awp 5.2a

**Understanding the Internal Audit Function, including reliance on its work**

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| Name of the Entity | XYZ |
| Period of audit | 01.01.20XX to 31.12.20XX |

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| --- | --- | --- | --- | --- |
| Work of internal auditor assessed by | | Signature | Reviewed by | Signature |
| Name: |  |  |  |  |
| Designation: |  |  |
| Date: |  |  |

| **Checklist for understanding the internal audit function and assessing reliance on internal audit work** | **(Yes/No)** | **If No, effect on assessing risk of material misstatement in financial statements**  **Traced to AWP 5.4** |
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| **1** | **2** | **3** |
| **A. Assessment of objectivity** |  |  |
| 1. Is there a clearly defined structure and role of Internal audit in the entity? Is the current set-up conducive to objectivity of internal auditors? |  |  |
| 1. Is there an element of independence in reporting? To whom does IA report? |  |  |
| 1. Are there no conflicting roles entrusted to internal audit? |  |  |
| 1. Are there no constraints or restrictions placed on the internal audit function by management or those charged with governance? |  |  |
| 1. Did management take any action on the recommendations offered by Internal Audit? |  |  |
| **B. Competence of internal auditors** |  |  |
| 1. Are the internal auditors members of relevant professional bodies? State the body. |  |  |
| 1. Have they undergone adequate technical training and proficiency as IA? |  |  |
| 1. Is there any policy in place to enhance technical competencies of IA? |  |  |
| **C. Due professional care** |  |  |
| 1. Have IA activities been properly planned, supervised, reviewed and documented? |  |  |
| 1. Are conclusions reached supplemented by adequate audit evidence? |  |  |
| **D. Activities of internal audit function** |  |  |
| 1. Assigned with review of controls, monitoring, etc. |  |  |
| 1. Assigned to review applicable means to identify, measure, classify and report financial and operating information. |  |  |
| 1. Assigned to review the economy, efficiency and effectiveness of operating activities including non-financial activities. |  |  |
| 1. Assigned to review compliance with laws, regulations and other external requirements including policies. |  |  |
| 1. Assigned with risk management. |  |  |
| 1. Assigned to assess the governance processes. |  |  |
| **E. Documentation** |  |  |
| 1. Have internal auditors maintained adequate documentations of internal audit work performed in a professional manner? |  |  |

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| **Conclusion:** |

**Guidance for completing documentation of the understanding of internal audit function and reliance on its work**

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| Overall objective of completing the template | The overall objective of this audit working paper is to document the understanding of the internal audit function in the entity and assess the work done by internal auditor(s), if the external auditor were to place reliance on their work relevant to an audit of financial statements. ISSAI 2315 recognises the internal audit function as an important element of monitoring internal control. This will also assist the audit team in deciding whether to obtain direct assistance from the internal audit in conducting the audit of financial statements. |
| Applicable ISSAI | ISSAI 2300, ISSAI 2315, ISSAI 2610 |
| Guidance | Internal audit in an entity is an important element that can prevent or detect material misstatement in the financial statements that may result due to weakness in internal controls. The work of external auditors can be reduced to take into account the extent of work done by internal audit if that work can be relied upon. This template is to be used only if an internal audit function exists in the entity. |
|  | |  |  | | --- | --- | | Column 1 | This column provides a suggested checklist for documenting the understanding of the internal audit function and assessing the work done by internal auditors, under five broad categories. This checklist can be customised at the time of planning the audit. This list is not an exhaustive one. | | Column 2 | Upon finalising the checklist if customised, or using the checklist suggested in Column I, the auditor can record the answer appropriately in Column 2 as either ‘Yes’ or ‘No’. If the answer is ‘Yes’, the supporting evidence may be obtained from the entity and documented accordingly in the audit file. | |  |  | | Column 3 | If the answer to specific questions in the checklist is recorded as ‘No’, then the auditor needs to record how this will affect assessment of the risk of material misstatement in the financial statements. This can be traced to AWP 5.4 Risk Register. A weak internal audit function or lack of management action on the work of internal audit increases the risk of material misstatement in the financial statements. | |
| Conclusion | The audit team needs to conclude that an appropriate understanding of the internal audit function has been established and the work done by internal auditors has been assessed to place reliance on it in an audit of financial statement. The audit team should record the specific areas and extent to which the work of internal auditor will be used in the audit of financial statements, which will depend on areas where ‘Yes’ responses are provided.  Once completed, this document needs to be signed off by the audit supervisor. However, the document should be updated as necessary.  If the audit team plans to use the direct assistance of internal audit, AWP 5.1b can be used to obtain agreement with the audited entity’s authorised representative for the engagement of internal audit. If positive response is obtained, AWP 5.1c may be used to establish agreement with the internal auditors. |
| Recording the evidence of assessor and reviewer | The Table indicating the names of the person who assessed the internal audit function and work done by internal auditors and the reviewer needs to be completed at the end. One of the team members or the team leader could make this assessment and needs to be signed off accordingly.  The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly. |