



March 26, 2007

Mr. Jim Sylph
Technical Director
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Sylph:

We appreciate this opportunity to comment on proposed International Standard on Auditing (ISA) 610 (Redrafted), *The Auditor's Consideration of the Internal Audit Function* (the "proposed standard") as developed by the International Auditing and Assurance Standards Board (IAASB). We are supportive of the development of this guidance and believe, overall, that the redrafting of the proposed standard was completed in accordance with the clarity conventions and criteria adopted by the IAASB.

Within our recommendations for editorial changes, additions are noted in "bold underline" and deletions in "double strike-through."

Responses to Questions Posed in the Explanatory Memorandum

1. *Is the objective to be achieved by the auditor, stated in each of the proposed redrafted ISAs, appropriate?*

We believe that the objective, as stated, is appropriate.

2. *Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?*

We believe that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently.

Comments by Paragraph

- **Paragraph 2**

We believe that the language in paragraph 6 of the extant standard explains more clearly the differences between the objectives of the internal audit function and those of the external auditor. We recommend the following changes to incorporate more of the language in extant paragraph 6:

“The role of the internal audit function is determined by management or those charged with governance, **and its objectives differ from those of the external auditor. While the objectives of the internal audit function vary according to the requirements of management or those charged with governance,** ~~The objective of management and those charged with governance differ from those of the external auditor whose~~ **the** overall objective of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor’s findings. ~~The objectives of the internal audit function vary according to the requirements of management or those charged with governance.”~~

- **Paragraph 9**

We believe that the link between the requirements in paragraphs 8 and 9 could be made clearer.

Paragraph 8 establishes a requirement for the external auditor to evaluate certain aspects of the internal audit function when intending to use its work. This evaluation is made irrespective of the nature of the work, which may include procedures related to general computer controls, entity-level controls, or other procedures that may or may not relate to specific amounts or assertions in the financial statements.

Having evaluated the aspects described in paragraph 8, the external auditor then considers the impact of the internal audit function’s work on the external auditor’s procedures. We believe that this requirement, consistent with paragraph 8, should apply irrespective of the nature of the internal auditor’s work. However, as written, the paragraph seems to require the auditor to make these considerations only in circumstances where the internal audit function’s work relates to financial statement accounts or assertions.

We recommend that a paragraph be added to the application material section which includes considerations when the external auditor is making judgments about the effect on the external auditor’s procedures of the internal audit function’s work in such areas as entity-level components of internal control or general computer controls. Those considerations may include the potential for management override of controls related to the subject matter being tested and the pervasiveness of the controls being tested.

- **Paragraph A2**

We recommend the following editorial change:

“The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and **to make** specific inquiry into individual items including detailed testing of transactions, balances and procedures.”

- **Paragraph A3**

We believe that the wording in paragraph 10 of the extant standard more clearly conveys that the work of internal audit, if performed effectively, may allow a modification to the external auditor's work. We suggest the following changes:

“An effective internal audit function may ~~affect~~ **enable a modification to be made to** the nature, timing and extent of audit procedures performed by the external auditor, but cannot eliminate ~~them~~ **such procedures** entirely.

- **Paragraphs A10 and A11**

We noted a reference to ISA315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* in paragraph 7 and believe it would be useful to make a similar reference in paragraph A10 to the requirements of ISA 330, *The Auditor's Responses to Assessed Risks*.

Comment for Future Consideration by the IAASB

We acknowledge that the explanatory memorandum accompanying the proposed standard indicates that the IAASB is seeking comments only on changes resulting from applying the clarity drafting conventions. However we would like to take this opportunity to suggest that when the IAASB revises ISA 610 in the future, consideration be given to expanding the scope of the ISA to cover circumstances where internal auditors are used to provide direct assistance to the external auditor. We believe that providing requirements and guidance for such circumstances would be very useful and would enhance consistency in practice.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen, Director of Global Audit Services at + 212 492 3689 or John Fogarty, Chairman – DTT Assurance Technical Policies and Methodologies Group at + 1 203 761 3227.

Very truly yours,

