



Exposure Draft
SCA -
Standard on Cost Auditing
Using the Work of Internal Auditor

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Effective date 7

Statement of Modifications 8

The following is the **Standard on Cost Auditing, “Using the Work of Internal Auditor”**. In this Standard, the standard portions have been set in ***bold italic*** type. This standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

1.1 Many entities establish internal audit functions as part of their internal control and governance structures. The objectives and scope of an internal audit function, the nature of its responsibilities and its organizational status, including the function’s authority and accountability, vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance.

1.2 Depending on whether the internal audit function’s organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors, the level of competency of the internal audit function, and whether the function applies a systematic and disciplined approach, the cost auditor may use the work of the internal audit function in a constructive and complementary manner.

1.3 This SCA addresses the cost auditor’s responsibilities when, based on the cost auditor’s preliminary understanding of the internal audit function obtained as a result of procedures performed under SCAs, the cost auditor expects to use the work of the internal audit function as part of the audit evidence obtained. Such use of that work



modifies the nature or timing, or reduces the extent, of audit procedures to be performed directly by the cost auditor.

- 1.4** In addition, this SCA also addresses the cost auditor’s responsibilities if considering using internal auditors to provide direct assistance under the direction, supervision and review of the cost auditor.
- 1.5** There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent internal audit function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining evidence regarding the effectiveness of such controls would be part of the auditor’s responses to assessed risks.

The Cost Auditor’s Responsibility for the Audit

- 1.6** The cost auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement. Although they may perform audit procedures similar to those performed by the cost auditor, neither the internal audit function nor the internal auditors are independent of the entity as is required for the cost auditor in an audit of cost statements. This SCA, therefore, defines the conditions that are necessary for the cost auditor to be able to use the work of internal auditors. It also defines the necessary work effort to obtain sufficient appropriate evidence that the work of the internal audit function, or internal auditors providing direct assistance, is adequate for the purposes of the cost audit. The requirements are designed to provide a framework for the cost auditor’s judgments regarding the use of the work of internal auditors to prevent over or undue use of such work.

2. Objectives

The objectives of this standard, where the entity has an internal audit function and cost auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the cost auditor, or to use internal auditor to provide direct assistance, are;

- (a) *To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent; and having made that determination:***



- (b) If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit; and**
- (c) If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.**

3. Scope

3.1 This SCA deals with the cost auditor's responsibilities if he is using the work of internal auditors. This includes

(a) using the work of the internal audit function in obtaining audit evidence and

(b) using internal auditors to provide direct assistance under the direction, supervision, and review of the cost auditor.

3.2 This SCA does not apply if the entity does not have an internal audit function. (Refer 6.2)

3.3 If the entity has an internal audit function, the requirements in this SCA relating to using the work of that function do not apply if:

a) The responsibilities and activities of the internal audit function are not relevant to the cost audit; or

b) Based on the understanding of the internal audit function obtained as a result of procedures performed, the cost auditor does not expect to use the work of the function in obtaining audit evidence.

Nothing in this SCA requires the cost auditor to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the cost auditor; it remains a decision of the cost auditor in establishing the overall cost audit strategy.

3.4 Furthermore, the requirements in this SCA relating to direct assistance by Internal Auditor do not apply if the cost auditor does not plan to use internal auditors to provide direct assistance.

4. Definitions



- 4.1 Internal Audit Function: A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management, and internal control processes.**
- 4.2 Direct Assistance: The use of internal auditors to perform audit procedures under the direction, supervision, and review of the cost auditor.**

5. Requirements

Determining whether, in which Areas, and to what extent the work of the Internal Audit Function can be used

Evaluating the Internal Audit Function

- 5.1 The cost auditor shall determine whether the work of the internal audit function can be used for purposes of the cost audit by evaluating the following:**
- a. The extent to which organizational status and relevant policies and procedures of the internal audit function support the objectivity of the internal auditors; (Refer 6.5 – 6.9)**
 - b. The level of competence of the internal audit function; and (Refer 6.5 – 6.9)**
 - c. Whether the internal audit function applies a systematic and disciplined approach, including quality control. (Refer 6.10 – 6.11)**
- 5.2 The cost auditor shall not use the work of the internal audit function if the cost auditor determines that:**
- a. The organizational status and relevant policies and procedures of the internal audit function do not adequately support the objectivity of internal auditors;**
 - b. The internal audit function lacks sufficient competence; or**
 - c. The internal audit function does not apply a systematic and disciplined approach, including quality control. (Refer 6.12 – 6.13)**

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

- 5.3 As a basis for determining the areas and the extent to which the work of the internal audit function can be used, the cost auditor shall consider the nature and scope of the**



work that has been performed, or is planned to be performed, by the internal audit function and its relevance to the cost auditor's overall audit strategy and audit plan. (Refer 6.14 – 6.15)

5.4 *The cost auditor shall make all significant judgement in the audit engagement and, to prevent undue use of the work of the internal audit function, shall plan to use less of the work of the internal audit function and perform more of the work directly if: (Refer 6.14 – 6.15)*

a. The more judgment is involved in:

(i) Planning and performing relevant audit procedures; and

(ii) Evaluating the audit evidence gathered; (Refer 6.16 – 6.17)

b. The higher the assessed risk of material misstatement at the assertion level, with special consideration given to risks identified as significant; (Refer 6.18 – 6.20)

c. The less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and

d. The lower the level of competence of the internal audit functions.

5.5 *The cost auditor shall also evaluate whether, in aggregate, using the work of the internal audit function to the extent planned would still result in the cost auditor being sufficiently involved in the audit, given the cost auditor's sole responsibility for the audit opinion expressed. (Refer 6.14 – 6.20)*

5.6 *The cost auditor shall communicate with those charged with governance as how the cost auditor has planned to use the work of the internal audit function. (Refer 6.21)*

Using the Work of the Internal Audit Function

5.7 *If the cost auditor plans to use the work of the internal audit function, the cost auditor shall discuss the planned use of its work with the internal audit function as a basis for coordinating their respective activities. (Refer 6.22 – 6.24)*

5.8 *The cost auditor shall read the reports of the internal audit function relating to the work of the function that the cost auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.*



- 5.9 The cost auditor shall perform sufficient audit procedures on the body of work of the internal audit function as a whole, which the cost auditor plans to use to determine its adequacy for purposes of the audit, including evaluating whether:**
- a. The work of the internal audit function had been properly planned, performed, supervised, reviewed and documented;**
 - b. Sufficient appropriate evidence had been obtained to enable the internal audit function to draw reasonable conclusions; and**
 - c. Conclusions reached are appropriate in the circumstances and the reports prepared by the internal audit function are consistent with the results of the work performed. (Refer 6.25 – 6.27)**
- 5.10 The nature and extent of the audit procedures shall be responsive to the cost auditor's evaluation of:**
- a. The amount of judgment involved;**
 - b. The assessed risk of material misstatement;**
 - c. The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; and**
 - d. The level of competence of the internal audit function and shall include re-performance of some of the work (Refer 6.25 – 6.27)**
- 5.11 The cost auditor shall also evaluate whether the cost auditor's conclusions regarding the internal audit function in paragraph 5.1 and the determination of the nature and extent of use of the work of the function for purposes of the audit in paragraphs 5.4 – 5.5 remain appropriate.**

Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Cost Audit

- 5.12 The cost auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. If so, paragraphs 5.12 – 5.21 and 5.23 do not apply.**



- 5.13** *If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the cost auditor plans to use internal auditors to provide direct assistance on the cost audit, the cost auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance. This shall include inquiry of the internal auditors regarding interests and relationships that may create a threat to their objectivity. (Refer 6.28 – 6.30)*
- 5.14** *The cost auditor shall not use an internal auditor to provide direct assistance if:*
- (a) There are significant threats to the objectivity of the internal auditor; or*
 - (b) The internal auditor lacks sufficient competence to perform the proposed work. (Refer 6.28 – 6.30)*

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance

- 5.15** *In determining the nature and extent of work that may be assigned to internal auditors and the nature, timing and extent of direction, supervision and review that is appropriate in the circumstances, the cost auditor shall consider:*
- (a) The amount of judgment involved in:*
 - (i) Planning and performing relevant audit procedures; and*
 - (ii) Evaluating the audit evidence gathered;*
 - (b) The assessed risk of material misstatement; and*
 - (c) The cost auditor's evaluation of the existence and significance of threats to the objectivity and level of competence of the internal auditors who will be providing such assistance. (Refer 6.31 – 6.35)*
- 5.16** *The cost auditor shall not use internal auditors to provide direct assistance to perform procedures that:*
- (a) Involve making significant judgments in the audit; (Refer 6.17)*
 - (b) Relate to higher assessed risks of material misstatement where the judgement required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited; (Refer 6.34)*



- (c) Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or**
- (d) Relate to decisions the cost auditor makes in accordance with this SCA regarding the internal audit function and the use of its work or direct assistance. (Refer 6.31 – 6.35)**

5.17 Having appropriately evaluated whether and, if so, to what extent internal auditors can be used to provide direct assistance on the audit, the cost auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, nature and extent of the planned use of internal auditors to provide direct assistance to reach a mutual understanding that such use is not excessive in the circumstances of the engagement. (Refer 6.35)

5.18 The cost auditor shall evaluate whether, in aggregate, using internal auditors to provide direct assistance to the extent planned, together with the planned use of the work of the internal audit function, would still result in the cost auditor being sufficiently involved in the audit, given the cost auditor's sole responsibility for the audit opinion expressed.

Using Internal Auditors to Provide Direct Assistance

5.19 Prior to using internal auditors to provide direct assistance for purposes of the audit, the cost auditor shall:

- a. Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the cost auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the cost auditor; and**
- b. Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the cost auditor and inform the cost auditor of any threat to their objectivity.**

5.20 The cost auditor shall direct, supervise and review the work performed by internal auditors on the engagement. In doing so, the cost auditor shall:



- a. *recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 5.15; and*
- b. *check back to the underlying audit evidence for some of the work performed by the internal auditors as part of review procedure.*

The direction, supervision, and review by the cost auditor of the work performed by the internal auditors shall be sufficient to satisfy that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Refer 6.36 – 6.37)

- 5.21** *In directing, supervising, and reviewing the work performed by internal auditors, the cost auditor shall remain alert for indications that the cost auditor's evaluations in paragraph 5.13 are no longer appropriate.*

Documentation

- 5.22** *If the cost auditor uses the work of the internal audit function, the cost auditor shall include in the audit documentation:*

- a. *The evaluation of:*
 - (i) *Whether the organizational status and relevant policies and procedures of the internal audit function adequately support the objectivity of the internal auditors;*
 - (ii) *The level of competence of the internal audit function; and*
 - (iii) *Whether the internal audit function applies a systematic and disciplined approach, including quality control;*
- b. *The nature and extent of the work used and the basis for that decision; and*
- c. *The audit procedures performed by the cost auditor to evaluate the adequacy of the work used.*

- 5.23** *If the cost auditor uses internal auditors to provide direct assistance on the audit, the cost auditor shall include in the audit documentation:*



- a. ***The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;***
- b. ***The basis for the decision regarding the nature and extent of the work performed by the internal auditors;***
- c. ***Who reviewed the work performed and the date and extent of that review***
- d. ***The written agreements obtained from an authorized representative of the entity and the internal auditors under paragraph 5.19; and***
- e. ***The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.***

6. Application Guidance

Definition of Internal Audit Function

6.1 The objectives and scope of internal audit functions typically include assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance processes, risk management and internal control such as the following:

Activities Relating to Governance

- (i) The internal audit function may assess the governance process on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

Activities Relating to Risk Management

- (ii) The internal audit function may assist the entity by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control (including effectiveness of the financial and cost reporting process).
- (iii) The internal audit function may perform procedures to assist the entity in detection of fraud.

Activities Relating to Internal Control



- (iv) Evaluation of internal control- The internal audit function may review controls, evaluate their operation and recommend improvements thereto. For example, the internal audit function might plan and perform tests or other procedures to provide assurance to management and those charged with governance regarding the design, implementation and operating effectiveness of internal control, including those controls that are relevant to the audit.
- (v) Examination of financial, costing and operating information- The internal audit function may review the mechanism used to identify, recognize, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
- (vi) Review of operating activities- The internal audit function may review the economy, efficiency and effectiveness of operating activities, including non-financial activities of an entity.
- (vii) Review of compliance with laws and regulations- The internal audit function review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

6.2 Activities similar to those performed by an internal audit function may be conducted by functions with other titles within an entity. Further, some or all of the activities of an internal audit function may also be outsourced to a third-party service provider. Neither the title of the function, nor whether it is performed by the entity or a third-party service provider, is sole determinant as to whether or not the cost auditor can use the work of the internal audit function. Rather, it is the nature of the activities; the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; competence; and systematic and disciplined approach of the function that are relevant. References in this SCA to the work of the internal audit function include relevant activities of other functions or third-party providers that have these characteristics. (Refer 3.2)

6.3 In addition, those in the entity with operational and managerial duties and responsibilities outside the internal audit function would ordinarily face threats to their objectivity. For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.

6.4 While the objectives of internal audit function and the cost auditor differ, the internal audit function may perform audit procedures similar to those performed by the cost auditor. If



so, the cost auditor may make use of the function for purposes of the audit in one or more of the following ways:

- (a) To obtain information that is relevant to the cost auditor's assessments of the risks of material misstatement due to error or fraud; or
- (b) Unless prohibited, or restricted to some extent, by law or regulation, the cost auditor, after appropriate evaluation, may decide to use work that has been performed by the internal audit function during the period in partial substitution for audit evidence to be obtained directly by the cost auditor.
- (c) In addition, unless prohibited, or restricted to some extent, by law or regulation, the cost auditor may use internal auditors to perform audit procedures under the direction, supervision and review of the cost auditor (referred to as "direct assistance" in this SCA).

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

Evaluating the Internal Audit Function

Objectivity and Competence

6.5 The auditor exercises professional judgment in determining whether the work of the internal audit function can be used for purposes of the audit, and the nature and extent to which the work of the internal audit function can be used in the circumstances. (Refer 5.1(a))

6.6 The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors and the level of competence of the function are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of the function that is appropriate in the circumstances. (Refer 5.1(a)(b))

6.7 Objectivity refers to the ability to perform tasks without allowing bias, conflict of interest or undue influences of other factors that may affect the cost auditor's evaluation include the following:

- (a) Whether the organizational status including the authority and accountability of the internal audit function, supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgments. For example, whether the internal audit function reports to those charged with



- governance or an officer with appropriate authority, or if the function reports to management, whether it has direct access to those charged with governance.
- (b) Whether the internal audit function is free from conflicting responsibilities, for example, having managerial or operational duties or responsibilities that are outside of the internal audit function.
 - (c) Whether those charged with governance oversee employment decisions related to the internal audit function, for example, determining the appropriate remuneration policy.
 - (d) Whether there are any constraints or restrictions placed on the internal audit function by management or those charged with governance, for example, in communicating the internal audit function's findings to the cost auditor. (Refer 5.1(a)(b))

6.8 Competence of the internal audit function refers to the attainment and maintenance of knowledge and skills of the function as a whole at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards. Factors that may affect the cost auditor's determination include the following:

- (a) Whether the internal audit function is adequately and appropriately resourced relative to the size of the entity and the nature of its operations.
- (b) Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements.
- (c) Whether the internal auditors have adequate technical training and proficiency in auditing. Relevant criteria may include, for example, the internal auditors' possession of a relevant professional designation and experience.
- (d) Whether the internal auditors possess the required knowledge relating to applicable financial/cost reporting framework and whether the internal audit function possesses the necessary skills (for example, industry-specific knowledge) to perform work related to the entity's Cost Statements.
- (e) Whether the internal auditors are members of relevant professional bodies that oblige them to comply with the relevant professional standards including continuing professional development requirements. (Refer 5.19(a)(b))



6.9 Objectivity and competence may be viewed as a continuum (range or band). The more objectivity and higher level of competence of the internal audit function, the more likely the cost auditor may make use of the work of the internal audit function and in more areas. However, strong support for the objectivity cannot compensate for the lack of sufficient competence of the internal audit function. Equally, a high level of competence of the internal audit function cannot compensate for an organizational status and policies and procedures that do not adequately support the objectivity of the internal auditors. (Refer 5.1(a)(b))

Application of a Systematic and Disciplined Approach

6.10 The application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities distinguishes the activities of the internal audit function from other monitoring control activities that may be performed within the entity. (Refer 5.1(c))

6.11 Factors that may affect the determination of whether the internal audit function applies a systematic and disciplined approach include the following:

(a) The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.

(b) Whether the internal audit function has appropriate quality control policies and procedures, for example, quality control requirements in standards set by the relevant professional bodies for internal auditors. (Refer 5.1(c))

Circumstances When Work of the Internal Audit Function Cannot Be Used

6.12 The cost auditor's evaluation of organizational status and relevant policies and procedures, the level of competence of the internal audit function, and whether it applies a systematic and disciplined approach may indicate that the risks to the quality of the work of the internal audit function are too significant and therefore it is not appropriate to use any of the work of the function as audit evidence. (Refer 5.2)

6.13 Consideration of the factors in paragraphs 6.7, 6.8 and 6.11 of this SCA individually and in aggregate is important because an individual factor is often not sufficient to conclude that the work of the internal audit function cannot be used for purposes of the audit. For example, if the internal audit function reports to management, this would be considered a significant



threat to the function's objectivity unless other factors collectively provide sufficient safeguards to reduce the threat to an acceptable level. (Refer 5.2)

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that Can Be Used

6.14 Once the cost auditor has determined that the work of the internal audit function can be used for purposes of the audit, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the overall audit strategy and audit plan. (Refer 5.3)

6.15 Examples of work of the internal audit function that can be used by the cost auditor include the following:

- (a) Testing of the operating effectiveness of controls.
- (b) Substantive procedures involving limited judgment.
- (c) Tracing transactions through the information system relevant to cost reporting.
- (d) Testing of compliance with regulatory requirements. (Refer 5.3)

Judgments in planning and performing audit procedures and evaluating results

6.16 The greater the judgment needed to be exercised in planning and performing the audit procedures and evaluating the audit evidence, the cost auditor will need to perform more procedures directly because using the work of the internal audit function alone will not provide the cost auditor with sufficient appropriate audit evidence. (Refer 5.4(a))

6.17 Since the cost auditor has sole responsibility for the audit opinion expressed, the cost auditor needs to make the significant judgments in the audit engagement in accordance with paragraph 5.4. Significant judgments include the following:

- (a) Assessing the risks of material misstatement;
- (b) Evaluating the sufficiency of tests performed;
- (c) Evaluating the appropriateness of management's use of the going concern assumption;
- (d) Evaluating significant accounting estimates; and



- (e) Evaluating the adequacy of disclosures in the Cost Statements, and other matters affecting the cost auditor's report. (Refer 5.4(a),5.16(a))

Assessed risk of material misstatement

6.18 For particular items of cost or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In such circumstances, the cost auditor will need to perform more procedures directly and accordingly, make less use of the work of the internal audit function in obtaining sufficient appropriate audit evidence. Furthermore, the higher the assessed risks of material misstatement, the more persuasive (convincing) audit evidence will be needed and, therefore, the cost auditor will need to perform more of the work directly. (Refer 5.4(b))

6.19 Significant risks require special audit consideration and therefore the cost auditor's ability to use the work of the internal audit function in relation to significant risks will be restricted to procedures that involve limited judgment. In addition, where the risks of material misstatement is other than low, the use of the work of the internal audit function alone is unlikely to reduce audit risk to an acceptably low level and eliminate the need for the cost auditor to perform some tests directly. (Refer 5.4(b))

6.20 Carrying out procedures in accordance with this SCA may cause the cost auditor to re-evaluate the assessment of the risks of material misstatement. Consequently, this may affect the cost auditor's determination of whether to use the work of the internal audit function and whether further application of this SCA is necessary. (Refer 5.4(b))

Communication with Those Charged with Governance

6.21 The cost auditor is required to communicate with those charged with governance an overview of the planned scope and timing of the audit. The planned use of the work of the internal audit function is an integral part of the cost auditor's overall audit strategy and is therefore relevant to those charged with governance for their understanding of the proposed audit approach. (Refer 5.6)

Using the Work of the Internal Audit Function

Discussion and Coordination with the Internal Audit Function



6.22 In discussing the planned use of their work with the internal audit function as a basis for coordinating the respective activities, it may be useful to address the following:

- (a) The timing of such work.
- (b) The nature of the work performed.
- (c) The extent of audit coverage.
- (d) Materiality for the Cost Statements as a whole (and, if applicable, materiality level or levels for particular Items of cost or disclosures), and performance materiality.
- (e) Methods of item selection and sample sizes.
- (f) Documentation of the work performed.
- (g) Review and reporting procedures.(Refer 5.7)

6.23 Coordination between the cost auditor and the internal audit function is effective when, for example:

- (a) Discussions take place at appropriate intervals throughout the period.
- (b) The cost auditor informs the internal audit function of significant matters that may affect the function.
- (c) The cost auditor is advised of and has access to relevant reports of the internal audit function and is informed of any significant matters that come to the attention of the internal audit function when such matters may affect the work of the cost auditor so that the cost auditor is able to consider the implications of such matters for the audit engagement. (Refer 5.7)

6.24 Communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the work of the cost auditor to the cost auditor's attention. The cost auditor is then able to take such information into account in identification and assessment of risks of material misstatement. In addition, if such information may be indicative of a heightened risk of a material misstatement of the Cost Statements or may be regarding any actual, or suspected fraud, the cost auditor can take this into account in the cost auditor's identification of risk of material misstatement due to fraud. (Refer 5.7)

Procedures to Determine the Adequacy of Work of the Internal Audit Function



6.25 The cost auditor's audit procedures on the work of the internal audit function as a whole may provide a basis for evaluating the overall quality of work and the objectivity with which internal audit function has been performed. Such procedures, in addition to re-performance in accordance with paragraph 5.10, include the following:

- (a) Making inquiries of appropriate individuals within the internal audit function.
- (b) Observing procedures performed by the internal audit function.
- (c) Reviewing the internal audit function's work program and working papers.(Refer 5.9-5.10 (d))

6.26 The more judgment involved, the higher the assessed risk of material misstatement, the less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors, or the lower the level of competence of the internal audit function, the more audit procedures are needed to be performed by the cost auditor to support the decision to use the work of the internal audit function in obtaining sufficient appropriate audit evidence on which to base the audit opinion. (Refer 5.9-5.10 (d))

Re-performance

6.27 For purposes of this SCA, re-performance involves the cost auditor's independent execution of procedures to validate the conclusions reached by the internal audit function. This objective may be accomplished by examining items already examined by the internal audit function or, where it is not possible to do so, the same objective may also be accomplished by examining sufficient other similar items not actually examined by the internal audit function. Re-performance provides more persuasive evidence regarding the adequacy of the work of the internal audit function compared to other procedures the cost auditor may perform in paragraph 6.25. While it is not necessary for the cost auditor to do re-performance in each area of work of the internal audit function that is being used, some re-performance is required on the body of work of the internal audit function as a whole that the cost auditor plans to use. The cost auditor is more likely to focus re-performance in those areas where more judgment was exercised by the internal audit function in planning, performing and evaluating the results of the audit procedures and in areas of higher risk of material misstatement.(Refer 5.9-5.10 (d))

Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance



Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit

6.28 As stated in paragraph 6.7 of this SCA, objectivity refers to the ability to perform the proposed work without allowing bias, conflict of interest or undue influence of others to override professional judgments. In evaluating the existence and significance of threats to the objectivity of an internal auditor, the following factors may be relevant:

- (a) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors.
- (b) Family and personal relationships with an individual working in, or responsible for, the aspect of the entity to which the work relates.
- (c) Association with the division or department in the entity to which the work relates.
- (d) Significant financial interests in the entity other than remuneration on terms consistent with those applicable to other employees at a similar level of seniority. (Refer 5.13-5.14)

6.29 There may also be some circumstances in which the significance of the threats to the objectivity of an internal auditor is such that there are no safeguards that could reduce them to an acceptable level. For example, because the adequacy of safeguards is influenced by the significance of the work in the context of the audit, paragraph 5.16 (a) and (b) prohibits the use of internal auditors to provide direct assistance in relation to performing procedures that involve making significant judgments in the audit or that relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited. This would also be the case where the work involved creates a self-review threat, which is why internal auditors are prohibited from performing procedures in the circumstances described in paragraph 5.16 (c) and (d). (Refer 5.13-5.14)

6.30 In evaluating the level of competence of an internal auditor, many of the factors in paragraph 6.8 of this SCA may also be relevant, applied in the context of individual internal auditors and the work to which they may be assigned. (Refer 5.13-5.14)

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance

6.31 Paragraphs 6.14 – 6.20 of this SCA provide relevant guidance in determining the nature and extent of work that may be assigned to internal auditors. (Refer 5.15 – 5.17)



6.32 In determining the nature of work that may be assigned to internal auditors, the cost auditor is careful to limit such work to those areas that would be appropriate to be assigned. Examples of activities and tasks that would not be appropriate to use internal auditors to provide direct assistance include the following:

- (a) Discussion of fraud risks. However, the cost auditors may make inquiries from internal auditors about fraud risks in the organization.
- (b) Determination of unannounced audit procedures. (Refer 5.15 – 5.17)

6.33 Similarly, where the cost auditor is required to use external confirmation (audit evidence obtained as a direct written response from a third party) procedures, it would not be appropriate to assign such responsibilities to internal auditors. However, internal auditors may assist in assembling information necessary for the cost auditor to resolve exceptions in confirmation responses. (Refer 5.15 – 5.17)

6.34 The amount of judgment involved and the risk of material misstatement are also relevant in determining the work that may be assigned to internal auditors providing direct assistance. For example, in circumstances where the valuation of inventory is assessed as an area of higher risk, it would not be appropriate to assign the procedure to an internal auditor providing direct assistance. (Refer 5.15 – 5.17)

6.35 Notwithstanding the direction, supervision and review by the cost auditor, excessive use of internal auditors to provide direct assistance may affect perceptions regarding the independence of the cost audit engagement. (Refer 5.15 – 5.17)

Using Internal Auditors to Provide Direct Assistance

6.36 As individuals in the internal audit function are not independent of the entity as is required of the cost auditor when expressing an opinion on Cost Statements, the cost auditor's direction, supervision and review of the work performed by internal auditors providing direct assistance will generally be of a different nature and more extensive than if members of the engagement team perform the work. (Refer 5.20)

6.37 In directing the internal auditors, the cost auditor may, for example, remind the internal auditors to bring accounting and auditing issues identified during the audit to the attention of the cost auditor. In reviewing the work performed by the internal auditors, the cost auditor's considerations include whether the evidence obtained is sufficient and appropriate in the circumstances, and that it supports the conclusions reached. (Refer 5.20)



7. Effective Date

This standard is effective for audits on or after.....

8. Statement of Modifications: Modifications to ISA 610, “Using the Work of Internal Auditors”

The ISAs have been developed with focus on Auditing of Financial Statements, while the focus of SCAs is on Auditing of Cost Statements. Hence, following changes are introduced across all the SCAs:

1. Change of ‘terms’ used in the ISAs that have corresponding meaning in cost audit vis-à-vis financial audit, such as Auditor with Cost Auditor, Audit with Cost Audit, Financial Statements with Cost Statements, Financial Reporting with Cost Reporting, Audit Procedures with Cost Audit Procedures, Auditor’s Responsibility with Cost Auditor’s Responsibility, etc.;
2. Corresponding modification in definitions of similar terms, examples used and in the Application Guidance;