

# Standards on Internal Audit (SIA)

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Natarajan.S  
August 28,2016

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# Standards –Meaning and introduction

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- a level of quality or attainment
- something used as a measure, norm, or model in comparative evaluations.
- Standards are essentially aggregation of practices –'practices precede standards' unlike product standards
- Voluntary norms established by consultation and consensus
- SIA of ICAI are not mandatory as on date
- To enable focussed discussion on implementation aspects of SIA, standards 1,4 and 9 are presented in detail.

# Planning an Internal Audit

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## Audit Plan – Illustration-overall Annual Plan

Sr no	Process / Audit Area	SBU 1	SBU 2	SBU 3	SBU 4
1	Procurement and Vendor related	X	X	X	
2	Treasury and Accounts	X		X	X
3	Expenses audits	X	X		X
4	Service Income				X
5	Receivables		X	X	
6	Compliance (licencing, tax, Regulatory, etc)	X	X	X	X
7	IT – Application/ Interface controls	X	X	X	X

## Audit Plan –Illustration– Plan Mapped Against Key Risks

Sr No	Audit title	Key Risks Covered	Scheduling			
			Q1	Q2	Q3	Q4
1	Review of procurement,	<p>Availability of right Quality Materials may be constrained</p> <p>Price negotiations are not facilitated because major sourcing is from unorganised</p> <p>Lead time monitoring may not be adequate</p> <p>Inventory management</p>		X		X
2	Review of distribution channels – sales	<p>Terms of trade not consistent</p> <p>Monitoring of channel costs are thru manual /offline records</p>		X	X	

## Audit Plan – Illustration – Plan Mapped Against Processes

Sr No	Function	Process	Scheduling			
			Q1	Q2	Q3	Q4
1	Procurement,	Vendor Selection Price fixation Replenishment and Ordering		X		X
2	Review of distribution channels - sales	Appointment of channel partners Computation of Channel Costs Monitoring of Channel performance		X	X	

# Planning an Internal Audit

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## Audit Plan – Illustration - Audit Universe and Annual Plan by Format

Function / Geography	SBU 1	SBU 2	SBU 3	Common Functions
Production Sites	2	3	1	
Warehouses	1	4	2	
Branches	4	4	4	
Head Office Functions	2	3	2	
Common Functions-				
Finance - Treasury, Accounts , Payroll, Contracting				7
HR – Recruitment , Training , Attendance , Compliances				5
Total	9	14	9	12
Audit Coverage	3	7	5	6

# Planning an Internal Audit

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## Audit Plan- Illustration - Risk Coverage strategy

Sr No.	Risk Category	Function /Process	Coverage
			Current year
1	High Risk  ( All processes to be covered annually)	Procurement	Quarterly
		Treasury	Half yearly
		IT applications	Annual
2	Medium Risk  ( All processes to be covered once in 2years)	Accounts – Payroll	Annual
		Statutory Compliances	Annual
		Security and Admin	Not Planned

# Planning an Internal Audit

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## Discussion Points

- Audit plan in start-up phase
- Periodic review and Plan Changes
- Resource allocation and costs
- The standard also details on Scope of engagement , constraints leading to change in scope

# SIA 4 - Reporting

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# SIA 4-Reporting

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Due professional care to ensure that the internal audit report is:

- **C**lear
- **F**actual – *present all significant matters with disclosure of material facts*
- **S**pecific
- **C**oncise
- **U**nambiguous
- **T**imely

# SIA 4- Reporting

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## Discussion Points

- Mode of distribution
- Auditee particulars
- Name of Audit teams
- Date and Signature
- Location of report issuance
- Timelines for the Audit
- Period-wise /Audit-wise report
- Surprise check Reports
- Title of Report

# SIA 4 - Reporting

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# SIA 4- Reporting

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## Discussion Points

- Rating of points
- Rating of Report
- Executive Summary points
- Disagreements
- Positive Comments
- Assurance for each area in scope

# SIA 4 Reporting

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## Executive Summary- Certain guidelines

- Highlight disagreements on action points
- Record absence of or incomplete responses
- Highlight repetitive observations
- Underline value/business impact for each point
- Narrate briefly-two or three sentences
- Do not clutter with data

## Reporting – Illustration – Executive Summary by Format

Process	Assurance	Exceptions
Shop floor inventory	X	
Warehouses		X
Stock at branches		X
Stock in transit	X	

# SIA 4 - Reporting

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# SIA 9 – Communication with Management

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# SIA 9- Communication with Management

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## Discussion Points

- Audit Announcement-contents
- Commencement Meeting
- Onsite audits-intimation
- Info Required for Audit-Reminders
- Quarterly Meeting on audit plans and scope

# SIA 9 – Communication with Management

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# SIA 9- Communication with Management

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## Discussion Points

- Escalation/confirmation of findings
- Escalation to Senior Management
- Action plan confirmation
- Surprise Check Reports
- Mail protocols- for escalation, draft , final reports
- Closure of critical exceptions



# SIA 9 – Communication with Management

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# SIA 9- Communication with Management

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## Discussion Points

- Contact points –for audit matters
- Mail Protocol- In-house team/co-sourced teams
- Sharing of Sensitive data
- Communication to be aligned to ‘audit climate’
- Audit teams to be adequately trained on communication etiquettes.
- Communication to be integrated part of Audit Process

# SIA –Overview

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## Planning Phase

### SIA 1 – Planning an Internal Audit

A documented audit plan should be in place which has a 'buy-in' from the client/management/operations team. This will help to conduct the audit in an efficient and timely manner.

### SIA 7 – Quality Assurance

A system for assuring quality in internal audit 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.

### SIA-8- terms of engagement

The internal auditor and the auditee should agree on the terms of the engagement before commencement.

# SIA-Overview..Planning Phase

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## SIA 12 – Internal Control Evaluation

The Internal auditor should examine the continued effectiveness of the internal control system through evaluation and make recommendations, if any, for improving that effectiveness

## SIA 15 – Knowledge of Entity

The internal auditor should obtain knowledge of the entity's business and its operating environment, including its regulatory environment and the industry in which it operates, sufficient to enable him to review the key risks and entity-wide processes, systems, procedures and controls.

## SIA 18 – Related Parties

Provides guidance on the procedures to be followed by the internal auditor in ensuring that related party activities of the entity are properly captured through internal controls; and that related party activities are consistent with the entity's code of conduct and conflict of interest policy, applicable laws and regulations and disclosure requirements.

# SIA -Overview

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## Execution Phase

### SIA 2 - Principles Governing Internal Audit

The internal auditor should be straightforward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity.

### SIA 3 - Documentation

The internal auditor should document matters, which are important in providing evidence that the audit was carried out in accordance with the Standards on Internal Audit and support his findings or the report submitted by him

### SIA 5 – Sampling

Auditor should design and select an audit sample, perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate audit evidence to meet the objectives of the internal audit engagement unless otherwise specified by the client.

# SIA Overview-Execution Phase...

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## SIA 6- Analytical Procedures

The internal auditor should apply analytical procedures as the risk assessment procedures at the planning and overall review stages of the internal audit.

## SIA 9- Communicating with Management

Importance of two-way communication between Internal Auditor and management - communicate audit plan, obtain required information , timely escalation of findings , discussion of reports

## SIA 10 – Audit Evidence

Internal audit evidence is used by the internal auditor to support the facts and opinion contained in his report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the internal audit.

## SIA 11 – Consideration of fraud in Internal Audit

An internal auditor should use his knowledge and skills to reasonably enable him to identify indicators of frauds

# SIA Overview-Execution phase

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## SIA-13 – Enterprise Risk Management

The Standard provides guidelines for conducting audit of Enterprise Risk Management

## SIA 16- Using the work of an Expert

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.

## SIA 17- Consideration of Laws and Regulations

The Internal Auditor should consider all applicable laws

# SIA –Overview

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## Report Phase

### SIA 4 - Reporting

The internal auditor should review and assess the analysis drawn from the internal audit evidence obtained as the basis for his conclusion on the efficiency and effectiveness of systems and processes.



# SIA Overview

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## SIA 14 – Internal Audit in an IT environment

The purpose of this Standard on Internal Audit (SIA) is to establish standards on procedures to be followed when an internal audit is conducted in an information technology (IT) environment

# Conclusions..

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- Standards on Internal Audit ( SIA) are recommendatory in nature ( unlike accounting standards)
- Less rigour in language
- Internal Audit function is largely driven by entity specific needs and requirements
- The function itself is identified by different names – Management Assurance, Management Services, Management Audit, Corporate Control etc.
- The audit personnel need not be members of ICAI
- So the implementation/application of SIA has to be viewed in this context. As a general rule , audit practices converge to the standards.

Thank You

