

Standards on Internal Audit – An Introduction

Introduction

- ICAI has issued Accounting Standards and Standards on Auditing for performance of Statutory Audit and finalization of books of Accounts. Apart from those there is a set of standards which solely deals with internal audit. These set of standards are known as “Standard on Internal Audit”
- In general terms, Standard on Internal Audit (SIA) are a set of systematic guidelines used by internal auditors to ensure the accuracy and consistency of their actions and reports;
- Like any other standard, they provide the guidance in determining the nature, timing and extent of audit procedures that should be applied to fulfill the objective of Internal Audit;
- They are the criteria or yardsticks against which the quality of the Internal Audit results are evaluated.
- The Standards on Internal Audit are issued by Institute of Chartered Accountants of India (ICAI). Apart from standards, ICAI has also issued the Guidance Notes.

Compliance with the Standards and Guidance Notes on Internal Audit

- The SIA(s) will be mandatory from the respective date(s) mentioned in the respective SIA(s);
- The Guidance Notes on Internal Audit are recommendatory in nature;
- As the Internal Auditor can be personnel other than Chartered Accountant, in such cases, where internal audit is performed by personnel of any other profession, the standards issued by ICAI will not be binding on those professionals;
- If any Standard or Guidance Note on Internal Audit is in variance/conflicts with any circular/notification/any such direction issued by any regulatory authority, the latter shall prevail;
- Whenever any specific Standard on Internal Audit is issued by the ICAI for which any Guidance Note is already in existence, then the date on which the Standard comes into effect, the Guidance Note shall stand withdrawn;
- As of today, the standards are only recommendatory and none of the standards are notified.

Framework governing the SIA'S

- The overall objective of the Framework for Standards on Internal Audit is to promote professionalism in the internal audit activity;
- The internal audit activity may be performed either by an entity's employees or by some external agency;
- The Framework for Standards on Internal Audit applies to all the Chartered Accountants performing internal audit activity, irrespective of whether the function is performed either by in-house personnel or by an external agency;
- The Framework for Standards on Internal Audit would cover all the aspects of an internal audit activity, including, planning, gathering evidence, documentation, using the work of other experts, evaluating controls and risk management systems and reporting.

Components of the Framework

- **The Code of Conduct**
 - The Code of Conduct establishes the essential principles of conduct and prescribes ethical behavior for the professionals in internal audit activity. Every professional must make a commitment to ethical conduct, including integrity, confidentiality, etc.
- **The Competence Framework**
 - The Competence Framework addresses the key characteristics that are required by the persons performing internal audit. This includes aspects, such as, objectivity, technical competence, interpersonal skills, operational efficiency and due professional care. The competence framework is a minimum expectation from the perspective of an internal auditor.
- **The Body of Standards**
 - The Body of Standards ensures commitment in providing quality services and details the expectations required by the individuals engaged in internal audit in discharging their responsibilities.
 - The Standards will specify the basic principles and processes such as:
 - ❖ Defining the scope

- ❖ Planning; and
- ❖ Communicating.

- **The Technical Guidance**

- These Technical Guides would, therefore, provide guidance to internal auditors in resolving professional issues arising during the course of an internal audit while discharging their duties as internal auditors.

Basic Principals of an Internal Audit

For an internal audit function to be considered effective, the basic Principles should be achieved. Failure to achieve any of the Principles would imply that an internal audit activity was not as effective. The basic principles governing internal Audit are

- Demonstrate uncompromised integrity and independence;
- Display due professional care while performing Audit;
- Demonstrate commitment to competence;
- Maintain Confidentiality;
- Assessment of Risk element and having adequate resources to address it;
- Focusing on Systems and process i.e., Root Cause Analysis;
- Participating in decision making, other than those subject to subsequent audit;
- Adopting procedures to continuously improve the quality of internal audit process and audit reports;
- Align strategically with the aims and goals of the enterprise;
- Achieve efficiency and effectiveness in delivery;
- Communicate effectively;
- Provide reliable assurance to Those Charged with Governance (TCWG);
- Be insightful, proactive, and future-focused.

SIA's Issued by ICAI

SIA no.	Name of SIA
210	Managing the internal Audit function
220	Conducting overall internal Audit planning
310	Planning the internal Audit Assignment
320	Internal Audit evidence
330	Internal Audit Documentation
4	Reporting
5	Sampling
6	Analytical Procedures
7	Quality Assurance in Internal Audit
8	Terms of Internal Audit Engagement
9	Communication with Management
11	Consideration of Fraud in an Internal Audit
12	Internal Control Evaluation
13	Enterprise Risk Management
14	Internal Audit in an Information Technology Environment
16	Using the work of an Expert
17	Consideration of Laws and Regulations in an Internal Audit
18	Related Party