



Standards on Internal Audit

SIRC of ICAI,

24th May, 2023

CA. H. Venkatesan

Coverage

SIA 230
Objectives

SIA 220
Overall
Planning

SIA 240

Using the work
of an Expert

SIA 320

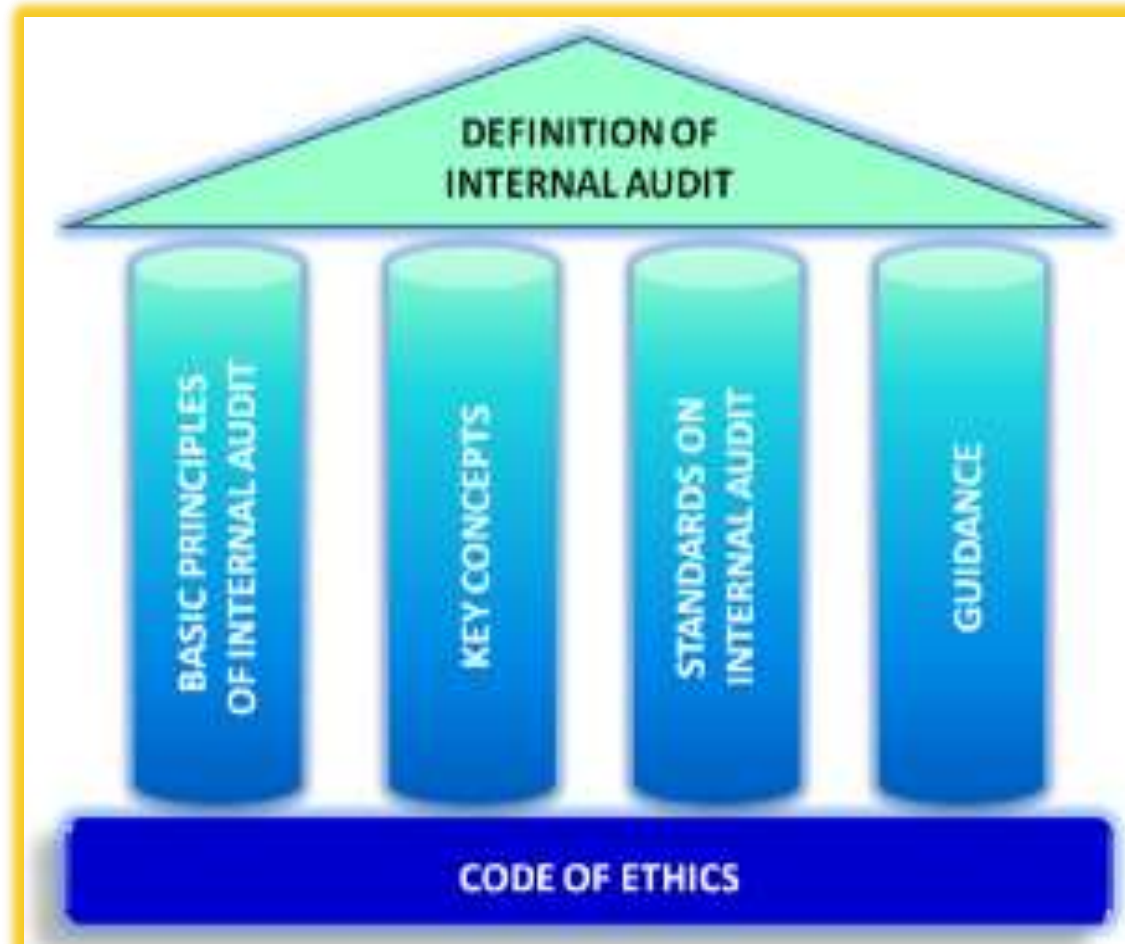
Audit Evidence

SIA 7 and SIA 11

Quality
Assurance;
Fraud



Internal Audit Standards Framework



Adapted from ICAI



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Internal Audit provides independent assurance on effectiveness of internal controls and risk management processes to enhance governance and achieve organizational objectives

Basic Principles

- Independence
- Integrity and Objectivity
- Due Professional Care
- Confidentiality
- Skills and Competence

- Risk based Audit
- Systems and Process focus
- Participation (non) in decision making
- Sensitive to multiple stakeholders
- Quality and Continuous Improvement

Key Concepts

- Internal Controls
- Risk Management
- Governance Process
- Compliance with Laws and Regulations
- Nature of Assurance

Series of Standards

Series	Focus
100 Series	Standards on Key concepts
200 series	Standards on the Conduct of Audit Assignment
300-400 series	Standards on the Conduct of Audit Assignment
500 series	Standards on Specialised Areas
600 series	Standards on Quality Control
700 series	Others/Miscellaneous Matters

Managing the IA Function

- IA Assignments are undertaken in a systematic, disciplined and professional manner
- Quality of the work performed forms a sound basis for reporting and is supported by evidence and documentation
- Work is conducted in conformance with the SIAs
- Adequate skilled resources and expertise are in place and deployed well to provide the required level of assurance

Recap

- Standards are principle focused
- Provide a framework for performing and promoting Internal Auditing



SIA 230 Objectives

Requirements

- Objectives vary and depend on the size, structure and complexity of the entity
- Influenced by Laws and regulations, Specific requirements of management
- To provide clarity to Internal Auditor and stakeholders regarding nature of the internal audit
- Ensure linkage between what is expected of Internal Auditor and how those expectations can be met

Purpose

- Promote better understanding on key operational areas, accountability and authority, roles and responsibilities.
- Document the formation and functioning of the IA activity
- Para 3.2 of the Framework also indicates how the nature of internal audit services may go beyond assurance to include advisory (consulting) role.

IA Activities

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

IA Charter

- Mission and Vision
- Purpose and objectives
- Reporting Structure and Independence
- Scope and Approach
- Accountability and Authority
- Roles and Responsibility
- Quality Assurance and Conformance with SIA



SIA 220 Conducting Overall IA Planning

Scope

- Sec.138 of Companies Act, 2013 and Rule 13 (2) Companies (Accounts) Rules thereon.
- The Audit committee of the company or the Board shall in consultation with the Internal auditor formulate the scope, functioning, periodicity and methodology for conducting the internal audit.
- It is undertaken prior to the beginning of the plan period
- Comprehensive in nature
- Directional in nature. Locations, functions, business units, legal entities including third parties, periodicity

Methodology

- Two levels
- Overall, IA plan for the entire entity for a given period, usually a year
- Number of specific IA plan for individual assignments
- First one presented to AC second one presented to CIA
- A risk based planning exercise shall for the basis

Requirements

- Planning process
- Knowledge of the business and its Environment
- Discussion with Management and Stakeholders
- Audit Universe and Scope of Coverage
- Risk Assessment
- Technology Deployment
- Resource allocation
- Documentation

Risk based

- The Internal Auditor shall undertake an independent risk assessment of all the auditable units identified in the Audit Universe
- Align this with the risk assessment conducted by the management and the statutory auditor.
- This is required to prioritise and focus audit work on high risk areas with due attention to matters of importance, complexity and sensitivity.
- Internal auditor may also plan to undertake a dedicated audit of the company's Risk Management Framework and processes as a separate review or assignment



SIA 240 Using the work of an Expert

Expert

- Expert is a person or entity which possesses certain special skills or unique knowledge, along with some years of experience and expertise in a particular area, field or discipline.
- Examples: Actuarial valuation, Forensic Audit, Intellectual property, Treasury operations
- Where required skills are not available within the internal audit team or function
- Can be an employee of the company provided independence and objectivity is fulfilled

Responsibility

- Internal auditor shall retain ultimate responsibility for internal audit conclusions and opinions unless specifically mandated otherwise by the recipient of the IA report. Hence the Internal auditor shall not refer to the work of an Expert in his IA report.



SIA 320 IA Evidence

Nature

- Refers to all the information used by the internal auditor in arriving at the conclusions on which the auditor's opinion is based.
- Underlying entity records and processes as well as information from the performance of various audit activities and testing procedures
- Shall obtain sufficient and appropriate evidence
- Evidence collected shall be recorded and the IA shall maintain a written process

Reasoning

- Confirm the nature, timing and sufficiency of the audit procedures undertaken
- Aid in supervision and review of the internal audit work;
- Establish that the work performed is in conformance with the applicable pronouncements of ICAI
- To form an opinion on the outcome of the audit procedures completed
- Evidence must stand on its own and not require any follow up clarification or additional information to arrive at the same conclusion.

Obtaining Evidence

Inspection

Observation

Inquiry and Confirmation

Computation

Analytical Review



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SIA 7 Quality Assurance

Introduction

- A system for assuring quality in IA should provide reasonable assurance that the internal auditors comply with professional standards, regulatory and legal requirements so that the reports issued by them are appropriate in the circumstances
- A person within the organization should be entrusted with the responsibility for the quality in the IA whether done in house or by an external agency



Internal Quality Reviews



External Quality Reviews

Quality Assurance Framework (QAF)

- Development and implementation of the IA policies and procedures
- Maintenance and monitoring of the budget for the IA activity
- Maintenance and updation of the overall IA plan
- Identification of the risk areas and the IA plan to address these risks
- Acquisition and deployment of audit tools and use of technology to enhance the efficiency and effectiveness of IA Activity

QAF Contd..

- Coordination with external auditors
- Staffing related aspects of IA – recruitment, training etc.
- Planning and implementation of the training and professional development of the IA staff
- Implementation of the performance metrics for the IA activity and periodic monitoring
- Review of the follow up actions taken on the findings of the IA activity

Internal Quality Review (IQR)

- Should be done by the person entrusted with the responsibility for the quality in IA and/or other experienced member(s) of the IA function
- Should be undertaken on an ongoing basis
- Results should be reviewed for improvement and promptly implemented

IQR Contd..

- Communicated to the appropriate levels of management and those charged with Governance on a timely basis with the proposed plan of action to address issues and concerns raised in the previous report
- Establishing a formal process of feedback from the users of the IA services, such as senior management executives.
- About quality, timeliness, value addition, efficiency, innovation, effective communication, audit team, time management etc.,
- Establishing appropriate criteria for measuring the performance of the IA function.

External Quality Review

- Frequency should not in any case be less than once in 3 years.
- External quality reviewer should be appointed in consultation with the person entrusted with the responsibility for quality in internal audit, senior management and those charged with governance.



SIA 11 Consideration of Fraud

Characteristics

- Intentional Act
- To obtain unjust or illegal advantage
- Misstatement of an information – financial or otherwise
- Misappropriation of assets
- Primary responsibility for prevention and detection rests with Management and those charged with Governance
- Designing, establishing and ensuring continuous operation of an effective systems of Internal controls

Responsibility

- Internal Auditor should exercise due professional care, competence and diligence expected of him while carrying out the internal audit
- An internal auditor should use his knowledge and skills to reasonably enable him to identify indicators of frauds.
- Internal Auditor cannot be expected to possess the expertise of a person with specialized knowledge and skills in detecting and investigating frauds.

Common Fraud situation

- Where there is an incentive, Pressure to commit fraud , Opportunity to commit fraud ,Rationalization for committing fraud
- Understanding the design and implementation of internal controls would help the Internal auditor to assess the risk of frauds.
- Internal auditor helps the management fulfill its responsibilities relating to fraud prevention and detection
- Document fraud risk factors identified as being present
- Immediately bring to the attention of management
- Internal auditor should specifically evaluate the policies and procedures to identify and assess the risk of frauds including the possibility of fraudulent financial reporting and misappropriation of assets.

Companies Act

- Sec 447 of Companies Act.
- Includes any act, omission, concealment of any fact or abuse of position committed by any person or any other person with the connivance in any manner with intent to deceive to gain undue advantage from or to injure the interests of the company or its shareholders or its creditors or any other person whether or not there is any wrongful gain or wrongful loss.

CARO

- Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated.
- Statutory Auditor should also refer reports of Internal auditor which may points out significant weaknesses in internal control systems.
- Who might reasonably be expected to have information that is important to the identification and assessment of risk of material misstatement

International Practices

- 1210 A2. Proficiency – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

adapted from IIA PPF framework

RBIA

Requisite professional competence, knowledge and experience of each internal auditor is essential for the effectiveness of internal audit function.

The areas of knowledge and experience may include banking/financial entity's operations, accounting, information technology, data analytics, forensic investigation, among others

adapted from RBI- RBIA notiification

Reporting of Frauds

12.A Whether internal inspection/ audit (including concurrent audit) was conducted at the branch (es) during the period between the date of first occurrence of the fraud and its detection? Yes/No

b. If yes, why the fraud could not have been detected during such inspection/audit.

c. What action has been taken for non detection of the fraud during such inspection/audit



Thank you

venkatesanhalasyam@gmail.com