



**The Institute of Chartered
Accountants of India**
(Set up by an Act of Parliament)

Standards on Internal Audit (SIA)

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Some of the situations that I mention may or may not be true and the identities of any parties involved have been disguised.

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Why Standards?

- Volatility, Uncertainty, Complexity and Ambiguity – world to
- Brittle, Anxious, Nonlinear and Incomprehensible - world
- Increasing compliance requirements
- Onerous responsibility and liability

Due professional care imposes a responsibility upon each professional within an independent auditor's organization to observe the **STANDARDS** of field work and reporting.

Standards on Internal Audit (SIA)

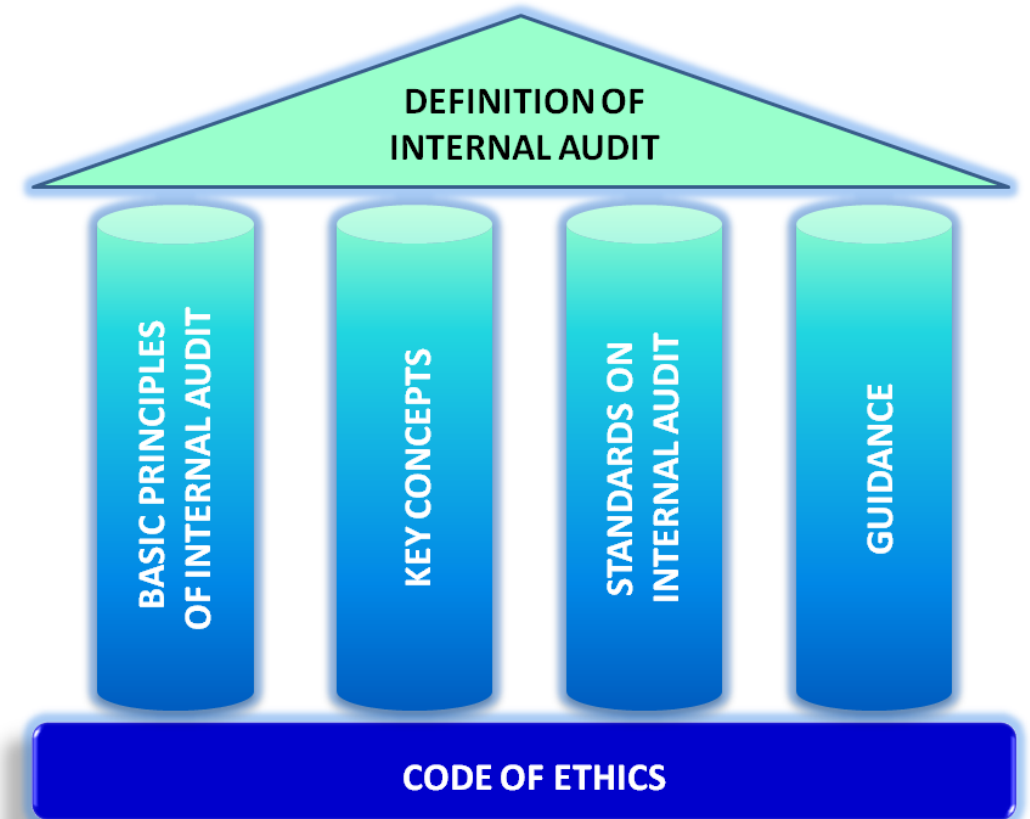
Definition of Internal Audit

- ICAI
 - **Internal audit** provides **independent assurance** on the **effectiveness** of internal **controls** and **risk management processes** to **enhance governance** and **achieve organisational objectives**.
- IIA
 - **Internal auditing** is an **independent**, objective **assurance** and consulting activity designed to add value and **improve** an organization's operations. It helps an **organization accomplish** its **objectives** by bringing a systematic, disciplined approach to evaluate and **improve** the **effectiveness** of **risk management, control,** and **governance processes**.



ICAI

- Preface to the Framework and SIA (IASB, Framework, Standard Setting Process)
- Framework Governing Internal Audits
- Basic Principles of Internal Audit
- 100 Series: Standards on Key Concepts
- 200 Series: Standards on Internal Audit Management
- 300–400 Series: Standards on the Conduct of Audit Assignments
- 500 Series: Standards on Specialized Areas
- 600 Series : Standards on Quality Control (*Not yet issued*)
- 700 Series : Other/Miscellaneous Matters (*Not yet issued*)



100 Series: Standards on Key Concepts

- 110: Nature of Assurance (reasonable assurance vs limited assurance)
- 120: Internal Controls (risk mitigation steps taken to strengthen the organisation's systems and processes, types of controls (manual/ automated, ELC/PLC, IFC Vs IC))
- 130: Risk Management (RBIA vs Auditing the Risk Management Framework)
- 140: Governance (a set of relationships between the company and its various stakeholders (both internal and external), and provides the structure through which the company's objectives are achieved. Auditing the Governance Framework)
- 150: Compliance with Laws and Regulations (the process of following, in letter and spirit, the applicable laws and regulations, Auditing the Compliance Framework)

200 Series: Standards on Internal Audit Management

- 210: Managing the Internal Audit Function (Audit Charter, Resourcing, Systemic Manner, QAIP, documentation)
- 220: Conducting Overall Internal Audit Planning (Planning, Knowledge of Business and Environment, Discussion with Management and Stakeholders, Audit Universe and scope of coverage, Risk Assessment, Technology deployment, Resource Allocation, Documentation)
- 230: Objectives of Internal Audit (Internal Audit Charter/ Engagement Letter)
- 240: Using the Work of an Expert (Independence & Objectivity, Qualification & Credentials, Scope & Approach)
- 250: Communication with those charges with Governance (Annual IA Plan, Outcome of Risk Assessment, Periodic Update, Challenges, ATRs, Dealing with sensitive matters)

300–400 Series: Standards on the Conduct of Audit Assignments

- 310: Planning the Internal Audit Assignment
- 320: Internal Audit Evidence
- 330: Internal Audit Documentation
- 350: Review and Supervision of Audit Assignments
- 360: Communication with Management
- 370: Reporting Results
- 390: Monitoring and Reporting of Prior Audit Issues

500 Series: Standards on Specialized Areas

- 520: Internal Audit in an Information technology environment
- 530: Third Party Service Provider

Standards issued up to July 1, 2013

- SIA 5: Sampling
- SIA 6: Analytical Procedures
- SIA 7: Quality Assurance in Internal Audit
- SIA 11: Consideration of Fraud in an Internal Audit
- SIA 18: Related Parties

IIA IPPF - Attribute Standards

- **1000 – Purpose, Authority, and Responsibility**
 - 1010 – Recognizing Mandatory Guidance in the Internal Audit Charter
- **1100 – Independence and Objectivity**
 - 1110 – Organizational Independence
 - 1111 – Direct Interaction with the Board
 - 1112 – Chief Audit Executive Roles Beyond Internal Auditing
 - 1120 – Individual Objectivity
 - 1130 – Impairment to Independence or Objectivity
- **1200 – Proficiency and Due Professional Care**
 - 1210 – Proficiency
 - 1220 – Due Professional Care
 - 1230 – Continuing Professional Development
- **1300 – Quality Assurance and Improvement Program**
 - 1310 – Requirements of the Quality Assurance and Improvement Program
 - 1311 – Internal Assessments
 - 1312 – External Assessments
 - 1320 – Reporting on the Quality Assurance and Improvement Program
 - 1321 – Use of “Conforms with the *International Standards for the Professional Practice of Internal Auditing*”
 - 1322 – Disclosure of Nonconformance

IIA IPPF- Performance Standards

- **2000 – Managing the Internal Audit Activity**
 - 2010 – Planning
 - 2020 – Communication and Approval
 - 2030 – Resource Management
 - 2040 – Policies and Procedures
 - 2050 – Coordination and Reliance
 - 2060 – Reporting to Senior Management and the Board
 - 2070 – External Service Provider and Organizational Responsibility for Internal Auditing
- **2100 – Nature of Work**
 - 2110 – Governance
 - 2120 – Risk Management
 - 2130 – Control
- **2200 – Engagement Planning**
 - 2201 – Planning Considerations
 - 2210 – Engagement Objectives
 - 2220 – Engagement Scope
 - 2230 – Engagement Resource Allocation
 - 2240 – Engagement Work Program
- **2300 – Performing the Engagement**
 - 2310 – Identifying Information
 - 2320 – Analysis and Evaluation
 - 2330 – Documenting Information
 - 2340 – Engagement Supervision
- **2400 – Communicating Results**
 - 2410 – Criteria for Communicating
 - 2420 – Quality of Communications
 - 2421 – Errors and Omissions
 - 2430 – Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”
 - 2431 – Engagement Disclosure of Nonconformance
 - 2440 – Disseminating Results
 - 2450 – Overall Opinions
- **2500 – Monitoring Progress**
- **2600 – Communicating the Acceptance of Risks**

Basic Principles

- Independence
 - Free from undue influence. Independence shall not be only in mind but also in appearance.
 - Internal audit function shall be positioned outside the functions which are subject to internal audit.
- Integrity and objectivity
- Due Professional Care
 - Can internal auditor can take shelter under “to err is human”?
- Confidentiality
- Skills and Competence
- Risk Based Audit
- System and Process Focus
- Participation in Decision Making
 - Avoid passing any judgement or render an opinion on past management decisions
 - Avoid participation in operational decision making
- Sensitive to Multiple Stakeholder Interests
- Quality and Continuous Improvement
 - Ensure factual accuracy of the observations;
 - To validate the accuracy of all findings;

Question 1

An internal audit charter describes the mission and scope of the internal audit activity (IAA), responsibilities of the IAA, accountability of the chief audit executive, independence of the IAA, and standards followed by the IAA. Which of the following also should be included in the charter?

- A. The purpose of the IAA.
- B. The IAA's right to have unrestricted access to functions, records, personnel, and physical property.
- C. A detailed audit plan or program for the year.
- D. The job specifications and descriptions of the internal audit staff.

Question 2

Which the following activities should be performed by the internal audit activity to facilitate an effective relationship with the audit committee?

1. Periodically report about the accounting standards followed by the organization.
2. Provide assurance to the audit committee that its charter, activities, and processes are appropriate.
3. Ensure that the role and activities of the internal audit activity are clearly understood and responsive to the needs of the audit committee.
4. Maintain open and effective communications with the audit committee.

- A. 1 and 2 only
- B. 3 and 4 only
- C. 1, 3, and 4 only
- D. 2, 3, and 4 only

Question 3

A chief audit executive (CAE) learns that the brother-in-law of a senior auditor who audits the procurement process was hired as the head of the procurement department six months prior. Which of the following is the most appropriate action for the CAE to take?

- A. The CAE should not interfere because there is no evidence that a conflict of interest has occurred.
- B. The CAE should remind the senior auditor of his obligation to be objective and impartial.
- C. The CAE should change the senior auditor's assignment and take corrective action for the auditor's failure to disclose the conflict of interest.
- D. The CAE should require the senior auditor to disclose the relationship in writing before continuing his responsibility for monitoring procurement.

Question 4

The chief audit executive (CAE) of a mid-sized pharmaceutical organization has operational responsibility for the regulatory compliance function. The audit committee requests an assessment of regulatory compliance. According to IIA guidance, which of the following is the CAE's best course of action?

- A. Have a proficient internal audit staff member perform the assessment and disclose the impairment in the audit report and to the board.
- B. Have a regulatory compliance staff member perform a self-assessment, to be reviewed by a proficient internal auditor.
- C. Have a proficient internal audit staff member perform the audit and report the results of the assessment directly to senior management and the board.
- D. Contract with a third-party entity or external auditor to complete the assessment and report the results to senior management and the board.

Question 5

A primary purpose of evaluating the adequacy of an organization's risk management, control, and governance processes is to determine if it:

- A. Was designed to ensure compliance with policies, plans, procedures, laws, and regulations.
- B. Provides reasonable assurance that the organization's objectives will be met.
- C. Mitigates inherent risk.
- D. Assures the reliability and integrity of information used by management.

Question 6

A chief audit executive (CAE) of a major retailer has engaged an independent firm of information security specialists to perform specialized internal audit activities. The CAE can rely on the specialists' work only if it is:

- A. Performed in accordance with the terms of the contract.
- B. Carried out in accordance with the Standards.
- C. Performed under the supervision of the information technology department.
- D. Carried out using standard review procedures for retailers.

Management of Internal Audit Function

- SIA 210 / IIA Standard 2000



SIA 210 - Managing The Internal Audit Function

- The achievement of overall objectives of internal audit (as outlined in the Internal Audit Charter or Engagement Letter).
- Resourcing Plan: Adequate skilled resources and expertise are in place and deployed well, to provide the required level of assurance.
- Internal Audit Process : Internal audit assignments are undertaken in a systematic, disciplined and professional manner.
- Quality Assurance and Improvement Plan (QAIP): 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 Standards on Internal Audit and other related pronouncements issued by the ICAI.

2000 – Managing the Internal Audit Activity

- **2000 – Managing the Internal Audit Activity**
 - Ensure it adds value
- **2010 – Planning**
 - Establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals
- **2020 – Communication and Approval**
 - Communicate plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. Must also communicate the impact of resource limitations.
- **2030 – Resource Management**
 - Resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
- **2040 – Policies and Procedures**
 - Must establish policies and procedures to guide

2000 – Managing the Internal Audit Activity

- **2050 – Coordination and Reliance**

- Share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

- **2060 – Reporting to Senior Management and the Board**

- Report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.

- **2070 – External Service Provider and Organizational Responsibility for Internal Auditing**

- When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

Clarification



What did I discuss that you want to know more about?



What did I not cover that you would like to know?



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