

**Using the Work of Internal Auditors  
(Relevant to AAT Examination PBE Paper III Auditing and Information Systems  
and Paper 8 – Principles of Auditing and Management Information Systems)**

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**Introduction**

The International Auditing and Assurance Standards Board (IAASB) issues International Standards on Auditing (ISA) for international use. To enhance the overall quality of audit, IAASB published a consultation draft on a proposed revision to ISA 610 “Using the Work of Internal Auditors”. The objective of revising ISA 610 is to enhance the performance of external auditors by enabling them to better leverage the knowledge and findings of internal auditors, and to strengthen the framework for the evaluation and use of internal auditors’ work in obtaining audit evidence. After consultation, ISA 610 (Revised) was approved and released. In December 2012, The Hong Kong Institute of Certified Public Accountants revised the Hong Kong Standard on Auditing (HKSA) 610 (Revised 2013) to conform with ISA 610 (Revised). The HKSA 610 (Revised 2013) will apply to audits of financial statements for periods beginning on or after 15 December 2013. This article highlights the requirements for using the work of internal auditors.

**Objectives**

HKSA 315 (Revised) addresses how the knowledge and experience of the internal audit function can inform external auditors’ understanding of the entity and its environment and identification and assessment of risks of material misstatement. Where the entity has an internal audit function and the external auditors expect to use the work of the internal audit function to modify the nature or timing or reduce the extent and procedures of their external audit work, external auditors have to make reference to HKSA 610 (Revised 2013). HKSA 610 (Revised 2013) states that external auditors have to determine whether the work of internal audit function can be used, and if so, in which areas and to what extent; having made such a determination, external auditors have to determine whether that work is adequate for purposes of their audit.

**Requirements**

**Determining Whether and to What Extent to Use the Work of the Internal Audit Function**

The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competence of internal audit function, and

whether the internal audit function applies a systematic and disciplined approach. The external auditor shall not use the work of internal audit function if it has a low degree of objectivity and low level of competence. Objectivity refers to the ability to perform without allowing bias, conflict of interest or undue influence of others. Competence refers to the attainment and maintenance of knowledge and skills at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards. The higher the degree of objectivity and level of competence, the more likely it is that the external auditor may make use of the work of the internal audit function in more areas. Regarding application of a systematic and disciplined approach, the external auditor shall consider the existence and adequacy of internal audit manuals and other documentation and reports prepared by the internal audit function, and whether the internal audit function has appropriate quality control policies and procedures.

In determining the planned use of the work of internal audit function, the external auditor shall consider the external auditor's evaluation of the degree of objectivity and level of competence of the internal audit function, the nature and scope of work performed or to be performed by the internal audit function and its relevance to the external auditor's audit plan and strategy. The amount of judgment involved in planning and performing relevant audit procedures and in evaluating the audit evidence gathered by the internal audit function in support of the relevant assertions also affects the planned use of the work of internal audit function. The greater the amount of judgment that is needed to be exercised in planning and performing audit procedures and evaluating the results thereof, the more likely that the external auditor may need to perform some procedures directly because consideration of the work of the internal audit function alone is unlikely to provide the external auditor with sufficient appropriate audit evidence.

Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor shall make significant judgment in his audit engagement and plan to directly perform audit procedures regardless of the external auditor's decision to use the work of the internal audit function. Significant judgments include assessing the risks of material misstatement, evaluating the sufficiency of tests performed, evaluating the appropriateness of management's use of the going concern assumption, evaluating significant accounting estimates, and evaluating the adequacy of disclosures in the financial statements.

If the external auditor plans to use the work of the internal audit function, the external auditor shall discuss and co-ordinate with the internal audit function the planned use of their work. The discussion can include the timing of the work of internal audit function, the extent of audit coverage, the proposed methods of item selection, the documentation of the work performed, the materiality level for the financial statements as a whole, and the review and reporting procedures. Co-ordination is effective when discussion takes place throughout the period; the external auditor is advised of and has access to relevant internal control reports and is informed of any significant matters that come to the attention of the internal audit function when such matters may affect the work of external auditors so that the external auditor may consider the implications of such matters for the audit engagement; and the external auditor informs the internal audit function of any significant matters that may affect the internal audit function.

## **Using the Work of the Internal Audit Function**

Where the external auditor plans to use the work of the internal audit function, the external auditor shall read the reports of the internal audit function relating to such work. The external auditor shall perform 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 engagement. In determining the adequacy of such work, the external auditor shall evaluate whether the work of the internal audit function was properly planned, performed, supervised, reviewed and documented; whether adequate audit evidence has been obtained to enable the internal audit function to draw reasonable conclusions; and whether the conclusions reached are appropriate and reports prepared by internal audit function are consistent with the results of the work performed.

Work of the internal audit function that may be used by the external auditor include testing of the operating effectiveness of controls, substantive procedures, observation of inventory counts, tracing transactions through the information system relevant to financial reporting, and audits or reviews of the financial information of subsidiaries that are not significant components to the group. The external auditor may perform procedures to appraise the quality of the work performed and conclusions reached by internal audit function. Procedures include reviewing the work programme and working papers of internal audit function, re-performing some of the work of internal audit function, and observing the procedures performed by internal audit function.

## **Obtaining Direct Assistance from Internal Auditors**

The external auditor may be prohibited by law or regulations from obtaining direct assistance from internal auditors. If the external auditor may obtain direct assistance from internal auditors, the external auditor shall evaluate the objectivity and competence of the internal auditors. If the objectivity or competence is low, the external auditor should not obtain direct assistance from internal auditors.

In determining the work that may be assigned to individual internal auditors and the amount of direction, supervision and review that is appropriate, the external auditor shall consider three elements. First, the external auditor's evaluation of the objectivity and competence level of the internal auditors who will provide assistance to external auditors. Second, the scope and nature of work to be performed by the internal auditors, and thirdly, the amount of judgment involved in planning and performing relevant audit procedures and evaluating the audit evidence in support of the relevant assertions. If significant judgment is required or procedures have to be performed by external auditors to determine whether the work of internal audit function can be relied on, the external auditor shall not obtain direct assistance from internal auditor.

## **Documentation**

If the external auditor uses the work of the internal audit function, the external auditor shall include the following items in the audit documentation: the evaluation of the objectivity and competence level of the internal audit function and whether it applies a systematic and disciplined approach, the nature and extent of the work used and the basis for that decision, and the audit procedures performed by external auditors to evaluate the adequacy of the work used.

If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include the following items in the audit documentation: the evaluation of the objectivity and competence of the internal auditors used to provide direct assistance, the nature and extent of the work performed by internal auditors, the date and extent as well as the party that reviewed the work performed, the written agreements from the entity and internal auditors, and the working papers prepared by the internal auditors.

## **Conclusion**

HKSA 610 (Revised 2013) deals with how the external auditor determines whether to use the work of the internal audit function, and if so, to what extent and the external auditor's evaluation of the adequacy of the work of internal audit function. It also deals with relevant considerations, including types of procedures needed, when contemplating whether to use internal auditors to provide direct assistance. The external auditor still has the sole responsibility for the audit opinion expressed, and that responsibility is not reduced by using the work of the internal audit function.

## **Reference**

Hong Kong Institute of CPAs, HKSA 610 (Revised 2013) "Using the Work of Internal Auditors"