

REFRESHER COURSE ON INTERNAL AUDIT

INTERNAL AUDIT ASSIGNMENT PLANNING SIA 310

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INTERNAL AUDIT ENGAGEMENT PROCESS

Phase I - Planning

Phase II – Field work

Phase III – Reporting



Internal Audit Planning is conducted at two levels:

First Level: SIA -220

Conducting overall internal audit planning for the entire entity for a given period of time (usually a year) and presented to the highest governing body responsible for internal audits, normally, the Board of Directors, or the Audit Committee.

Second Level: SIA -310

A number of specific internal audit plans are prepared for **individual audit assignments** to be undertaken covering some part of the entity and presented to the Chief Internal Auditor. It is subset of the overall internal audit plan.

WHAT IS INDIVIDUAL AUDIT ASSIGNMENT ?

Internal Audit Universe of Company XYZ						
Business Activity/ Process	Auditable Unit/ Location					
	Plant A	Plant B	Plant C	HO	Warehouse A	Warehouse B
1. Procurement	Q1		Q3			
2. HR and Payroll				Q1 and Q4		
3. Compliance		Q2		Q3		
4. Logistics			Q4		Q4	Q1
5. Inventory Management	Q3	Q4			Q2	Q3

Examples of Individual Audit Assignments:

a. Business Activity:

Procurement, HR and Payroll, compliance, logistics etc.

b. Auditable Unit:

Plant, HO, Warehouse, Department, Location, Subsidiary, Third party etc

OBJECTIVE OF INTERNAL AUDIT ASSIGNMENT PLAN?

The objectives of an Internal Audit Assignment Plan are as follows:

- a. Ensure its **alignment** with the objectives of the Overall Internal Audit (Engagement) Plan and also in line with stakeholder expectations.
- b. Ensure that the scope, coverage and methodology of the audit procedures will form a sound basis for providing **reasonable assurance**.
- c. Allocate **adequate time and resources** to important aspects of the assignment and assign **appropriate skills** to complex areas and issues.
- d. Ensure audit procedures are conducted in an **efficient and effective** manner.
- e. Ensure the audit assignment will **conform with the applicable pronouncements** of the Institute of Chartered Accountants of India (ICAI).

METHODOLOGY OF INDIVIDUAL AUDIT ASSIGNMENT PLANNING

1. Discussion with the Management

2. Knowledge of Business and its Environment

3. Risk Assessment

4. Technology Deployment

5. Audit Methodology and Depth of Coverage

6. Documentation of Planning Process

7. Resource Allocation

8. Continuous Monitoring of Audit Plan during the execution phase

1. DISCUSSION WITH MANAGEMENT

As per SIA 310:

A key element of planning involves extensive discussion and deliberation with all stakeholders, including Auditable Unit's executive management, risk owners, process owners, department heads etc. Their inputs are critical in understanding the intricacies of the assignment, in identification of matters of relevance and to align stakeholder expectations with audit objectives.

Practical Example:

On discussion with the management they may share some key risk and the challenges, which help the auditor in selecting focus areas for audit and effective planning

- Rising instances of exceptions. Example: Regularization of PO after procurement
- Increase in procurement cost Vs Selling price/ Production
- Recent frauds identified
- Monopoly of few vendors
- Manual Process
- Non Adherence to SOP
- Quality Rejections

2. KNOWLEDGE OF BUSINESS AND ITS ENVIRONMENT

As per SIA 310:

The Internal Auditor shall gather all the information required to fully understand the Auditable Unit's business environment, the risks it faces, the legal and regulatory requirements, the activities conducted and its day to day operational challenges. The extent of information required should be sufficient to enable the internal auditor to identify matters which have a significant effect on the Auditable Unit's financials and operations. Hence, there is a need to connect the financial aspects of the Auditable Unit's business with the entity's business elements, as well as external elements such as industry dynamics, business model, operational intricacies, legal and regulatory framework and the system and processes in place to run its operations.

Practical Example:

- Analysis of Company Annual Reports and qualifications
- Analysis of company past Internal Audit Reports
- Analysis of company website
- Plant visit before planning to understand the client business and opening meeting with the process owners
- Review of Company policy and SOPs
- Whether company operate on make to order or make to sales model
- Whether company deals in seasonal products
- Study of Company key products and Key Raw Materials
- Study of competitor Annual Reports and research on company business on Internet

QUESTION



What more steps you will perform to gain more knowledge of business and its environment ?

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What more steps you will perform to gain more knowledge of business and its environment ?

- a. Refer to Relevant Circular or Notification relevant to Industry
- b. Refer to tax provision relevant to the client or Industry
- c. Refer to Security Exchange Website to analyze the announcement made by company in recent time

3. RISK ASSESSMENT

As per SIA 310:

An Internal Auditor shall undertake an independent risk assessment of all aspects of the Auditable Unit under review and align this with the risk assessment conducted by management. This is required to prioritize and focus audit work on high risk parts of the Auditable Unit, with due attention given to matters of importance, complexity and sensitivity. This exercise may involve site visits and preliminary surveys of the Auditable Unit. Based on this exercise, key risk mitigations (or internal controls) are identified for testing the effectiveness of operation. Absence of any risk mitigations (or missing controls) could point towards process design gaps which shall also be validated and reported.

3. RISK ASSESSMENT

Risk	Control	Control Deficiency	Compensatory Control
1. Fictitious Vendor creation leading to fictitious Purchase/ Unauthorized Purchase booking	Vendor code is created/amended by the IT Department on the basis of request received for user. Vendor creation Right is only with IT Department.	No	-
2. Excess Expenditure Over Budget	Annual budget is tracked manually by the Purchase Department.	Yes, Purchase Order is not linked to Budget in System	Before approving any Purchase Order it is verified with the Budget Tracker maintained in Excel
3. Unapproved Purchase Order Creation	Purchase Order approving rights are only with Head of Procurement in system.	No	
4. Unauthorized Purchases	Purchase Invoice cannot be accounted without valid Purchase Order in system	No	
5. Excess Payment to Vendor	Purchase order is verified manually before making payment to vendor	Yes, System allow on account payment to Vendor	Design Deficiency

4. TECHNOLOGY DEPLOYMENT

As per SIA 310:

A key element of the internal audit assignment planning exercise involves understanding the extent to which:

- (a) the Auditable Unit has deployed Information Technology (IT) in its business, operations and transaction processing, especially if it is unique and different to the overall entity; and
- (b) the auditor needs to deploy IT tools, data mining & analytic procedures, and the expertise required for conducting the audit activities and testing procedures.

This helps to design and plan the audit and testing procedures more efficiently and effectively.

Practical Example:

- Special Software for Procurement
- Special Portal for Bidding
- Extent of Automation like linking of procurement budget with Purchase order and Purchase Order with Invoice
- Need to deploy IT tools by auditors will depend on level of automation implemented by the client, nature of software used, extent of system access allowed to auditor, Various MIS available from system etc.

5. AUDIT METHODOLOGY AND COVERAGE

As per SIA 310:

The basic internal audit methodology, generally, undertaken involves the performance of compliance procedures over transactions and balances so as to identify deviations from the laid down policies and procedures.

The Framework governing Internal Audits, issued by the ICAI, requires the conduct of risk based audits with a system and process focus. Therefore, the depth of coverage shall go beyond basic compliance and could be expanded. The Internal Audit Assignment Plan shall align the audit methodology and depth of coverage with the assurance to be provided.

For example as follows:

- (a) Application of a basic process review methodology which tests the **design and operating efficiency of internal controls**, questions the process design and explores better and more efficient ways of transaction processing.
- (b) Deploying a risk based process review methodology which helps to link the internal controls to particular vulnerabilities, evaluate the effectiveness of internal controls, even question the process in place and help identify **alternative mitigations**.

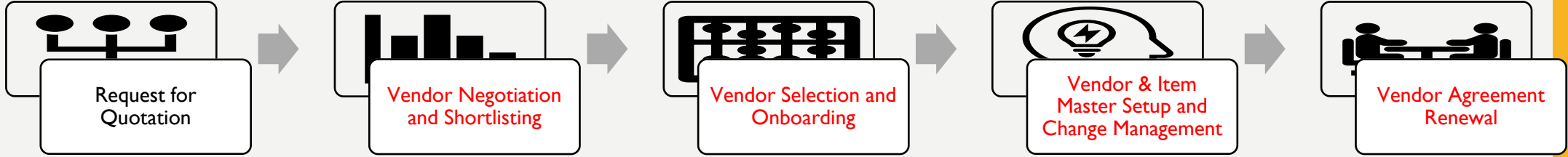
5. OUTPUT OF PERFORMING COMPLIANCE PROCEDURE

Summary of Compliance Procedure

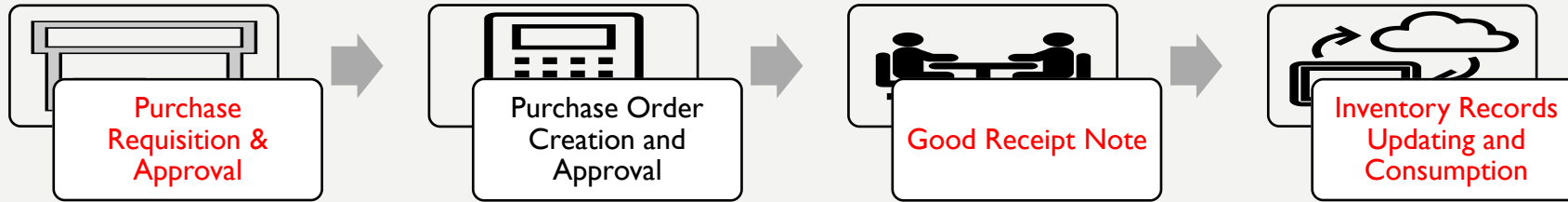
Particulars	Total Population	Samples Selected	Sample Coverage	Deviation Noted (In Nos)	% of Deviation
Total Purchase Value	10,00,000	7,50,000	75%		
Total Number of Transactions	500	100	20%	10	10 %

PROCUREMENT AUDIT SCOPE ILLUSTRATIVE

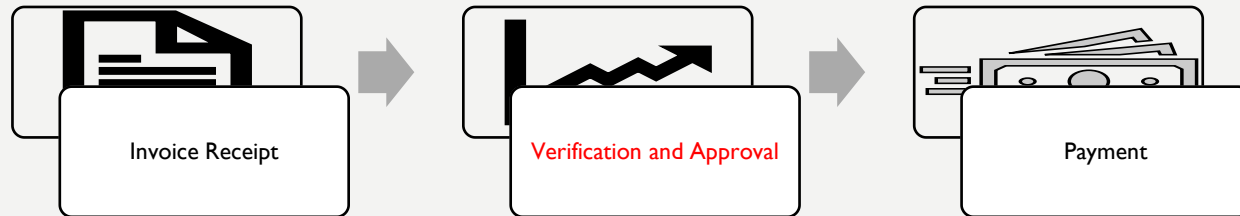
STAGE 1 (50 Hours)



STAGE 2 (80 Hours)



STAGE 3 (80 Hours)



TESTING DESIGN AND OPERATING EFFICIENCY OF INTERNAL CONTROL

Risk	Control	Control Deficiency	Compensatory Control
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CHECKLIST AND COVERAGE

Audit Methodology	Control	Audit Coverage	Checklist
1. Fictitious Vendor creation leading to fictitious Purchase/ Unauthorized Purchase booking	Vendor code is created/amended by the IT Department on the basis of request received for user. Vendor creation Right is only with IT Department.	100 percent	<ul style="list-style-type: none"> a. Verify the system access control to ensure the vendor creation rights is with only IT Team b. Verify audit logs from system to ensure rights to create vendor code are not allotted in past to others
2. Excess Expenditure Over Budget	Annual budget is tracked manually by the Purchase Department.	Sample Basis	a. Verify the sample purchase order with the Excel Budget tracker to verify any instances of procurement over the budget
3. Unapproved Purchase Order Creation	Purchase Order approving rights are only with Head of Procurement in system.	100 percent	Verify the 3- Way match report from the system

6. DOCUMENTATION OF PLANNING PROCESS

As per SIA 310:

To confirm compliance of audit procedures with the SIA, all key steps undertaken in the planning process shall be adequately documented to confirm their proper completion.

Essential documentation shall be as follows:

- (a) Planning Process documentation (or Checklists) and any tools used in the planning process.
- (b) Documentation supporting the information gathered about the Auditable Unit's business and operations, systems and processes and past or known issues.
- (c) Summary of meetings and communication with key stakeholders, with a summary of their inputs.
- (d) Risk Assessment documentation and a Summary of risk mitigating controls deployed.
- (e) Summary of available resources, their competencies and the proper matching of their skills with the audit requirements.
- (f) Detailed Internal Audit Programme (IAP) which lists the specific testing procedures to be conducted for each audit objective.
- (g) The final Internal Audit Assignment Plan, duly approved by the Chief Internal Auditor or Engagement Partner, in case of external service provider).

7. RESOURCE ALLOCATION

As per SIA 310:

The Internal Auditor shall prepare a detailed work schedule to estimate the time required for each audit procedure depending on the audit attention it deserves (on the basis of risk assessment) and map this with the competencies (knowledge, experience, expertise etc.) of the resources available to ensure proper resource availability and allocation.

8. CONTINUOUS MONITORING OF AUDIT PLAN DURING THE EXECUTION PHASE

As per SIA 310:

The Internal Audit Assignment Plan shall be continuously monitored during the execution phase for achievement of the objectives and to identify deviations, if any. Certain deviations may require to be notified to the stakeholders or even require a formal modification to the plan. However, any major modification to the plan shall be done only after consultation with those who approved the original plan. Such changes shall be formally documented and communicated to all impacted stakeholders.

THANK YOU

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