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Supplement to Auditing Standard ASA 610 *Using the Work of Internal Auditors*

Issued by the **Auditing and Assurance Standards Board**

Draft

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This *Supplement to Auditing Standard ASA 610 Using the Work of Internal Auditors* (Supplement) is issued by the Auditing and Assurance Standards Board (AUASB) to provide an illustrative example questionnaire that may assist the external auditor in evaluating the internal audit function.

This Supplement:

1. is not an AUASB Guidance Statement that provides guidance to assist auditors and assurance practitioners to fulfil the objectives of the audit or assurance engagement; and
2. does not itself establish or extend requirements for the performance of audit, review, or other assurance engagements under the AUASB Standards.

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Supplement to Auditing Standard ASA 610 Using the Work of Internal Auditors has been developed by the AUASB to provide an illustrative example questionnaire that may assist the external auditor in evaluating the internal audit function. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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SUPPLEMENT TO AUDITING STANDARD ASA 610 USING THE WORK OF INTERNAL AUDITORS

Purpose

The following illustrative questionnaire provides a broad range of questions that may assist the external auditor in evaluating the internal audit function and determining the nature and extent of the work of the internal audit function that can be used in obtaining audit evidence. Not all questions are necessarily relevant to every audit or review engagement, and the questionnaire is not intended to be exhaustive.

Background

This illustrative example questionnaire was previously contained in [Aus] Appendix 1 in ASA 610 *Using the Work of Internal Auditors* (October 2009). In revising ASA 610 in 2013, the AUASB decided to update the appendix and reissue it as a supplement to ASA 610 (October 2013).

Illustrative Example Questionnaire

Evaluating the Internal Audit Function

Organisational Status

1. To whom does the head of internal audit report, and is this appropriate?
2. Do those charged with governance and/or management's view of the internal audit function appear to not limit the function?
3. Is the head of internal audit free from:
 - (a) The influences of operational management which would impact on the head of internal audit's objectivity?
 - (b) Any operating responsibility?
4. Does the head of internal audit have:
 - (a) Direct access (as required) to:
 - (i) The governing body?
 - (ii) The chairman of the governing body?
 - (iii) The chief executive?
 - (iv) The audit committee (if applicable)?
 - (b) Freedom/flexibility from direct instruction from those charged with governance as to the scope and direction of audit activity?
 - (c) Freedom to communicate with the external auditor on relevant matters on a regular basis?
5. Do those charged with governance oversee employment decisions related to the internal audit function, for example, determining the appropriate remuneration policy?

Level of Competence

6. Is the head of internal audit a professionally trained auditor? (If not, describe qualifications by training and by experience for the position held).

7. Do the entity's hiring and/or internal promotion/transfer policies for internal audit staff require:
 - (a) Tertiary qualifications?
 - (b) Formal professional qualifications?
 - (c) Previous internal audit experience?
8. Does the entity provide internal audit staff with the opportunity to maintain professional competence, for example by encouraging:
 - (a) Internal staff training?
 - (b) Attendance at external training and professional courses?
9. If the entity has a large internal audit function, does it contain an adequate number of professionally trained/experienced internal auditors?
10. Are internal audit staff members of relevant professional bodies, where membership obligates them to comply with relevant professional standards relating to competence, objectivity and continuing professional development?
11. Is the internal audit function adequately and appropriately resourced relative to the size of the entity and the nature of its operations?
12. Do assignments undertaken reflect that those charged with governance have confidence in the internal audit function, and provide experience in audit related work?
13. Do the reports prepared by the internal audit function reflect a clear understanding of the audit task undertaken and the expression of valid conclusions?

Systematic and Disciplined Approach

14. Does the internal audit function have documented internal audit procedures or guidance covering areas such as risk assessments, work programs, documentation and reporting, which is commensurate with the size and circumstances of the entity? Is there evidence that the internal audit procedures or guidance are used by the internal audit function in performing its activities?
15. Does the internal audit function have appropriate quality control policies and procedures, for example, relating to leadership, human resources and engagement performance?
16. Is the work of the internal audit function controlled and supervised through managers or supervisors responsible to the head of the function, each of whom supervises the work of allocated staff?
17. Does the internal audit function use written work programs prepared in conformity with appropriate professional standards and practice?
18. Are comprehensive work programs prepared for all internal audit engagements?
19. Does the internal audit function prepare work papers to record work done and conclusions drawn?
20. Are the work papers reviewed by appropriate internal audit staff?
21. Do internal work papers and audit reports indicate that the internal audit function applies a systematic and disciplined approach to internal audit engagements?
22. Where the internal audit activity is co-sourced or fully outsourced, is the relationship between the entity and the third party provider appropriate and well managed?

Determining the Nature and Extent of Work of the Internal Audit Function that can be Used

23. Is the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, relevant to the external auditor's overall audit strategy and audit plan?
24. Does internal audit regularly examine the controls over all significant accounting operations which affect the financial report? (If not, what areas not covered by internal audit?)
25. How do the following factors influence the nature and extent of the use of the work of the internal audit function:
- (a) The level of judgement exercised by the internal audit function in planning and performing relevant audit procedures, and in evaluating the audit evidence gathered?;
 - (b) The risk of material misstatement at the assertion level, particularly for risks identified as significant?;
 - (c) The organisational status and relevant policies and procedures of the internal audit function (that is, do they adequately support the objectivity of internal auditors)?; and
 - (d) The level of competence of the internal audit function?
26. Does the head of internal audit have flexibility to act using discretion on suggestions made by the external auditor as to areas to be included in the internal audit program?
27. Has past experience shown that internal audit has been able to complete previous internal audit programs?
28. In relation to reporting by the internal audit function:
- (a) Do internal audit reports identify weaknesses or problems, and contain recommendations for improvements?
 - (b) Are such reports addressed to the appropriate level of those charged with governance who are capable and able to achieve satisfactory audit results?
 - (c) Are copies of all internal audit reports forwarded to:
 - (i) the chairman of the governing body or chief executive? and/or
 - (ii) the audit committee (if applicable)?
 - (d) Are copies of all internal audit reports relating to accounting and associated records available to the external auditor?
 - (e) Is there evidence, for example in the minutes of governing body and/or audit committee meetings, that internal audit reports have been considered?
 - (f) Is there evidence that a person of senior authority, for example the chief executive, has taken action to see that internal audit recommendations are properly considered?

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