



# Standards on Internal Audit (SIA)

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# Background

- 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.
- These standards are not yet notified by the Council of the Institute.
- Standards draw references to the requirements of Companies Act, 2013 and global standards



# Importance

- The SIAs are issued under the authority of the Council of the Institute.
- The SIAs aim to codify the best practices in the area of internal audit and serve to provide a benchmark of the performance of the internal audit services.
- 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.”
- The standards are classified into various series for ease of identification and grouping of similar topics:-
  - 100 : Key Concepts
  - 200 : Internal Audit Management
  - 300 : Conduct of IA
  - 500 : Specialized Areas
  - 600 : Other/ Miscellaneous matters

# Movement Chart

Count of Standards					
As on 1 <sup>st</sup> July 2013	Deletions	Additions	Standards as on date	Standards modified	Standards with no change
18	4	7	21	6	8

Standards Deleted	
SIA 2	Basic Principles Governing Internal Audit
SIA 8	Terms of Internal Audit Engagement
SIA 12	Internal Control Evaluation
SIA 15	Knowledge of the Entity and its Environment

Standards Added	
SIA 110	Nature of Assurance
SIA 120	Internal Control
SIA 210	Managing the Internal Audit Function
SIA 220	Conducting overall Internal Audit Planning
SIA 230	Objective of Internal Audit
SIA 350	Review & Supervision of Audit Assignment
SIA 390	Monitoring and reporting of Prior Audit Issue

\*Standards Modified and Standards with No Change are highlighted for identification on subsequent slide

# Standards on Internal Audit

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



# SIAs - Key Matters

1. Independence
2. Nature of Assurance
3. Knowledge of Client business
4. IA Charter/ Communication protocols & Audit Committee Oversight
5. Letter of engagement and terms of contract
6. Type of Report
7. Resourcing Plan
8. Risk Based Audit Planning & Monitoring
9. Analytical Reviews
10. Sensitive to multiple stakeholder needs
11. Key decisions based on IA reporting



# SIAs - Key Matters

12. Business Risk & Fraud Assessment
13. IT considerations
14. Sampling Plan
15. Legal Compliance Assessment & Checklists
16. Competent personnel & external experts
17. Related Party transactions
18. Monitoring Prior period items/ Continuing Control Deficiencies
19. Working Paper/ File/ Documentation/ Back Ups
20. Material departures from SIA to be disclosed in the report

Work from home does not require modification of charters and appointment terms

True or False





# SIA 110 – Nature of Assurance

**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.



# SIA - Fact Check

The CAE while appointing a subject matter expert for outsourcing an audit mission is not required to check his independence status

True or False



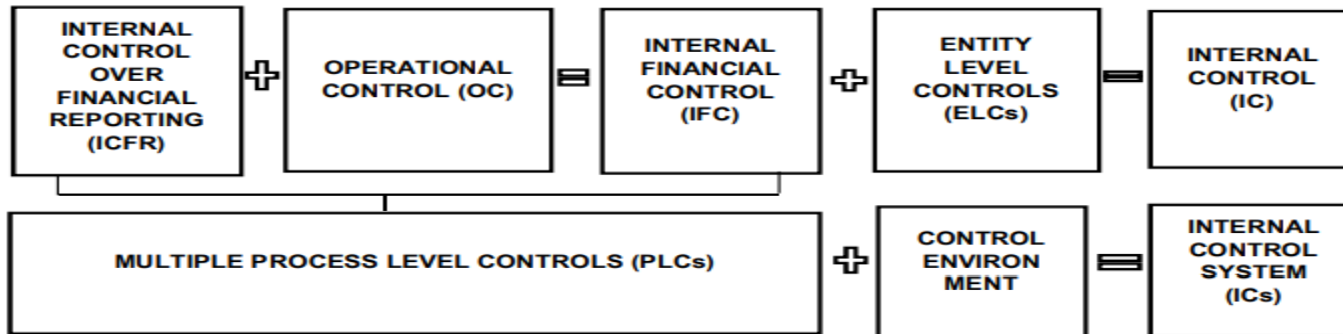
# SIA 120 – Internal Control

# SIA 120

**Objective:** The purpose of this Standard is to:

- Provide a common terminology on Internal Controls to prevent ambiguity or confusion on the subject matter;
- Define Internal Controls, how they mitigate risks, and how they are viewed from a legal perspective;
- Explain the responsibilities of management and auditors about Internal Controls, as mandated by law and regulations; and
- Specify certain requirements which need to be met to be able to provide an independent assurance on Internal Controls in the organization under review.

**Definition of Internal Control is as follows:**



## Responsibility of Board and Management

- Clause (e) of Section 134 (5) requires the Directors' Responsibility Statement to state that "the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively."
- Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 (applicable to all companies) requires the Board of Directors' Report to include "the details in respect of adequacy of internal financial controls with reference to the Financial Statements"
- Regulation 17(8) of LODR mandates a Compliance Certificate, signed by the CEO and CFO to indicate that "They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems".
- 143(3)(i) of the Companies Act, 2013 (applicable to all companies) requires the statutory auditor to report on "whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls".

Hence, the overall responsibility for designing, assessing the adequacy, implementing and maintaining the operating effectiveness of Internal Controls rests with the Board of Directors and the Management.

## Responsibility of the Internal Auditor

- As per the objectives defined for internal audit, the Internal Auditor is expected to include Internal Controls as a key part of the scope and approach.
- The audit procedures shall be sufficient to allow the Internal Auditor to check the design, proper implementation and operating effectiveness of the Internal Controls. Any shortcoming shall result in recommendations for improvement and suggestions on how to make the Internal Controls more efficient and effective in line with the objectives.
- Audit procedures to be conducted would primarily be directed over high and medium risk Internal Controls and adequate documentation (e.g., a Risk Control Matrix) should be in place to confirm the linkage of the audit procedure with the respective risks.
- In situations where a written assurance report is being issued, the Internal Auditor shall consider the following (as a basis for the opinion):
  - An evaluation of the system of Control Self-Assessment by owners of Internal Controls to support the CEO/CFO certification process.
  - Availability of Compliance Certificates from owners of Key Controls to support a continuous system of compliance.
- In situations where the Statutory Auditor is expected to rely on the work of the Internal Auditor regarding their audit of Internal Financial Controls over Financial Reporting, the Internal Auditor shall document the objectives and agreed scope and approach of the internal audit



# SIA - Fact Check

Audit documentation can be prepared within 3 months days of audit closure

True or False





# SIA 210 – Managing the Internal Audit Function

**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.



# **SIA 220 – Conducting overall Internal Audit Planning**

The top of the slide features a decorative header with silhouettes of business professionals in various poses (talking on a phone, standing, walking) and a network diagram with interconnected nodes. The background is a light blue gradient.

# SIA 220

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:** 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



Obtaining Knowledge of the Business



Establishing the Audit Universe



Establishing the Objectives of the Engagement



Establishing the Scope of the Engagement



Deciding the Resource Allocation



Preparation of Audit Programme

# SIA 220

## 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

## 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



# SIA 230 – Objective of Internal Audit



# SIA 230

**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.



# SIA 240 – Using work of an expert



# SIA 240

**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.



# **SIA 310 – Planning the Internal Audit Assignment**



# SIA 310

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.

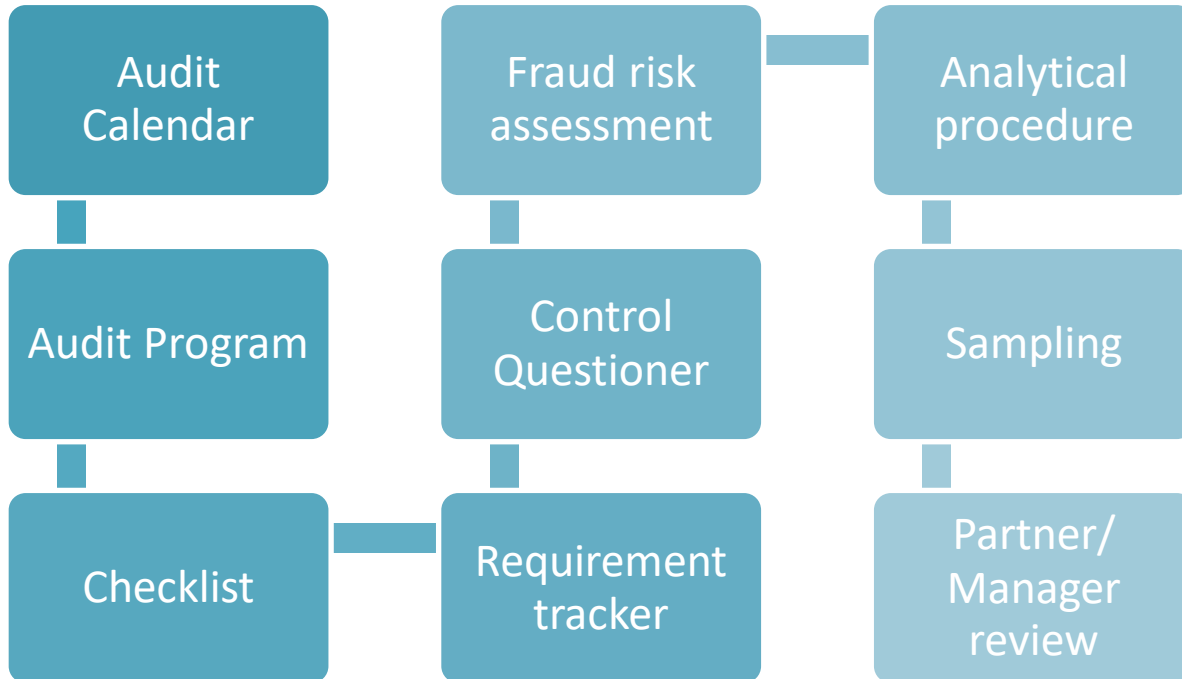


# SIA 310

**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





# SIA 320 – Internal Audit Evidence

**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

# SIA 320

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**







# **SIA 330 – Internal Audit Documentation**



# SIA 330

**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 & 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)
- 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



# **SIA 350 – Review And Supervision Of Audit Assignments**



# SIA 350

**Objective :** The objectives of review and supervision of audit assignments are to:

- Confirm and update the audit assignment plan, including the planned audit procedures and the adequacy of the resources allocated;
- Evaluate the audit procedures undertaken, evidence collected, proper documentation and conclusions drawn by the audit staff;
- Help formulate the audit observations and draft the internal audit report; and
- Establish that work performed is in conformance with the applicable pronouncements of the Institute of Chartered Accountants of India (ICAI).

**Requirement:**

- The Engagement Partner has the overall responsibility of review and supervision of the nature, timing and extent of all internal audit activities and testing procedures.
- The periodicity and extent of the review shall be planned and documented at the audit planning stage.
- A review of the audit workpapers shall be carried out to ensure that these are sufficient & appropriate to allow the reviewer to arrive at the same conclusions and formulate similar observations, as done by the audit staff.
- The Internal Audit function (or out-sourced Firm) shall maintain a written process explaining the manner in which review and supervision shall be performed to ensure conformance to the quality

## **Nature of Review and Supervision :**

- The extent of review & supervision varies for each assignment depending upon various factors such as the nature, objectives and scope of the assignment, its complexity, extent of automation, & competency of staff.
- It also covers all audit activities such as, audit planning, sampling, audit testing procedures, collecting evidence, documentation, using the work of an expert and concluding audit observations.
- The review and supervision duties may be delegated by Engagement Partner to a subordinate who is a person with requisite experience and proficiency in conducting internal audits or preferably a Chartered Accountant.

**Reviewing and Supervising the Audit Procedures:** Reviewer and supervisor shall ensure that the audit work is executed in accordance with the Internal Audit Programme and Audit Procedures.

**Review and Supervision of Documentation:** The adequacy of the documentation is tested on the basis of the requirements of the applicable Standards on Internal Audit.

**Documentation:** the following documentation shall be maintained:

- Process documentation on Review and Supervision, as part of the Internal Audit Manual.
- Documentation indicating the signature and date of review undertaken on the working papers, follow-up points raised, and minutes of any review meetings held with the audit team.

Internal auditor's job includes identification of liabilities

True or False



# SIA 360 – Communication with Management





# SIA 360

**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.

The background features a light blue and white geometric pattern of hexagons. On the left side, there are silhouettes of business professionals: a large one in the foreground and a smaller one in the background, both holding briefcases. Above the silhouettes, there are stylized hexagonal shapes connected by lines, resembling a network or organizational chart.

# 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.



# **SIA 390 – Monitoring And Reporting Of Prior Audit Issues**



# SIA 390

**Objectives:** The specific objectives of this Standard are to ensure

- Proper monitoring and closure of open issues from prior audits;
- Independent validation of corrective actions taken by the auditee;
- Escalation of any concerns in case of delays in closure of issues; and
- Timely reporting of status to those charged with governance.

The overall objective of this Standard is to ensure that the auditee mitigates the risks highlighted in the audit observations.

## **Requirements**

- The Chief Internal Auditor is responsible for continuously monitoring the closure of prior audit issues through a timely implementation of action plans included in past audits.
- After receiving confirmation from the auditee regarding the implementation of corrective actions, additional audit procedures shall be performed by the Internal Auditor to confirm that the issues have been adequately addressed.
- In case of delays or ineffective implementation of the agreed corrective actions, the Internal Auditor shall escalate such delays and concerns to the appropriate levels of management. However, if new facts come to light justifying the ineffective or delayed implementation, the Internal Auditor may agree upon a new time-bound action plan.
- The internal auditor shall periodically report to the management, and the Audit Committee, the status of prior issues



# SIA 390

## Monitoring of the Prior Issues:

- The management is responsible for timely implementation of corrective action plans to address prior audit issues as per the agreed time-lines.
- The Chief Internal Auditor, or designate, will undertake a follow-up with the auditee, after the lapse of agreed time schedule for implementing.
- Where the prior audit issues were raised by an internal audit firm, the succeeding audit firm will seek the help of the management to obtain any details required to assume the responsibility of monitoring and tracking the Action Taken Report.

## Closure of Prior Issues:

- For critical or sensitive issues, follow-up audit procedures shall be performed to ensure that the risk has been mitigated to an acceptable level.
- For medium risk issues, documentation proof of the implementation of the audit recommendations may be acceptable
- For low risk issues, a written note confirmation from management may be sufficient

Escalation Procedure: When the Internal Auditor observes delay in the agreed time schedule for implementation, the Internal Auditor shall intimate the auditee and agree to a new time schedule. On further delays in timelines of implementation, the Internal Auditor shall escalate details of delays to management as per a pre-agreed escalation protocol.

Documentation: The Internal Auditor shall document the working papers according to the Standard on Internal Audit Documentation as follows:

- The monitoring plan as agreed with management, including escalation procedures and communications
- Auditee's confirmation of either complete implementation of agreed actions, or reasons for part/non-implementation
- The documentary evidence and working papers to support additional audit procedures performed & Periodic ATR status report

The background features a light blue and white geometric design with hexagonal shapes. On the left, there are silhouettes of business professionals: a large one in the foreground and a smaller one in the background, both holding briefcases. Above them is a diagram of interconnected hexagons, resembling a molecular or network structure.

# 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



# SIA 5

## 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:

- Analyze 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



# 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 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



# **SIA 7 – Quality Assurance in Internal Audit**



# SIA 7

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



# SIA 7

## 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





# **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.



# 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



# SIA 13 – 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



# **SIA 14 – Internal Audit in Information Technology Environment**

## 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 analyze information
- The system of internal control in existence in the entity with regard to:
- The flow of authorized, correct and complete data to the processing center
- 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 specialized IT skills are needed in the conduct of the audit, for example, the operating knowledge of a specialized 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



# **SIA 17 – Considerations of Laws and Regulations in Internal Audit**

## 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



# SIA 18 – Related Parties



# SIA 18

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



# SIA 18

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.





# SIA 18

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 top of the slide features a decorative header. On the left, there are several silhouettes of people in business attire. In the center, a network diagram with interconnected nodes is visible. On the right, a large teal triangle points towards the center. The word "Disclaimer" is written in a large, bold, black font on the right side of the teal triangle.

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