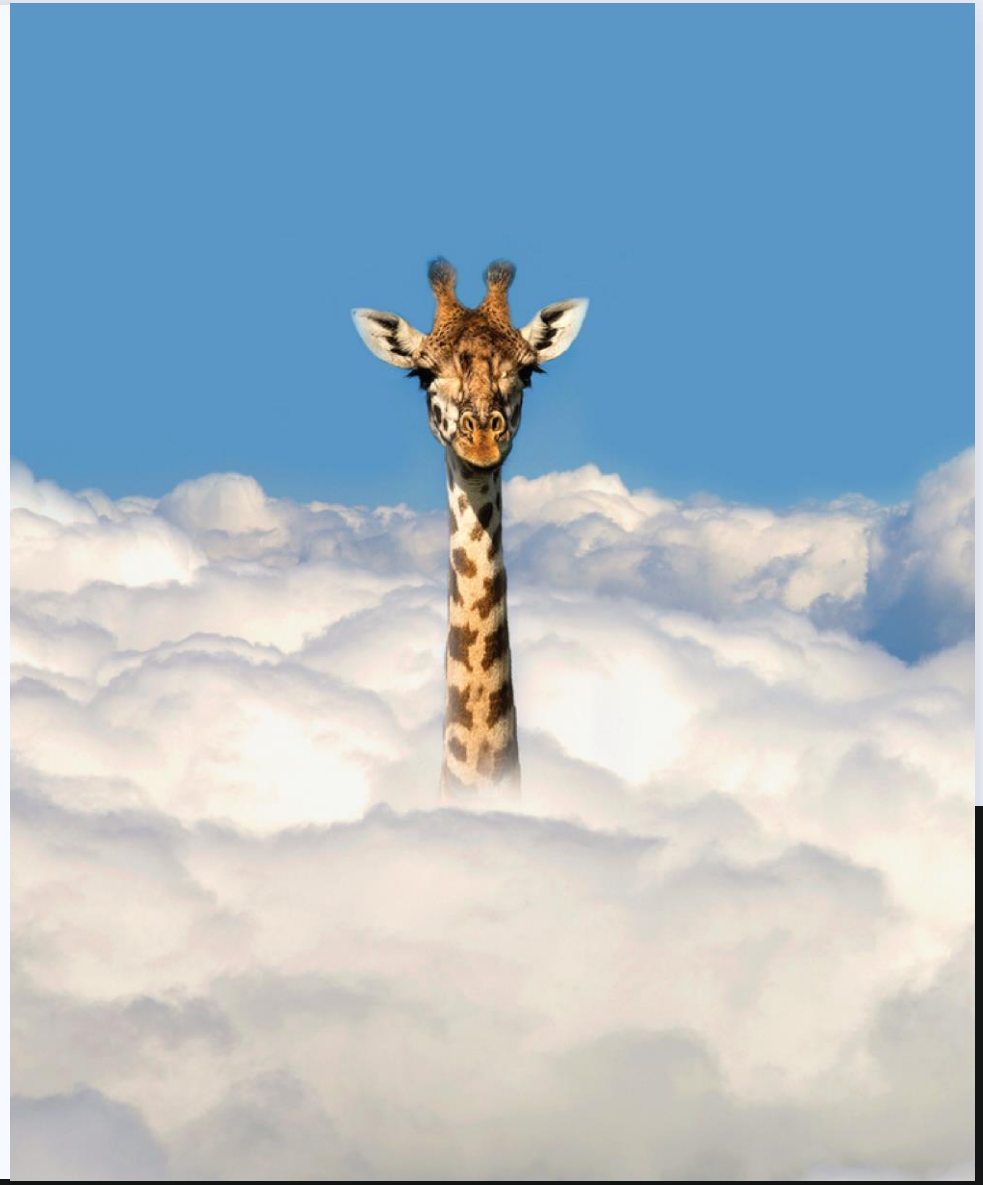
INTERNAL AUDIT PLAN [SIA – WIRC, ICAI]

25TH JUNE 2021

CA HUZEIFA I. UNWALA



STANDARDS ON INTERNAL AUDIT

1. Aim to codify the best practices
2. Apply to all types of Internal Auditing activities
3. "Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system".

Standard on	SIA	SIA Name	Status
Key Concept	110	Nature of Assurance	Addition
	120	Internal Control	Addition
Internal Audit Management	210	Managing the Internal Audit Function	Addition
	220	Conducting overall Internal Audit Planning	Addition
	230	Objective of Internal Audit	Addition
	240	Using the work of an Expert	Modification
Conduct of an Audit Assignment	310	Planning the Internal Audit Assignment	Modification
	320	Internal Audit Evidence	Modification
	330	Internal Audit Documentation	Modification
	350	Review & Supervision of Audit Assignment	Addition
	360	Communication with Management	Modification
	370	Reporting Results	Modification
	390	Monitoring and reporting of Prior Audit Issue	Addition
Standards issued up to July 1, 2013	5	Sampling	No Change
	6	Analytical Procedure	No Change
	7	Quality Assurance in Internal Audit	No Change
	11	Consideration of Fraud in an Internal Audit	No Change
	13	Enterprise Risk Management	No Change
	14	Internal Audit in an Information Technology Environment	No Change
	17	Consideration of Laws & Regulations in an Internal Audit	No Change
	18	Related Party	No Change

KEY PLANNING CONSIDERATIONS

- Significant changes in business environment
- Significant changes in IT environment
- Review of movements in internal controls/ risks/ financials
- Overall trends in financials, emerging issues that could impact the entity and regulatory changes
- Annual exchange of views with external auditors, IFC team, IT auditors, etc
- Annual fraud risk assessment
- Team & individual members conform to Code of Ethics and Standards
- Impact of C-19 on audit strategy (on-site/off-site)

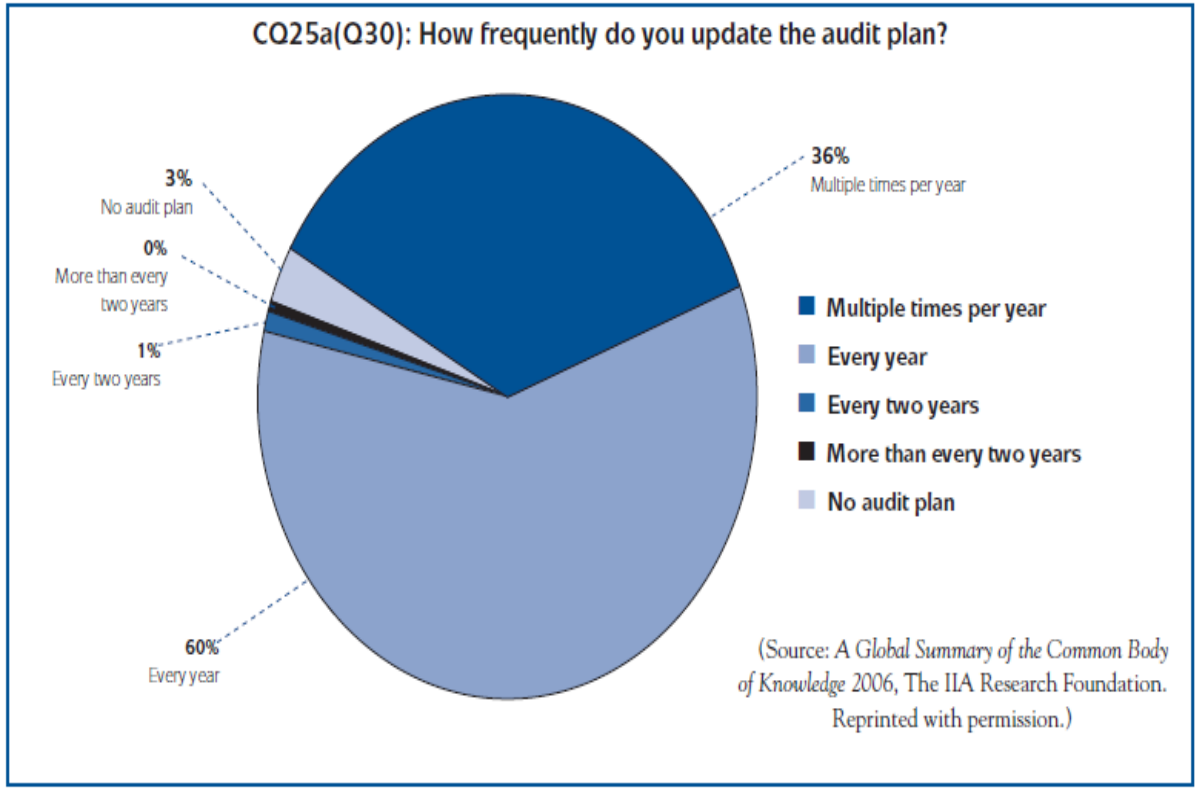
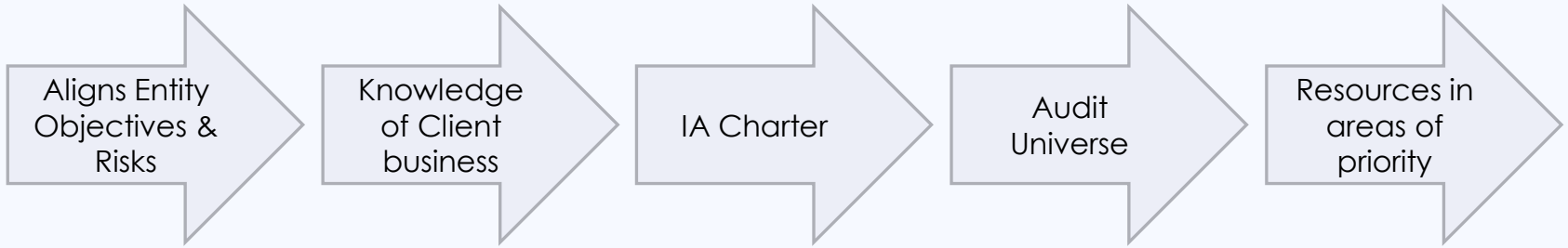


Figure 1. Frequency of audit plan updates

Requirements under Companies Act, 2013

"The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity, and methodology for conducting the internal audit."

SIA 220 – CONDUCTING OVERALL INTERNAL AUDIT PLANNING



SIA 220

Objective: The objectives of an Overall Internal Audit (Engagement) Plan are to:

Ensure that the planned internal audits **are in line with the objectives** of the internal audit function, as per the internal audit charter and in line with the overall objectives of the organization;

Align the organization's risk assessment with the effectiveness of the risk mitigation implemented;

Confirm the broad scope, methodology and depth of coverage of the internal audit work;

Ensure that overall **resources are adequate, skilled and deployed** with focus in areas of importance.

1. **Requirement:** The planning exercise shall follow a laid down process, the outcome of which shall be a **written document** containing the essential elements.
2. Internal audit plan shall be **reviewed and approved** by the **highest governing body** responsible for internal audits.
3. A **discussion with management and other stakeholders** shall be undertaken to understand the intricacies of each **auditable unit** subject to audit.
4. An **Audit Universe** shall be prepared prior to establishing the scope of the overall internal audit plan.
5. A **risk-based planning exercise** shall form the basis of the overall internal audit plan.
6. The Audit Universe and the overall internal audit plan shall be **continuously monitored** during the execution phase.

SIA 220

Scope: This SIA deals with the Internal Auditor's responsibility to prepare the Overall Internal Audit Plan, also referred to as the Annual Internal Audit (Engagement) Plan. Where only part of the internal audit activity is outsourced, this SIA shall apply to the extent the Internal Auditor needs to plan the activities of the outsourced part of the engagement only, as defined in their terms of engagement, which shall also clarify the extent of the planning responsibilities.

Obtaining Knowledge of the Business

1. Previous experience

2. Legislation and regulations

3. Policy and procedures manual

4. Minutes of the meetings

5. Management reports

6. Previous internal audit reports

7. Newspaper/ industry journals

8. **Discussion with Those Charged with Governance**

9. Visits to entity's plant facilities

Establishing the Audit Universe

1. Audit universe comprises the activities, operations, units etc., to be subjected to audit during the planning period.

2. The audit universe and the related audit plan should also reflect the overall business objectives, changes in the management's course of action, corporate objectives, etc.

3. The internal auditor should periodically, say half yearly, review the audit universe to identify any changes

Establishing the Objectives of the Engagement

Establishment of objectives should be based:

1. The auditor's knowledge of the client's business

2. A preliminary understanding

3. **Review of the risks and controls associated with the activities forming subject matter of the internal audit engagement.**

SIA 220

Technology Deployment): A key element of the overall internal audit planning exercise involves understanding the extent to which:
(a) the entity has deployed information technology (IT) in its business, operations and transaction processing, and
(b) the auditor needs to deploy IT tools, data mining and analytic procedures, and the expertise required for conducting the audit activities and testing procedures.
This helps to design and plan the audit more efficiently and effectively.

Establishing the Scope of the Engagement

1. The scope of the engagement should be sufficient in coverage

2. Consider information gathered during the preliminary review

3. If circumstances exist would restrict from carrying out the procedures, discuss the matter with the client to continue the engagement or not.

4. The scope should be documented comprehensively

5. System based audit tools should be clearly understood

Deciding the Resource Allocation

Internal auditor should prepare audit work schedule such as:

1. Activities/ procedures to be performed

2. Engagement team responsible for performing activities

3. Time allocated to each of these activities

4. Any significant changes to the entity's missions and objectives

5. Any changes or proposed changes to the governance structure of the entity

6. Composition of the engagement team in terms of skills & experience

Preparation of Audit Programme

Audit Program should be to:

1. Achieve the objectives of the engagement

2. Provide assurance that the internal audit is carried out in accordance with the Standards

3. A risk-based plan

4. Reflecting and addressing the priorities of the internal audit activity

5. Consistent with the organization's goals

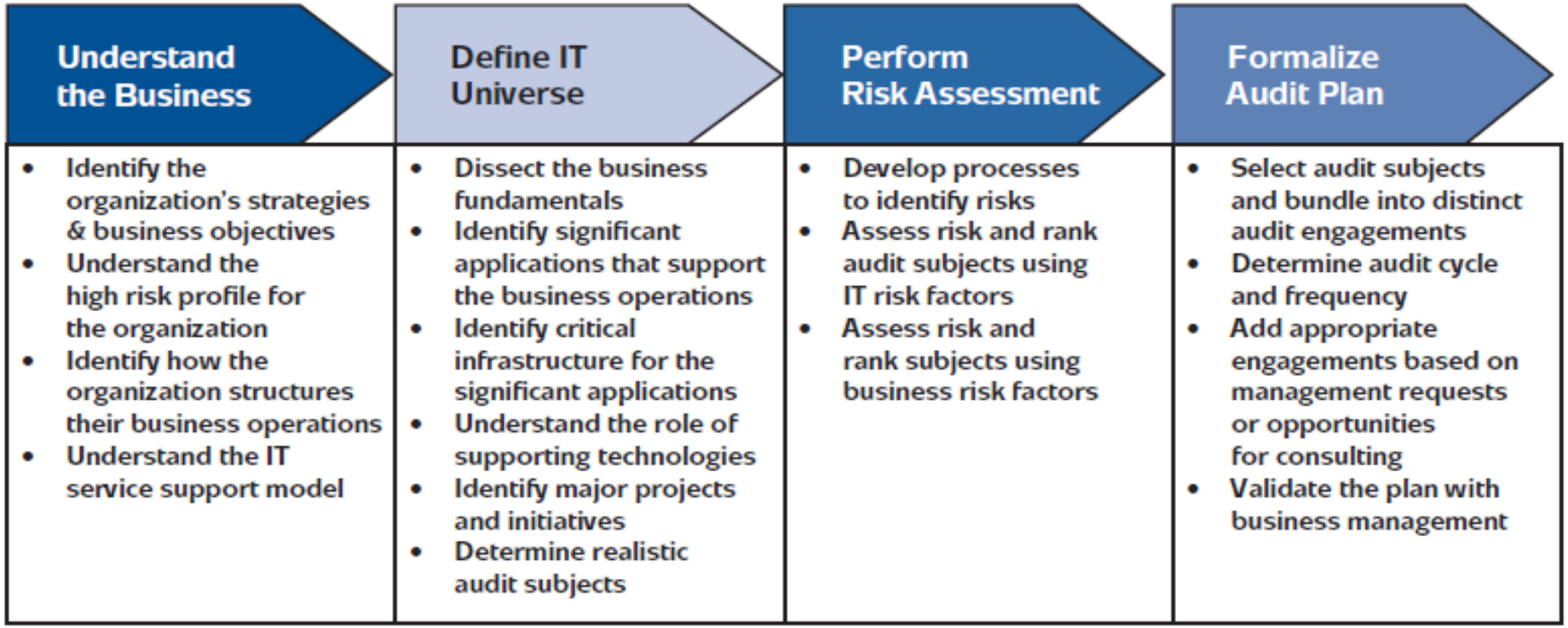


Figure 2. The IT audit plan process

PLANNING – ILLUSTRATIVE (TECHNOLOGY THEME)

SOURCE : IIA PUBLIC WEB SOURCES

RISK GRADING MATRIX

Consequence Definition	Risk Factors					Likelihood Definition
	Financial	Reputation	Business Operations	Work Health Safety Environment	Project Management	
A **Insignificant** **The event is of low consequence**	1 Financial loss – Small increase in costs or shortfall in revenue not in line with budget	1 Unsubstantiated, low profile media exposure OR no media attention	1 No operational issues. OR Low level operational issue that can be worked around.	1 Single minor injury to one person – no lost time OR Insignificant environment issues	1 Project close to time, budget and quality	**1** **Rare** **The event is only expected to occur in exceptional circumstances**
B **Minor** **The event may threaten a part of the organisation**	2 Financial loss – Minor financial impact	2 Substantiated, low impact, low media profile (not front-page news)	2 Minor operational issue that can be quickly remediated and return to business as usual.	2 Medically treated injury to one person, less than 5 days lost time OR Minor environment issues	2 Project has minor issues with time, budget or quality	**2** **Unlikely** **The event is not usually likely to occur**
C **Moderate** **The event may threaten many parts of the organisation**	3 Financial loss – $100k	3 Substantiated, public embarrassment, moderate media profile (front page, one day)	3 Moderate level operational issues; may include continuity, security or privacy matters; may include business partner issue.	3 Minor or medically treated Injury to several people, less than 10 days lost time OR Some environment issues	3 Project has moderate issues with time, budget, quality or probity	**3** **Possible** **The event may occur**
D **Major** **The event may threaten achievement of business objectives**	4 Financial loss – $100k to $500k	4 Substantiated, public embarrassment, high impact, major media attention (national for one week or more)	4 Substantial operational issues; likely to include continuity, security or privacy matters; may include business partner failure.	4 Single death, or long term disabling injuries to one or more people OR Substantial environment issues	4 Project has substantial issues with time, budget, quality or probity	**4** **Likely** **The event is likely to occur**
E **Severe** The event may stop achievement of business objectives	5 Financial loss – > $500k	5 Substantiated, public embarrassment, multiple impacts, long lasting widespread media coverage	5 Company-threatening operational issues; includes continuity, security or privacy matters; may include severe impact business partner failure.	5 Multiple losses of life or permanent disability, plus extensive injuries to several people OR Severe environment issues	5 Large project has severe issues with time, budget, quality or probity	5 **Almost certain** The event is already occurring or is expected to occur

CAPTURING UNIVERSE

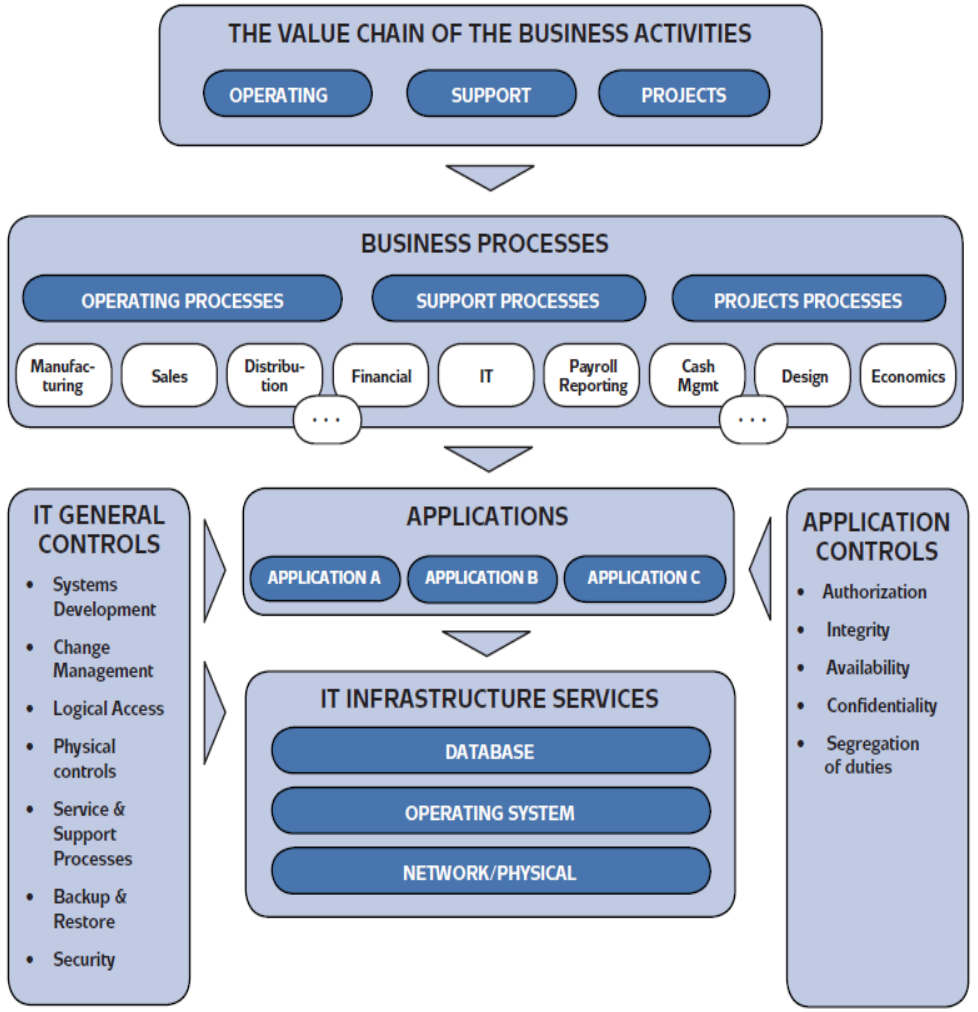


Figure 3. Understanding the IT environment in a business context

SOURCE : IIA PUBLIC WEB SOURCES

PLANNING – ILLUSTRATIVE (TECHNOLOGY THEME)

Area	Financial Impact		IT Risks										Score and Level	
			Quality of Internal Controls		Changes in Audit Unit		Availability		Integrity		Confidentiality			
	L	I	L	I	L	I	L	I	L	I	L	I		
ERP Application & General Controls	3	3	2	3	3	3	2	3	2	3	2	3	42	H
Treasury EFT Systems	3	3	3	3	3	3	2	2	3	2	2	2	41	H
HR/Payroll Application	3	3	3	2	3	3	2	2	2	3	2	3	40	H
Employee Benefits Apps (Outsourced)	2	3	2	2	3	3	3	2	2	3	3	3	40	H
IT Infrastructure	2	2	3	2	3	3	3	3	3	2	2	2	38	H
Process Control Systems	1	1	2	2	2	2	2	2	1	1	1	1	15	L
Database Administration and Security	2	2	2	2	2	2	3	3	2	2	2	1	27	M
UNIX Administration and Security	2	2	2	3	2	2	3	1	1	1	3	2	24	M
Corp. Privacy Compliance	2	2	3	2	3	3	2	1	2	2	3	3	34	M
Windows Server Admin and Security	2	2	1	2	2	2	2	3	3	2	2	2	26	M
Environment Reporting Systems	2	2	3	2	2	2	2	3	1	1	3	1	24	M
SOX Sustainability Review	2	2	2	2	2	2	1	1	2	2	1	2	19	L
Network Administration and Security	2	2	1	1	1	2	2	1	2	2	2	2	17	L
ITIL Deployment Practices	1	1	1	3	2	1	3	1	1	3	3	3	21	M
IT Governance Practices	1	1	2	2	1	1	3	1	1	1	1	2	12	L
Remote Connectivity	1	1	1	2	2	1	1	1	1	2	2	2	12	L
Application Program Change Control	2	3	1	3	1	1	1	1	1	3	1	2	16	L
Lowest possible score			6											
Highest possible score			54											
Mid point			30											

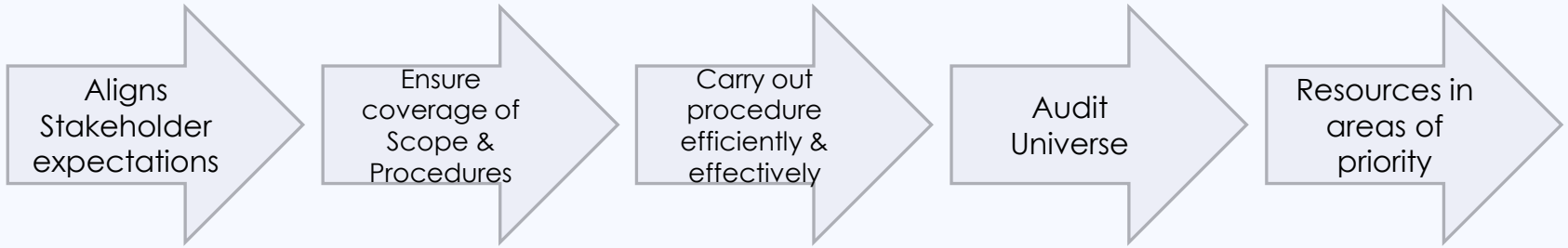
L = Likelihood
I = Impact

Table 3. Example of an IT risk-ranking score model

SOURCE : IIA PUBLIC WEB SOURCES

This Standard on Internal Audit (SIA) 310 covers the "Planning the Internal Audit Assignment" for a particular part of the entity. Standard on Internal Audit (SIA) 220, covers the "Conducting Overall Internal Audit Planning" of the entity.

SIA 310 – PLANNING THE INTERNAL AUDIT ASSIGNMENT



SCOPING CRITERIA

Terms of reference

The terms of reference is a brief document that outlines

information about the audit including the audit objectives,

criteria and scope.

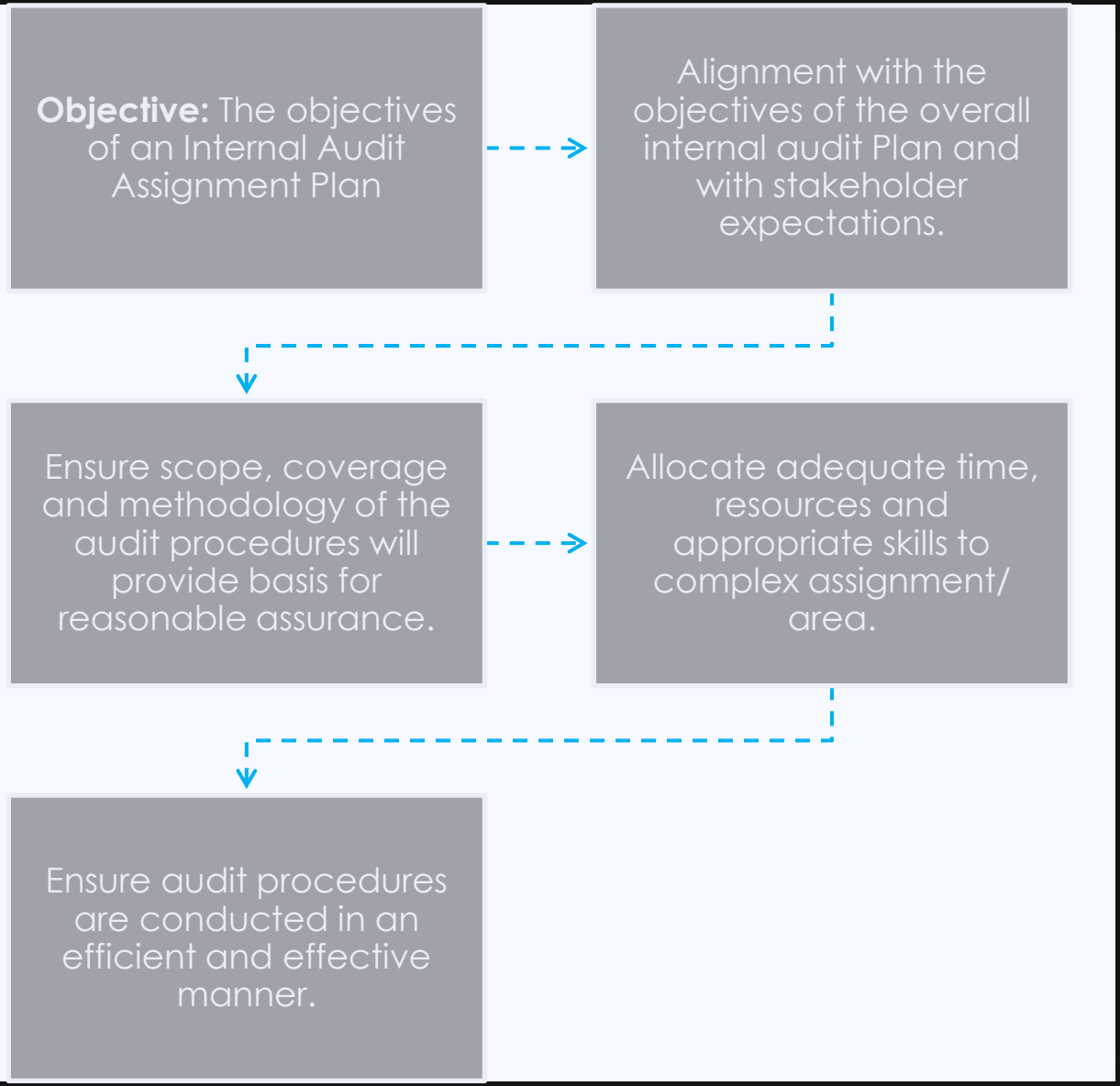
The audit sponsor should be given an opportunity to provide input to development of the terms of reference.

This assures appropriate coverage of the risks and issues associated with the audit topic.

Audit Criteria

- Criteria are the measure used to gauge whether the audit objectives are achieved. Examples of audit criteria may be:
- Defined scope document
- Laws, regulations, policies and contracts.
- Standards.
- Procedures.
- International literature, for example standards and good practice guides.
- Technical publications.
- Administration instructions.
- Guidelines.
- Plans.
- Reports.
- Benchmarking.
- Expert advice.

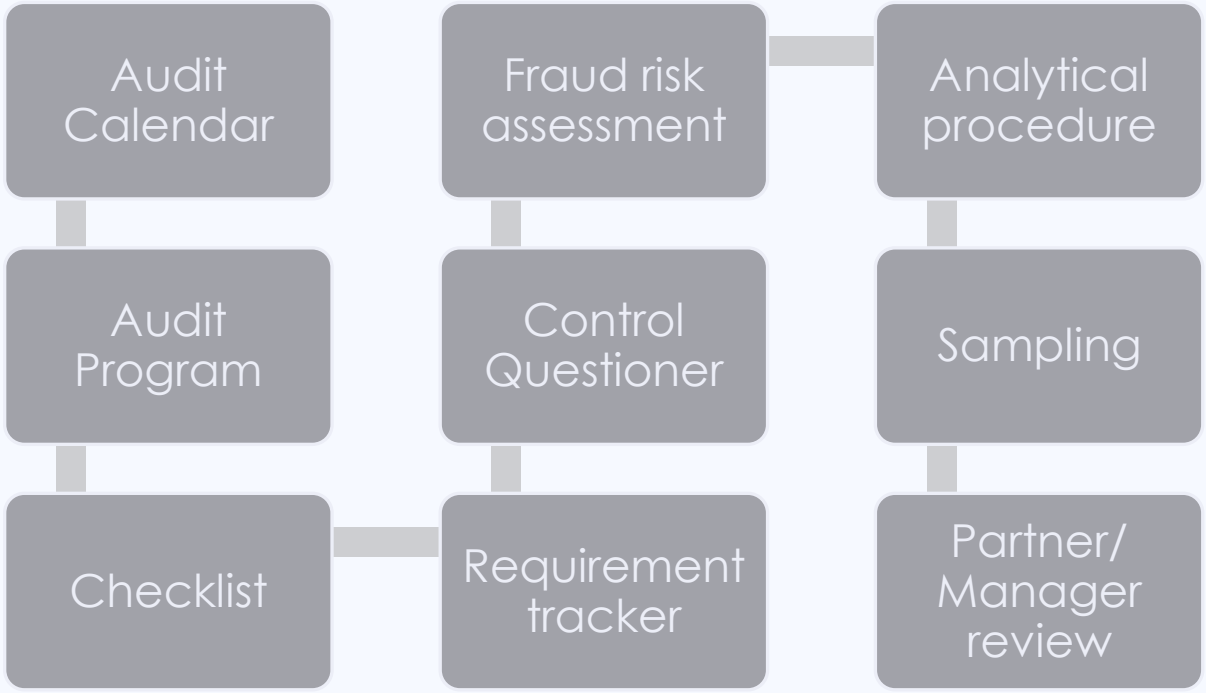
SIA 310


Objective: The objectives of an Internal Audit Assignment Plan
Alignment with the objectives of the overall internal audit Plan and with stakeholder expectations.
Ensure scope, coverage and methodology of the audit procedures will provide basis for reasonable assurance.
Allocate adequate time, resources and appropriate skills to complex assignment/ area.
Ensure audit procedures are conducted in an efficient and effective manner.

Planning Process Chart

- Responsibility – CAE / Partner
- Flexibility for change during audit

SIA 310

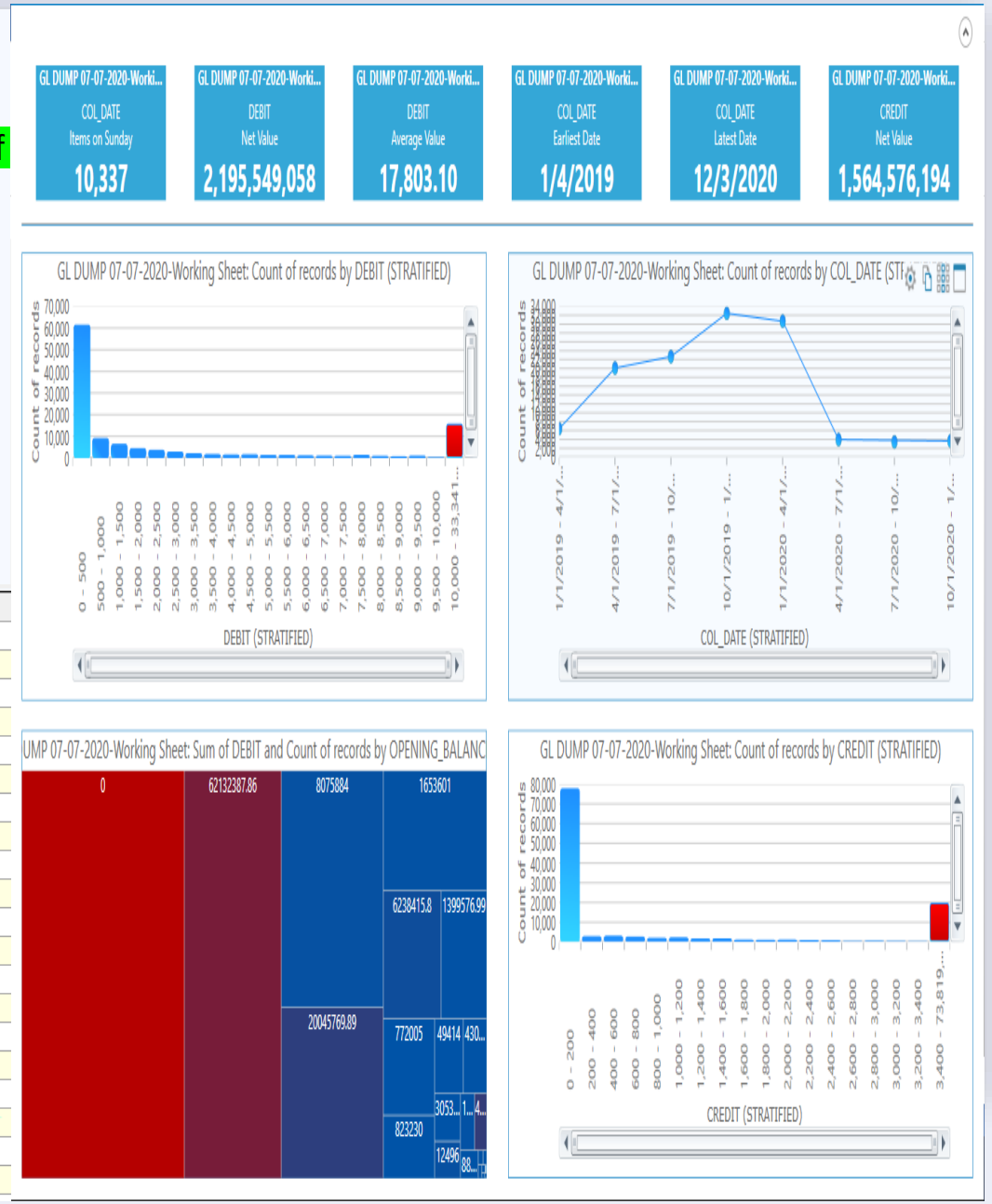


UNDERSTANDING AUDIT DATA UNIVERSE - DATA ANALYSIS PERSPECTIVE

Key data Analysis Pointers to extract outliners with aid of Audit tools

1. Extracting specific top or bottom, Average Values, Count of Records to understand the data universe
2. Identifying missing sequence or unusual flags in data for instance missing serial numbers/Entries done on Holidays or Sundays to plan Key Risk Transactions/events
3. Identifying extent of duplicate values in data
4. Summarization and Stratification of data to understand Data groups and Values/Means & Medians to estimate sample size
5. Usage of Statistical and Scientific technique like Benford's law/Correlation analysis for marking red flags

Numeric Statistics	DEBIT	CREDIT
Net Value	2,195,549,058	1,564,576,194
Absolute Value	2,195,549,058	1,564,576,194
# of Records	123,324	123,324
# of Zero Items	50,882	74,902
Positive Value	2,195,549,058	1,564,576,194
Negative Value	0	0
# of Positive Records	72,442	48,422
# of Negative Records	0	0
# of Data Errors	0	0
# of Valid Values	123,324	123,324
Average Value	17,803.10	12,686.71
Minimum Value	0	0
Maximum Value	33,341,680	73,819,932
Record # of Min	51	1
Record # of Max	44,571	44,564
Sample Std Dev	236,924.97	340,660.85
Sample Variance	56,133,443,470.75	116,049,816,841...
Pop Std Dev	236,924.01	340,659.47
Pop Variance	56,132,988,300.28	116,048,875,825...
Pop Skewness	62.677293	116.781909



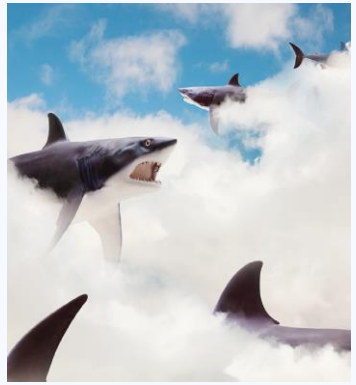
PLANNING – ILLUSTRATIVE (TECHNOLOGY THEME)

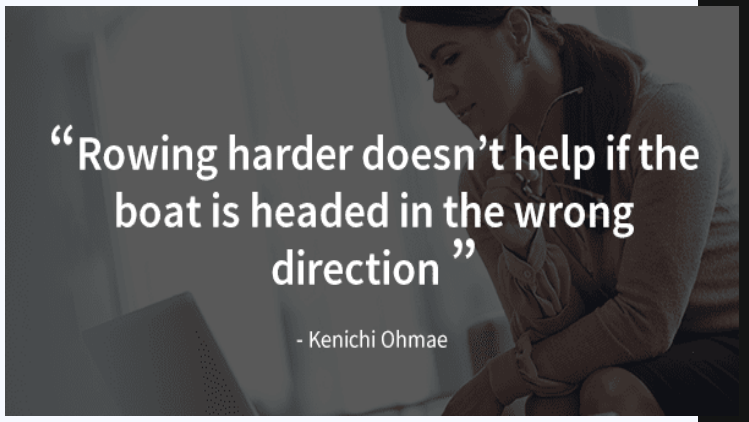
Engagement	Risk Level	Cycle	Audit Days Allocated
Penetration Test Coordination	*	0	40
Procurement Application Follow-up	*	0	20
ERP Application & General Controls	H	1	100
Facility 3: HR/Payroll Application	H	2	30
Employee Benefits Apps (Outsource)	H	3	100
Facility 3: IT Infrastructure	H	2	90
UNIX Administration and Security	M/H	1	90
Corp. Privacy Compliance	M/H	3	40
Windows Server Administration and Security	M	3	90
Facility 1: IT Infrastructure	M	3	90
Facility 1: Process Control Systems	M	3	90
Environment Reporting Systems	M	3	30
Major Capital Investment Projects	M	3	30
Sarbanes-Oxley Sustainability	M/*	3	120
ITIL Deployment Practices	L/*	4	40
Total			1000
* Management Request			

Table 11. The audit plan

SOURCE : IIA PUBLIC WEB SOURCES

PREPARE YOUR INTERNAL AUDIT PLAN CAREFULLY !!!





CONTEMPORARY AUDIT PLANNING LANDSCAPE

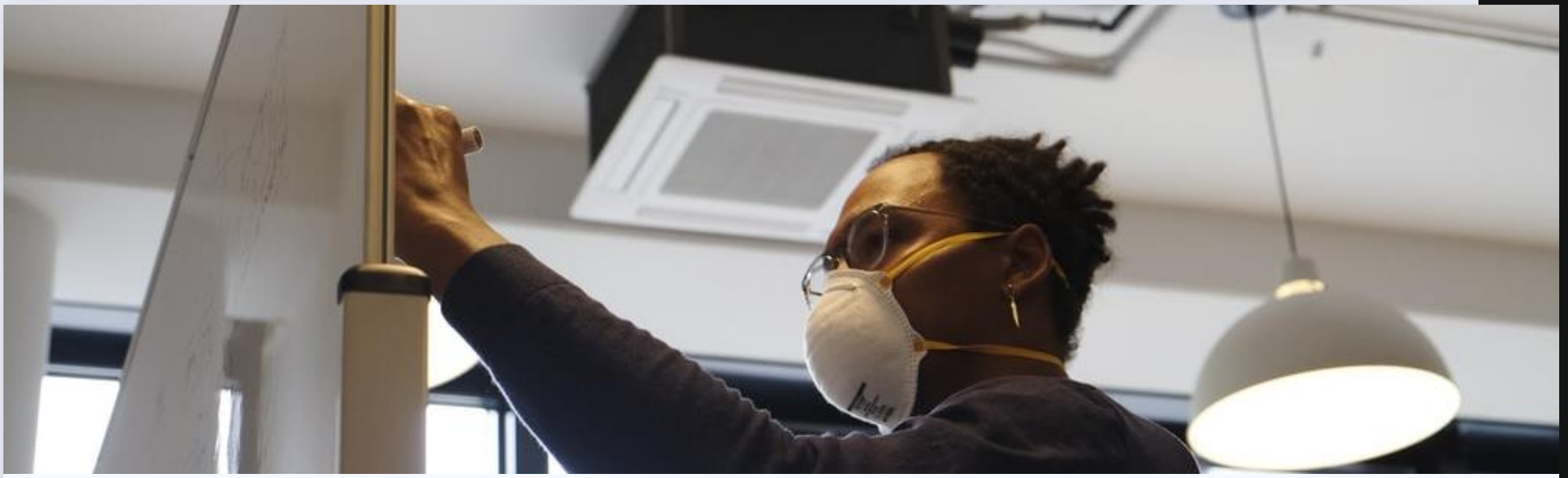
1. Business is evolving every day
2. Technology is changing every hour
3. Consumer choices & preferences are changing every minute

Internal Auditor's Choices: -

- 1-year rigid IA plan
- 2- year master IA plan
- Risk assessed 1-year plan with flexibility to add/ sub-tract depending on next quarter likely business developments
- Planned thematic or subject matter 3–4-day audit missions
- Snap thematic or subject matter audit missions
- Rolling periodical confirmations on inventory, cash, etc
- Fraud risk assessments and testing

When businesses survive in uncertainty, can auditors be certain about the once in a year audit plan?

AUDIT PLAN ENSURES SUCCESS, COMPLIANCE & CREDIBILITY !!!



Questions?

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Thank you !!!

Disclosure: -Views expressed are personal and with the spirit of sharing knowledge it should not be construed as professional advice.