

November 12, 2010

Technical Director
International Auditing and Assurance Standards Board (IAASB)
545 Fifth Avenue, 14th Floor
New York, New York, 10017, USA

Submitted via www.iaasb.org

RE: Comments on Proposed Revisions to ISAs:

- 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, and
- 610 *Using the Work of Internal Auditors*

Dear Sir/Madam:

The Institute of Internal Auditors (IIA) appreciates the opportunity to provide comments on proposed revisions to ISA 315 and ISA 610. We collaborated with IIA Institutes around the world in developing this global response. Furthermore, our comments are based on thorough analyses and discussions conducted by a core team of audit experts who serve on The IIA's Professional Issues Committee, the Internal Audit Standards Board, the Ethics Committee, and the Committee on Quality. These experts consist of Chartered Accountants and Certified Internal Auditors who have worked in the public and private sectors, internal and external auditing, and in small, medium, and large multinational companies.

ISAs 315 and 610 provide guidance that is very important as internal auditors work closely with external auditors. These standards could significantly and positively impact the relationship between external audit (EA) and internal audit (IA), how their audits are coordinated and performed, and how EA leverages the knowledge, experience and expertise of IA to enhance audit effectiveness.

We applaud your efforts to make the ISAs more reflective of the advancements made in internal auditing. In particular, we are pleased to see that ISA 315 introduces the requirement for EA to make inquiries of the IA function, which allows EA to leverage IA's knowledge of the entity, the environment, and risks. Both ISAs explain the breadth of activities performed by IA and refer to internal auditing as an *assurance* activity, distinguishing internal auditing from other monitoring controls in the organizations. We are especially pleased that ISA 610 speaks to three key tests for determining whether to use the work of IA: objectivity; competence; and IA's use of a systematic and disciplined approach, including quality control.

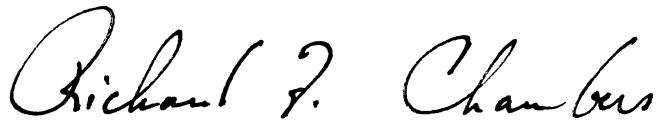
Our principal comments and observations are highlighted below. Responses to the specific questions are summarized in Attachment A, along with recommendations to elevate guidance from the Application and Other Explanatory Material Section to the Requirements Section, and other suggested wording changes.

- We agree that it is appropriate for EA to rely on the work of IA where the audit objectives are in agreement. Cooperation is essential to ensure that audit coverage is coordinated, enhanced, and duplicate efforts are minimized.
- "Fraud risk" has relevance to both ISAs. We recommend that the ISAs recognize the heightened importance of fraud risks and the value of cooperation between EA and IA on topics such as fraud risk assessment, risk mitigation strategies, fraud detection controls and remediation.
- Both ISAs should also emphasize the value of collaboration between EA and IA. The sharing of information and work plans throughout the year, as well as relying on the work of others, is especially important since internal control operates over a period of time, not simply at a moment in time. In particular, to the extent that these assurance and monitoring activities are governance-related (e.g., entity-level controls such as tone at/from the top), the notion of EA and IA collaboration becomes even more important.
- We support establishing a framework to aid EA to decide whether, and if so, to what extent to use the work of IA. However, in our opinion, the judgment-based framework presented does not facilitate consistent application in evaluating the key decision factors. The framework would be improved by moving the expanded discussion in ISA 610 paragraphs A6 and A9 from the Application and Other Explanatory Material Section into the Requirements Section.
- We also noted that the very factors that impact EA's decision to use and the extent of using IA work (e.g. objectivity, organizational status, competency, etc.) are already embodied in The IIA's International Professional Practices Framework (IPPF). A set of IA standards and professional guidance such as those incorporated in the IPPF provides a clear benchmark and expectation of what is necessary for an IA function to practice with the highest level of professionalism. The IPPF is the only set of international IA standards for all industry sectors and is well known around the world to EA and IA professionals alike, as well as to others who rely on IA services. We believe EA should require conformance with internationally recognized IA professional standards and reference this conformance in their evaluation of IA practice. We have made suggestions where such references would be helpful in the proposed ISAs.
- The International Standards for the Professional Practice of Internal Auditing (*The Standards*) require that internal audit functions be subjected to an external quality assessment (EQA) every five years. We believe ISA 610 should require EA to consider the results of the EQA when determining whether or not to rely on the work of internal auditing.
- Compliance with *The Standards*, coupled with positive results from the periodic EQA, provide good supporting evidence for IA's independence and objectivity. ISA 610 makes several references to the lack of independence of IA (e.g. paragraphs 6, 24, and A27.). While it is not possible for internal auditors to attain full independence from the organizations they serve as required of EA in ISA 200, the Internal Audit Charter, the organizational status of IA, and compliance with *The Standards* allow them to attain sufficient independence and provide adequate safeguards to support IA's objectivity. We recommend that ISA 610 acknowledges that these requirements are appropriate safeguards.

- Regarding direct assistance, we believe that the extent to which IA may provide direct assistance to EA is a resource allocation decision that must be made by those charged with governance responsibilities and the Chief Audit Executive (CAE), and not by the EA unilaterally. (See ISA 610 paragraphs 20 and A24.) EA should provide cost benefit information to enable the responsible parties to make informed decisions.
- We also recommend moving the guidance on coordination in ISA 610 paragraph A14 from the Application and Other Explanatory Material Section into the Requirements Section.

The IIA welcomes the opportunity to discuss any and all of these recommendations with you. We offer our assistance to the IAASB in the continued development of these Standards.

Best Regards,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive, flowing style.

Richard F. Chambers, CIA, CGAP, CCSA
President and Chief Executive Officer

About The Institute of Internal Auditors

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 160,000 members across the globe and has 103 institutes in 165 countries that serve members at the local level.