

## **BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 610, Using the Work of Internal Auditors**

**September 2009**

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard 610, *Using the Work of Internal Auditors*.

### **Background**

In December 2006, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Auditing Standard (ISA) 610 (Redrafted), *Using the Work of Internal Auditors* (ED-ISA 610). The IAASB approved final ISA 610 in June 2008 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in October 2008.

In February 2007, the AASB issued its Exposure Draft to adopt proposed ISA 610 as CAS 610 (ED-CAS 610) to replace Section 5050, USING THE WORK OF INTERNAL AUDIT, for audits of financial statements and other historical financial information. There were 9 respondents to ED-CAS 610 (identified below).

The AASB approved CAS 610 in October 2008. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance in the CICA Handbook – Assurance.

### **Purpose of this Basis for Conclusions**

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 610 is available on the IAASB web site, and provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 610.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 610 is also available. This information is set out below.

### **Significant Matters**

#### **AASB's Consideration of Amendments to ISA Wording**

1. CAS 610 contains no amendment to the ISA wording. This is consistent with the position taken by the AASB in its ED-CAS 610.  
*Guidance on Internal Auditors Providing Direct Assistance to External Auditors*
2. Paragraphs 5050.27-31 provide a requirement and supporting guidance to deal with instances when an auditor determines that it would be appropriate to use internal audit staff to provide direct assistance by performing audit work that is planned and supervised by the auditor. Paragraph 2 states that such instances are excluded from the scope of the ISA. The IAASB debated whether to expand the scope of ISA 610 to deal with direct assistance. The IAASB concluded that since ISA 610 was being redrafted in the clarity format but not being otherwise revised at this time, expanding the scope of the ISA to include direct assistance would not be in accordance with the IAASB's clarity redrafting conventions. The IAASB's Strategy and Work Program 2009-2011 will include a project to revise ISA 610.
3. Several respondents requested that the wording from ISA 610 be amended to include guidance on direct assistance so that the application material and requirement in Section 5050 would not be lost. The AASB concluded that such an amendment should not be made, since it would not be in accordance with the AASB's criteria for amending the wording in ISAs. In making this decision, the AASB noted the following.
  - (a) Auditors using CAS 610 should not interpret the lack of requirements and guidance on direct assistance from internal auditors as a prohibition against obtaining such assistance.
  - (b) Section 5050 will be maintained in the Handbook. It will apply to assurance engagements other than financial statement audits. No change will be made to the requirement and application material regarding direct assistance without public exposure. In the absence of specific material in CAS 610 dealing with direct assistance, the guidance in Section 5050 can be used as a useful reference source.

#### *Auditor's Report*

4. ISA 610 does not specifically prohibit the auditor from referring in his or her report to the use of the work of internal auditors. A respondent requested that CAS 610 be amended to include a requirement similar to the Recommendation in Section 5050 that an auditor shall not refer, in his or her report, to the use of the work of the internal auditors. The AASB concluded that such an amendment should not be made since it would not be in accordance with the AASB's criteria for amending the wording in ISAs. The AASB concluded that this matter is adequately addressed by the

wording in paragraph 4 that states: "The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal auditors."

*Need to Broaden the Scope*

5. ISA 610, like all other ISAs (and CASs), applies to the audit of financial statements and other historical financial information. Several respondents requested that CAS 610 be amended to broaden its scope to include assurance engagements other than historical financial information. As noted above, Section 5050 (or its equivalent) will be included in the Handbook going forward and will cover assurance engagements other than audits of historical financial information.

*Distinguishing Between Gaining an Understanding of Internal Control and Performing Further Audit Procedures*

6. In finalizing ISA 610, the IAASB noted that it is important to distinguish between using the work of internal audit in the context of planning the audit and gaining an understanding of internal control, and use of such work in performing further audit procedures to respond to the auditor's risk assessment. This distinction was not clear in the ED-ISA 610. To address this matter, the IAASB added paragraph A1 and amended ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, by adding paragraphs 22a and A96a. A respondent requested that the CAS be amended to make this distinction. The action taken by the IAASB in finalizing ISA 610 addressed this concern.

**Other Matters**

None.

**List of Respondents to ED-CAS 610**

Auditor General Alberta

BDO Dunwoody LLP

Deloitte & Touche LLP

KPMG LLP

Institute of Chartered Accountants of British Columbia

Office of the Auditor General of Canada

Ordre des comptables agréés du Québec

Provincial Auditor Saskatchewan

Serge Huot

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