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30 November 2010

Mr. James Gunn
Technical Director, International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, 10017 USA

Dear Sir

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD ("IAASB") EXPOSURE DRAFT ON INTERNATIONAL STANDARD ON AUDITING ("ISA") 610 (REVISED), USING THE WORK OF INTERNAL AUDITORS AND RELATED CONFORMING AMENDMENTS TO ISA 315 (REVISED), IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

The Auditing and Assurance Standards Board ("AASB") of the Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Auditing and Assurance Standards Board ("IAASB") exposure draft on proposed International Standard on Auditing ("ISA") 610 (Revised), Using the Work of Internal Auditors, and the related conforming amendments to ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.

MIA commends IAASB's effort in revising the ISAs to enhance the performance of external auditors by enabling them to leverage, as appropriate on the knowledge and findings of an entity's internal audit function in making risk assessments in the external audit and strengthening the framework for the evaluation and, where appropriate, use of the work of internal auditors in obtaining audit evidence.

Our comments are as follows:

Comments to the questions:

Q1. Do respondents believe it is appropriate to require the external auditor to make inquiries of appropriate individuals within the internal audit function? If so, do respondents agree such a requirement is appropriately placed in ISA 315?

We believe that it is appropriate to require the external auditor to make inquiries of appropriate individuals within the internal audit function to enable the auditor to understand how significant is the role and function that internal audit function plays in an organisation for the external auditor to leverage on the internal auditor's understanding of the entity and its environment.

It is appropriate to place these requirements in ISA 315 as the internal audit function forms an important component in the external auditor's evaluation and understanding of an entity and the control environment which will impact the risk assessment process, audit strategy and audit plan.

Comments to the questions: (continued)

Q2. 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?

We believe appropriate factors have been considered for external auditor's evaluation especially with regards to competence and objectivity of the internal audit function.

The ISA has dispelled ambiguity when relying on the work internal audit function by clarifying that it is the external auditor's sole responsibility for the audit opinion expressed. The external auditor is expected to make significant judgements and perform sufficient procedures to draw a reasonable conclusion when planning to use the work of the internal audit function.

Q3. 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?

It is appropriate and relevant for the external auditor to read the 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. However, we believe that guidance should be provided to correlate the strategy or audit plan by the internal audit function to enable the external auditor to modify the audit procedures and the extent of audit procedures to be performed.

Q4. Do respondents believe that it is desirable for the scope of ISA 610 to be expanded to address the matter of direct assistance? 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?

The external auditor should refrain from obtaining direct assistance of internal auditors, however due to practical reasons where direct assistance is obtained from internal auditors; it is desirable that ISA 610 should address this matter. Since internal audit function is not independent of the organisation, the external auditor should exercise higher professional scepticism when directing, supervising and reviewing the work of the internal auditors. We agree with requirements proposed for the external auditor when obtaining direct assistance from internal auditors; however clarity is required on the type of direct assistance that can be obtained from internal auditors.

Q5. Public Interest Concerns - Respondents are asked to address whether there are any public interest concerns that have not been addressed.

There may be perception by the public that there may be threats to independence when internal auditors provide direct assistance. It will be useful for the revised standards and the code of ethics to address how such threats can be safeguarded.

Comments to the questions: (continued)

Q6. 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. If so, respondents are asked to explain why and to suggest the nature of any such considerations.

Para A65 of ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing reads as follows:

The considerations specific to smaller entities included in the ISAs have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities.

Accordingly, we believe based on this premise, guidance addressing special considerations in the audit of smaller entities should be provided in the proposed revised ISAs.

Q7. 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, we believe that special considerations in the audit of public sector entities have been dealt with appropriately in the proposed revised ISAs.

Q8. 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.

Not Applicable.

Q9. 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.

Not Applicable.

Q10. 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.

The proposed ISA 610 will be effective for audits of financial statements for periods ending on or after December 31, 2013. As there are no fundamental changes to the revised standard, early adoption of the revised standard should be encouraged.

Comments to the questions: (continued)

Q11. 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?

The analysis of impact is helpful and provides a structured approach in communicating to the user of the effects of the IAASB's proposals.

Q12. Do respondents agree with the impact analysis as presented? Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IAASB?

The other stakeholders that should be considered are the audit committee and those charged with governance to be included in the impact analysis.

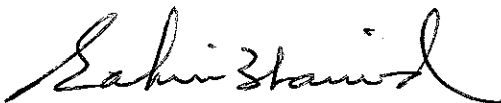
Q13. Are there any changes to the narrative or tabular presentation of the impact analysis that would be helpful to respondents?

None identified.

Q14. Would respondents find such an approach useful at the national level?

We believe the approach is useful at the national level to assist in understanding on a general basis, notwithstanding requirements of local law or regulations, the anticipated impacts of the IAASB's proposals.

Yours sincerely,
MALAYSIAN INSTITUTE OF ACCOUNTANTS



ABDUL RAHIM ABDUL HAMID
President