

# **Standards on Internal Audit**

Codifying Best Practises

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**Western India Regional Council**

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*Excellence is not Destination,*

*It is a Continuous Journey that Never Ends*

*Brian Tracy,  
Motivational speaker*



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# **Changing IA landscape in India**

# Evolving IA practice in India

Internal audit mandated for certain class of companies as per Companies Act, 2013

UDIN generation mandated by ICAI for IA assignments

Internal audit assignments now considered for peer review by ICAI

Use of data analytics, automation tools and specialised software as audit procedures

Forensic Accounting and Investigation Standards (FAIS) issued by ICAI mandatory w.e.f 1-Jul-23

# **SIA vs IPPF standards**

# Evolution of IPPF standards

*International Standards for the Professional Practice of Internal Auditing* are developed by the IIA under International Professional Practices Framework (IPPF)

Standard consists of:

- Attribute standards (attributes of an organisation & individuals providing internal auditing services)
- Performance standards (nature of internal auditing and quality criteria for evaluation of their performance)

New Global Internal Audit Standards expected to be officially released before the end of 2023

# Comparison of SIA vs IPPF standards (existing)

Aspects	SIAs	IPPF Standards																		
Purpose	To provide guidance on conducting internal audit engagements	To establish principles and standards for the practice of internal auditing																		
No. of standards	<table border="0"> <tr> <td>Standards issued up to July 1, 2013</td> <td>5</td> </tr> <tr> <td>Standards on Key Concepts [100 Series]</td> <td>5</td> </tr> <tr> <td>Standards on Internal Audit Management [200 Series]</td> <td>5</td> </tr> <tr> <td>Standards on the Conduct of Audit Assignments [300–400 Series]</td> <td>7</td> </tr> <tr> <td>Standards on Specialised Areas [500 Series]</td> <td>2</td> </tr> <tr> <td><b>Total</b></td> <td><b>24</b></td> </tr> </table>	Standards issued up to July 1, 2013	5	Standards on Key Concepts [100 Series]	5	Standards on Internal Audit Management [200 Series]	5	Standards on the Conduct of Audit Assignments [300–400 Series]	7	Standards on Specialised Areas [500 Series]	2	<b>Total</b>	<b>24</b>	<table border="0"> <tr> <td>Attribute standards</td> <td>19</td> </tr> <tr> <td>Performance standards</td> <td>33</td> </tr> <tr> <td><b>Total</b></td> <td><b>52</b></td> </tr> </table>	Attribute standards	19	Performance standards	33	<b>Total</b>	<b>52</b>
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# Overview of SIAs

# Framework governing internal audits

Lays down the underlying principles and boundaries for the internal audit function and activity

Provides clarity on key components governing internal audits to ensure standardisation and quality in discharge of Internal Auditors' responsibilities

## Definition

Internal audit provides independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives

## Four components (pillars)

Basic principles of audit

Key concepts

Standard on Internal Audits (SIAs)

Guidance

## Code of Ethics

Commitment to ethical standards to be applied during the audit

# Overview of SIAs [1/3]

- Classification of SIAs (as & when issued):

100 series – Key concepts

200 series – IA Management

300 to 400 series – Conduct of IA assignments

500 series – Standard on specialised areas

600 series – Quality control

700 series – Miscellaneous matters

# Overview of SIAs [2/3]



## Planning

- SIA 110 – Nature of Assurance
- SIA 120 – Internal Controls
- SIA 210 – Managing IA function
- SIA 220 – Overall IA Planning
- SIA 230 – Objectives of IA
- SIA 310 – Planning IA Assignment



## Execution

- SIA 5 – Sampling
- SIA 6 – Analytical Procedures
- SIA 7 – Quality Assurance in IA
- SIA 11 – Consideration of Fraud in IA
- SIA 18 – Related parties
- SIA 130 – Risk Management
- SIA 140 – Governance
- SIA 150 – Compliance with Laws & Regulations
- SIA 240 – Using work of Expert
- SIA 320 – IA Evidence
- SIA 330 – IA Documentation
- SIA 350 – Review & Supervision of IA
- SIA 520 – IA in IT Environment
- SIA 530 – Third Party Service Provider



## Reporting

- SIA 250 – Communication with those charged with Governance
- SIA 360 – Communication with Management
- SIA 370 – Reporting Results
- SIA 390 – Managing & Reporting Prior Audit Issues

# Overview of SIAs [3/3]

SIAs provide minimum requirements that apply to ICAI members while performing IA activity of entity or body corporate to ensure consistent approach, quality & reliability.

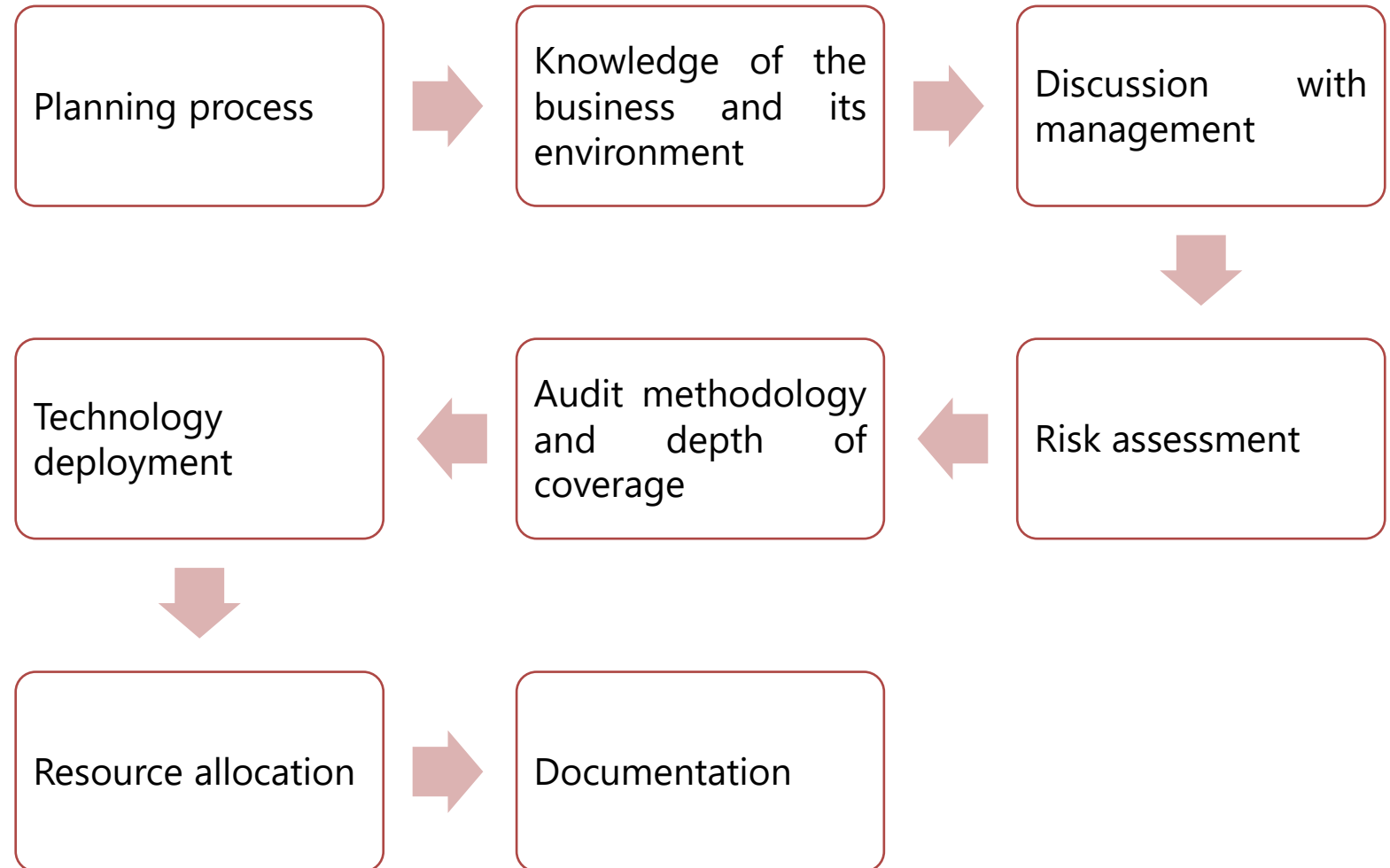
ICAI recommends adoption of SIA by non-members (e.g. cost accountants) as well

SIA will be mandatory in a phased manner (i.e. for listed companies → from effective date of SIA and for other companies → one year thereafter) (dates yet to be announced)

If member is unable to comply with the SIA or there is conflict between SIA & other mandates such as regulatory requirement, the IA report should draw attention to material departures along with appropriate explanation

**SIA 310 –  
Planning IA  
assignment**

# Elements of Assignment Planning



# Aspects to consider during planning phase



Nature of assignment to be undertaken i.e. assurance or non-assurance based

Objective, scope & actions to be undertaken

Frequency of audits during planned period

Intended recipients of the Internal audit report

Contents & form of audit report should be agreed upon in consultation with the management



# **SIA 5 – Audit sampling**

# Factors to be considered while sampling



- Auditor's assessment of the entity, its operations, etc.
- Any specific audit objective to be achieved
- Previous audit observations
- Expected error level & Tolerable error level
- Professional & Objective judgement of auditor

# Commonly used sampling methods

## Haphazard sampling

- Selection of sample without any structured technique
- Ensure that all items in the populations have equal chance of selection

## Random sampling using CAATs

- Using a computerized number generator or through random number tables

## Stratification

- Dividing the population into sub-category having similar characteristics
- Selection of sample from such sub-category

# Documents to be maintained of sampling



Assessment of sampling risk

Assessment of error rates in population

Rationale for sampling technique used

Analysis & cause of errors detected in sample

Projection of sample results to characteristics of population

# Practical tips



Follow 80:20 ratio i.e. 20% of sample should cover 80% of value of the population

Increase sample size in case more than expected errors noticed from samples verified

In case of manual control, sample size should be high

Ensure sample size is as per client's expectations

Sample size should be disclosed in the audit report

Analytical procedure enables effective sampling

# **SIA 6 – Analytical Procedures**

# Analytical procedures includes

Checking of  
critical ratios

Checking of  
trends

Comparison of  
financial and  
non-financial  
information

Budgeted vs  
actuals

Prior period  
information v/s  
current  
information

Comparison with  
industry  
information

# Factors to be considered while performing analytical procedure



- Knowledge gained during the previous audit
- Significance to area under review
- Objective of analytical procedure
- Adequacy of information available
- Reliability of available information



# Practical tips



Analytical software should be used for analysis purpose

Compare various ratios with similar size peer's ratio

Macro feature available in excel should be used for repetitive analysis to save time

Charts / graphs should be used for better presentation of analysis of results

In case of c/f points, comparative analysis should be given

Details of analysis carried out should be mentioned in the audit report

**SIA 320 –  
Internal Audit  
Evidence**

# Objective of gathering appropriate and relevant audit evidence

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 ICAI

It allows the Internal Auditor to form an opinion on the outcome of the audit procedures completed

# How to obtain Internal Audit evidence



Inspection



Observation



Inquiry &  
confirmation



Computation



Analytical review

## IA Evidence must be:

- Sufficient (quantity) & Appropriate (quality)
- Reliable (source of information is critical)
- Stand on its own

# Practical tips



Cross reference of documents with observations should be done

Source of collection of evidence should be appropriate, if required necessary approval should be taken from the appropriate authority

Audit evidence can be maintained in physical form as well as electronic form

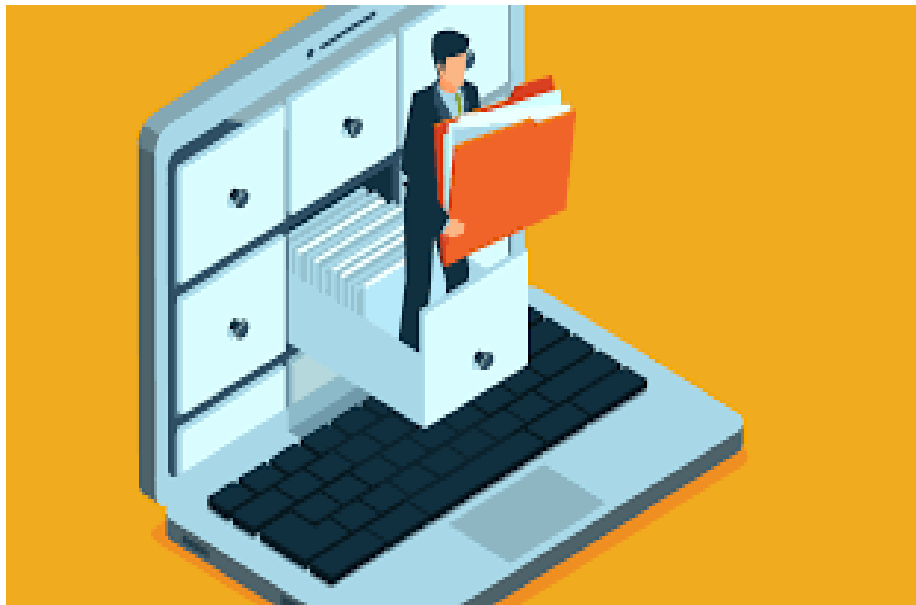
Audit evidence collected should be documented on daily basis to avoid last minutes rush

In case of any software related issue, screen shots should be taken and kept on record as audit evidence

Audit evidence also includes photographs and video recording

**SIA 330 –  
Internal Audit  
Documentation**

# Objective of documentations



Validate findings & support conclusions

Assist in supervision & review

Ensure IA was carried out in conformance with ICAI pronouncements

It supports in case of any allegation over the quality of internal audit assignment

# Requirements of documentation



Internal audit charter and internal audit plan

Nature, timing & extent of IA procedures performed

Documentation should clearly state – purpose & outcome of procedure, source of information, etc.

IA file to be compiled before issue of final report

Admin procedures to be completed within 60 days of issue of final report

Details of review of working papers of experts if any

Documentation should be sufficient & reliable to enable peer reviewer to arrive at same conclusion



# **SIA 370 - Reporting Results**

# Significance of reporting in Internal audit



Highlights effectiveness of governance, risk management & control processes

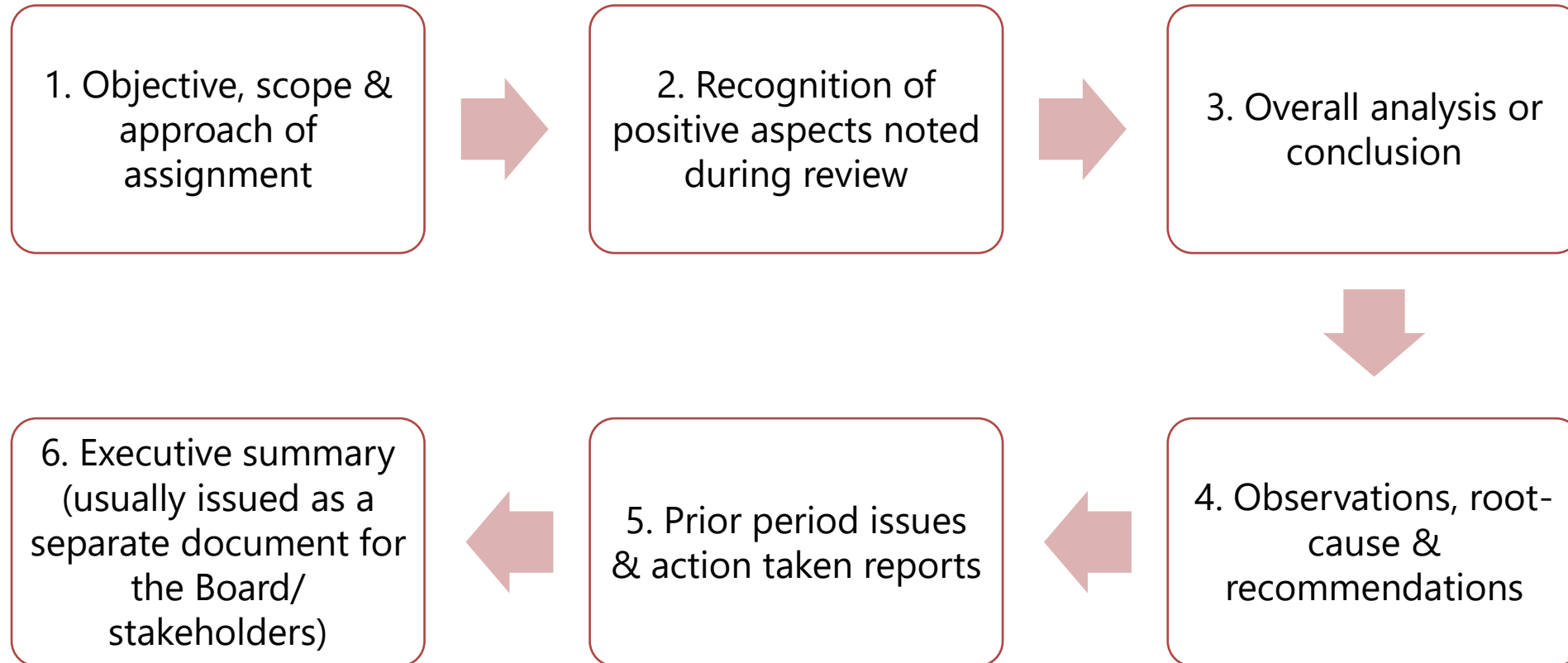
Allows management to understand the issues and take corrective actions on a timely basis

Demonstrates that planned audit objectives were achieved

Well-written IA report showcases auditor's in-depth knowledge and willingness to partner with management for improvements

Provides sound basis for any assurance given by Internal auditor

# Key elements & flow of Internal audit report



No specific format is prescribed for IA report in the IIA & SIA framework

# Example 1 : Template for overall analysis

Areas	Our assessment on effectiveness of controls	Categories					
		High	Medium	Low	Recommendation	Information	
Procurement	=	Medium controls	-	1	5	2	1
Inventory	↑		-	1	4	2	-
Statutory compliance	↓	Improvement required	1	-	-	1	-
MIS	=	Strong controls	-	-	-	-	-
Routine	↑		-	-	-	1	-
<b>Total</b>			<b>1</b>	<b>2</b>	<b>9</b>	<b>6</b>	<b>1</b>

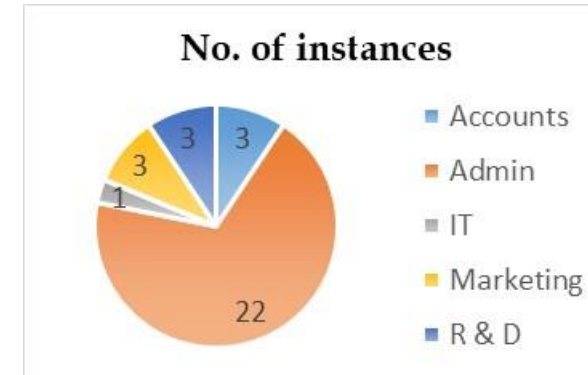
<b>Legends:</b>	=	No changes in effectiveness of controls as compared to previous period	↑	Improvement in effectiveness of control compared to previous period	↓	Deterioration in effectiveness of control compared to previous period
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## Example 2 : Presentation of analysis of delay in accounting expenses

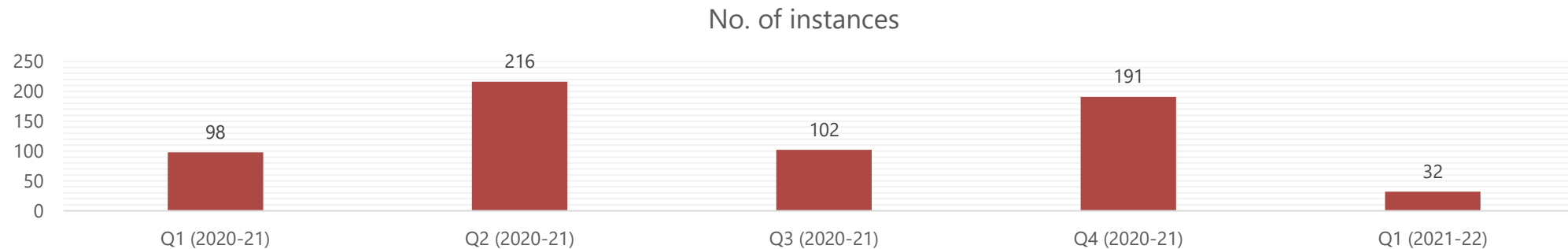
Ageing of delay in accounting of expense:

Ageing (in days)	No. of instances	Amount (Rs. in lakhs)
31 to 59	16	13.90
62 to 73	7	8.38
113 to 252	9	7.47
<b>Total</b>	<b>32</b>	<b>29.75</b>

Department-wise no. of instances:



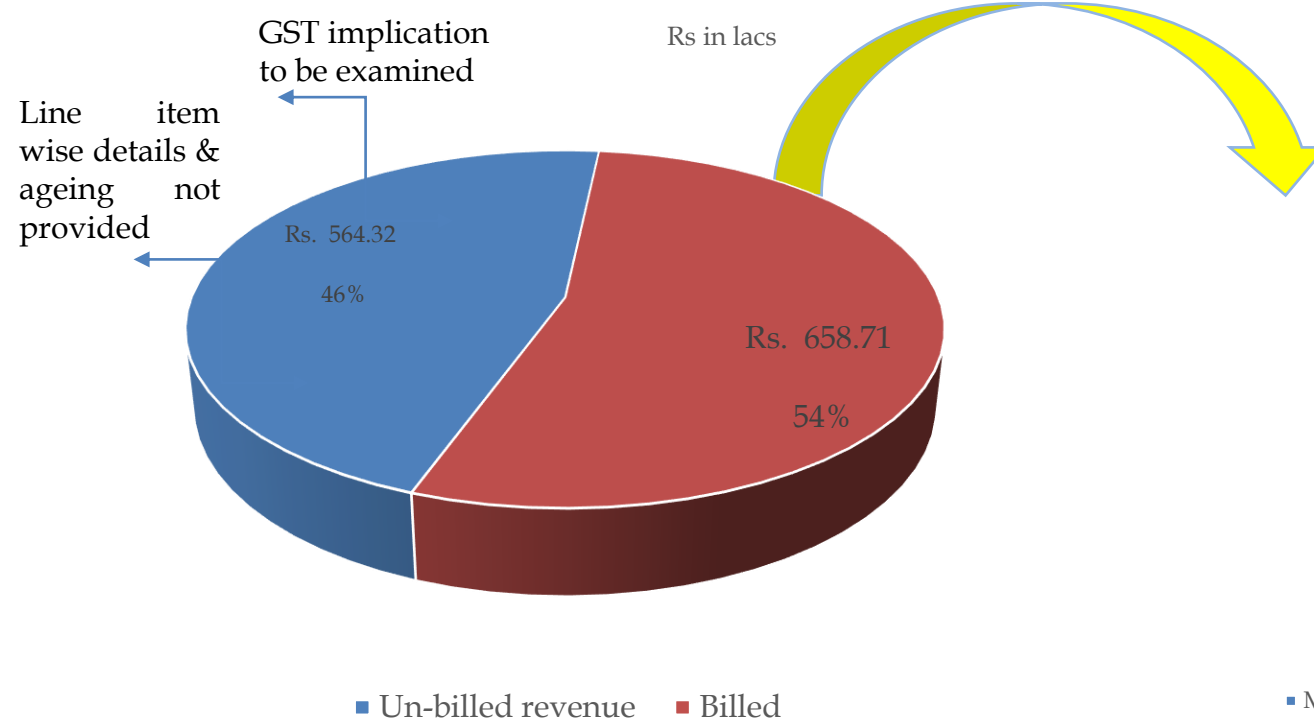
Analysis of instances observed in last 5 quarters:



# Example 3 : Revenue analysis

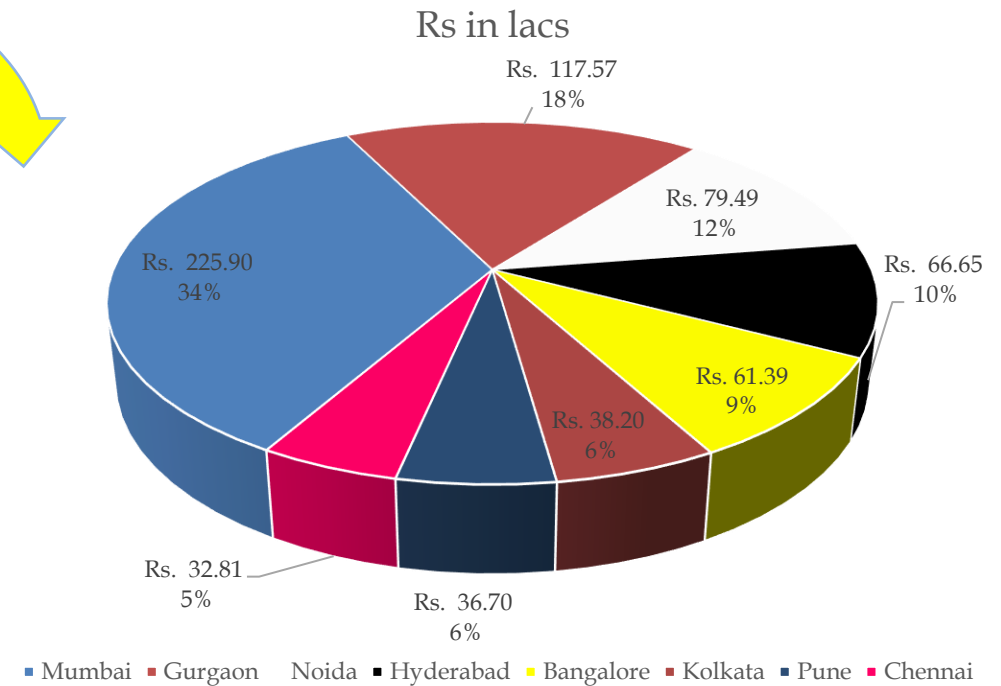
## Billed vs unbilled analysis

- Billed and unbilled analysis for the Apr-17 to July-17 is presented as under:



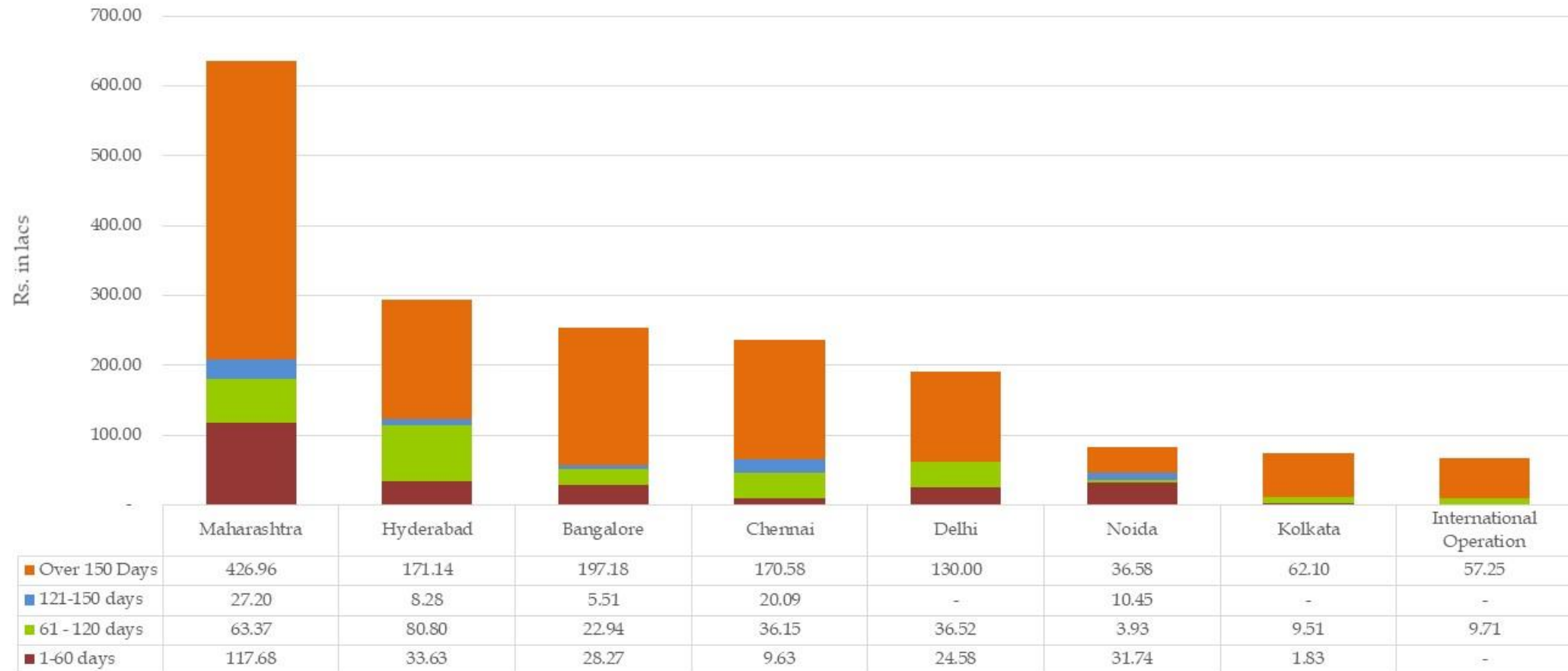
## Location wise sales analysis

- Location wise analysis for billed revenue for Apr-17 to Jul-17 is presented as under [Also refer slide no.16]:



Data source: Unbilled amount taken from Tally and billed amount taken from invoice report generated from CRM software for Apr-17 to Jul-17.

# Example 4 : Location wise customers overdue ageing



## Example 5 : Photos taken during visit to store



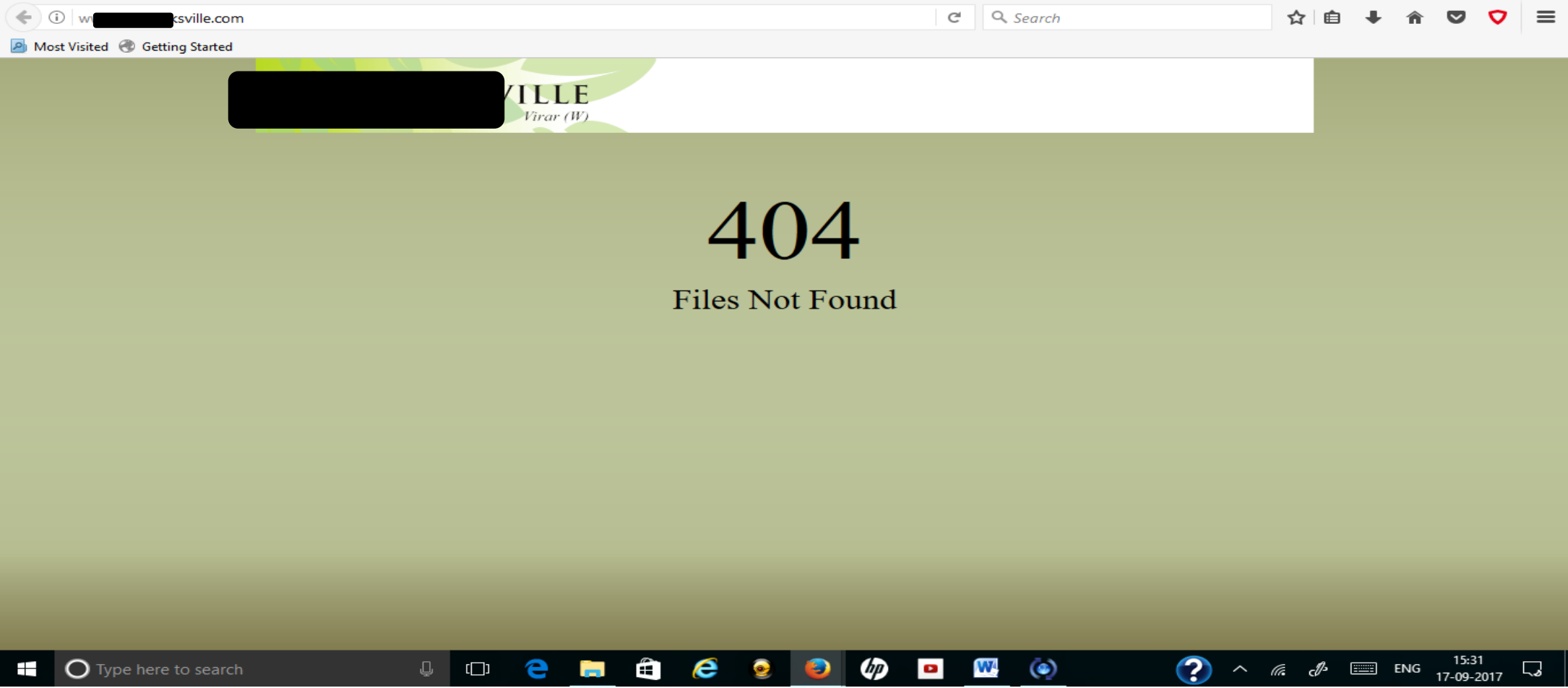
1. Items stocked in a haphazard manner



2. Box of materials are kept open after the seal is broken



# Example 6 : Audit evidence – Company’s website was not working

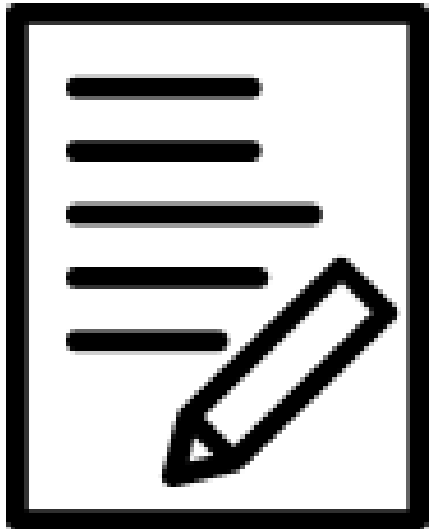


## Example 7 : Template for tracking prior period points

Report issue date	Audit period	Area	Observation	Recommendation	Target date of implementation	Responsible person	Status as on current date
XX-Jul-20	FY 19-20	Sales	XX	XX	30-Sep-20	AGM, Sales	Not implemented
XX-Jul-20	FY 19-20	Sales	XX	XX	31-Oct-20	Manager, Sales	Implemented
XX-Aug-20	FY 19-20	Purchases	XX	XX	31-Oct-20	Procurement manager	In progress

# **Key takeaways**

# Key takeaways



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Analytical procedure enables effective audit sampling

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Software should be used to automate audit process i.e. sample selection, analytical procedure, etc.

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Source of collection of audit evidence should be legitimate

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Documentation of audit process followed to enable effective review process and compliance with SIAs



IF  
YOU  
DON'T

*document* IT,  
IT DOESN'T EXIST.

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# Thank You

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