

Using the work of Internal Auditor.

ABOUT Internal Audit

Q. Internal Audit: Internal Audit function refers to a function of an entity that performs assurance & consulting activities designed to evaluate & improve :-

- (i) Effectiveness of entity's governance
- (ii) Entity's Risk mgmt process
- (iii) IC process

Badly & Blunder
Run or not

Q. Objective & Scope of Internal Audit function

Activities relating to Governance

(Ensuring accomplishment of entity's objective regarding values & ethics)

Activities relating to Risk mgmt

(Identifying & evaluating significant risks which needs to be mitigated)

Activities relating to Internal Controls

(from 21)

It includes the following :-

- (design the process) ← (a) Evaluating of IC's
- [(FE) checking find op related data] ← (b) Examination of financial & operating info
- [checking efficiency, effectiveness, Economy of op activities] ← (c) review of operating activities
(d) Review of compliance with law & regulation

Jan 25

Introduction of SA

External auditor can consider to use the work of internal auditor, if the company has internal audit applicability and there are some common areas in terms of scope of work for both external & internal auditors.

SQ

Scope of SA 610

If external auditor is using the work of internal auditor then his responsibilities are given under SA 610.

It may include the following circumstances:-

- When external auditor is using the work of internal audit function to obtain AT.
- When external auditor is using internal auditor to provide direct assistance under the direction, supervision & review of the external auditor.

MCQ

Internal auditor is less independent than external auditor

External Auditor has sole responsibility for audit opinion to be expressed. therefore the responsibility of external auditor will not be reduced even if they use the work of internal auditor or use internal auditor to provide direct assistance.

→ SA के important बिन्दु में covers होता है

Objectives of the external auditor, where the entity has an internal audit function

Q. External Auditor, internal auditor or work or direct assistance or not? If yes

work → adequate for purpose of audit

Direct Assistance → Appropriately direct, supervise, review of work.

Company Sec 143

SA 610

SA 21

SA 22

* Objectivity & Competence → Continuum (Handwritten)
 (a) Objectivity & Evaluation
 (b) Competency & Evaluation
 * Application of a systematic & disciplined approach

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Evaluating the Internal Audit Function

Before deciding whether to use the work of internal auditor, external auditor should evaluate the internal audit function on the basis of following criteria

- (a) The level of competence of internal audit function.
- (b) Objectivity that is the extent to which function organizational status & relevant policies & procedures support the objectivity of the function.
- (c) Whether the function applies a systematic & disciplined approach to words their work including quality control policies & procedures.

NCA

Circumstances when the work of internal audit function cannot be used

- (i) function lacks sufficient competence (+)
- (ii) function doesnot apply systematic & disciplined approach (+)
- (iii) function's organizational status & policies & procedures do not adequately support there objectivity.

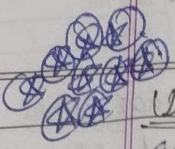
Determining the nature & extent of work of function that can be used

- (a) External auditor shall consider plan & performance of work carried out by the function & its relevance to the external auditor overall audit strategy before deciding the nature & extent of work to be used.
- (b) Examples of work of function that can be used by External Auditor:
 - 1. Testing of the operating effectiveness of control.
 - 2. Testing of compliance with regulatory requirements.
 - 3. Substantive procedures involving limited judgement.
 - 4. Observation of inventory counts.
 - 5. Tracing Txⁿ through the info^s system relevant to financial reporting.

Objectives of the process

May 2

See a statutory or other coordination



(SQ)

Using the work of internal audit function of external auditor plans to use the work of internal audit function, the external auditor shall,

- * (i) Discuss the planned use of its work with the IF Function as a basis for co-ordinating their respective activities.
- (ii) Read the reports of function relating to the work which external auditor wants to use to understand the nature & extent of AP performed by the function & function's findings.
- (iii) Perform ~~sufficient~~ sufficient AP around the work of internal audit function to determine whether it is adequate for the purpose of statutory audit.

Objective of work
to check process
नियंत्रण प्रक्रिया

का कार्यका क्या होगा

Mya

* (Note): Discussion & Co-ordination with the function—
Appropriate discussion & co-ordination with the function about respective activities will help in addressing the following :-

- (a) Timing of work
- (b) Extent of work
- (c) Nature of work
- (d) Proposed method of sample selection
- (e) Determination of materiality
- (f) Documentation of work
- (g) Review & Reporting.

Statutory audit
को नियंत्रण प्रक्रिया
के साथ
co-ordination

Companies
Sec 143

SA 610

SA 610

Determining whether, in which areas, and to what extent external auditor can use of direct assistance of internal auditor?

Responsible
Rt External
Auditor 107+

(a) The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditor.

(b) If it is not prohibited by law or regulation then, external auditor can use direct assistance of internal auditor to perform AIC under the direction, supervision & review of external auditor.

(c) If ~~any~~ external auditor plans to use internal auditor to provide direct assistance then he shall evaluate the following:

(i) Level of Competence.

(ii) Any threat to their objectivity.

(d) Before using internal auditor to provide direct assistance for the purpose of audit, external auditor shall,

(i) Obtain a written agreement from an authorized representative of the entity that internal auditor will allowed to follow external auditor's instructions & entity will not intervene in the work of internal auditor that is performed ~~by~~ for external auditor; and

(ii) Obtain a written agreement from Internal auditor that they will keep confidentiality of specific matters instructed by external auditor & they will immediately inform external auditor if there is any threat to their objectivity.

Competence +
Objectivity
Compromised

(e) External auditor shall not use internal auditor to provide direct assistance in the following circumstances:

(i) when procedures involve making significant judgement in the audit.

Self Review
Threat

Self Review
Threat

- (ii) where it related to areas where RMM is high.
- (iii) It relates to The work with which internal auditors were involved to execute or report to mgmt or TCWG. (eg-Physical verification)
- (iv) It relates to The decisions of external auditor which are required in accordance with this SA such as evaluating the internal audit function, function's work etc.

~~where~~

ways in which the external auditor may make use of the function for the purposes of the audit

- (Prohibited (P)) → use of work.
- direct assistance
- other info like - RMM due to error or fraud, which relevant to external auditor.

Circumstances in which the external auditor shall plan to use less of the work of the internal audit function & perform more of the work directly

- There is a significant threat to objectivity of function
- The function lacks of sufficient competence to perform the work.
- If work of internal auditor involve significant judgement
- Work includes RMM↑ (Significant Risk)
- Work which involves execute/report to mgmt/TCWG by internal auditor.

Companies
Sec 143

SA 610

SA 210

SA 220

Basis of Internal Financial Control & Internal ~~Control~~ Controls over Financial Reporting.

IFC

refers to the policies & procedures put in place by Co for

- (i) Ensuring reliability of FR
- (ii) Effectiveness & efficiency of operations
- (iii) Compliance & law & regulations
- (iv) Safeguarding of assets
- (v) Prevention & detection of frauds.

Wider term

ICOFR.

is required where auditors are required to express opinion on the effectiveness of an entity's ICOFR, such opinion is in addition to & distinct from the opinion expressed by the auditor on the FS.

Narrower Term

Defined the AFR