ensure broad audit coverage and adequate consideration of, and action on, the findings and recommendations of the internal auditors. c. Whether the internal auditor has direct access and reports regularly to those charged with governance. d. Whether those charged with governance oversee employment decisions related to the internal auditor. Policies to maintain internal auditors' objectivity about the areas audited, including—Policies prohibiting internal auditors from auditing areas where relatives are 	

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		<p>employed in important or audit-sensitive positions.</p> <p>e. Policies prohibiting internal auditors from auditing areas where they were recently assigned or are scheduled to be assigned on completion of responsibilities in the internal audit function.</p>	
<p>16. The external auditor shall not use the work of the internal audit function if the external auditor determines that:</p> <ul style="list-style-type: none"> 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) 	<p>15. The external auditor shall<u>should</u> not use the work of the internal audit function if the external auditor determines that:</p> <ul style="list-style-type: none"> 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 <u>par. A13–A15</u>) 		
<p><i>Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used</i></p>	<p><i>Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used</i></p>		

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	<p>16. The external auditor should make all significant judgments in the audit engagement. (Ref: par.÷ A16)</p>	<p>19. The responsibility to report on the financial statements rests solely with the auditor. Unlike the situation in which the auditor uses the work of other independent auditors, fn 6 this responsibility cannot be shared with the internal auditors. Because the auditor has the ultimate responsibility to express an opinion on the financial statements, judgments about assessments of inherent and control risks, the materiality of misstatements, the sufficiency of tests performed, the evaluation of significant accounting estimates, and other matters affecting the auditor's report should always be those of the auditor.</p>	<p>Moved this element from paragraph 18 of ISA 610 to make this requirement stand out clearly, to assist in the clarification of paragraph 18, and to be more consistent with the extant paragraph AU 322.19.</p>
<p>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–A16)</p>	<p>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<u>should</u> 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<u>par. A17–A20</u>)</p>		

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<p>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–A16)</p> <p>a. The more judgment is involved in:</p> <p>i. Planning and performing relevant audit procedures; and</p> <p>ii. Evaluating the audit evidence gathered; (Ref: Para. A18-A17)</p> <p>b. The higher the assessed risk of material misstatement at the assertion level, with special consideration given to risks identified as significant; (Ref. Para.: A19–A21)</p> <p>c. The less the internal audit function’s organizational status and relevant policies and procedures adequately support the objectivity of the internal</p>	<p>18. The external auditor shallshould make all significant judgments in the audit engagement. <u>To prevent undue use of the internal audit function, the external auditor and, to prevent undue use of the work of the internal audit function, shall</u>should plan to use less of the work of the function and perform more of the work directly <u>directly in circumstances where:</u> (Ref: par.: A17A15–A20A17)</p> <p>a. <u>In</u> circumstances wherewhen <u>The more</u> judgment is involved in:</p> <p>i. Planning and performing relevant audit procedures; and</p> <p>ii. Evaluating the audit evidence gathered; (Ref: Para.par. A21A18–A16A19)</p> <p>b. The higher the assessed risk of material misstatement at the assertion level, with special consideration given to <u>significant risks identified as significant;</u> (Ref.: par.: A20A22–A24A22)</p>	<p>20. In making judgments about the extent of the effect of the internal auditors' work on the auditor's procedures, the auditor considers—</p> <p>a. The materiality of financial statement amounts—that is, account balances or classes of transactions.</p> <p>b. The risk (consisting of inherent risk and control risk) of material misstatement of the assertions related to these financial statement amounts.</p> <p>c. The degree of subjectivity involved in the evaluation of the audit evidence gathered in support of the assertions. ^{fn 7}</p> <p>As the materiality of the financial statement amounts increases and either the risk of material misstatement or the degree of subjectivity increases, the need for the auditor to perform his or her own tests of the assertions increases. As these factors decrease, the need for the auditor to perform his or her own tests of the assertions decreases.</p> <p>21. For assertions related to material financial statement amounts where the risk of material</p>	<p>Changes to improve clarity of requirement. First sentence of ISA 610.18 moved to paragraph 16 of the proposed SAS.</p>

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<p>auditors; and</p> <p>d. The lower the level of competence of the internal audit function.</p>	<p>c. The less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and</p> <p>d. The lower the level of competence of the internal audit function.</p>	<p>misstatement or the degree of subjectivity involved in the evaluation of the audit evidence is high, the auditor should perform sufficient procedures to fulfill the responsibilities described in paragraphs .18 and .19. In determining these procedures, the auditor gives consideration to the results of work (either tests of controls or substantive tests) performed by internal auditors on those particular assertions. However, for such assertions, the consideration of internal auditors' work cannot alone reduce audit risk to an acceptable level to eliminate the necessity to perform tests of those assertions directly by the auditor. Assertions about the valuation of assets and liabilities involving significant accounting estimates, and about the existence and disclosure of related-party transactions, contingencies, uncertainties, and subsequent events, are examples of assertions that might have a high risk of material misstatement or involve a high degree of subjectivity in the evaluation of audit evidence.</p> <p>.22 On the other hand, for certain</p>	

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		<p>assertions related to less material financial statement amounts where the risk of material misstatement or the degree of subjectivity involved in the evaluation of the audit evidence is low, the auditor may decide, after considering the circumstances and the results of work (either tests of controls or substantive tests) performed by internal auditors on those particular assertions, that audit risk has been reduced to an acceptable level and that testing of the assertions directly by the auditor may not be necessary. Assertions about the existence of cash, prepaid assets, and fixed-asset additions are examples of assertions that might have a low risk of material misstatement or involve a low degree of subjectivity in the evaluation of audit evidence.</p>	
<p>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–A21)</p>	<p>19. The external auditor shall<u>should</u> 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. par. A16A15–A24A22)</p>		

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
	<u>Communication With Those Charged With Governance</u>		
<p>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 260,¹³ communicate how the external auditor has planned to use the work of the internal audit function. (Ref: Para. A22)</p>	<p>20. In <u>communicating an overview of the planned scope and timing of the audit to those charged with governance in accordance with paragraph .11 of AU-C section 260, <i>The Auditor's Communication With Those Charged With Governance</i>,</u>¹⁴ †The external auditor shall<u>should</u> in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with ISA,¹⁵ communicate how the external auditor has planned to use the work of the internal audit function. (Ref: Para.<u>par. A25A23</u>)</p>		Changes to improve clarity of requirement.
Using the Work of the Internal Audit Function	Using the Work of the Internal Audit Function		
<p>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</p>	<p>21. If the external auditor plans to use the work of the internal audit function, the external auditor shall<u>should</u> discuss the planned use of</p>	<p>.23 If the work of the internal auditors is expected to have an effect on the auditor's procedures, it may be efficient for the auditor</p>	

¹³ ISA 260, *Communication with Those Charged with Governance*, paragraph 15

¹⁴ ~~Paragraph 11 of AU C 260, *The Auditor's Communication With Those Charged With Governance*,~~

¹⁵ ~~Paragraph 11 of ISA AU C 260, *The Auditor's Communication With Those Charged With Governance*, paragraph 15~~

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
<p>with the function as a basis for coordinating their respective activities. (Ref: Para. A23–A25)</p>	<p>its work with the function₂ as a basis for coordinating their respective activities. (Ref: Para. A24–A26 par. A26–A29)</p>	<p>and the internal auditors to coordinate their work by—</p> <ul style="list-style-type: none"> a. Holding periodic meetings. b. Scheduling audit work. c. Providing access to internal auditors' working papers. d. Reviewing audit reports. e. Discussing possible accounting and auditing issues. 	
<p>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.</p>	<p>22. The external auditor shall<u>should</u> read the reports of the internal audit function relating which <u>relate</u> 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 at the <u>internal audit function</u> performed and the related findings.</p>	<p>.23 If the work of the internal auditors is expected to have an effect on the auditor's procedures, it may be efficient for the auditor and the internal auditors to coordinate their work by—</p> <ul style="list-style-type: none"> a. Holding periodic meetings. b. Scheduling audit work. c. Providing access to internal auditors' working papers. d. Reviewing audit reports. e. Discussing possible accounting and auditing issues. 	

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
<p>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:</p> <ul style="list-style-type: none"> 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. A26–A29) 	<p>23. The external auditor shall<u>should</u> 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:</p> <ul style="list-style-type: none"> a. The work of the function had been<u>was</u> properly planned, performed, supervised, reviewed, and documented; b. Sufficient appropriate evidence had been<u>was</u> 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. par. <u>A30A27–A33A30</u>) 	<p>.24 The auditor should perform procedures to evaluate the quality and effectiveness of the internal auditors' work, as described in paragraphs .12 through .17, that significantly affects the nature, timing, and extent of the auditor's procedures. The nature and extent of the procedures the auditor should perform when making this evaluation are a matter of judgment depending on the extent of the effect of the internal auditors' work on the auditor's procedures for significant account balances or classes of transactions.</p> <p>.25 In developing the evaluation procedures, the auditor should consider such factors as whether the internal auditors'—</p> <ul style="list-style-type: none"> a. Scope of work is appropriate to meet the objectives. b. Audit programs are adequate. c. Working papers adequately document work performed, including evidence of supervision and review. d. Conclusions are appropriate in the circumstances. e. Reports are consistent with 	

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
		<p>the results of the work performed. f.e._____</p>	
<p>24. The nature and extent of the external auditor’s audit procedures shall be responsive to the external auditor’s evaluation of:</p> <ul style="list-style-type: none"> 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 	<p>24. The nature and extent of the external auditor’s audit procedures shall<u>should</u> be responsive to the external auditor’s evaluation of:</p> <ul style="list-style-type: none"> 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 		

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
<p>auditors; and</p> <p>d. The level of competence of the function;¹⁶ (Ref: Para. A26–A28)</p>	<p>auditors; and</p> <p>d. The level of competence of the function;¹⁷ (Ref: Para. par. A30A27–A32A29)</p>		
<p>and shall include reperformance of some of the work. (Ref: Para. A29)</p>	<p>and The external auditor shall <u>should</u> also include reperformance of some of the work. (Ref: Para. par. A33A30)</p>	<p>26. In making the evaluation, the auditor should test some of the internal auditors' work related to the significant financial statement assertions. These tests may be accomplished by either (a) examining some of the controls, transactions, or balances that the internal auditors examined or (b) examining similar controls, transactions, or balances not actually examined by the internal auditors. In reaching conclusions about the internal auditors' work, the auditor should compare the results of his or her tests with the results of the internal auditors' work. The extent of this testing will depend on the circumstances and should be sufficient to enable the auditor to make an evaluation of the overall</p>	

¹⁶ See paragraph 18 of this ISA.

¹⁷ See paragraph 14 ~~18~~ of this proposed ISASAS.

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
		quality and effectiveness of the internal audit work being considered by the auditor.	
<p>25. The external auditor shall also evaluate whether the external auditor’s conclusions regarding the internal audit function in paragraph 15 of this ISA 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 remain appropriate.</p>	<p>25. The external auditor shall<u>should</u> also evaluate whether the external auditor’s conclusions regarding the internal audit function in paragraph 14 <u>14–15</u> of this ISA <u>SAS</u> proposed SAS 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 <u>proposed SAS</u> remain appropriate.</p>		
<p>Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance</p>	<p>Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance</p>		
<p><i>Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit</i></p>	<p><i>Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit</i></p>		
<p>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. (Ref: Para. A31)</p>	<p>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. (Ref: Para. A31)</p>		<p>Not relevant as auditors of nonissuers in the United States are not prohibited, or restricted by law or</p>

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
			regulation, from using the work of the internal audit function or using internal auditors to provide direct assistance.
<p>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)</p>	<p>26. 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<u>should</u> evaluate the existence and significance of threats to objectivity <u>as well as any mitigating safeguards that have been put in place to mitigate such risks</u> threats 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 par. A34–A37)</p>	<p>27. In performing the audit, the auditor may request direct assistance from the internal auditors. This direct assistance relates to work the auditor specifically requests the internal auditors to perform to complete some aspect of the auditor's work. For example, internal auditors may assist the auditor in obtaining an understanding of internal control or in performing tests of controls or substantive tests, consistent with the guidance about the auditor's responsibility in paragraphs .18 through .22. When direct assistance is provided, the auditor should assess the internal auditors' competence and objectivity (see paragraphs .09 through .11) and supervise, ^{fn 8} review, evaluate, and test the work performed by internal auditors to the extent appropriate in the circumstances. The auditor should inform the internal auditors of their responsibilities, the objectives of the procedures they are to perform, and</p>	<p>Auditors of nonissuers in the United States are not prohibited, or restricted by law or regulation, from using the work of the internal audit function or using internal auditors to provide direct assistance; introductory clause is not applicable. Added requirement to evaluate any safeguards that have been put in place to mitigate threats to objectivity, as this is considered relevant to the external auditor's evaluation of objectivity of internal auditors.</p>

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
		<p>matters that may affect the nature, timing, and extent of audit procedures, such as possible accounting and auditing issues. The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's attention.</p>	<p>The requirement to inquire of the internal auditors regarding interests and relationships that may create a threat to their objectivity was not carried forward because it is believed to be implied in the overall requirement to evaluate the internal auditor's objectivity.</p>
<p>28. The external auditor shall not use an internal auditor to provide direct assistance if:</p> <ul style="list-style-type: none"> 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) 	<p>27. The external auditor shall<u>should</u> not use an internal auditor to provide direct assistance if: the internal auditor lacks:</p> <ul style="list-style-type: none"> a. There are<u>Significant</u> threats to the objectivity of the internal auditor <u>exist</u> and the internal auditor <u>lacks the necessary objectivity to perform the proposed work</u>; or b. The internal auditor lacks the<u>The</u> necessary competence to perform the proposed work. (Ref: 		<p>Changes made to clarify that the external auditor is precluded from using an internal auditor to provide direct assistance when the internal auditor lacks the necessary objectivity to perform the work.</p>

ISA 610 (Revised 2013)*	Proposed SAS† Para.par. A34– A37)	Extant AU 322	Comments
<p><i>Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance</i></p>	<p><i>Determining the Nature and Extent of Work that That Can Be Assigned to Internal Auditors Providing Direct Assistance</i></p>		
<p>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:</p> <ul style="list-style-type: none"> a. 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; b. The assessed risk of material misstatement; and c. The amount of judgment involved in: <ul style="list-style-type: none"> i. Planning and performing relevant audit procedures; and ii. Evaluating the audit evidence gathered. (Ref: Para. A35–A39) 	<p>28. 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<u>should</u> consider:</p> <ul style="list-style-type: none"> a. 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; b. The assessed risk of material misstatement; and c. The amount of judgment involved in: <ul style="list-style-type: none"> i. Planning and performing relevant audit procedures; and ii. Evaluating the audit evidence gathered. 	<p>27. In performing the audit, the auditor may request direct assistance from the internal auditors. This direct assistance relates to work the auditor specifically requests the internal auditors to perform to complete some aspect of the auditor's work. For example, internal auditors may assist the auditor in obtaining an understanding of internal control or in performing tests of controls or substantive tests, consistent with the guidance about the auditor's responsibility in paragraphs .18 through .22. When direct assistance is provided, the auditor should assess the internal auditors' competence and objectivity (see paragraphs .09 through .11) and supervise, ^{in 8} review, evaluate, and test the work performed by internal auditors to the extent appropriate in the circumstances. The auditor should inform the internal auditors of their responsibilities, the objectives of the procedures they are to perform, and</p>	

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
	(Ref: Para.par. A38–A39)	<p>matters that may affect the nature, timing, and extent of audit procedures, such as possible accounting and auditing issues. The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's attention.</p> <p>20. In making judgments about the extent of the effect of the internal auditors' work on the auditor's procedures, the auditor considers—</p> <ul style="list-style-type: none"> a. The materiality of financial statement amounts—that is, account balances or classes of transactions. b. The risk (consisting of inherent risk and control risk) of material misstatement of the assertions related to these financial statement amounts. c. The degree of subjectivity involved in the evaluation of the audit evidence gathered in support of the assertions. <p>As the materiality of the financial statement amounts increases and either the risk of material misstatement or the degree of subjectivity increases, the need for</p>	

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
<p>30. The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:</p> <p>a. Involve making significant judgments in the audit; (Ref: Para. A19)</p> <p>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)</p> <p>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</p> <p>d. Relate to decisions the external auditor makes in accordance with this ISA regarding the internal audit function and the use of its work or direct assistance.</p>	<p>The external auditor shall<u>should not</u> use internal auditors to provide direct assistance to perform procedures that:</p> <p>Involves making significant judgments in the audit; (Ref: Para.A19)</p> <p>Relate to higher assessed risks of material misstatement and require more than limited judgment in performing the relevant audit procedures or evaluating the audit evidence gathered;</p> <p>Relate to work pertaining to the current audit 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 (Ref. par A38); or</p> <p>Relate to decisions the external auditor makes in accordance with this ISA SAS<u>proposed SAS</u> regarding the internal audit function and the use of its work or direct assistance. (Ref: Para.A35 A39)</p>	<p>the auditor</p>	<p>Requirements in paragraphs 30(a) and 30(b) considered not necessary in the context of audits of nonissuers in the United States. They are also partly redundant with the requirement in paragraph 29 that, in determining the nature and extent of work to assign to internal auditors and the nature; timing; and extent of the review thereof, the auditor should consider the amount of judgment involved in planning and performing procedures and evaluating the audit evidence gathered. Additional application guidance was added</p>

ISA 610 (Revised 2013)* (Ref: Para. A35–A39)	Proposed SAS†	Extant AU 322	Comments
			<p>to further emphasize that as materiality of the accounts involved or the significance of the risks or the amount of auditor judgment necessary to do the necessary work increases, the greater the need for the auditor to perform the work directly.</p> <p>Requirements in paragraphs 30(c) and 30(d) considered not necessary because an appropriate assessment of objectivity would result in a conclusion that it would not be appropriate for internal auditors work to be used in that way.</p>
	<p><u>Using Internal Auditors to Provide Direct Assistance</u></p>		

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
<p>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 260,¹⁸ 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)</p>	<p>29. In communicating an overview of the planned scope and timing of the audit to those charged with governance in accordance with paragraph .11 of AU-C section 260,¹⁹ 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 <u>should</u>, in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with ISA,²⁰ communicate the nature and extent of the planned <u>how the external auditor plans to use of</u> internal auditors to provide direct assistance, so as to agree that the proposed nature and extent of the use is not excessive. (Ref: Para. A39)</p>		<p>Introductory clause deemed redundant with the requirement in paragraph 26, therefore it was deleted. Change made to improve clarity of requirement and also to eliminate the requirement to explicitly obtain a mutual understanding with those charged with governance that the proposed nature and extent of the use of internal auditors to provide direct assistance is not excessive, as this was not considered necessary in the</p>

¹⁸ ISA 260, *Communication with Those Charged with Governance*, paragraph 15

¹⁹ ~~Paragraph 11 of AU C 260.~~

²⁰ ~~Paragraph 11 of ISA AU C 260., paragraph 15~~

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
			context of audits of nonissuers in the United States. Making the communication required by this paragraph would provide those charged with governance the opportunity to voice any concerns.
<p>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.</p>	<p>The external auditor shall should 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.</p>		<p>Requirement deleted because the ASB believes that it is a redundant requirement (that is, the auditor has sole responsibility for his or her audit opinion, regardless of whether the auditor uses the work of internal auditors or not). In accordance with paragraph 10 of AU-C section 220, <i>Quality Control for an Engagement Conducted in Accordance With</i></p>

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
			<p><i>Generally Accepted Auditing Standards</i>, the engagement partner should take responsibility for the overall quality on each audit engagement to which that partner is assigned. The auditor is required by paragraph 28 of AU-C section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>, to conclude whether sufficient appropriate audit evidence has been obtained.</p>
<p>Using Internal Auditors to Provide Direct Assistance</p>	<p>Using Internal Auditors to Provide Direct Assistance</p>		
<p>33. Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:</p>	<p>Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall: should:</p>		<p>Requirement deleted because, based on historical experience, it is not believed that this</p>

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
<p>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</p> <p>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.</p>	<p>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</p> <p>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.</p>		<p>requirement is necessary for the audits of nonissuers in the United States.</p>
<p>34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220.²¹ In so doing:</p> <p>a. The nature, timing and</p>	<p>30. The external auditor shall<u>should</u> direct, supervise, and review the work performed by internal auditors on the engagement in accordance with ISA-AU-C section 220, <u>Quality Control for an</u></p>	<p>27. In performing the audit, the auditor may request direct assistance from the internal auditors. This direct assistance relates to work the auditor specifically requests the internal auditors to perform to complete some aspect of the auditor's work. For</p>	<p>Because it is unclear as to what the incremental effect of the phrase "recognizing that the internal auditors</p>

²¹ ISA 220, *Quality Control for an Audit of Financial Statements*

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<p>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; and</p> <p>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</p> <p>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)</p>	<p><u>Engagement Conducted in Accordance With Generally Accepted Auditing Standards.</u>²² In so doing:</p> <p>a. The nature, timing, and extent of direction, supervision, and review shall<u>should</u> 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.<u>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 SAS.</u></p> <p>a.b. <u>The external auditor should instruct the internal auditors to bring accounting and auditing issues identified during the audit to the attention of the external auditor;</u> and</p> <p>b. c. The review procedures shall<u>should</u> include the external auditor checking back to the underlying audit evidence for<u>testing</u></p>	<p>example, internal auditors may assist the auditor in obtaining an understanding of internal control or in performing tests of controls or substantive tests, consistent with the guidance about the auditor's responsibility in paragraphs .18 through .22. When direct assistance is provided, the auditor should assess the internal auditors' competence and objectivity (see paragraphs .09 through .11) and supervise, review, evaluate, and test the work performed by internal auditors to the extent appropriate in the circumstances. The auditor should inform the internal auditors of their responsibilities, the objectives of the procedures they are to perform, and matters that may affect the nature, timing, and extent of audit procedures, such as possible accounting and auditing issues. The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's</p>	<p>are not independent to the entity” is on the nature, timing, and extent of the external auditor’s actions, the phrase has been removed. The ASB also believes the fact that internal auditors are not independent of the entity is already encompassed by the evaluation of the factors in paragraph 28 of the proposed SAS.</p> <p>The ASB added the requirement to instruct internal auditors to bring accounting and auditing issues to the attention of the external auditors because that requirement existed</p>

²²—ISA AU C 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*

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	<p>some of the work performed by the internal auditors. (Ref: Para.par. A39A40 A41A40)</p> <p>The direction, supervision, and review by the external auditor of the work performed by the internal auditors shall <u>should</u> 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.</p> <p>(Ref: par. A40_A41)(Ref: Para. A40_A41)</p>	<p>attention.</p>	<p>in the extant. The ASB replaced the wording in paragraph 34(b) of ISA with common terms previously used in the proposed SAS. Requirement in last paragraph deleted because it is redundant with the overall requirements of the auditor to evaluate whether sufficient appropriate audit evidence has been obtained.</p>
<p>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.</p>	<p>31. In directing, supervising, and reviewing the work performed by internal auditors, the external auditor shall<u>should</u> remain alert for indications that the external auditor's evaluations in paragraph 2726 are no longer appropriate.</p>		
<p>Documentation</p>	<p>Documentation</p>		

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<p>36. If the external auditor uses the work of the internal audit function, the external auditor shall include in the audit documentation:</p> <p>a. The evaluation of:</p> <p>i. Whether the function’s organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors;</p> <p>ii. The level of competence of the function; and</p> <p>iii. Whether the function applies a systematic and disciplined approach, including quality control;</p> <p>b. The nature and extent of the work used and the basis for that decision; and</p> <p>c. The audit procedures performed by the external auditor to evaluate the adequacy of the work used.</p>	<p>32. If the external auditor uses the work of the internal audit function, the external auditor shall<u>should</u> include in the audit documentation:</p> <p>a. The <u>results of the</u> evaluation of:</p> <p>i. Whether<u>The</u> function’s organizational status and relevant policies and procedures adequately<u>adequately</u> support the objectivity of the internal auditors;</p> <p>ii. The level of competence of the function; and</p> <p>iii. Whether<u>The</u> <u>application by the</u> function applies<u>of</u> a systematic and disciplined approach, including quality control;</p> <p>b. The nature and extent of the work used <u>(including the period covered by such work)</u> and the basis for that decision; and</p> <p>c. The audit procedures performed by the external auditor to evaluate the</p>		<p>Changed wording in 36.a.i and 36.a.iii to clarify that we document the basis of <i>how</i> such conclusions were reached, as opposed to if those conclusions have been made, as signified by the use of the term <i>whether</i>.</p> <p>Changed 36(b) to clarify that documenting the nature and extent of work includes the period covered by such work.</p>

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	adequacy of the work used.		
<p>37. If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:</p> <ul style="list-style-type: none"> (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 	<p>33. If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall <u>should</u> include in the audit documentation:</p> <ul style="list-style-type: none"> a. The evaluation of the existence and significance of threats to the objectivity of the internal auditors <u>as well as any safeguards that have been put in place to mitigate such threats</u>, and the level of competence of the internal auditors used to provide direct assistance; b. The basis for that <u>the</u> decision regarding the nature and extent of the work performed by the internal auditors; c. The nature and extent of 		Removed item (d) to conform with the deletion of the preceding requirement.

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<p>in accordance with ISA 230;²³</p> <p>(d) The written agreements obtained from an authorized representative of the entity and the internal auditors under paragraph 33 of this ISA; and</p> <p>(e) The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.</p>	<p>the external auditor's review of the audit work in accordance with ISA AU-C section 230; <i>Audit Documentation</i> ²⁴-and</p> <p>d. The written agreements obtained from an authorized representative of the entity and the internal auditors under paragraph 32_33 of this ISASASproposed SAS; and</p> <p>e.d.The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.</p>		
***	***		
Application and Other Explanatory Material	Application and Other Explanatory Material		
Definition of Internal Audit Function (Ref: Para. 2, 14(a))	Definition of Internal Audit Function (Ref: Para. par. 2, 13)		

²³ ISA 230, *Audit Documentation*

²⁴ ~~AU C 230, *Audit Documentation*.~~

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<p>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:</p> <p><i>Activities Relating to Governance</i></p> <ul style="list-style-type: none"> • The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management 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. <p><i>Activities Relating to Risk Management</i></p> <ul style="list-style-type: none"> • The internal audit function may assist the entity by 	<p>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 <u>processes</u> such as the following:</p> <p><i>Activities Relating to Governance Process</i></p> <ul style="list-style-type: none"> • The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management 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. <p><i>Activities Relating to Risk Management Process</i></p> <ul style="list-style-type: none"> • The internal audit function 	<p>.04 An important responsibility of the internal audit function is to monitor the performance of an entity's controls. When obtaining an understanding of internal control, fn 3 the auditor should obtain an understanding of the internal audit function sufficient to identify those internal audit activities that are relevant to planning the audit. The extent of the procedures necessary to obtain this understanding will vary, depending on the nature of those activities.</p> <p>.07 Relevant activities are those that provide evidence about the design and effectiveness of controls that pertain to the entity's ability to initiate, authorize, record, process, and report financial data consistent with the assertions embodied in the financial statements or that provide direct evidence about potential misstatements of such data. The auditor may find the results of the following procedures helpful in assessing the relevancy of internal audit activities:</p> <ol style="list-style-type: none"> Considering knowledge from prior-year audits Reviewing how the internal 	

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<p>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).</p> <ul style="list-style-type: none"> The internal audit function may perform procedures to assist the entity in the detection of fraud. <p><i>Activities Relating to Internal Control</i></p> <ul style="list-style-type: none"> 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 	<p>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).</p> <ul style="list-style-type: none"> The internal audit function may perform procedures to assist the entity in the detection of fraud. <p><i>Activities Relating to Internal Control Process</i></p> <ul style="list-style-type: none"> <i>Evaluation of internal control.</i> 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 	<p>auditors allocate their audit resources to financial or operating areas in response to their risk-assessment process</p> <p>c. Reading internal audit reports to obtain detailed information about the scope of internal audit activities</p>	

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<p>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.</p> <ul style="list-style-type: none"> • 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. 	<p>assurance to management and those charged with governance regarding the design, implementation, and operating effectiveness of internal control, including those that are relevant to the audit.</p> <ul style="list-style-type: none"> • <i>Examination of financial and operating information:—</i>— 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. • <i>Review of operating activities:—</i>— The internal audit function may be assigned to review the economy, efficiency, and effectiveness of operating activities, including non-financial activities of an 		

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<ul style="list-style-type: none"> 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. 	<p>entity.</p> <ul style="list-style-type: none"> <i>Review of compliance with laws and regulations</i> —. 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. 		

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<p>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 to the work of the internal audit function include relevant activities of other functions or third-party providers that have these characteristics.</p>	<p>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 internal auditors. 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 SAS proposed SAS to the work of the internal audit function include relevant activities of other functions or third-party providers that have these characteristics.</p>		
<p>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</p>	<p>A3. In addition However, those in the entity with operational and managerial duties and responsibilities outside of the internal audit function would ordinarily face threats to their</p>	<p>.03 Internal auditors are responsible for providing analyses, evaluations, assurances, recommendations, and other information to the entity's management and those charged with</p>	

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<p>objectivity that would preclude them from being treated as part of an internal audit function for the purpose of this ISA, although they may perform control activities that can be tested in accordance with ISA 330.²⁵ For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.</p>	<p>objectivity that would preclude them from being treated as part of an internal audit function for the purpose of this ISASAS proposed SAS, although they may perform control activities that can be tested in accordance with <u>paragraph .9 of ISA AU-C section 330</u>.²⁶ For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.</p>	<p>governance. To fulfill this responsibility, internal auditors maintain objectivity with respect to the activity being audited.</p>	
<p>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:</p> <ul style="list-style-type: none"> • To obtain information that is relevant to the external auditor’s assessments of the risks of material 	<p>A4. While <u>Although</u> 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:</p> <ul style="list-style-type: none"> • To obtain information that is relevant to the external auditor’s assessments of the risks of material 	<p>17. Some procedures performed by the internal auditors may provide direct evidence about material misstatements in assertions about specific account balances or classes of transactions. For example, the internal auditors, as part of their work, may confirm certain accounts receivable and observe certain physical inventories. The results of these procedures can provide evidence the auditor may consider in restricting detection risk for the related assertions. Consequently, the</p>	<p>Removed the discussion regarding prohibited or restricted by law or regulation because that concept is not relevant. Auditors of nonissuers in the United States are not prohibited, or restricted by law or regulation, from using the work of the internal audit</p>

²⁵ See paragraph 8 of this ISA.

²⁶ ~~See paragraph 98 of this proposed ISASAS.~~

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<p>misstatement due to error or fraud. In this regard, ISA 315 (Revised)²⁷ 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</p> <ul style="list-style-type: none"> • 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 	<p>misstatement due to error or fraud. In this regard, paragraph .6a of ISA-AU-C section 315³⁰ (Revised)³⁴ 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</p> <ul style="list-style-type: none"> • Unless prohibited, or restricted to some extent, by law or regulation, theThe external auditor, after appropriate evaluation, may decide to use work that has been performed by the internal audit function during the period <u>being</u> 	<p>auditor may be able to change the timing of the confirmation procedures, the number of accounts receivable to be confirmed, or the number of locations of physical inventories to be observed.</p>	<p>function or using internal auditors to provide direct assistance.</p> <p>Added language in the last bullet to clarify the impact that using the work performed by the internal audit function has on the procedures performed directly by the external auditor.</p>

²⁷ ISA 315 (Revised), paragraph 6(a)

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<p>audit evidence to be obtained directly by the external auditor.²⁸</p> <p>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).²⁹</p>	<p><u>audited to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, that is, use the work of the internal audit function in partial substitution for audit evidence to be obtained directly by the external auditor (see paragraphs A16A17 A17A19A20A19).</u>³²</p> <p>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 <u>ISA proposed SAS</u>).³³</p>		

³⁰ ~~Paragraph 6a of AU C 315~~

³¹ ~~ISA 315 (Revised), paragraph 6(a)~~

²⁸ See paragraphs 15-25 of this ISA.

²⁹ See paragraphs 26-35 of this ISA.

³² See paragraphs 1413-25, ~~22-23~~ of this proposed ISASAS.

³³ See paragraphs 2627-31, ~~35~~ of this proposed ISASAS.

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Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used	Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used		
<i>Evaluating the Internal Audit Function</i>	<i>Evaluating the Internal Audit Function</i>		
Objectivity and Competence (Ref: Para. 15(a)–(b))	Objectivity and Competence (Ref: Para 15 .par. 14(a)–(b))		
<p>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.</p>	<p>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.</p>		
<p>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.</p>	<p>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.</p>		

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<p>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:</p> <ul style="list-style-type: none"> • 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 	<p>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 of <u>objectivity</u> include the following:</p> <ul style="list-style-type: none"> • 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 	<p>10 When assessing the internal auditors' objectivity, the auditor should obtain or update information from prior years about such factors as—</p> <ul style="list-style-type: none"> • The organizational status of the internal auditor responsible for the internal audit function, including— • Whether the internal auditor reports to an officer of sufficient status to ensure broad audit coverage and adequate consideration of, and action on, the findings and recommendations of the internal auditors. • Whether the internal auditor has direct access and reports regularly to those charged with governance. • Whether those charged with governance oversee employment decisions related to the internal auditor. • Policies to maintain internal auditors' objectivity about the areas audited, including— • Policies prohibiting internal auditors from auditing areas 	

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<p>responsibilities, for example, having managerial or operational duties or responsibilities that are outside of the internal audit function.</p> <ul style="list-style-type: none"> • 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 	<p>conflicting responsibilities, for example, having managerial or operational duties or responsibilities that are outside of the internal audit function.</p> <ul style="list-style-type: none"> • 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 <u>exist</u>, 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 	<p>where relatives are employed in important or audit-sensitive positions.</p> <ul style="list-style-type: none"> • Policies prohibiting internal auditors from auditing areas where they were recently assigned or are scheduled to be assigned on completion of responsibilities in the internal audit function. 	

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<p>relevant professional standards relating to objectivity, or whether their internal policies achieve the same objectives.</p>	<p>their compliance with relevant professional standards relating to objectivity, or whether their internal policies achieve the same objectives.</p>		
<p>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:</p> <ul style="list-style-type: none"> • 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 	<p>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 <u>of competence</u> include the following:</p> <ul style="list-style-type: none"> • 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 <u>exist</u>. • Whether the internal 	<p>.09 When assessing the internal auditors' competence, the auditor should obtain or update information from prior years about such factors as—</p> <ul style="list-style-type: none"> • Educational level and professional experience of internal auditors. • Professional certification and continuing education. • Audit policies, programs, and procedures. • Practices regarding assignment of internal auditors. • Supervision and review of internal auditors' activities. • Quality of working-paper documentation, reports, and recommendations. • Evaluation of internal auditors' performance. 	<p>Change made for clarity.</p>

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<p>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.</p> <ul style="list-style-type: none"> • 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 	<p>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.</p> <ul style="list-style-type: none"> • 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 		

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professional development requirements.	including continuing professional development requirements.		
<p>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.</p>	<p>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.</p>	<p>.11 In assessing competence and objectivity, the auditor usually considers information obtained from previous experience with the internal audit function, from discussions with management personnel, and from a recent external quality review, if performed, of the internal audit function's activities. The auditor may also use professional internal auditing standards as criteria in making the assessment. The auditor also considers the need to test the effectiveness of the factors described in paragraphs .09 and .10 . The extent of such testing will vary in light of the intended effect of the internal auditors' work on the audit. If the auditor determines that the internal auditors are sufficiently competent and objective, the auditor should then consider how the internal auditors' work may affect the audit.</p>	
Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))	Application of a Systematic and Disciplined Approach (Ref: Para. 15 par. 14(c))		
A10. The application of a	A10. The application of a		

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<p>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.</p>	<p>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.</p>		
<p>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:</p> <ul style="list-style-type: none"> • 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 	<p>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:</p> <ul style="list-style-type: none"> • 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 <u>nature and size of the internal audit function relative to the complexity of the entity.</u> and circumstances of an entity. • Whether the internal audit function has appropriate quality control policies 		<p>Clarified to take into account the concept that the internal audit function size and complexity may not be a direct correlation with the size of the entity.</p>

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<p>ISQC 1³⁴ 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.</p>	<p>and procedures, for example, such as those policies and procedures in ISQC 1³⁵ 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.</p>		

³⁴ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

³⁵ ~~International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*~~

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	<p>A12. <u>The auditor’s determination of whether the internal audit function applies a systematic and disciplined approach is intended to address the risk that the auditor inappropriately uses internal audit-like work performed in an informal, unstructured, or ad hoc manner. However, the level of formality of an acceptable approach may vary depending on the nature and size of the internal audit function relative to the complexity of the entity.</u></p>		<p>Added application guidance to establish the concept that the systematic and disciplined approach is scalable for an entity’s particular circumstances, and to provide support for the auditor’s evaluation thereof being a function of the particular facts and circumstances.</p>
<p>Circumstances When Work of the Internal Audit Function Cannot Be Used (Ref: Para. 16)</p>	<p>Circumstances When Work of the Internal Audit Function Cannot Be Used (Ref: Para 16 par. 15)</p>		
<p>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</p>	<p>A13. 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</p>		

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appropriate to use any of the work of the function as audit evidence.	appropriate to use any of the work of the function as audit evidence.		
<p>A13. Consideration of the factors in paragraphs A7, A8, and A11 of this ISA 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 collectively provide sufficient safeguards to reduce the threat to an acceptable level.</p>	<p>A14. Consideration of the factors in paragraphs A7, A8, and A11 of this ISA proposed SASs 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 <u>other than for budgetary purposes</u>, this would <u>may</u> be considered a significant threat to the <u>impair</u> decrease <u>impair</u> the function’s objectivity unless other factors such as those described in paragraph A7 of this ISA SAS collectively provide <u>absent</u> sufficient safeguards precautions <u>safeguards</u> to reduce the threat to an acceptable level, for example, having direct access and performance accountability to those charged with governance.</p>		<p>Edits made to improve the clarity of the example provided in the last sentence.</p>

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<p>A14. In addition, the IESBA Code³⁶ 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 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 Code³⁷ 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</p>	<p>A15. In addition, the IESBA Code³⁸ 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 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. Accordingly, theThe nature of the services needs to be considered. The AICPA Code of Professional Conduct addresses the provision of non attest services³⁹ by the external auditor,</p>		<p>References to the IESBA Code have been deleted and not replaced with references to the U.S. Ethics Code because the U.S Ethics Code does not contain the same content as explicitly as the IESBA Code.</p>

³⁶ The International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (IESBA Code), Section 290.199

³⁷ IESBA Code, Section 290.195–290.200

~~³⁸ ISA 300, *Planning an Audit of Financial Statements*~~

~~³⁸ ISA AU C 300, *Planning an Audit of Financial Statements*~~

~~³⁸ ISA 600, *Special Consideration*~~

~~³⁹ AICPA Code of Professional Conduct, ET Section 101, Interpretation 101-3 *Performance of Nonattest Services*~~

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level in other circumstances.	including internal audit services. ⁴⁰ The IESBA Code ⁴¹ 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.		
<i>Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used</i>	<i>Determining the Nature and Extent of Work of the Internal Audit Function</i> that <i>That Can Be Used</i>		
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)	Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that <u>That</u> Can Be Used (Ref: Para. 17–19 <u>par. 16–19</u>)		
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: <ul style="list-style-type: none"> • Assessing the risks of material misstatement; 	A16. Since Because 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 16 18 . Significant judgments include the following: <ul style="list-style-type: none"> • Assessing the risks of material misstatement; 		Clarified to include the fact that the auditor should be evaluating if there is substantial doubt as to an entity’s ability to continue as a going concern and included the concept that said evaluation is for a

⁴⁰ ~~AICPA Code of Professional Conduct, ET Section 101, Interpretation 101-1, Performance of Nonattest Services~~~~Independence~~

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<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Evaluating the sufficiency of tests performed; • Evaluating the appropriateness of management’s use of the going concern assumption <u>and whether there is substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time;</u> • Evaluating significant accounting estimates; and • Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor’s report. 		reasonable period of time.
<p>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</p>	<p>A17. 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</p>		

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audit strategy and audit plan that the external auditor has established in accordance with ISA 300. ⁴²	audit strategy and audit plan that the external auditor has established in accordance with ISA <u>AU-C</u> section 300, <i>Planning an Audit</i> . ⁴³		
<p>A16.Examples of work of the internal audit function that can be used by the external auditor include the following:</p> <p>Testing of the operating effectiveness of controls.</p> <p>Substantive procedures involving limited judgment.</p> <p>Observations of inventory counts.</p>	<p>A18. 17a. In accordance with AU-C section 330 the external auditor is required to design and perform further audit procedures whose nature, timing, and extent are based on, and responsive to, the assessed risks of material misstatement at the relevant assertion level.⁴⁴ Further audit procedures comprise tests of controls and substantive procedures. Procedures planned or performed by the internal audit function may be the same as, or be similar to the further audit procedures that the external auditor would design and perform. and a Accordingly, subject to the requirements of this <u>proposed SAS</u>, the external auditor may determine that it is appropriate to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of further audit</p>		<p>Took application guidance from the first three bullets of paragraph A16 of the ISA and expanded that guidance (using guidance from the extant standard as a starting point) with the intent of clarifying the impact on the nature, timing, and extent of tests performed directly by the external auditor.</p>

⁴² ISA 300, *Planning an Audit of Financial Statements*

⁴³ ~~ISA AU C 300, *Planning an Audit of Financial Statements*~~

⁴⁴ Paragraph .06 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

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	<p>procedures to be performed directly by the external auditor. The internal audit function may have performed, or may be planning to perform:</p> <ul style="list-style-type: none"> • Tests of relevant controls upon which the external auditor intends to rely in determining the nature, timing, and extent of substantive procedures. For example, the work of the internal audit function may include tests of relevant controls that address the risks of material misstatement related to the completeness of accounts payable. The results of internal audit function's tests may provide sufficient appropriate audit evidence about the effectiveness of controls and accordingly, the external auditor may be able to use such tests of controls performed by the internal audit function to reduce the nature, and extent of testing of controls the external 		

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	<p>auditor would otherwise have performed directly.</p> <ul style="list-style-type: none"> Substantive procedures. For example, the internal audit function, as part of its work, may confirm certain accounts receivable and observe certain physical inventories. By using such work of the internal audit function, the <u>external</u> auditor may be able to change the timing of the confirmation procedures, the number of accounts receivable to be confirmed, or the number of locations of physical inventories to be observed. <p>The internal audit function's plan may also include procedures related to financial information of components of a group. The external auditor may coordinate work with the internal auditors (in accordance with paragraph 21 and reduce the number of the entity's components at which the external auditor would otherwise need to perform auditing procedures</p>		

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	<p>in accordance with the requirements of AU-C Section 600, <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>.</p> <p>⁴⁵</p>		
<p>A16. Examples of work of the internal audit function that can be used by the external auditor include the following:</p> <ul style="list-style-type: none"> • 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. 	<p>A19. Other examples of work of the internal audit function that can be used by the external auditor include the following:</p> <ul style="list-style-type: none"> • 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. <p>In some circumstances, audits</p>		<p>Moved certain bullets to the application guidance in paragraph A18 of the proposed SAS.</p>

⁴⁵ ~~AU C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.~~

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<ul style="list-style-type: none"> In some circumstances, audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of ISA 600).⁴⁶ 	<p>or reviews of procedures related to the financial information of subsidiaries that are not significant components to the group (where when this does not conflict with the requirements of ISA AU C 600).⁴⁷</p>		
<p>A16. 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. In addition, the amount of judgment needed in planning, performing and evaluating such work and the assessed risk of material misstatement at the assertion</p>	<p>A20. 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 18-14 of this ISA <u>proposed SAS</u>. In addition, the amount of judgment needed in planning, performing, and evaluating such work and the assessed risk of material</p>		

⁴⁶ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁴⁷ ~~ISA AU C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~

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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 auditor function for purpose of the audit as described in paragraph 16 of this ISA.	misstatement at the assertion level are inputs to the external auditor’s determination. Further, there are circumstances <u>exist</u> in which the external auditor cannot use the work of the internal auditor function for purpose of the audit as described in paragraph 16-15 of this ISA <u>proposed SAS</u> .		
Judgments in planning and performing audit procedures and evaluating results (Ref: Para. 18(a), 30(a))	Judgments in planning <u>Planning</u> and performing <u>Performing</u> audit procedures <u>Audit procedures</u> and evaluating <u>Evaluating</u> results Results (Ref: Para. par. <u>18(a)</u>)		
<p>A17. 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 16 of this ISA, because using the work of the internal audit function alone will not provide the external auditor with sufficient appropriate audit evidence.</p> <p>A18. A19 has been moved above preceding A15</p>	<p>A21. <u>As the degree of</u> The greater the <u>judgment needed to be exercised</u> involved in planning and performing the audit procedures and evaluating the audit evidence <u>increases, the need for the external auditor to</u> will need to perform more procedures directly in accordance with paragraph 16 <u>18</u> of this ISA <u>proposed SAS</u> increases, <u>because using the work of the internal audit function alone will not provide the external auditor with sufficient appropriate audit evidence.</u></p>		Clarified to emphasize the concept that the level of judgment is to be viewed as a continuum.
Assessed risk of material misstatement (Ref: Para. 18(b))	Assessed risk <u>Risk</u> of material <u>Material misstatement</u> Misstatement (Ref: Para. <u>par.</u> 18-19 <u>18</u> (b), 30-31 <u>(a)</u>)		

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<p>A19. 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, and accordingly, make less use of the work of the internal audit function in obtaining sufficient appropriate audit evidence. Furthermore, as explained in ISA 200,⁴⁸ 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.</p>	<p>A22. 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 19 of this ISA SAS <u>proposed SAS</u>, and accordingly, make less use of the work of the internal audit function in obtaining sufficient appropriate audit evidence. Furthermore, as explained in <u>paragraph .A33 of ISA—AU-C section 200</u>,⁴⁹ 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.</p>		

⁴⁸ ISA 200, paragraph A29

⁴⁹ ~~Paragraph A33 of ISA AU C 200~~

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<p>A20. As explained in ISA 315 (Revised),⁵⁰ 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 risks 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.</p>	<p>A23. As explained in <u>paragraph .4 of ISA-AU-C section 315, (Revised)</u>⁵¹ 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<u>when</u> the risks 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.</p>		
<p>A21. Carrying out procedures in accordance with this ISA 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</p>	<p>A24. Carrying out procedures in accordance with this ISA<u>proposed SAS</u> may cause the external auditor to reevaluate their <u>external auditor’s</u> assessment of the risks of material misstatement. Consequently, this may affect the external auditor’s determination of whether <u>and how to</u> use the work of the internal audit</p>		

⁵⁰ ISA 315 (Revised), paragraph 4(e)

⁵¹ ~~Paragraph 4e of ISA AU C 315 (Revised), paragraph 4(e)~~

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further application of this ISA is necessary.	function, and whether further application of this ISA SAS <u>proposed SAS is necessary.</u>		
Communication with Those Charged with Governance (Ref: Para. 20)	Communication with <u>With Those Charged with Governance</u> (Ref: Para. <u>par.</u> 20)		
A22. In accordance with ISA 260, ⁵² 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.	A25. In accordance with <u>paragraph .11 of ISA–AU-C section 260,</u> ⁵³ 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	Using the Work of the Internal Audit Function		
<i>Discussion and Coordination with the Internal Audit Function</i> (Ref: Para. 21)	<i>Discussion and Coordination with</i> <u><i>With the Internal Audit Function</i></u> (Ref: Para. <u>par.</u> 21)		

⁵² ISA 260, *Communication with Those Charged with Governance*, paragraph 15

⁵³ ~~Paragraph 11 of ISA 260~~AU C 260., *Communication with Those Charged with Governance*, paragraph ~~15~~11

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<p>A23. 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:</p> <ul style="list-style-type: none"> • 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. 	<p>A26. In discussing the planned use of their<u>its</u> work with the internal audit function as a basis for coordinating the respective activities, it may be useful to address the following:</p> <ul style="list-style-type: none"> • 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. 	<p>23. If the work of the internal auditors is expected to have an effect on the auditor's procedures, it may be efficient for the auditor and the internal auditors to coordinate their work by—</p> <ul style="list-style-type: none"> • Holding periodic meetings. • Scheduling audit work. • Providing access to internal auditors' working papers. • Reviewing audit reports. • Discussing possible accounting and auditing issues. 	

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<p>A24. Coordination between the external auditor and the internal audit function is effective when, for example:</p> <ul style="list-style-type: none"> • 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. 	<p>A27. Coordination <u>For example, coordination</u> between the external auditor and the internal audit function is effective when, for example:</p> <ul style="list-style-type: none"> • 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. • <u>The external auditor</u> 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. <p><u>Although the auditor is not precluded from using work that the internal audit function has already performed, coordination of activities between the</u></p>		<p>Last sentence added to clarify that coordination is most effective when it occurs prior to the work being performed by the internal auditor; however, the external auditor is not precluded from coordinating use of work already performed.</p>

ISA 610 (Revised 2013)*	Proposed SAS†	Extant AU 322	Comments
	<p><u>external auditor and internal audit function is likely to be most effective when appropriate interaction occurs before the internal audit function performs the work.</u></p>		
<p>A25. ISA 200⁵⁴ 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.</p>	<p>A28. Paragraphs .17 and .A22 of <u>ISA-AU-C section 200</u>⁵⁵ 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.</p>		<p>Split the content of ISA paragraph A26 into two paragraphs to give more prominence to the guidance on communications with the internal audit function in paragraph A29.</p>
<p>Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the</p>	<p>A28.A29. <u>Accordingly,</u> communication <u>Communication</u> with the internal audit function throughout the engagement may provide</p>		

⁵⁴ ISA 200, paragraphs 15 and A18

⁵⁵ ~~Paragraphs 17 and A22 of ISA AU C 200,~~ paragraphs 15 and A18

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<p>work of the external auditor to the external auditor’s attention.⁵⁶ 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 identification of risk of material misstatement due to fraud in accordance with ISA 240.⁵⁷</p>	<p>opportunities for internal auditors to bring matters that may affect the work of the external auditor to the external auditor’s attention.⁵⁸ 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 identification of risk of material misstatement due to fraud in accordance with <u>ISA—240—AU-C section 240, <i>Consideration of Fraud in a Financial Statement Audit.</i></u>⁵⁹</p>		
<p><i>Procedures to Determine the Adequacy of Work of the Internal Audit Function</i> (Ref: Para. 23–24)</p>	<p><i>Procedures to Determine the Adequacy of the Work of the Internal Audit Function</i> (Ref: Para.par. 23–24)</p>		

⁵⁶ ISA 315 (Revised), paragraph A116

⁵⁷ ISA 315 (Revised), paragraph A11 in relation to ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁵⁸ Paragraph A11~~68~~ of AU-C section 315

⁵⁹ Paragraph A11 of AU-C section 315 , in relation to ~~ISA~~AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*

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<p>A26. 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.</p>	<p>A29A30. 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.</p>		
<p>A27. 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:</p> <ul style="list-style-type: none"> • 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. 	<p>A30A31. 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:</p> <ul style="list-style-type: none"> • 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. 	<p>25. In developing the evaluation procedures, the auditor should consider such factors as whether the internal auditors’—</p> <ul style="list-style-type: none"> • Scope of work is appropriate to meet the objectives. • Audit programs are adequate. • Working papers adequately document work performed, including evidence of supervision and review. • Conclusions are appropriate in the circumstances. • Reports are consistent with the results of the work performed. 	
<p>A28. The more judgment involved, the higher the assessed risk of material misstatement, the less the</p>	<p>A31A32. The more judgment involved, the higher the assessed risk of material misstatement; the <u>The</u></p>		

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<p>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.</p>	<p>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.</p>		
<p>Reperformance (Ref: Para. 24)</p>	<p>Reperformance (Ref: Para. par. 24)</p>		
<p>A29. For purposes of this ISA, 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. Repformance provides more persuasive evidence regarding the adequacy of the work of the internal audit function compared to</p>	<p>A32.A33. For purposes of this ISA<u>SAS</u> proposed SAS, 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—controls, transactions or balances items not actually examined by the internal audit function. Repformance provides more persuasive evidence</p>		<p>Removed language indicating that there is a preference for examining items already examined by the internal audit function as opposed to other similar items. The extant U.S. standard does not establish a preference for either method of reperformance. The ASB believes that either is acceptable.</p>

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<p>other procedures the external auditor may perform in paragraph A27. 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 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.</p>	<p>regarding the adequacy of the work of the internal audit function compared to other procedures the external auditor may perform <u>as described in paragraph A28A31</u> While <u>Although</u> 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 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.</p>		
<p>Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance</p>	<p>Determining Whether, in Which Areas, and, to What Extent Internal Auditors Can Be Used to Provide Direct Assistance</p>		
<p><i>Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit</i> (Ref: Para. 5, 26-28)</p>	<p><i>Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit</i> (Ref: Para. 5, 26, 28 <u>par. 26-27, 30(e)</u>)</p>		

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<p>A30. 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.⁶⁰</p>	<p>Even in jurisdictions where the external auditor is prohibited by law or regulation from obtaining direct assistance from internal auditors, it is relevant for group auditors in those jurisdictions to be aware that component auditors may be in jurisdictions where such practices are allowed and if so, the group auditor may need to address the prohibition in their group engagement team's letter of engagement.⁶⁴</p>		<p>Removed the discussion of prohibited or restricted by law or regulation because that concept is not relevant. Auditors of nonissuers in the United States are not prohibited, or restricted by law or regulation, from using the work of the internal audit function or using internal auditors to provide direct assistance.</p>
	<p><u>A33.A34.</u> The external auditor may obtain direct assistance from the internal auditors to carry out audit procedures which otherwise would be performed directly by the external auditors themselves. In such</p>		<p>The ASB decided to retain this guidance which was taken from paragraph A32 of the ISA 610 December 2011</p>

⁶⁰ ISA 600, paragraph 40(b)

~~⁶⁴ ISA 600, paragraph 40~~

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	<p><u>circumstances, the internal auditors are under the direction, supervision, and review of the external auditor.</u></p>		<p>version.</p>
	<p><u>A34.A35. In accordance with paragraph 26 of this proposed SAS, the external auditor evaluates the existence and significance of any threats to the objectivity and the level of competence of the internal auditors who are used to provide direct assistance on the audit before assigning them to specific tasks. Evaluating the existence and significance of threats to objectivity includes evaluating safeguards that have been put in place to mitigate such threats.</u></p>		<p>The ASB decided to retain this guidance which was taken from paragraph A33 of the IAASB December 2011 version.</p> <p>Added application guidance to evaluate any mitigating safeguards that have been put in place to mitigate threats to objectivity as this is considered necessary to the external auditor’s evaluation of objectivity of internal auditors.</p>
<p>A32. As stated in paragraph A7 of this ISA, 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</p>	<p>A35.—As stated in paragraph A7 A9 of this ISA <u>proposed SAS</u>, 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 any</p>		<p>Changed to make it clear that the external auditor’s evaluation of the internal auditor’s objectivity can include evaluation of the function’s</p>

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<p>to the objectivity of an internal auditor, the following factors may be relevant:</p> <ul style="list-style-type: none"> • The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors⁶² • 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 	<p>threats to the objectivity of an <u>individual internal auditor, the external auditor may consider the following factors may be relevant:</u></p> <p>A36. <u>The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors, including, for example, policies and procedures addressing with an individual working in, or responsible for, the aspect of the entity to which the work relate</u></p> <p>A37. <u>Association— with the division or department in the entity to which the work relates. Additionally, other matters may come to the external auditor’s attention that may be relevant to the external auditor’s evaluation of the objectivity of the internal auditor.</u></p> <p>A38. <u>A36. Financial interests that are exceptional in the circumstances</u></p> <p>Material issued by relevant</p>		<p>policies and procedures concerning association with other divisions or departments, and to also indicate that this matter is not the only one which could impact the evaluation of objectivity.</p>

⁶² See paragraph A7A8.

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<p>level of seniority that are exception in the circumstances.</p> <p>Material issued by relevant professional bodies for internal auditors may provide additional useful guidance. Financial interests that are exceptional in the circumstances</p>	<p>professional bodies for internal auditors may provide additional useful guidance.</p>		
<p>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 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</p>	<p>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 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</p>		<p>The requirement to which this application guidance relates was also omitted from the proposed SAS because it was not considered necessary in the context of nonissuers in the United States. Additional application guidance was added in paragraph A38 to address the concepts in this application guidance somewhat differently.</p>

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<p>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).</p>	<p>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).</p>		
<p>A34. In evaluating the level of competence of an internal auditor, many of the factors in paragraph A8 of this ISA may also be relevant, applied in the context of individual internal auditors and the work to which they may be assigned.</p>	<p>A39.<u>A37.</u> In evaluating the level of competence of an internal auditor, many of the factors in paragraph A8 of this ISA <u>proposed SAS</u> may also be relevant but in the context of individual internal auditors and the work to which they may be assigned.</p>		
<p><i>Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance (Ref: Para. 29–31)</i></p>	<p><i>Determining the Nature and Extent of Work that That Can Be Assigned to Internal Auditors Providing Direct Assistance (Ref: Para 29–31 par. 28)</i></p>		
<p>A35. Paragraphs A15-A22 of this ISA provide relevant guidance in determining the nature and extent of work that may be assigned to internal auditors.</p>	<p>A40.<u>A38.</u> Paragraphs A15–A22 <u>A16–A24</u> of this ISA <u>proposed SAS</u> provide relevant guidance in determining the nature and extent of work that may be assigned to internal</p>		<p>Clarified to add application guidance to cover the concept that the need for the external</p>

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	<p>auditors. <u>As the materiality of the financial statement amounts increases and either the assessed risks of material misstatement or the amount of judgment involved increases, the need for the external auditor to perform procedures directly increases. As these factors decrease, the need for the external auditor to perform procedures directly testing decreases.</u></p>		<p>auditor to perform more direct testing is a matter of professional judgment based on the risks of material misstatement.</p>
<p>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:</p> <ul style="list-style-type: none"> • Discussion of fraud risks. However, the external auditors may make inquiries of internal auditors about fraud risks in the organization in 	<p>A41-A39. <u>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:</u></p> <ul style="list-style-type: none"> • Discussion <u>Making required inquiries of entity personnel or those charged with governance related to the identification of fraud risks</u> 		<p>Change made to clarify the procedures that internal audit should not perform (that is, making inquiries related to the identification of fraud risks and the related procedures).</p>

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<p>accordance with ISA 315 (Revised)⁶³</p> <ul style="list-style-type: none"> Determination of unannounced audit procedures as addressed in ISA 240 	<p>and determining—the procedures to respond to such risks. However, the external auditors may make inquiries of internal auditors about fraud risks in the organization in accordance with paragraph 6a of ISA-AU-C section 315 (Revised)⁶⁴</p> <ul style="list-style-type: none"> Determination of unannounced—unpredictable audit procedures as addressed in ISA-AU-C section 240. 		
<p>A37. Similarly, since in accordance with ISA 505⁶⁵ 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</p>	<p>A37. Similarly, since in accordance with ISA AU-C 505⁶⁶ 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</p>		<p>The ASB believes the interpretation of AU-C section 505, <i>External Confirmations</i>, contained in this application paragraph is not consistent with AU-C section 505, which does not</p>

⁶³ ISA 315 (Revised), paragraph 6(a)

⁶⁴ Paragraph 6a of ISA-AU-C section 315 (Revised), paragraph 6(a)

⁶⁵ ISA 505, paragraphs 7 and 16

⁶⁶ ISA AU-C 505, paragraphs 7 and 16

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<p>exceptions in confirmation responses.</p>	<p>exceptions in confirmation responses.</p>		<p>address the use of internal auditors in this capacity, let alone prohibit their use in assisting with a broader range of activities related to confirmations than what is described in the ISA.</p>
<p>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 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.</p>	<p>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 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.</p>		<p>This application not considered necessary given the prevalent use of internal auditors by the auditors of nonissuers in the United States. In our jurisdiction, an internal auditor who possesses the knowledge and experience of the entity may assist the external auditor in a judgmental area, although the amount of reperformance testing might increase and there may be certain aspects of the work</p>

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			that the external auditor would perform directly.
<p>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.</p>	<p>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.</p>		<p>Application guidance deleted because, based on historical experience, it is not believed that this perception exists in audits of nonissuers in the United States.</p>
<p>Using Internal Auditors to Provide Direct Assistance (Ref: Para. 34)</p>	<p>Using Internal Auditors to Provide Direct Assistance (Ref: Para.par. 2932_3034)</p>		
<p>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.</p>	<p>A42.A40. <u>The direction, supervision, and review by the external auditor of the audit procedures performed by the internal auditors need to be sufficient in order for the external auditor to be satisfied that sufficient appropriate audit evidence the internal auditors have obtained sufficient appropriate audit evidence has been obtained to support the conclusions based on that work.</u> 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</p>		<p>Changes made to provide for appropriate flexibility in the necessary involvement in supervision and to clarify that it’s the external auditor who decides that sufficient appropriate audit evidence has been obtained.</p>

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	<p>external auditor's <u>involvement in these circumstances</u> direction, supervision, and review of the work performed by internal auditors providing direct assistance will <u>generally</u> may be of a different nature and or may be more extensive than if members of the engagement team perform the work.</p>		
<p>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.</p>	<p>A43.A41. <u>The nature, timing, and extent of direction, supervision, and review of the audit procedures performed by the internal auditors is also dependent on the outcome of the external auditor's evaluation of the objectivity and the level of competence of, and the nature and extent of audit procedures to be performed by, the internal auditors.</u> In <u>Directing and supervising the internal auditors involves informing them of their responsibilities, the objectives of the procedures they are to perform, and matters that may affect the nature, timing, and extent of audit procedures, such as possible accounting and auditing issues.</u> 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</p>	<p>.27 In performing the audit, the auditor may request direct assistance from the internal auditors. This direct assistance relates to work the auditor specifically requests the internal auditors to perform to complete some aspect of the auditor's work. For example, internal auditors may assist the auditor in obtaining an understanding of internal control or in performing tests of controls or substantive tests, consistent with the guidance about the auditor's responsibility in paragraphs .18 through .22. When direct assistance is provided, the auditor should assess the internal auditors' competence and objectivity (see paragraphs .09 through .11) and supervise, review, evaluate, and test the work performed by internal auditors to the extent appropriate in the circumstances. The auditor should inform the internal</p>	<p>Added application guidance for new requirement included in the proposed standard based on a requirement in the extant.</p>

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	<p>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.</p>	<p>auditors of their responsibilities, the objectives of the procedures they are to perform, and matters that may affect the nature, timing, and extent of audit procedures, such as possible accounting and auditing issues. The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's attention.</p>	