

15 November 2010

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

Via web site [www.iaasb.org](http://www.iaasb.org)

Re: Proposed International Standards on Auditing ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, and ISA 610 (Revised), Using the Work of Internal Auditors

Members of the International Auditing and Assurance Standards Board:

We very much appreciate the opportunity to provide comments and recommendations to the International Auditing and Assurance Standards Board exposure drafts (EDs) ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, and ISA 610, Using the Work of Internal Auditors. These comments and recommendations are offered on behalf of both ISACA<sup>®</sup> and the IT Governance Institute<sup>®</sup> (ITGI<sup>®</sup>), international, independent thought leaders on information technology (IT) control, security and assurance, and governance of enterprise IT.

We are responding primarily from an IT perspective. We believe the proposed ISAs will be useful to both internal and external auditors and congratulate the IAASB on its accomplishment. Our general comments are provided in the following section of the letter; more specific comments and our responses to IAASB questions are included in Attachments A and B, respectively.

### **General Comments**

We are very supportive of the issuance of ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, and ISA 610 (Revised), Using the Work of Internal Auditors, as updated standards. However, we suggest clarification of the following matters:

- We believe that the external auditor should read all internal audit reports that may have relevance to the accounting and financial reporting process (IAASB Question 3), rather than just those with “findings” (ISA 315, paragraph 6a) or those related to areas in which the external auditor plans to use the work of internal audit (ISA 610, paragraphs 18 and A16). Reading all relevant internal audit reports will enhance the external auditor’s understanding of the business and assist in the identification and assessment of risks. Reports without “findings” may be as useful to the external auditor as those with “findings.”

- Many internal audit functions have implemented approaches referred to as “continuous assurance” or “continuous controls monitoring,” which often are information-systems-based tools that can provide real-time evidence of a failure of a control. It would be helpful to suggest that the external auditor might inquire about the use of such approaches.

We are generally pleased with both the content and tone, and offer some specific suggestions in Attachment A.

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As the worldwide leading independent thought leaders on IT controls, we are eager to assist the IAASB in accomplishing its mission. Please feel free to call on our organizations if we can be of assistance in any way on further deliberations, task forces or committees.

Again, we appreciate the opportunity to comment on the IAASB draft guidance.

Respectfully submitted,



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Chair, Professional Issues Task Force  
Past International President, 2005-2007  
ISACA ([www.isaca.org](http://www.isaca.org))  
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### **About ISACA and ITGI**

With 95,000 constituents in 160 countries, ISACA ([www.isaca.org](http://www.isaca.org)) is a leading global provider of knowledge, certifications, community, advocacy and education on information systems (IS) assurance and security, enterprise governance and management of IT, and IT-related risk and compliance. Founded in 1969, the nonprofit, independent ISACA hosts international conferences, publishes the *ISACA<sup>®</sup> Journal*, and develops international IS auditing and control standards, which help its constituents ensure trust in, and value from, information systems. It also advances and attests IT skills and knowledge through the globally respected Certified Information Systems Auditor<sup>®</sup> (CISA<sup>®</sup>), Certified Information Security Manager<sup>®</sup> (CISM<sup>®</sup>), Certified in the Governance of Enterprise IT<sup>®</sup> (CGEIT<sup>®</sup>) and Certified in Risk and Information Systems Control<sup>™</sup> (CRISC<sup>™</sup>) designations. ISACA continually updates COBIT<sup>®</sup>, which helps IT professionals and enterprise leaders fulfill their IT governance and management responsibilities, particularly in the areas of assurance, security, risk and control, and deliver value to the business.

The IT Governance Institute<sup>®</sup> (ITGI<sup>®</sup>) ([www.itgi.org](http://www.itgi.org)) is a nonprofit, independent research entity that provides guidance for the global business community on issues related to the governance of enterprise IT assets. ITGI was established by the nonprofit membership association ISACA in 1998.

**Attachment A—Specific Comments and Suggestions**

<b><u>Reference</u></b>	<b><u>Comments and Suggestions</u></b>
ISA 315, A6b	The first sentence should read "... auditor's inquiries, it appears that there <i>have been audits</i> that may be relevant to the entity's financial reporting and the audit, ..."
ISA 315, A6c	Add to the end of the sentence " <i>and the information systems auditor.</i> "
ISA 315, A6d	Add the following additional bullet to the list of bullets: <ul style="list-style-type: none"><li>• Inquiries directed toward information systems personnel may provide information about system changes, system or control failures, or other information-system-related risks.</li></ul>
ISA 315, A103a	We suggest replacing the term "monitoring controls" with "monitoring activities" or "monitoring of controls" to clarify that monitoring is an activity to provide management assurance that controls are operating effectively, not just another control, and to be consistent with terminology used by COSO.
ISA 610, A3	In the first bullet under "... internal control," it would be helpful if the second sentence included language such as "... responsibility for reviewing controls ( <i>including information systems controls</i> ), evaluating their operation, ..."
ISA 610, A6	In the second bullet under "Competence," it may be helpful to add to the end of the second sentence examples of internationally recognized professional designations using language such as "... a relevant professional designation, <i>such as Certified Internal Auditor (CIA) or Certified Information Systems Auditor (CISA).</i> "
ISA 610, A16	It may be helpful to add a sentence at the end of this paragraph along the following lines: " <i>The external auditor also reads other reports of the internal audit function related to financial reporting and the audit and considers such reports in planning the use of the work of internal audit.</i> "
ISA 610, A17	We suggest adding the following to the first bullet "... <i>effectiveness of controls, including information systems controls.</i> "

**Attachment B—Responses to IAASB Questions**

Our responses to the IAASB's questions are based on our review of the proposed ISAs and are included below.

1. Do respondents believe it is appropriate to require the external auditor to make inquiries of appropriate individuals within the internal audit function? **Yes** If so, do respondents agree such a requirement is appropriately placed in ISA 315? **Yes**
2. Do respondents believe that appropriate factors have been proposed to be evaluated by the external auditor in determining:
  - (a) Whether the work of the internal audit function can be used for purposes of the audit engagement; and
  - (b) The planned use of the work of the internal audit function? **Yes**
3. Do respondents believe it is appropriate to require the external auditor to read reports produced by the internal audit function relating to the work of the internal audit function that is planned to be used by the external auditor? **Yes; however, the external auditor should also read other reports produced by the internal audit function related to financial reporting or the audit.**
4. Do respondents believe that it is desirable for the scope of ISA 610 to be expanded to address the matter of direct assistance? **Yes**

If so, do respondents believe that when obtaining the direct assistance of internal auditors the external auditor should be required to:

- (a) Consider the factors that have been proposed in determining the work that may be assigned to individual internal auditors; and
- (b) Direct, supervise, and review the audit procedures performed by the internal auditors in a way that recognizes they are not independent of the entity? **Yes**

The IAASB is also interested in comments on the following matters:

5. Public Interest Concerns—Respondents are asked to address whether there are any public interest concerns that have not been addressed. **No**
6. Special Considerations in the Audit of Smaller Entities—Respondents are asked to comment whether, in their opinion, guidance addressing special considerations in the audit of smaller entities should be provided in the proposed revised ISAs. **Yes**

If so, respondents are asked to explain why and to suggest the nature of any such considerations. **We believe it would be helpful to provide guidance or examples of matters to be considered in a smaller entity if the internal audit function is not formalized (as it is in many larger entities) or internal-audit-type activities are performed by persons who also have other management or operating responsibilities.**

7. Special Considerations in the Audit of Public Sector Entities—Respondents are asked to comment whether, in their opinion, special considerations in the audit of public sector entities have been dealt with appropriately in the proposed revised ISAs. **Yes**
8. Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed revised ISAs in a developing nation environment. **NA**
9. Translations—Recognizing that many respondents intend to translate the final revised ISAs for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed revised ISAs. **NA**
10. Effective Date—Respondents are asked to comment whether, in their opinion, the provisional effective date is appropriate for supporting effective adoption and implementation of the proposed revised ISAs at the national level. **Yes**

### **Request for Comments on Analysis of Impacts**

The IAASB is piloting the use of impact analyses. The impact analysis contained in this Explanatory Memorandum shows the IAASB's consideration of the potential impacts of both the overall proposed revised ISA 315 and ISA 610 and the preferred option for each key issue addressed during the development of the proposed revised standards.

Narrative descriptions of this analysis are included in this Explanatory Memorandum and presented in tabular format in the Appendix. The impact analysis in the Appendix identifies who will be affected by the proposed revised standards and preferred options, how, and to what extent they will be affected. It is important to note that the impact analysis is intended to communicate the impact of the incremental difference between extant and proposed revised ISA 315 and ISA 610, not between current and future practice.

The IAASB would appreciate comments on the following matters:

11. Is the analysis of impact presented in Section 4 of this Explanatory Memorandum helpful to respondents in understanding the anticipated impacts of the IAASB's proposals? **Yes**
12. Do respondents agree with the impact analysis as presented? **Yes**  
  
Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IAASB? **No**
13. Are there any changes to the narrative or tabular presentation of the impact analysis that would be helpful to respondents? **No**
14. Would respondents find such an approach useful at the national level? **Yes**