

Statement on Auditing Standards No. 128, *Using the Work of Internal Auditors*

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Effective Date: This Statement on Auditing Standards is effective for audits of financial statements for periods ending on or after December 15, 2014.

Product Number: [ASASST128P](#) (paperback); [ASASST128E](#) (eBook) (Or, go to <http://www.cpa2biz.com> and search for this product number.)

Executive Summary

As a result of its [Clarity Project](#), the Auditing Standards Board (ASB) has issued Statement on Auditing Standards (SAS) No. 128, *Using the Work of Internal Auditors*, to

- supersede SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*, AU sec. 322 and AU-C sec. 610), and
- amends
 - SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*, AU-C sec. 315);
 - Various other sections in SAS No. 122 (AICPA, *Professional Standards*, AU-C secs. 200, 220, 230, 240, 260, 265, 300, 402, 500, 550, and 600); and
 - Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control* (Redrafted) (AICPA, *Professional Standards*, QC sec. 10).

SAS No. 128 addresses the external auditor's responsibilities if using the work of internal auditors. Using the work of internal auditors 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 external auditor.

SAS No. 128 does not apply if the entity does not have an internal audit function. If the entity has an internal audit function, the requirements in SAS No. 128 relating to using the work of the internal audit function in obtaining audit evidence do not apply if

- a. the responsibilities and activities of the function are not relevant to the audit, or
- b. based on the external auditor's preliminary understanding of the function obtained as a result of procedures performed under AU-C section 315, the external auditor does not expect to use the work of the function in obtaining audit evidence.

Nothing in SAS No. 128 requires the external 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 external auditor; it remains the external auditor's decision to establish the overall audit strategy. Furthermore, the requirements in SAS No. 128 relating to using internal auditors to provide direct assistance do not apply if the external auditor does not plan to use internal auditors to provide direct assistance.

Consistent with International Standard on Auditing (ISA) 610 (Revised 2013), *Using the Work of Internal Auditors*, SAS No. 128 introduces the concept of a *systematic and disciplined approach*, which is not included in SAS No. 65. Paragraph 13 of SAS No. 128 would require, among other things, as a prerequisite to being able to use the work of the internal audit function, that the external auditor evaluate the application by the internal audit function of a *systematic and disciplined approach, including quality control*. Paragraphs A12–A14 of SAS No. 128 provide application guidance with regard to the evaluation of the application of a systematic and disciplined approach by the internal audit function. The ASB believes that relative to SAS No. 65, this requirement represents an additional and explicit evaluation that the external auditor is required to determine whether the work of internal auditors can be used in obtaining audit evidence.

Convergence

SAS No. 128 was developed using ISA 610 (Revised 2013) as a base. Substantive differences in objectives, definitions, or requirements between SAS No. 128 and ISA 610 (Revised 2013) are identified in the exhibit to SAS No. 128.

The ASB has made various changes to the language of the ISA in SAS No. 128 to use terms or phrases that are more commonly used in the United States and to tailor examples and guidance to be more appropriate to the U.S. environment. The ASB believes that such changes will not create differences between the application of ISA 610 (Revised 2013) and the application of SAS No. 128. Taking account of existing practice in the United States relating to use of internal auditors to provide direct assistance, the ASB made additional changes to the related ISA requirements and application material in SAS No. 128 (as described in more detail in the exhibit to SAS No. 128).