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STANDARDS ON INTERNAL AUDIT (SIA)

July 13th 2019

By C.A. Huzeifa Unwala

BACKGROUND & IMPORTANCE

- The Internal Audit Standards Board of the Institute has issued Standards on Internal Audit which provide guidance to the members on all important aspects related to internal audit, so that they adopt the best practices and processes in carrying out internal audit. The Standards assist in providing confidence in the quality and consistency of the internal audit work conducted, help to deliver internal audit services in an effective and efficient way
- Establish requirements and benchmarks against which the performance of internal audit can be measured.

BACKGROUND & IMPORTANCE

- Standards, Guidance Notes and Clarifications are issued under the authority of the Council of the Institute.
- Scope of the Standards on Internal Audit; states that “the Standards on Internal Audit shall apply whenever an internal audit is carried out.”
- As per SIA background - *“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”.*

STANDARDS ON INTERNAL AUDIT (SIA)

| Sr.No. | SIAs No. | SIA Name |
|--------|----------|--|
| 1 | 230 | Objective of Internal Audit |
| 2 | 220 | Conducting Overall Internal Audit Planning |
| 3 | 310 | Planning the Internal Audit Assignment |
| 4 | 210 | Managing the Internal Audit Function |
| 5 | 330 | Internal Audit Documentation |
| 6 | 5 | Sampling |
| 7 | 6 | Analytical Procedures |
| 8 | 320 | Internal Audit Evidence |
| 9 | 7 | Quality Assurance in Internal Audit |
| 10 | 360 | Communication with Management |
| 11 | 11 | Consideration of Fraud in Internal Audit |
| 12 | 12 | Internal Control Evaluation |
| 13 | 13 | Enterprise Risk Management |
| 14 | 14 | Internal Audit in Information Technology Environment |
| 15 | 240 | Using work of an expert |
| 16 | 17 | Considerations of Laws and Regulations in Internal Audit |
| 17 | 18 | Related Parties |
| 18 | 370 | Reporting Results |
| 19 | 110 | Nature of Assurance |

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OBJECTIVE OF INTERNAL AUDIT

SIA 230

OBJECTIVE AND REQUIREMENT OF STANDARD

Objective: The purpose of defining the Objectives of Internal Audit are to:

- Document the formation and functioning of the Internal Audit activity;
- Provide clarity to the Internal Auditor and its stakeholders regarding the nature of the internal audit;
- Ensure linkage between what is expected of the Internal Auditor and how those expectation can be met;
- Promote better understanding on key operational areas, such as, accountability and authority, roles and responsibility etc.

Once the objectives of internal audit are defined, they help to establish the operating parameters within the overall internal audit agenda. These objectives and operating parameters are formally recorded in Internal Audit Charter or Engagement letter.

Requirement:

- It is the duty of the Chief of Internal Audit to have in place a written Internal Audit Charter documenting the formation and functioning of the internal audit activity.
- The Chief of Internal Audit shall ensure that the Internal Audit Charter is reviewed and approved by those charged with governance.
- The Internal Audit Charter and the Engagement Letter shall be reviewed periodically by the Chief of Internal Audit and the Engagement Partner

SCOPE AND OBJECTIVES OF THE INTERNAL AUDIT FUNCTION

The objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance.

The activities of the internal audit function may include one or more of the following:

- Monitoring of internal control;
- Examination of financial and operating information;
- Review of operating activities;
- Review of compliance with laws and regulations;
- Risk management;
- Governance

COMPONENTS OF A TYPICAL INTERNAL AUDIT CHARTER

- **Mission and Vision of the Internal Audit (IA) Function** : This indicates the long-term view of the Internal Audit function, in line with its reason for existence;
- **Purpose and Objectives of Internal Audit** : Explains what the Internal Audit function hopes to achieve in a certain period of time;
- **Reporting Structure and Independence** : This section explains where the Internal Audit function is placed within the overall Organization Structure of the Company and whom it reports to.
- **Scope and Approach** : The scope of the internal audits shall be consistent with the goals and objectives of the internal audit function and also in line with the nature and extent of assurance to be provided by the Internal Auditor. Any entities/units excluded from the scope shall be clearly noted.
- **Accountability and Authority** : The Internal Auditor may be held accountable for certain deliverables beyond providing basic assurance, such as, improving the control environment, reducing risk ratings or improving compliances level, etc.
- **Roles and Responsibility** : All the key job functions and activities are spelt out in this section
- **Quality Assurance and Conformance with SIAs** : It notes the checks put in place to ensure reliability and credibility of the output.

COMPONENTS OF A TYPICAL ENGAGEMENT LETTER

Following are the minimum components to be mentioned in a engagement letter

- Purpose and Objectives of Internal Audit;
- Independence and Objectivity;
- Scope and Approach;
- Accountability and Authority;
- Roles and Responsibility;
- Limitations and Confidentiality;
- Quality Assurance and Conformance with SIAs;
- Reporting and Compensation;
- Ownership of Working Papers;
- Termination of Arrangement.

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CONDUCTING OVERALL INTERNAL AUDIT PLANNING

SIA 220

OBJECTIVE OF STANDARD

This Standard on Internal Audit (SIA) covers the, “Conducting Overall Internal Audit Planning” for the **entity as a whole**. Standard on Internal Audit (SIA) 310, deals with “Planning of Internal Audit Assignments” **for a particular part** of the entity.

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

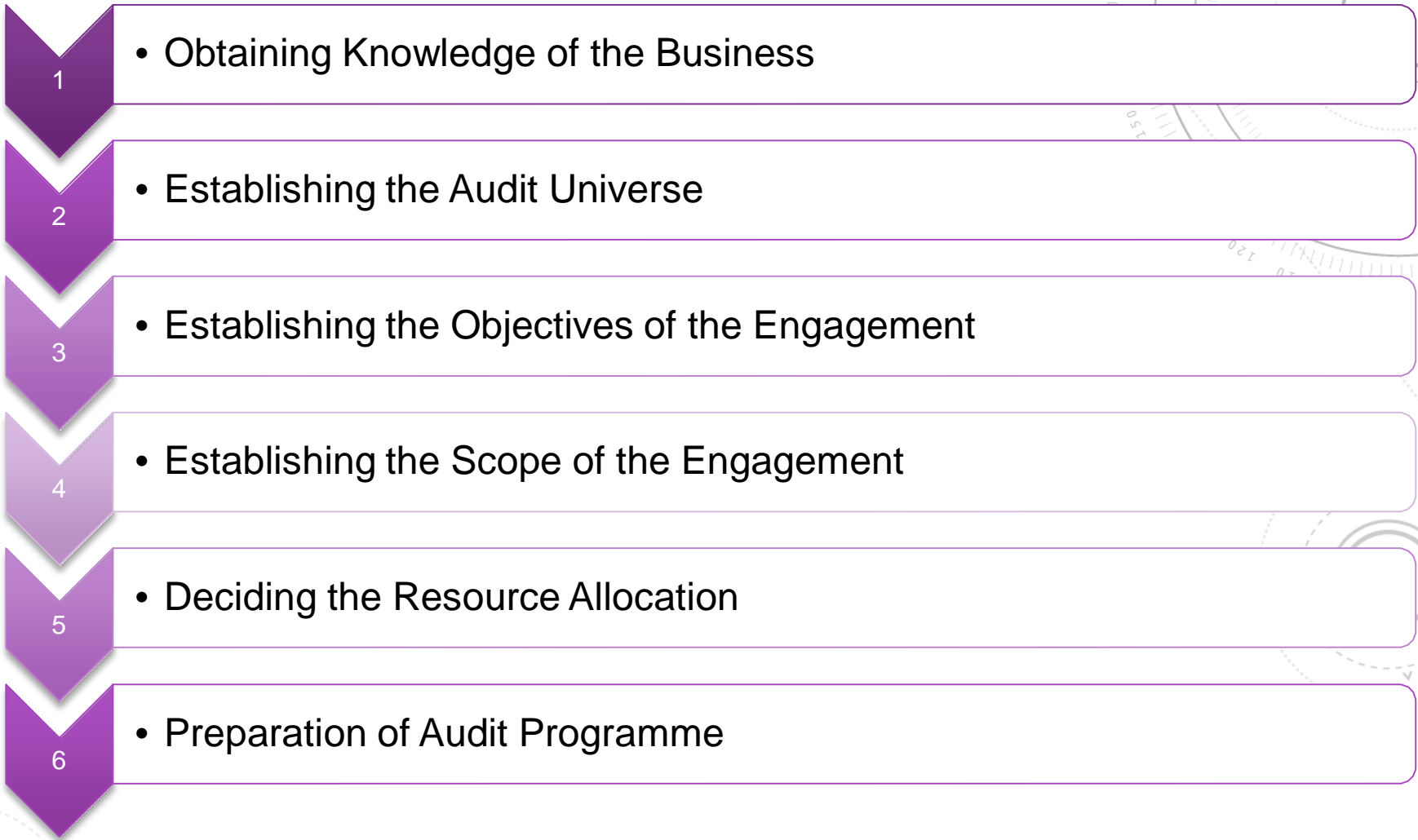
- Ensure that the planned internal audits are in line with the objectives of the internal audit function, as per the internal audit charter and also in line with the overall objectives of the organization;
- Align the organization’s risk assessment with the effectiveness of the risk mitigation implemented;
- 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.

REQUIREMENT OF STANDARD

Requirement: The planning exercise shall follow a laid down process, the outcome of which shall be a written document containing the essential elements.

- Internal audit plan shall be reviewed and approved by the highest governing body responsible for internal audits.
- A discussion with management and other stakeholders shall be undertaken to understand the intricacies of each auditable unit subject to audit.
- An Audit Universe shall be prepared prior to establishing the scope of the overall internal audit plan
- A risk based planning exercise shall form the basis of the overall internal audit plan
- The Audit Universe and the overall internal audit plan shall be continuously monitored during the execution phase

PLANNING PROCESS CHART



DETAILED PLANNING PROCESS

1 - Obtaining Knowledge of the Business

- Previous experience
- Legislation and regulations
- Policy and procedures manual
- Minutes of the meetings
- Management reports
- Previous internal audit reports
- Newspaper/ industry journals
- Discussion with Those Charged with Governance
- Visits to entity's plant facilities

2 - Establishing the Audit Universe

- Audit universe comprises the activities, operations, units etc., to be subjected to audit during the planning period.
- 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.
- The internal auditor should periodically, say half yearly, review the audit universe to identify any changes

3 - Establishing the Objectives of the Engagement

Establishment of objectives should be based:

- The auditor's knowledge of the client's business
- A preliminary understanding
- Review of the risks and controls associated with the activities forming subject matter of the internal audit engagement.

DETAILED PLANNING PROCESS

4 - Establishing the Scope of the Engagement

- The scope of the engagement should be sufficient in coverage
- Consider information gathered during the preliminary review
- If circumstances exist would restrict from carrying out the procedures, discuss the matter with the client to continue the engagement or not.
- The scope should be documented comprehensively
- System based audit tools should be clearly understood

5 - Deciding the Resource Allocation

Internal auditor should prepare audit work schedule such as:

- Activities/ procedures to be performed
- Engagement team responsible for performing activities
- Time allocated to each of these activities

For preparing work schedule, internal auditor should have regard to:

- Any significant changes to the entity's missions and objectives
- Any changes or proposed changes to the governance structure of the entity
- Composition of the engagement team in terms of skills & experience

6 - Preparation of Audit Programme

Audit Programme should be to:

- Achieve the objectives of the engagement
- Provide assurance that the internal audit is carried out in accordance with the Standards
- A risk-based plan
- Reflecting and addressing the priorities of the internal audit activity
- Consistent with the organization's goals

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PLANNING THE INTERNAL AUDIT ASSIGNMENT

SIA 310

OBJECTIVE OF STANDARD

This Standard on Internal Audit (SIA) 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 as a whole**.

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

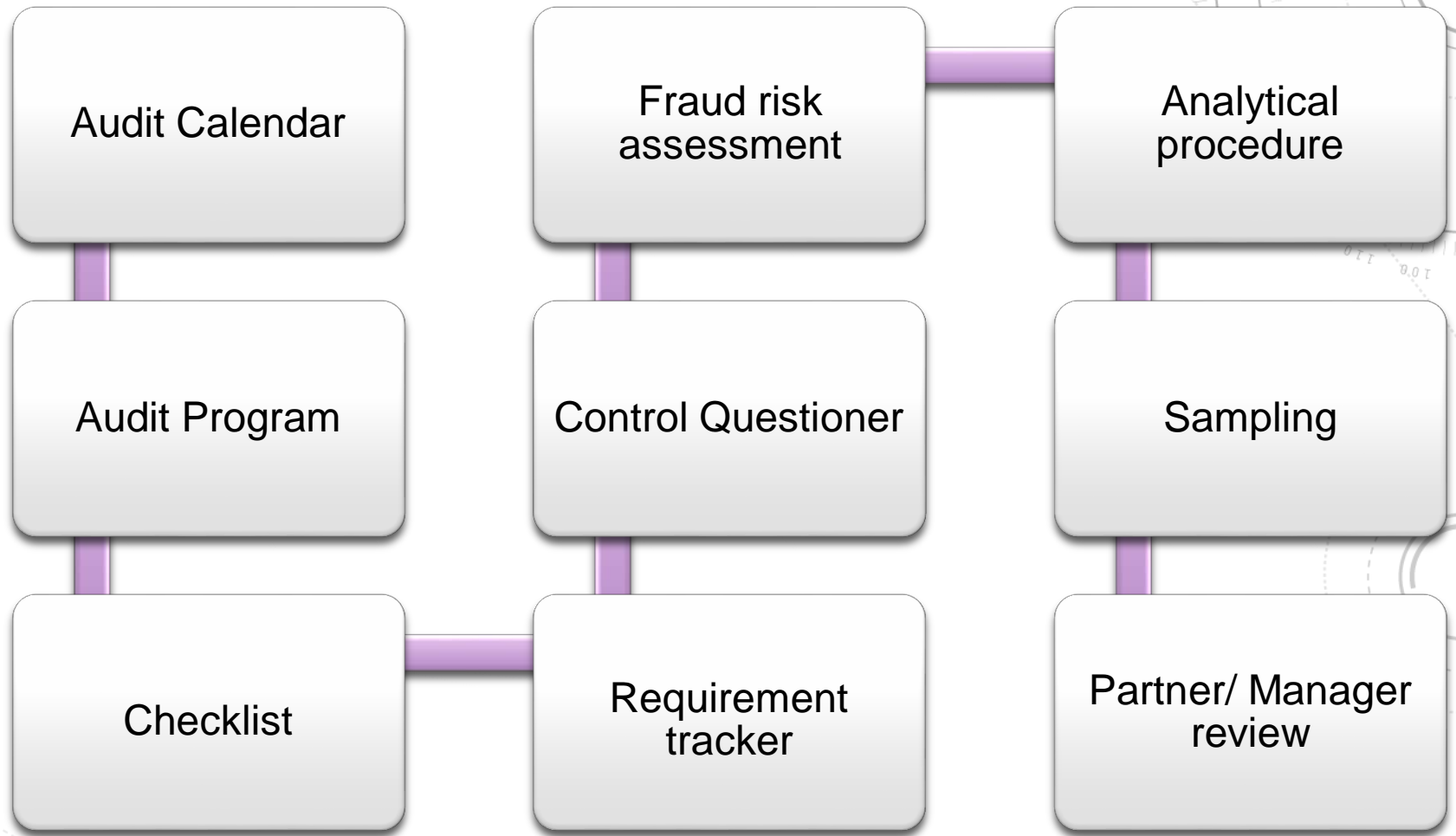
- Alignment with the objectives of the overall internal audit Plan and with stakeholder expectations.
- Ensure scope, coverage and methodology of the audit procedures will provide basis for reasonable assurance.
- Allocate adequate time, resources and appropriate skills to complex assignment/ area.
-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

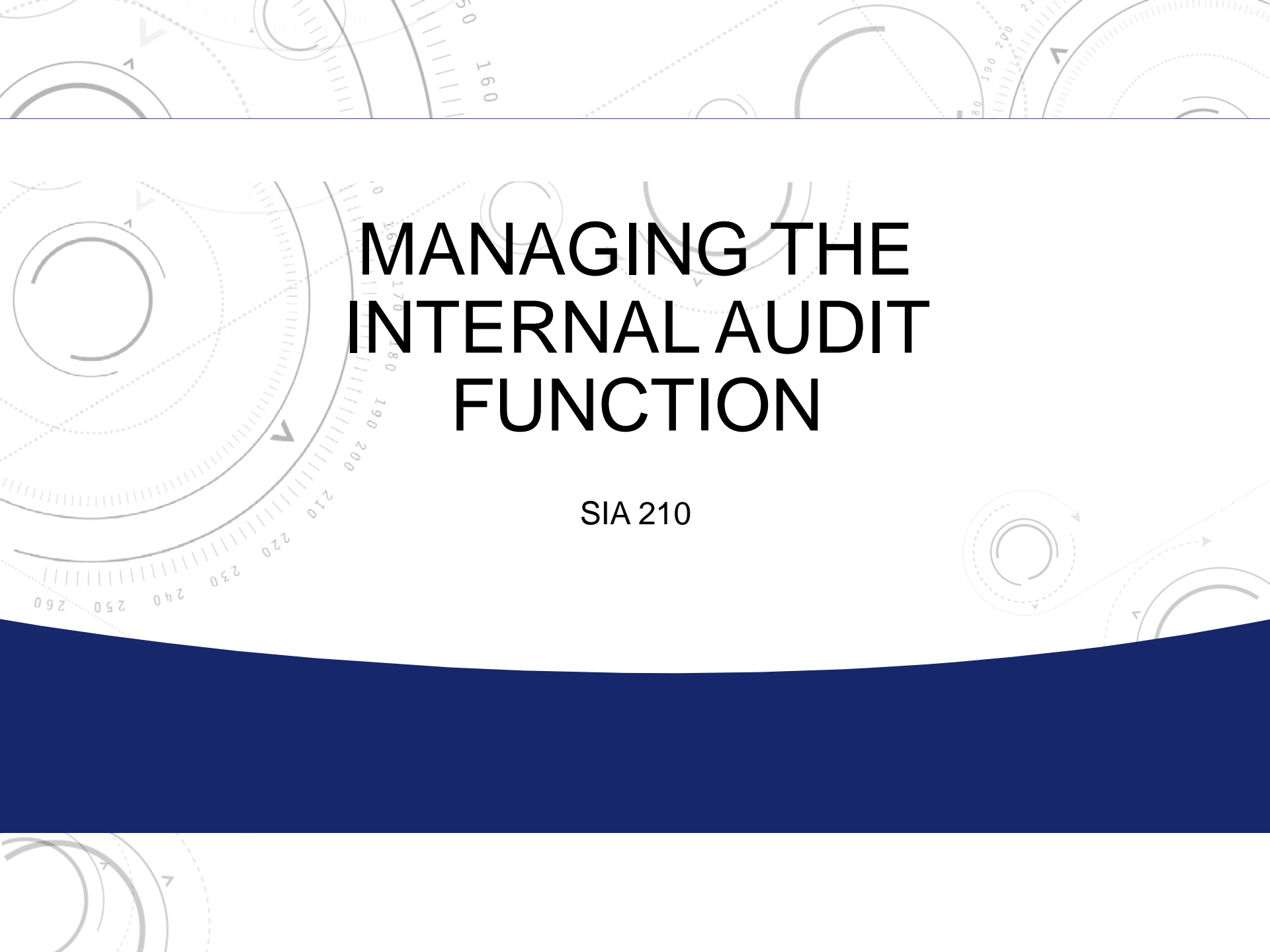
REQUIREMENT OF STANDARD

Requirements: The assignment planning exercise shall follow a laid down process, the outcome of which shall be a comprehensive written document containing all the essential elements;

- The Internal Audit Plan shall be reviewed and approved by engagement partner;
- As part of the planning process, a discussion with management and process owners shall be undertaken to understand the intricacies of each process/ area considered for review;
- A risk based planning exercise shall form the basis of the Internal Audit Plan;
- Audit methodology together with detailed audit procedure shall be documented in Internal Audit Plan;
- Elements relevant for effective execution shall be prior communicated to the auditee;
- The Internal Audit Assignment Plan shall be continuously monitored during the execution phase.

PLANNING PROCESS CHART



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MANAGING THE INTERNAL AUDIT FUNCTION

SIA 210

OBJECTIVE AND REQUIREMENT OF STANDARD

Objective: The objectives of this Standard on Managing the Internal Audit Function are to ensure the following:

- Achievement of overall objectives of internal audit;
- Adequate skilled resources and expertise are in place and deployed well;
- Assignments are undertaken in a systematic, disciplined and professional manner;
- Quality of the work performed forms a sound basis for reporting;
- Work is conducted in conformance with the Standards on Internal Audit.

Requirement: Internal Auditor has the overall responsibility to ensure the achievement of the objectives of the internal audit function.

- Resourcing plan shall be prepared to ensure that the internal audit function has the required professional skills either internally/externally;
- Internal audit assignments shall be executed as per the documented internal audit process and audit process shall be adequately reviewed, monitored and supervised to achieve the planned objectives;
- Internal audit function shall have in place a formal quality evaluation and improvement program designed to ensure that all the internal audit activities undertaken by the function are conducted in conformance with the pronouncements and Standards on Internal Audit

FOLLOWING EVENTS SHOULD BE PLANNED FOR EFFECTIVE MANAGEMENT OF AUDIT FUNCTION

- Audit Kick Off Meeting;
- Walkthrough Commencement;
- Data Requirement Roll Out;
- Data Availability From Client;
- Data Analytics & Sampling;
- Audit Execution;
- Weekly Status Update to client;
- Interim Review - Feedback Meeting;
- Queries Discussion;
- Draft & Final Report Preparation, Review & Submission;
- Draft & Final Report Discussion;
- Audit Closing Meeting;
- Audit Committee Reporting

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INTERNAL AUDIT DOCUMENTATION

SIA 330

OBJECTIVE AND REQUIREMENT OF STANDARD

Objective: The overall objective of preparing audit documentation is to allow the internal auditor to form an opinion on the outcome of the assignment. Furthermore the requirement of preparing complete and sufficient audit documentation is to:

- Validate the audit findings and support the basis on which audit observations;
- Aid in the supervision and review of the internal audit work;
- establish that work performed is in conformance with the applicable pronouncements of the Institute of Chartered Accountants of India.

Requirement:

- Internal auditor shall record the nature, timing and extent of completion of all internal audit activities and testing procedures
- Documentation shall be complete and sufficient to support the analysis conducted on the audit evidence, the identification of findings, the formulation of audit observations and shall clearly state the purpose of the procedure, the source of evidence, the outcome of the audit work.
- The internal audit work paper files shall be completed prior to the issuance of the final internal audit report.
- The ownership and custody of the internal audit work papers shall remain with the Internal Auditor

FORM AND CONTENT

- ▶ Documentation may be recorded on paper or on electronic or other media
- ▶ Internal audit documentation, however, is not a substitute for the entity's accounting records.
- ▶ Internal audit documentation should record
 - Internal audit charter
 - Internal audit plan
 - Nature, timing and extent of audit procedures performed
 - Conclusions drawn from the evidence
 - A copy of the internal audit engagement letter (If Internal Audit is outsourced)

FORM AND CONTENT

- ▶ The documents must be standardized, means they may be in the form of checklists, specimen letters, questionnaires, etc
- ▶ Documentation should be sufficient to provide complete and detailed to provide overall understanding of the audit
- ▶ Documentation should enable an experienced internal auditor (or a reviewer) to understand:
 - Nature, timing and extent of the audit procedures
 - Results of the audit procedures and audit evidence obtained
 - Significant matters arising during the audit and the Conclusions
 - Terms and conditions of an internal audit engagement

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SAMPLING

SIA 5

SAMPLING

- ▶ When designing an audit sample, the internal auditor should consider:
 - ▶ Specific audit objectives
 - ▶ Population of the sample
 - ▶ Stratification (a process of dividing a population into sub-populations, each of which is a group of sampling units having similar characteristics)
- ▶ **Sample Size**
 - ▶ When determining the sample size, the internal auditor should consider
 - ▶ **Sampling risk**
 - ▶ **Tolerable error** - Maximum error in the population that the internal auditor would be willing to accept
 - ▶ **Expected error** - If the internal auditor expects error to be present in the population, a larger sample than when no error is expected ordinarily needs to be examined to conclude that the actual error in the population is not greater than the planned tolerable error

The lower the risk that the internal auditor is willing to accept, the greater the sample size needs to be

SAMPLING

▶ Selection of the Sample:

- ▶ Sample should be selected in such a manner that it can be expected to be representative of the population. This requires that all items or sampling units in the population have an opportunity of being selected.

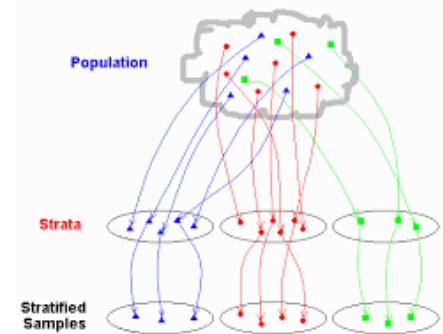
▶ Three methods of Sample selection:

- ▶ Random selection and use of CAATs
- ▶ Systematic selection
- ▶ Haphazard selection

▶ Evaluation of Sample Results, the auditor should:

- ▶ Analyse the nature and cause of any errors detected in the sample;
- ▶ Project the errors found in the sample to the population;
- ▶ Reassess the sampling risk; and
- ▶ Consider their possible effect on the particular internal audit objective and on other areas of the internal audit engagement.

- ▶ **Documentation** includes design of the sample, expected rate of error, sampling risk and the tolerable error, nature and cause of errors, Rationale for using a particular sampling technique, Effect of the sample results, Projection of sample results



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ANALYTICAL PROCEDURES

SIA 6

ANALYTICAL PROCEDURES

Nature and Purpose of Analytical Procedures

- ▶ Analytical procedures include the consideration of comparisons of the entity's financial and non-financial information
- ▶ Analytical procedures also include consideration of relationships - Among elements of financial information, Between financial information and relevant non-financial information
- ▶ Analytical procedures may be applied to consolidated financial statements, financial statements of components and individual elements of financial information and relevant non-financial information
- ▶ In determining the extent to which the analytical procedures should be used, the internal auditor should consider the factors including:
 - The significance of the area
 - The adequacy of the system
 - The availability and reliability of financial and non-financial information
 - The precision of prediction of results of analytical procedures
 - The availability and comparability of organizational information
 - The extent to which other auditing procedures provide support for audit results

Analytical Procedures as Risk Assessment Procedures & in Planning the Internal Audit

- ▶ The internal auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the business, the entity and its environment and in identifying areas of potential risk

ANALYTICAL PROCEDURES

Analytical Procedures as Substantive Procedures

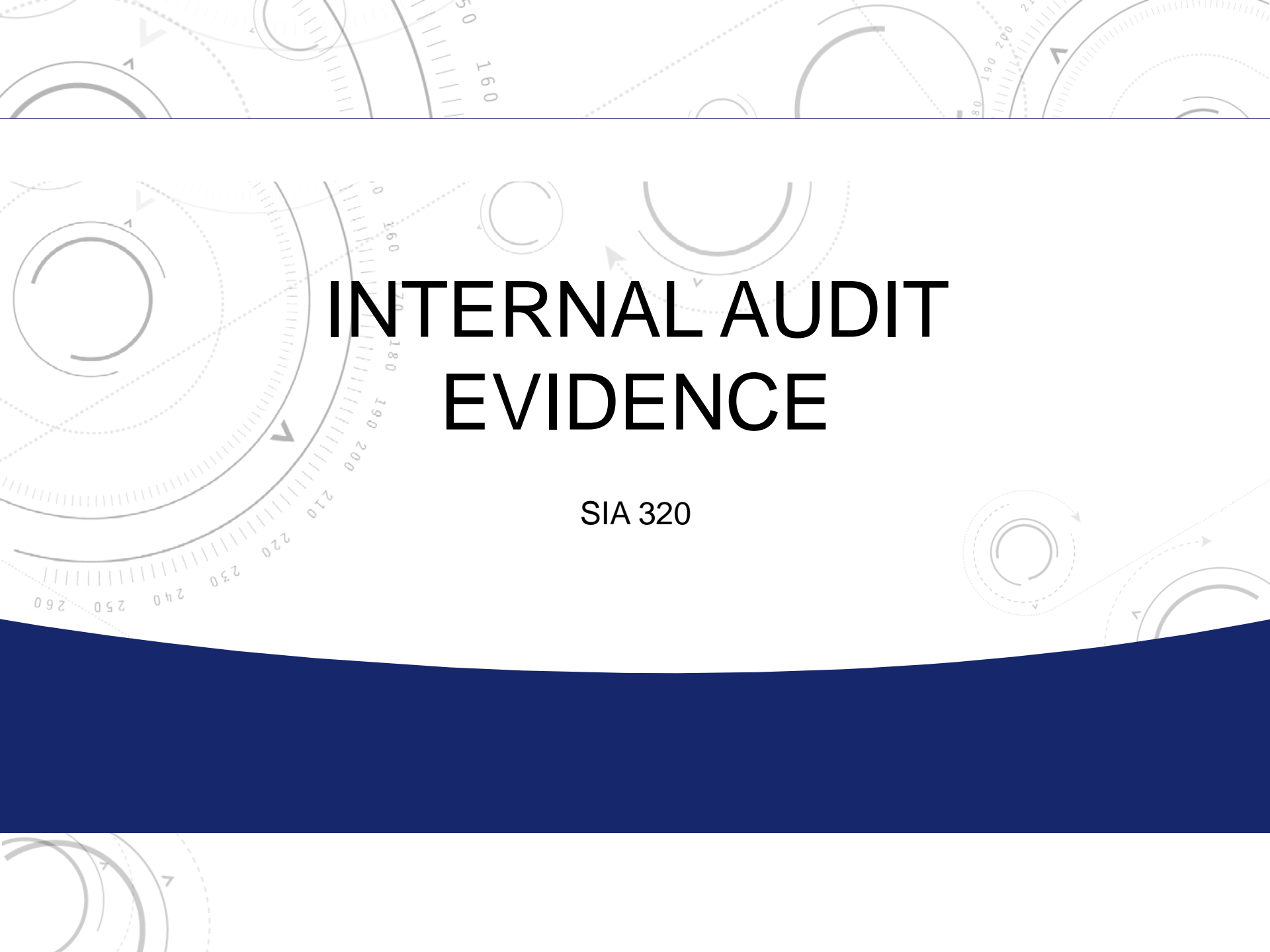
- It may be efficient to use analytical data prepared by the entity, provided the internal auditor is satisfied that such data is properly prepared.
- Internal auditor will need to consider a number of factors like:
 - Objectives of the analytical procedures
 - Nature of the business
 - Availability of information
 - Comparability, Source, Reliability and Relevance of the information available
 - Knowledge gained during previous audits

Extent of Reliance on Analytical Procedures depends on the factors like materiality of the items involved, internal audit procedures directed toward the internal audit objectives, prediction accuracy of results of analytical procedures, assessments of inherent and control risks

Investigating Unusual Items or Trends

- Unexplained results or relationships may be indicative of a significant condition such as a potential error, irregularity, or illegal act
- Results or relationships that are not sufficiently explained should be communicated to the appropriate levels of management (Those Charged With Governance)
- The internal auditor may recommend appropriate courses of action, depending on the circumstances



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INTERNAL AUDIT EVIDENCE

SIA 320

OBJECTIVE AND REQUIREMENT OF STANDARD

Objective: The objectives of gathering appropriate and reliable audit evidence are to:

- Confirm the nature, timing and sufficiency of the audit procedures undertaken;
- Aid in the supervision and review of the internal audit work;
- Work performed is in conformance with the applicable pronouncements of the Institute of Chartered Accountants of India.

The overall objective of gathering appropriate and reliable evidence is to allow the Internal Auditor to form an opinion on the outcome of the audit procedures completed.

Requirement:

- Auditor shall obtain sufficient and appropriate audit evidence which can form the basis of audit findings and allow reliable conclusions to be drawn from those findings;
- Evidence shall be obtained from reliable sources with consistency between various evidences collected;
- Audit evidence collected shall be recorded and the internal audit function shall maintain a written process explaining the manner in which audit evidence is to be gathered, reviewed, documented and stored

OBTAINING INTERNAL AUDIT EVIDENCE

The internal auditor obtains evidence by performing one or more of the following procedures

1 - Inspection

2 - Observation

3 - Inquiry and confirmation

4 - Computation

5 - Analytical review

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QUALITY ASSURANCE IN INTERNAL AUDIT

SIA 7

QUALITY ASSURANCE IN INTERNAL AUDIT

- ▶ This Standard on Internal Audit shall apply whenever an internal audit is carried out, whether carried out by an in house internal audit department or by an external firm of professional accountants
- ▶ The objective of this standard is that:
 - ▶ The internal audit should provide reasonable assurance
 - ▶ The internal auditors comply with professional Standards, regulatory and legal requirements, so that the reports issued by them are appropriate in the circumstances.
- ▶ In the case of the in – house internal audit or a firm carrying out Internal audit, it should ensure that the system of quality assurance include policies and procedures addressing each of the following elements:
 - ▶ Leadership responsibilities for quality in internal audit
 - ▶ Ethical requirements
 - ▶ Acceptance and continuance of client relationship and specific engagement, as may be applicable
 - ▶ Human resources
 - ▶ Engagement performance
 - ▶ Monitoring

QUALITY ASSURANCE IN INTERNAL AUDIT

▶ Internal Quality Reviews

- ▶ The internal quality review framework should be designed to provide reasonable assurance that the internal audit is able to efficiently and effectively achieve its objectives

▶ Internal Quality Reviewer

- ▶ Review should be done by the person entrusted with the responsibility for the quality in internal audit and/ or other experienced member(s) of the internal audit function
- ▶ The entity must ensure that recommendations resulting from the quality reviews for the improvements in the internal audit activity are promptly implemented
- ▶ The reviewer should ensure that the results of internal quality reviews are communicated to the appropriate levels of management & those charged with governance on timely basis

▶ External Quality Reviews

- ▶ Frequency of external quality review should be based on consideration of factors like the maturity level of internal audit activity in the entity, results of the earlier internal audit quality reviews, feedbacks as to the usefulness of the internal audit activity from the customers of the internal audit and costs

▶ External Quality Reviewer

- ▶ External review should be done by a professionally qualified person having an in depth knowledge and experience of, inter alia, the professional Standards

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COMMUNICATION WITH MANAGEMENT

SIA 360

OBJECTIVE AND REQUIREMENT OF STANDARD

Objective: The objective of this standard is to ensure that there is clarity and consensus between the Internal Auditor and the management with regard to the scope, approach, objectives and timing of an internal audit.

Requirement: All communication shall be clear, appropriate and in line with the agreed process and timelines.

- Internal Auditor shall establish a written communication process and protocol with management;
- The process documentation shall outline - Modes and channels of communication, Periodicity and timelines for communication, Certain essential information required to be communicated and Where essential matters are concerned, any verbal communication should subsequently be confirmed in writing and maintained as audit documentation.

MATTERS TO BE COMMUNICATED

The Internal Auditor's Responsibilities in Relation to the Terms of Engagement

Planned Scope and Timing of the Internal Audit –

- ▶ Assist the management: To understand objectives, To discuss issues & Identify additional procedures
- ▶ Assist the internal auditor to understand better the entity and its environment

Significant Findings from the Internal Audit

Establishing the Communication Process –

- ▶ Clear communication of the internal auditor's responsibilities
- ▶ The planned scope and timing of the internal audit
- ▶ The expected general content of communications helps establishing the basis for effective two-way communication

Forms of Communication –

- ▶ Structured presentations and written reports
- ▶ Less structured communications, including discussions

Timing of Communications - The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by the management.

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CONSIDERATION OF FRAUD IN INTERNAL AUDIT

SIA 11

CONSIDERATION OF FRAUD IN INTERNAL AUDIT (SIA 11)

- A fraud normally occurs in situations where there is an incentive or a pressure to commit fraud, an opportunity to commit fraud or a rationalization for committing fraud
- An internal auditor is not expected to possess skills and knowledge of a person expert in detecting and investigating frauds, he should, however, have reasonable knowledge of factors that might increase the risk of opportunities for frauds in an entity and exercise reasonable care and professional skepticism while carrying out internal audit
- Audit required to perform checks around internal controls design and operating effectiveness aspects, addressing following objectives set by Management:
 - Reliable Financial Reporting
 - Efficiency and Effectiveness of Operations
 - Compliance with Regulations
 - Safeguarding of assets
- A system of internal control comprise of following five elements:
 - Control environment;
 - Risk assessment process;
 - Information system and communication;
 - Control activities; and
 - Monitoring of controls.
- It is essential for the internal auditor to gain an understanding of the components of the system of internal control.

CONSIDERATION OF FRAUD IN INTERNAL AUDIT (SIA 11)

Responsibility of Internal Auditor: the primary responsibility for prevention and detection of frauds is that of the management of the entity. The internal auditor should, however, help the management fulfill its responsibilities relating to fraud prevention and detection.

Communication of Fraud: auditor should carefully review and assess the conclusions drawn from the audit evidence obtained, as the basis for his findings contained in his report and suggest remedial action.

Documentation: The internal auditor should document fraud risk factors identified as being present during the internal auditor's assessment process and document the internal auditor's response to any other factors.

Compliance: Professional Care, Competence and Diligence

- Obtain Knowledge of Business and Control Environment
- Understand Risk Assessment Practices implemented by Management
- Test design and operating effectiveness of control activities and monitoring controls
- Report all indicators and findings – clearly, completely and to appropriate authorities in timely manner



INTERNAL CONTROL EVALUATION

SIA 12

NATURE, PURPOSE AND TYPES OF INTERNAL CONTROLS

- ▶ “Internal Control System” means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable
- ▶ Internal controls may be either preventive or detective
- ▶ Internal controls are generally concerned with achieving the following objectives:
 - ▶ Transactions are executed
 - ▶ Transactions are promptly recorded
 - ▶ Assets and records are safeguarded
 - ▶ Recorded assets are compared with the existing assets
 - ▶ Systems and procedures are effective in design and operation
 - ▶ Risks are mitigated to a reasonable extent

INHERENT LIMITATIONS OF INTERNAL CONTROLS

- ▶ Internal control systems are subject to certain inherent limitations, such as:
 - ▶ The possibility of circumvention of internal controls through collusion
 - ▶ Manipulations by management with respect to transactions or estimates, etc

ROLE OF THE INTERNAL AUDITOR IN EVALUATING INTERNAL CONTROLS

- ▶ The Internal auditor should examine the continued effectiveness of the internal control system through evaluation and make recommendations, if any, for improving that effectiveness
- ▶ The internal auditor should focus towards improving the internal control structure and promoting better corporate governance
- ▶ Evaluation of the efficiency and effectiveness of controls.
- ▶ Recommending new controls where needed – or discontinuing Unnecessary controls.
- ▶ Using control frameworks.
- ▶ Developing control self-assessment
- ▶ The internal auditor should obtain an understanding of the significant processes and internal control systems sufficient to plan the internal audit engagement and develop an effective audit approach

SEGREGATION OF DUTIES

- ▶ The internal auditor should ensure that in general, the approval function, the accounting/reconciling function, and the asset custody function is separated among employees of the entity

CONTROL ACTIVITIES FOR INFORMATION TECHNOLOGY

The internal auditor should determine whether the entity, uses:

- ▶ Encryption tools, protocols
- ▶ Back-up and restore features of software applications
- ▶ Virus protection software
- ▶ Passwords that restrict user access to networks

TEST OF CONTROLS

- ▶ Based on the results of the tests of control, the internal auditor should evaluate whether the internal controls are designed and operating as contemplated in the preliminary assessment of control risk
- ▶ The internal auditor should consider whether the internal controls were in use throughout the period

MONITORING INTERNAL AUDIT FINDINGS

- ▶ The internal auditor should identify internal control weaknesses that have not been corrected and make recommendations to correct those weaknesses
- ▶ The internal auditor should make management aware, at an appropriate level of responsibility, of material weaknesses in the design or operation of the internal control systems

The background features a complex pattern of technical drawings, including various gauges, dials, and circular scales. Some gauges have numerical markings such as 160, 180, 200, 210, 220, 230, 240, 250, and 260. The drawings are rendered in a light gray color, creating a technical and industrial aesthetic. The text is centered over this background.

ENTERPRISE RISK MANAGEMENT

SIA 13

RISK AND ENTERPRISE RISK MANAGEMENT

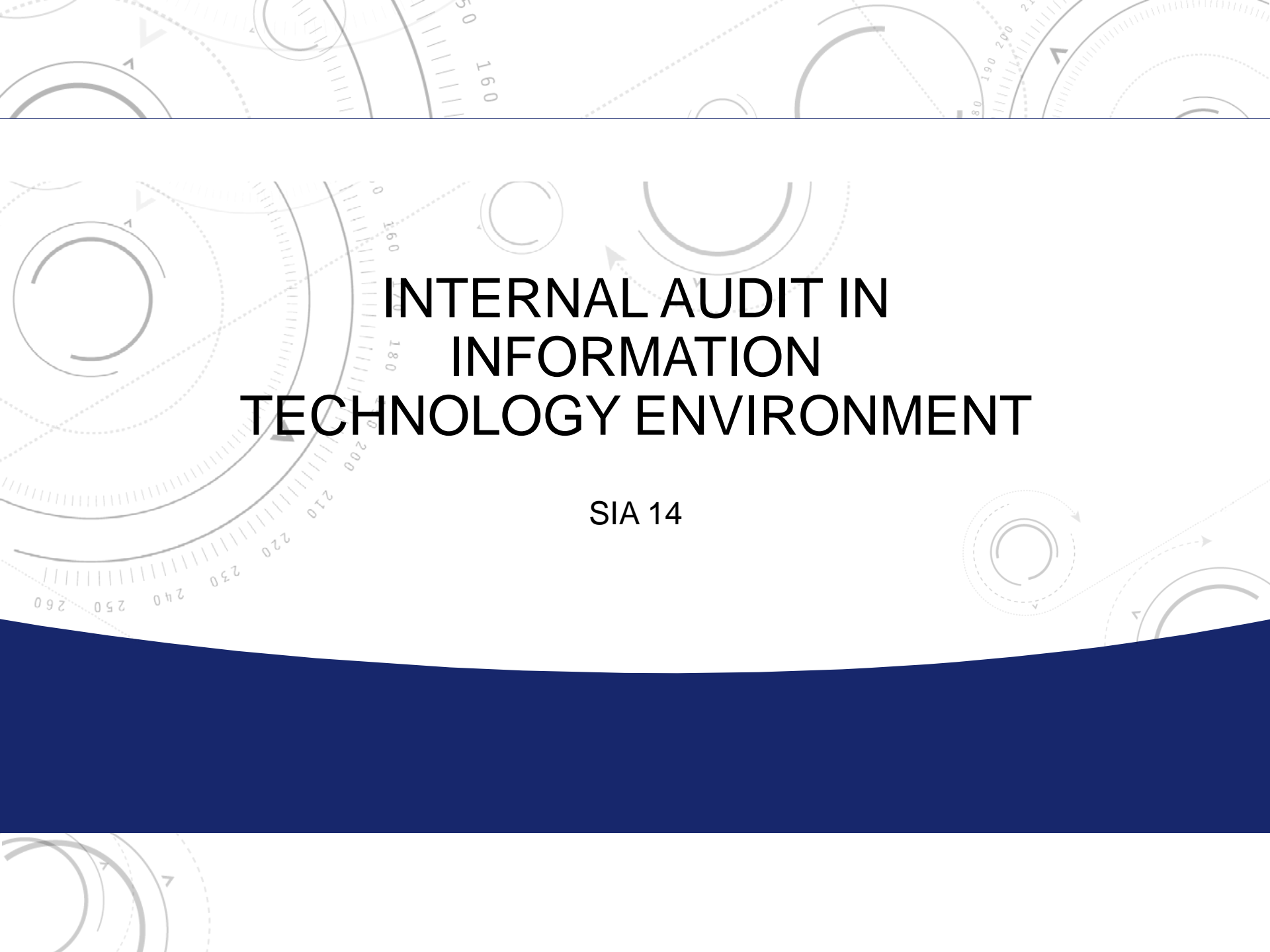
- ▶ Risk may be broadly classified into
 - ▶ Strategic
 - ▶ Operational
 - ▶ Financial
 - ▶ Knowledge

PROCESS OF ENTERPRISE RISK MANAGEMENT AND INTERNAL AUDIT

- ▶ Enterprise Risk Management is a structured, consistent and continuous process of measuring or assessing risk and developing strategies to manage risk within the risk appetite
- ▶ The Enterprise Risk Management process consists of :
 - ▶ Risk identification
 - ▶ Prioritization and reporting
 - ▶ Risk mitigation
 - ▶ Risk monitoring and assurance

ROLE OF THE INTERNAL AUDITOR IN RELATION TO ENTERPRISE RISK MANAGEMENT

- ▶ The scope of the internal auditor's work in assessing the effectiveness of the enterprise risk management would, normally, include:
 - ▶ Assessing the risk maturity level both at the entity level as well as the auditable unit level
 - ▶ Assessing the adequacy of and compliance with the risk management policy and framework
 - ▶ For the risks covered by the internal audit plan
- ▶ The internal auditor should review that the enterprise risk management structure:
 - ▶ Protects the enterprise against surprises
 - ▶ Stabilizes overall performance with less volatile earnings
 - ▶ Operates within established risk appetite; protects ability of the enterprise to attend to its core business
 - ▶ Creates a system to proactively manage risks
- ▶ The internal auditor should review that the risk management coordinators report results at appropriate levels like:
 - ▶ Risk Management Committee.
 - ▶ Enterprise Business and Unit Heads
 - ▶ Audit Committee

The background features a complex pattern of technical diagrams, including circular gauges with numerical scales (e.g., 160, 180, 200, 210, 220, 230, 240, 250, 260) and various circular and semi-circular lines, some solid and some dashed, suggesting a mechanical or engineering theme. The overall color palette is light gray and white, with a dark blue curved band at the bottom.

INTERNAL AUDIT IN INFORMATION TECHNOLOGY ENVIRONMENT

SIA 14

IT ENVIRONMENT – MATTERS TO CONSIDER

- ▶ The internal auditor should consider the effect of an IT environment on the internal audit engagement:
 - ▶ Extent to which the IT environment is used to record, compile, process and analyse information
 - ▶ The system of internal control in existence in the entity with regard to:
 - ▶ The flow of authorised, correct and complete data to the processing centre
 - ▶ The processing, analysis and reporting tasks undertaken in the installation
 - ▶ The impact of computer-based accounting system on the audit trail that could otherwise be expected to exist in an entirely manual system

SKILLS AND COMPETENCE

- ▶ The internal auditor should have sufficient knowledge of the information technology systems to plan, direct, supervise, control and review the work performed
- ▶ The internal auditor should consider whether any specialised IT skills are needed in the conduct of the audit, for example, the operating knowledge of a specialised ERP system
- ▶ If specialized skills are needed, the internal auditor should seek the assistance of a technical expert possessing such skills

RISKS IN AN IT ENVIRONMENT

The nature of the risks and the internal control characteristics in IT environments include the following

Lack of transaction trails

Uniform processing of transactions

Lack of segregation of functions

Potential for errors and irregularities

Initiation or execution of transactions

Dependence of other controls over computer processing

Potential for increased management supervision

Potential for the use of computer-assisted audit techniques

RISK ASSESSMENT

- ▶ The internal auditor should review whether the information technology system in the entity considers:
 - ▶ Confidentiality,
 - ▶ Effectiveness
 - ▶ Integrity,
 - ▶ Availability,
 - ▶ Compliance
 - ▶ Validity of data and information processed

AUDIT PROCEDURES

- ▶ The internal auditor should consider the IT environment in designing audit procedures to review the systems, processes, controls and risk management framework of the entity

OUTSOURCED INFORMATION PROCESSING

- ▶ The internal auditor should assess and review the reliance which the management of the entity places on the outsourced agency, in case where such information processing has been outsourced to the outside party

The background features a light gray technical drawing style with various circular elements, including gears, scales, and arcs. Some scales have numerical markings such as 160, 180, 190, 200, 210, 220, 230, 240, 250, and 260. The overall aesthetic is clean and professional, typical of a technical or engineering presentation.

USING WORK OF AN EXPERT

SIA 240

OBJECTIVE AND REQUIREMENT OF STANDARD

Objective: The objectives of using the work of an Expert is to ensure that:

- Technical assistance/ support from competent experts is obtained where the internal audit team does not possess the necessary knowledge/expertise;
- Audit procedures conducted in complex and specialized areas;
- Outcome of the internal audit work is credible and reliable;
- Work performed is in conformance with the applicable pronouncements of the Institute of Chartered Accountants of India.

overall objective of using the work of an Expert is to allow the Internal Auditor to place reliance on the technical work completed so as to form an opinion.

Evaluate work done by an expert:

- Internal Auditor shall make an independent determination of using the work of an Expert based on: technicality and complexity of the subject, risk assessment, materiality and importance of the subject, comparison of the expertise available within the internal audit team to conduct a quality audit.
- Internal Auditor shall conduct an independent evaluation of the qualifications and credentials of the expert.
- Internal Auditor shall perform an evaluation of the work completed by the Expert and the findings of the Expert will form part of the assurance report.
- Internal Auditor shall retain ultimate responsibility for internal audit conclusions and opinions

INDEPENDENCE AND OBJECTIVITY OF THE EXPERT

The Internal Auditor should conduct procedures to assess the ability of the Expert to function in an independent and objective manner, such as the following:

- The Appointing and Supervisory Authority;
- Employee of the Company or External Service provider;
- Relationship of Expert;
- Personal Interests;

QUALIFICATIONS AND CREDENTIALS OF THE EXPERT

The Internal Auditor shall independently validate the qualification and credentials of the Expert, with procedures, such as the following:

- Confirmation of educational and professional qualifications and membership of professional bodies;
- Background and reference checks of the experience and/or reputation of the Expert;
- Details of instances and nature of similar past assignments undertaken; and
- Self Certification by the Expert regarding his qualifications, expertise, any conflict of interest or any pending disciplinary actions.

The background of the slide features a complex pattern of technical drawings, including various gauges, dials, and circular scales. Some of the visible numbers on the gauges include 160, 170, 190, 200, 210, 220, 230, 240, 250, and 260. The drawings are rendered in a light gray color, creating a technical and precise atmosphere.

CONSIDERATIONS OF LAWS AND REGULATIONS IN INTERNAL AUDIT

SIA 17

EFFECT OF LAWS AND REGULATIONS

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on not only the reporting framework of the financial statements but also on its functioning

RESPONSIBILITY OF MANAGEMENT - COMPLIANCE WITH LAWS & REGULATIONS

It is the primary responsibility of Management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations

RESPONSIBILITY OF THE INTERNAL AUDITOR

As per paragraph 9 of the Standard on Internal Audit (SIA) 13, "Enterprise Risk Management", describes that

"The internal auditor should not manage any of the risks on behalf of the management or take risk management decisions. The internal auditor should not assume any accountability for risk management decisions taken by the management."

- ▶ Internal auditor has a role only in advising on risk management and assisting in the effective mitigation of risk.
- ▶ The internal auditor should obtain technical advice and assistance from competent experts if the internal audit team does not possess the necessary knowledge, skills, expertise or experience needed to perform all or part of the internal audit engagement.

THE INTERNAL AUDITOR'S CONSIDERATION OF COMPLIANCE WITH LAWS AND REGULATIONS

- ▶ Obtaining an Understanding of the Legal and Regulatory Framework
- ▶ Laws and Regulations Generally Recognized to have a Direct Effect on the Determination of Material Amounts and Disclosures in the Financial Statements
- ▶ Procedures to Identify Instances of Non-Compliance – Other Laws and Regulations
- ▶ Non-Compliance brought to the Internal Auditor's Attention through Other Audit Procedures
- ▶ Written Representations
- ▶ Internal Audit Procedures when Non-Compliance is not identified or suspected

Internal Audit Procedures When Non-Compliance is Identified or Suspected

- ▶ Indications of Non-Compliance with Laws and Regulations
- ▶ Matters Relevant to the Internal Auditor's Evaluation
- ▶ Evaluating the Implications of Non-Compliance

Reporting of Identified or Suspected Non-Compliance

- ▶ Reporting Non-Compliance to Those Charged with Governance
- ▶ Reporting Non-Compliance in the Internal Auditor's Report



RELATED PARTIES

SIA 18

RELATED PARTY TRANSACTIONS

- ▶ A related party transaction is a transfer of resources, services or obligations between an entity and a related party, regardless of whether or not a price is charged.
- ▶ Transactions may include:
 - Borrowing or lending on an interest-free basis or at a rate of interest significantly above or below market rates
 - Buying/ selling transactions at a price that differs significantly from its appraised value
 - Exchanging property for similar property
 - Making loans with no scheduled terms of repayment
 - Granting of a guarantee without adequate compensation
- ▶ Transactions with related party may have been motivated solely for:
 - Lack of sufficient working capital or credit to continue the business
 - An urgent desire for a continued favorable earnings
 - An overly optimistic earnings forecast
 - Excess capacity
 - Significant litigation
 - A declining industry characterized by a large number of business failures
 - Significant technology obsolescence

INTERNAL AUDIT PROCEDURES

- ▶ The internal auditor shall gather the following information pertaining to related party relationships and transactions:
 - The identity of the entity's related parties including changes from the prior period
 - The nature of the relationships between the entity and these related parties
 - Whether the entity has entered into any transaction with these related parties during the period and, if so, the nature and extent, and the purpose of the transaction
- ▶ With regard to significant related party transactions outside normal course of business, the internal auditor should inspect underlying contracts or agreements, if any, and evaluate whether:
 - Rationale suggests possible fraudulent financial reporting or concealment of misappropriated assets
 - Terms are consistent with management's explanations
 - Transactions are accounted for and disclosed in accordance with the generally accepted accounting principles
 - Ensure transactions have been appropriately authorized and approved
- ▶ The internal auditor should obtain sufficient appropriate audit evidence about management's assertion that a related party transaction was conducted on terms equivalent to those prevailing in an **arm's length transaction**.

INTERNAL AUDIT PROCEDURES

- ▶ The internal auditor should consider the following matters:
 - Document the names of the identified related parties and the nature of the related party relationships
 - Communicate with those charged with governance, or relevant committee thereof, such as, audit committee, any significant matters arising during the internal audit in connection with related parties

- ▶ The internal auditor should consider the impact on the internal audit report if it is not possible to obtain sufficient appropriate audit evidence concerning related parties and transactions, and should suitably disclose it in the internal audit report, based on its materiality.

The background features a complex pattern of technical drawings, including circular gauges with numerical scales (e.g., 160, 170, 180, 190, 200, 210, 220, 230, 240, 250, 260) and various circular and semi-circular lines, some with arrows indicating direction. The overall aesthetic is clean and technical.

REPORTING RESULTS

SIA 370

REPORTING RESULTS (SIA 370)

Objective: The objectives of issuing Internal Audit Reports on significant internal audit assignments is to:

- Share with the auditee, details of all significant findings;
- Allow management to understand the issues and take corrective actions;
- Provide a sound basis for any assurance being provided by the Internal Auditor.

The overall objective of Reporting Results is to highlight the effectiveness of internal controls and risk management processes to enhance governance in line with the Internal Audit Charter.

Requirements: Internal Auditor shall issue a clear, well documented Internal Audit Report which includes the following:

- Objectives, scope and approach;
- Fact that an internal audit has been conducted in accordance the Standards of Internal Audit;
- Executive summary of key observations;
- Summary of the corrective actions required;
- Nature of assurance.

No internal audit report shall be issued in final form unless a written draft of the report has previously been shared with the auditee.

The internal audit report shall be issued within a reasonable time frame from the completion of the internal audit work.

The background features a light gray technical drawing style with various circular gauges, arcs, and dashed lines. Some gauges have numerical scales, such as 160, 170, 180, 190, 200, 210, 220, 230, 240, 250, and 260. The overall aesthetic is clean and professional, typical of a technical or engineering presentation.

NATURE OF ASSURANCE

SIA 110

NATURE OF ASSURANCE (SIA 110)

Objective: The main objective of this Standard is to provide clarity on:

- Whether the internal auditor can provide any assurance at all;
- Essential requirements which must be satisfied to be able to provide the assurance;
- Nature of assurance that can be provided (Reasonable or Limited)

Components of an Assurance Assignment: Standard identifies three components that assurance assignments:

- A three-party relationship, involving an Internal Auditor, An Auditee and Assurance User;
- Presence of three key elements, involving a Subject Matter, a Pre-defined criteria, and a Conclusive Outcome; and
- A written Assurance Report which expresses an opinion in a standard format.

Undertaking an Assurance Assignment: Internal Auditor may undertake an assurance assignment only where the auditor's preliminary knowledge of the assignment circumstances indicates that:

- Ethical requirements, such as independence and professional competence will be satisfied;
- Assignment exhibits - Subject matter is appropriate, Pre-defined criteria to be used are suitable and available to the assurance users, sufficient appropriate evidence to support the auditor's opinion, Auditor's opinion is to be contained in a written report.

The background features several decorative circular elements. In the top right, there is a large circular scale with numbers from 0 to 210 and arrows indicating a clockwise direction. In the bottom right, there is a smaller circular graphic with dashed lines and arrows. In the bottom left, there is a circular graphic with the number 70 and arrows. In the top left, there is a small circular graphic with an arrow.

THANKS FOR THE PATIENT HEARING!!!
- CA HUZEIFA UNWALA