

Chapter- 3 " Audit Planning, Strategy and Execution "

Topics Covered: 1) Audit Process

(2) Using the work of Other Auditor (SA 600)

(3) Using the work of Internal Auditors (SA 610):

(a) Meaning and scope of Internal Audit function: - Reading from book -

(b) Requirements of SA-610:

✓ I. Using the work of Internal Auditor:

✓ (a) Determine whether, in which area and to what extent, work of Internal Auditors can be used:

External auditor shall evaluate the following:

(i) Objectivity of the Internal auditor;

(ii) Level of competence;

(iii) Application of Systematic and disciplined approach.

Note: External auditor shall not use work of Internal audit function if he determines that:

✓ (a) Organisational status of Internal audit function do not adequately support the objectivity of Internal auditors.

(b) Internal auditor is not sufficiently competent.

(c) Approach used by Internal auditor is not systematic and disciplined.

(b) Evaluate nature and scope of work of Internal Auditors do as to determine - (a) nature and extent of work to be used; and

(b) degree of reliance that can be placed.

Areas where statutory auditor can use the work of Int. auditor:

- ✓ (a) Testing of operating effectiveness of controls.
- ✓ (b) Substantive procedures involving limited judgements.
- ✓ (c) Observation of Inventory count.
- ✓ (d) Tracing transactions through Information systems.
- ✓ (e) Testing of compliance with regulatory requirements.

(C) Using work of Internal auditors:

- If External auditor plans to use the work of Internal auditor, he shall discuss ^(with I.A.) the planned use of work of Internal auditor.

- External auditor shall perform sufficient audit procedures on the work of Internal auditors as a whole that he plans to use, to determine its adequacy for External auditor's purpose. This activity includes:

(a) Evaluating whether work of Internal Auditor was properly planned, performed, supervised, reviewed and documented.

(b) SAAE Obtained to draw reasonable Conclusion.

(c) Conclusions reached are appropriate.

(d) Reports prepared are consistent with the work performed.

II. Using direct assistance of Internal Auditors:

Direct Assistance: Using Internal auditors to perform audit procedures under the direction, supervision and review of External auditor.

✓ (a) Direct Assistance from Internal auditors can be taken, if :

↓
(a) Not prohibited by
law and regulations

↓
(b) No significant
threats as to
objectivity of I.A.

↓
(c) I.A. is sufficiently
competent and
capable.

Factors to be considered in evaluating existence and significance of threats to objectivity of Internal auditor:

(a) Organisational status of Internal audit function.

(b) Family and personal relationship with an individual working in the Entity.

(c) Association of I.A. with any division or department to which the work relates to.

(d) Significant financial interests in the Entity.

V.V.V. Imp.

(b) Determine nature, extent and work on which direct Assistance can be taken:

- Direct Assistance is not advisable on following matters:

(i) Matters involving significant judgements in audit.

Ex: Assessing ROMM;

Evaluating sufficiency of tests performed;

" appropriateness of Mngt. Use of G.C. Basis;

" significant accounting estimates;

" adequacy of disclosures in f/s

(ii) Matters on which ^{External} auditor assesses higher ROMM.

Ex: Related party transactions; Subsequent Events etc.

(iii) Matters on which Internal auditor is already engaged.

Ex.: Entity Risk Assessment Process; Evaluation of I.C. System.

(iv) Matter on which statutory auditor has to take decision under this SA regarding Internal audit function.

i.e. Using the work of Internal auditors

- Nature, Extent and work on which direct assistance can be taken depends upon:
 - (a) Judgements involved in planning and performing an audit
 - (b) Assessed RoMM
 - (c) Objectivity and level of competence of I.A.

(c) Using direct Assistance:

- Obtain written agreement from authorised representation of Entity that:
 - (a) IA is allowed to follow external auditor's instructions
 - (b) Entity will not intervene in the work of IA, performed for external auditor.
- Obtain written agreement from I.A. as to Confidentiality.
- Exercise Quality control measures as to direction, supervision and review of Internal auditor.

(d) Documentation: — Self from book — [Noting - H.W.]

(4) Using the work of Auditor's Expert (SA 620):

(i) Meaning of Auditor's Expert: An Individual or Organisation having experience in field other than accounting or auditing

↓

engaged by auditor

↓

for the purpose of obtaining sufficient appropriate audit evidence.

(ii) Area in which work of Auditor's Expert can be used:

(a) Actuarial calculations (Provision for Employee Benefits).

(b) Valuation of complex financial instruments (derivatives).

(c) Valuation of land and buildings, antiques and arts.

(d) Estimation of oil and Gas reserve.

(e) Valuation of Environmental liabilities.

(f) Interpretation of law, statutes etc.

(g) Valuation of assets acquired in business combinations.

(iii) Procedures when auditor uses the work of auditor's expert:

Step-1: Determine the need of Expert's work.

↓ Need Exist

Step-2: Evaluate competence, capability and objectivity of Expert

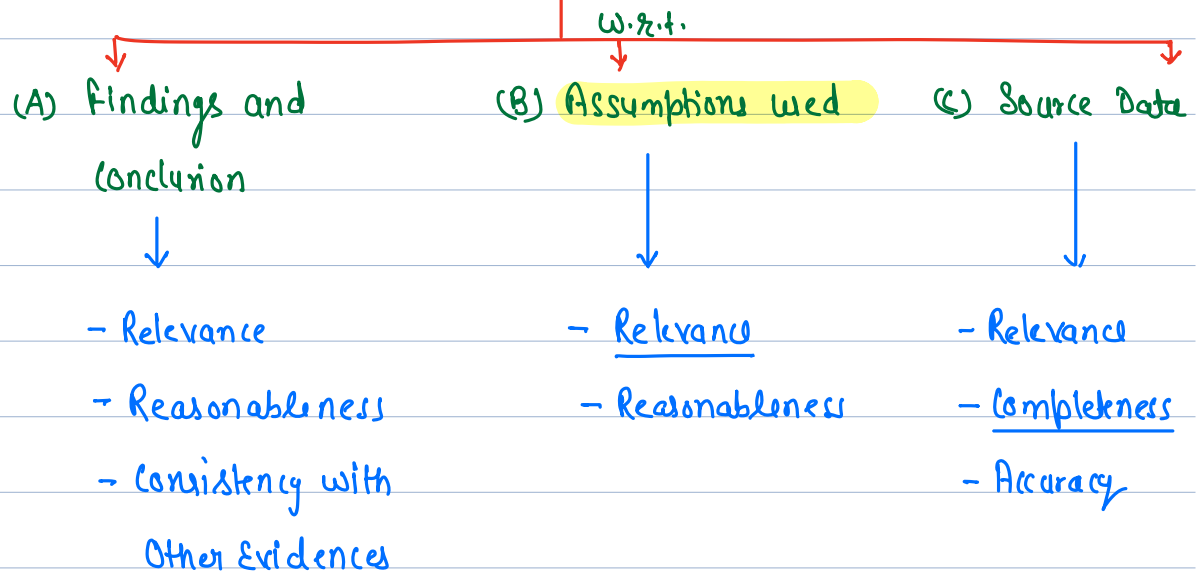
↓ Satisfied

Step-3: Obtain an understanding of the Expert work for audit purpose.

↓ Understanding Obtained

Step-4: Entered into written and detailed agreement with the expert

Step-5: Evaluate the Appropriateness of Expert's work



Step-6: Auditor's Expert work is not appropriate

↓

Discuss the matter with the auditor's Expert

(A) Limitations imposed by Management

↓

Discuss with management with a request to provide requisite information

↓

Management denied to provide the information

↓

Communicate with TEWG

↓

Modify the opinion, if issue not resolved.

(B) Expert procedures are not appropriate

↓

Discuss with Expert, to decide additional procedures to be performed.

↓

Expert is not willing to perform additional procedures

↓

Replace the Auditor's expert.

(iv) Reference of work of Auditor's Expert in auditor's report:

(a) Unmodified opinion

↓
No reference required

(b) Modified opinion

↓
Reference of Expert's work is required to make the modification more understandable.

Note: Prior consent of auditor's Expert is required.