

Module - I Introduction and Overview of Internal Audit

- 1.1 *Evolution and History of Internal Auditing.*
- 1.2 *Definition, Objectives, and Scope of Internal Auditing.*
- 1.3 *Types of Internal Audit.*
- 1.4 *Assurance & Consulting Services in Internal Audit.*
- 1.5 *Basic Principles of Internal Audit.*
- 1.6 *Overview of Internal Auditing Standards.*
- 1.7 *Laws and Regulations on Internal Audit.*
- 1.8 *Internal Audit Charter-Meaning, Purpose, and Components.*
- 1.9 *Internal Audit of Cost Records.*
- 1.10 *Role of Internal Auditor as a Management Member.*
- 1.11 *Role of Cost Accountant as an Internal Auditor.*
- 1.12 *Guidance Notes on Internal Audit.*

Module - II Planning and Executing Internal Audit

- 2.1 *Internal Audit Planning.*
- 2.2 *Internal Audit Programme.*
- 2.3 *Managing Internal Audit Engagements.*
- 2.4 *Internal Audit Methodology.*
- 2.5 *Use of Sampling Techniques.*
- 2.6 *Internal Audit Questionnaires & Checklists.*
- 2.7 *Internal Audit Evidence.*
- 2.8 *Audit Conclusion and Corrective Measures.*
- 2.9 *Format of Internal Audit Report – Contents & Presentation.*
- 2.10 *Communicating to Audit Committee/ Board.*
- 2.11 *Monitoring Engagement Progress & Outcomes.*
- 2.12 *Documentation & Working Papers.*
- 2.13 *Case Studies.*

Module - III Internal Audit Skills & Techniques

- 3.1** *Knowledge of Business & Industry.*
- 3.2** *Operations and Process Understanding.*
- 3.3** *Process Mapping including Flowcharting.*
- 3.4** *Proficiency & Due Professional Care.*
- 3.5** *Data Mining & Analysis.*
- 3.6** *Use of Technical Experts.*
- 3.7** *Use of Technology in Internal Audit.*
- 3.8** *Interpersonal and Communication Skills.*

Module - IV Internal Audit of Specific Functions

- 4.1 *Internal Controls.*
- 4.2 *Enterprise Risk Management.*
- 4.3 *Risk-Based Internal Audit.*
- 4.4 *Corporate & Administration.*
- 4.5 *Production & Operations.*
- 4.6 *Purchase & Inventory Management.*
- 4.7 *Sales, Marketing, Storage, and Distribution.*
- 4.8 *Related Party/ Cross Border Transactions.*
- 4.9 *Finance, Accounts & Treasury.*
- 4.10 *Cost Records, Cost Reporting & Management.*
- 4.11 *HRD and Personnel Department.*
- 4.12 *IT & Cyber Security.*
- 4.13 *Audit of Industry-Specific Transactions.*
- 4.14 *Case Studies.*

DAY 1 : AGENDA

Setting the Tone for aspiring IA Professionals - clippings from
Hindi film 'Sholay'

1.1 Evolution and History of Internal Auditing

1.2 Definition, Objectives and Scope of Internal Audit

1.9 IA Charter- Meaning , Purpose & Components - Sample
Charter

1.1 1Role of Cost Accountants as an Internal Auditor

2.1 Internal Audit Planning

2.2 Internal Audit Programme

2.9 Format of Internal Audit Report Contents and Presentation

Auditors see things differently. They dig for the best. And you don't mind them digging and digging, they will make notes, they will analyse , they will hear you out, they will hear you out.

Internal Audit , Internal Check and Internal Controls :

Internal Check can be defined as ‘ allocation of staff duties in such a way that job done by one ,will automatically checked by the other person/s preferably occupying the higher position in the Organizational hierarchy(Organization chart)’.

Internal Control is defined as the **mechanisms, rules, and procedures** (1)implemented by a company to ensure the integrity of **financial and accounting information, promote accountability, and prevent fraud**(2).

Besides complying with laws and regulations and preventing employees from misuse of assets or committing fraud, internal controls can help improve operational efficiency by improving the accuracy and timeliness of **financial reporting**(3).

1. Developing of SOP (Standard Operating Process) , Guidance Notes, Process Notes
2. Maintenance (Better through SAP/ERP) of MIS , Verification of Assets , developing control environment
3. IFC (Internal Financial Control)

Case Study : Sales and Cash Receipts Procedures of GSW

All sales to customers are net/30, FOB shipping point. GSW's sales and cash receipts procedures.

Sales Department

The sales department receives customer orders by hard copy mail or fax. Upon receipt of the order, a member of the sales staff accesses the customer record and reviews the available credit before creating a Sales Invoice record. For customers with insufficient available credit, the clerk refers the order to Sally Kwan, the credit manager, for approval. If granted, then Sally verbally authorizes the clerk to increase the customer's line of credit. For approved sales, the clerk creates a record in the Sales Invoice file via his terminal in the department. The system automatically assigns an Invoice Number, which is the primary key for the record, however, it does not facilitate automated data entry. The clerk must therefore manually enter the transaction details into the Sales Order record including Product Number, Sales Price, Quantity, Amount Due, and Sales Date.

Warehouse

Triggered by the sales invoice the system automatically prints a stock release document on the warehouse terminal, which a member of the warehouse staff uses for picking the goods. The clerk then sends the goods, along with the stock release document, to the Shipping Department. Once the goods leave the warehouse, the warehouse clerk adjusts the Quantity on Hand field of the respective record in the inventory file to reflect the units sold.

Case Study : Contd.

Shipping Department

The shipping department clerk receives the stock release and the inventory, prepares them for shipment, selects a carrier and prints the packing slip and bill of lading (BOL). The clerk then adds a record of the shipment to the Shipping Log file and physically hands over the goods to the carrier. Assuming no unusual circumstances, sales orders received by 2 PM are shipped the same day. Items received by shipping after 2 PM are shipped the following day.

Billing

At the end of the day, the system automatically searches the Sales Invoice file for records added to the file that day and prints hard copy customer invoices and remittance advices, which a clerk mails to the customers. The system automatically calculates due dates based on net/30 terms of trade and places them in the Due Date fields of the respective Sales Invoice records.

Cash

Receipts Maria Perez, the cash receipts clerk, receives the customer checks and remittance advises directly from the customer. She begins by creating a record in the Cash Receipts file to which the system automatically assigns a Remittance Number as the primary key. Then, using the invoice number (taken from the hard copy remittance advice) as a search key she locates the appropriate invoice in the Sales Invoice file and manually adds the remittance Number to a field in the record.

Case Study :Contd.

customer number, amount, and payment date to the Cash Receipts record. At the end of the day, she prepares a deposit slip and sends the checks to the bank. She files the remittance advices in her office. The Sales Invoice file serves to calculate both total sales for the period and accounts receivable. The total of the Amount Due field for all items that have been shipped by the end of the period constitutes total sales. Invoiced items shipped, but not paid (still open) by period end are accounts receivable.

Case Study :Answers (Internal Control Weakness)

- a. **Internal Control Weakness:** There is a lack of transaction authorization here. Credit approval of customers is provided verbally and informally. Under the current procedures, a sales clerk could extend credit without management approval.
- b. **Unmitigated risk:** Sales may be made to non-creditworthy customers, which results in excessive bad debts.
- c. **Possible account misstatements:**
 - . AR is overstated.
 - . Allowance for Bad Debts is understated.
 - . Bad Debt Understated.
 - . Revenue is overstated.

Lack of Computer /ERP Controls over Creation of Sales Invoice

- a. **Internal Control Weakness:** Due to inadequate system functionality and computer controls ,sales clerks are required to manually enter sales transaction details including sales prices, quantities, and calculate the amounts due.
- b. **Unmitigated Risk:** This environment lends itself to clerical errors in the creation of sales invoice records.

Case Study : Answers (Internal Control Weakness)

- a. **Possible account misstatements:**
 - . Sales is incorrectly recorded
 - . AR is incorrect recorded.
 - . Bad Debt Expense incorrect.

Potential Errors in Recognizing Sales

- a. **Internal Control Weakness:** The system prepares hard copy sales invoices based only the existence of a record in the Sales Invoice file without verification that the ordered products were actually shipped.
- b. **Unmitigated Risk:** Recognizing sales before they are shipped (realized) is contrary to accounting theory and may result in the following end of period errors.
- c. **Possible account misstatements:**
 - . Sales are overstated.
 - . AR is overstated.
 - . Allowance for Bad Debts is understated.
 - . Bad Debt Expense is understated.

Case Study : Answers (Internal Control Weakness)

Warehouse Asset Custody

- a. **Internal Control Weakness:** Segregation of duties are lacking here. The warehouse staff have custody of inventory and record keeping responsibility for updating the inventory subsidiary ledger.
- b. **Unmitigated Risk:** Because the warehouse clerks have access to the accounting records they may conceal inventory losses and thefts.
- c. **Possible account misstatements:**
 - . Inventory understated.
 - . Cost of Goods Sold (COGS) overstated.

Custody of Cash Assets

- a. **Internal Control Weakness:** There needs to be better segregation of duties here. The cash receipts clerk has custody of cash and record keeping responsibility for posting payments to open invoices.
- b. **Unmitigated Risk:** The current transaction processing procedures increase the risk of errors such as posting incorrect amounts or posting of wrong invoices. The risk of frauds such as skimming or lapping also exist.
- c. **Possible account misstatements:**
 - . Cash Receipts understated.

Case Study : Answers (Internal Control Weakness)

Lack of Computer /ERP Controls over Recording Cash Receipts

- a. **Internal Control Weakness:** Due to inadequate system functionality and computer controls the cash receipts clerk is required to manually enter cash receipts transaction details including Remittance Num, Customer Num, Amount, Payment Date to the Cash Receipts record.
- b. **Unmitigated Risk:** This environment lends itself to clerical errors in the creation of cash receipts records.
- c. **Possible account misstatements:**
 - . **Discrepancies between customer amounts owed in Sales Invoice records and remittance amounts recorded in corresponding Cash Receipts records.**

Case Study : Purchasing and Payment Procedures

All purchases from suppliers are FOB destination.

Warehouse

Each morning James Smith reviews an automatically generated inventory status report from his office terminal. He determines the items that need replenishing and selects suppliers from the Vendor file, which he maintains. Smith then adds a record to the purchase order file. The system assigns each new record a unique number (PO Number) as the primary key. Smith manually enters the date, the product to be ordered, order quantity, expected unit cost (the extended cost is automatically calculated by the system), and the ID (Ven-Num) of the selected vendor. Smith then prints the purchase orders from his terminal, signs them, and has his secretary mail them to the respective suppliers

Receiving

The WH receives supplier orders directly where Smith, or one of the warehouse employees, counts and inspects the items and reconciles the order with the attached packing slip. The receiving clerk then adds a record to the Receiving Report file from the warehouse terminal. The system assigns a unique key (RR Num) to each record. The clerk manually enters the PO No., prod. No., qty. received, vendor ID no., and the date of receipt. The clerk then files the packing slip in the warehouse. Finally, the clerk updates the quantity on hand filed in the inventory subsidiary ledger to record the receipt of the goods.

Case Study : Purchasing and Payment Procedures

Accounts

Payable James Jefferson, the Accounts Payable clerk receives the vendor's hard copy invoice and, using the PO number from the invoice as a search key, he matches the invoice with the corresponding purchase order. James then creates a record in the Voucher Payable file. The system assigns a unique key (Voucher Number) to each record. The clerk enters manually the following data directly from the supplier's invoice: purchase order number, vendor number, supplier invoice number, full amount due, discounted amount due, and due date. Finally, Jefferson files the hard copy vendor invoice in the office filing cabinet.

Cash Disbursements

Each day, Greg Orlando in the Cash Disbursements department reviews the Voucher Payable file for items due for payment that day. For each item due, he adds a record to the Cheque Register file. The system assigns it a unique key (Cheque Num) and Greg manually adds the following data to the Cheque Register record: voucher number, vendor number, amount of payment, and date. The system automatically places the check number in the appropriate Voucher Payable record to close the voucher and mark it paid. The checks are printed in Greg's office and then sent to the vendor. Data in the Voucher Payable file is the basis for calculating both total purchases for the period and accounts payable. The total of the Full Amount field constitutes total purchases for the period. Items in the file that are unpaid (still open) at period end are accounts payable.

Case Study : Answers (Internal Control Weakness)

1) No Purchase Requisition

- a) **Internal Control Weakness:** There is a lack of transaction authorization regarding James Smith. He is responsible to authorize and execute transactions. He determines the items that need replenishing and selects suppliers from the Vendor file, which he maintains.
- b) **Unmitigated risks.**
 - . May order items that are not needed.
 - . Ordering from non-approved vendors at higher than market prices.
 - . Opportunity for fraud such as kickbacks and pass through fraud.
- a) **Possible account misstatements:**
 - . Inventory overvalued.
 - . Purchases excessive.

1) No blind copy of the Purchase Order

- a) **Internal control Weaknesses:** Here, GSW lacks segregation of duties. There is no formal receiving function to count and inspect inventory receipts. Also, no blind copy of the PO is created to control receiving process.
- b) **Unmitigated risk:** Because the clerk used the packing slip instead of a blind copy he may avoid actually

Case Study : Answers (Internal Control Weakness)

May receive items not ordered or incorrect quantities.

- . May receive and accept damaged goods.**

a) **Possible Account misstatements:**

- . Inventory overvalued.**

Inventory Custody

a) **Internal Control Weakness: The Warehouse staff have inventory custody and record keeping responsibility (previously discussed in revenue cycle).**

b) **Unmitigated Risk: Because the warehouse clerks have access to the accounting records they may conceal inventory losses and thefts.**

c) **Possible account misstatements:**

- . Inventory understated.**

- . Cost of Goods sold overstated.**

Three-way match

a) **Internal Control Weaknesses: There is no independent verification. The accounts payable clerk does not perform a three-way-match, which reconciles the vendor invoice against the purchase order and the receiving report. This verifies that the company is only responsible for goods that were ordered and received.**

Case Study : Answers (Internal Control Weakness)

- a) **Unmitigated Risk:** Because the clerk does not reconcile the invoice with the receiving report (only the PO), GSW may pay for items not received or for damaged goods.
- b) **Possible account misstatements:**
 - . **Accounts payable misstated.**
 - . **Cash disbursement errors.**

STANDARD ON INTERNAL AUDIT

SIA Issued by ICMAI:

Category-I: Standards on General Principles of Internal Audit

IAAS-1: Objectives , Authority and Charter

IAAS-2: Internal Audit Engagement

IAAS- 3: Independence, Integrity and Objectivity

IAAS- 4: Proficiency and due professional care

IAAS- 5: Using the work of an expert

IAAS- 6: Quality assurance and continuous improvement

IAAS-7:Communication and confidentiality

IAAS-8: Risk Based Internal Audit

IAAS- 9: Technology driven Internal Audit

IAAS- 10: Enhancing Governance through Internal Audit

IAAS- 11: Internal Audit of Cost Records

Category-II: Standards on Principles related to Internal Audit Process

IAAS-21: Internal Audit Planning

IAAS-22:Internal Audit Sampling

IAAS-23:Analysis and Evaluation

IAAS-24: Internal Audit Evidence

IAAS-25: Internal Audit Documentation

IAAS-26: Disclosure and Reporting

IAAS- 27: Monitoring Progress

Standards on Internal Audit : ICAI VS. ICMAI

ICAI SIA Ref.	SIA Description	ICMAI SIA Ref.	SIA Description
230	Objective of Internal Audit	IAAS-1	Objectives, Authority and Charter
220	Conducting Overall Internal Audit Planning	IAAS-2	Internal Audit Engagement
310	Planning the Internal Audit Assignment	IAAS-3	Independence, Integrity and Objectivity
210	Managing the Internal Audit Function	IAAS-4	Proficiency and Due Professional Care
330	Internal Audit Documentation	IAAS-5	Using the work of an Expert
5	Sampling	IAAS-6	Quality Assurance and Continuous Improvement
6	Analytical Procedures	IAAS-7	Communication and Confidentiality
320	Internal Audit Evidence	IAAS-8	Risk Based Internal Audit
7	Quality Assurance in Internal Audit	IAAS-9	Technology Driven Internal Audit
360	Communication with Management	IAAS-10	Enhancing Governance Through Internal Audit
11	Consideration of Fraud in Internal Audit	IAAS-11	Internal Audit of Cost Records
12	Internal Control Evaluation	IAAS-21	Internal Audit Planning
13	Enterprise Risk Management	IAAS-22	Internal Audit Sampling
14	Internal Audit in Information Technology Environment	IAAS-23	Analysis and Evaluation
240	Using work of an expert	IAAS-24	IAAS-24: Internal Audit Evidence
17	Considerations of Laws and Regulations in Internal Audit	IAAS-25	IAAS-25: Internal Audit Documentation
18	Related Parties	IAAS-26	IAAS-26: Disclosure and Reporting
370	Reporting Results	IAAS-27	IAAS-27: Monitoring Progress
110	Nature of Assurance		

SIA : Only in ICMAI Guideline

Ref.	Description
IAAS 3	Dependence, Integrity and Objectivity
IAAS 4	Proficiency and due professional care
IAAS 10	Enhancing Governance through IA
IAAS 11	Internal Audit of Cost Records
IAAS 27	Monitoring Progress

SIA : Only in ICAI Guideline

Ref.	Description
210	Managing the IA Function
11	Consideration of Fraud in IA
13	Internal Control evaluation
17	Consideration of Laws & Regulations in IA
18	Related Parties
110	Nature of Assurance

ICMAI Guideline - IAAS 3 :Independence,Integrity & Objectivity

Requirements

- 1. The internal audit activity must be independent, and the Internal Auditor must be free from any undue influences which force him to deviate from the truth. This independence must be not only in mind, but also in act /appearance (**Reporting relationship- Board ? Or Others like CFO/MD/COO?**). The chief internal auditor may have administrative reporting to a different level within the entity.*
- 2. The Internal Auditors must be objective in performing their work. The internal auditor must resist any undue pressure or interference in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives i.e. the internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.*
- 3. The Internal Auditor must be honest, truthful and be a person of high integrity. Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. The integrity of the internal auditor establishes trust and thus provides the basis for reliance on their judgements.*

ICMAI Guideline - IAAS 3 :Independence,Integrity & Objectivity

Requirements

- 1. The internal audit activity must be independent, and the Internal Auditor must be free from any undue influences which force him to deviate from the truth. This independence must be not only in mind, but also in act /appearance (**Reporting relationship- Board ? Or Others like CFO/MD/COO?**). The chief internal auditor may have administrative reporting to a different level within the entity.*
- 2. The Internal Auditors must be objective in performing their work. The internal auditor must resist any undue pressure or interference in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives i.e. the internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.*
- 3. The Internal Auditor must be honest, truthful and be a person of high integrity. Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. The integrity of the internal auditor establishes trust and thus provides the basis for reliance on their judgements.*

ICMAI Guideline - IAAS 3 :Independence,Integrity & Objectivity (Contd.)

- 4. If independence or objectivity is impaired in fact or appearance, the Chief Internal Auditor must disclose such impairment to the Audit Committee/ Board.*
- 5. The internal auditors must refrain from performing such assurance engagements or providing such consulting services or assessing specific operations for which they were previously responsible.(e.g the senior employee of a Co. while at IT Dept. played a major role in ERP implementation. Subsequently promoted as Chief Internal Auditor. Management now asking for an assurance on flawless implementation of Company ERP and IT Controls)*
- 6. Assurance engagements for functions over which the chief internal auditor has responsibility must be overseen by a party outside the internal audit activity.*
- 7. Internal auditors may provide such assurance services where they had previously performed consulting services, provided the nature of the consulting did not impair objectivity and the services are performed by different engagement team (outsourced IA).*
- 8. Internal auditors may provide consulting services relating to operations for which they had previous responsibilities. If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, they must disclose to the client prior to accepting the engagement.*
- 9. Where the Chief Internal Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.*

ICMAI Guideline -IAAS 4 : Proficiency and due professional care

Requirements

- 1. Internal audit engagements must be performed with proficiency and with due professional care.*
- 2. The internal auditors must either have or acquire such skills and competence as are necessary for the purpose of discharging their responsibilities. The internal auditors may acquire required skills and competence through general education, or technical knowledge obtained through study and formal courses.*
- 3. The internal audit team collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.*
- 4. The chief internal auditor may 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.*
- 5. Although, normally, an internal auditor is not expected to possess skills and knowledge of a person expert in detecting and investigating frauds, he must, however, have reasonable knowledge of factors that might increase the risk of opportunities for frauds in an entity and exercise reasonable care and professional skepticism while carrying out internal audit. An internal auditor must, therefore, use his knowledge and skills to reasonably enable him to identify indicators of frauds.*

ICMAI Guideline -IAAS 4 : Proficiency and due professional care (contd.)

6. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. “Due Professional Care”, however, neither implies nor guarantees infallibility, nor does it require the internal auditor to go beyond the established scope of the engagement.

7. Internal auditors must exercise due professional care by considering the extent of work needed to achieve the engagement’s objectives; adequacy and effectiveness of governance, risk management, and control processes; and the cost of assurance in relation to its potential benefits.

8. In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analytic techniques.

9. The internal audit team must perform all activities to achieve its objectives as outlined in the internal audit charter or engagement letter. The Chief Internal Auditor must effectively manage the internal audit activity to ensure it achieves its objectives and adds value to the entity.

10. The internal auditors must decline the consulting engagement if they lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

ICMAI Guideline – IAAS 10: Enhancing Governance through IA

Requirements

1. *The internal audit activity must evaluate and contribute to the improvement of the entity's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.*
2. *The internal audit team must perform proactively and efficiently in improving the entity's performance and governance.*
3. *The internal audit activity must assess and make appropriate recommendations to improve the entity's governance processes for:*
 - *Making strategic and operational decisions;*
 - *Overseeing risk management and control;*
 - *Promoting appropriate ethics and values within the entity;*
 - *Ensuring effective performance management and accountability;*
 - *Communicating risk and control information to appropriate areas of the entity;**and*
 - *Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.*
1. *The internal audit activity must evaluate the design, implementation, and effectiveness of the entity's ethics-related objectives, programs, and activities.*
2. *The internal audit activity must assess whether the information technology governance of the entity supports the entity's strategies and objectives.*

ICMAI Guideline - IAAS 11: Internal Audit of Cost Records

Objective : a. To provide assurance to the Audit Committee and Board on the effectiveness of cost accounting system, cost flow process, control mechanism, and reporting framework.

b. The cost auditor to certify whether or not, based on his opinion, the company has adequate system of internal audit of cost records which to his opinion is commensurate to its nature and size of its business.

Requirements :

1. The scope, functions, and activities of internal audit as embedded in the internal audit charter approved by the Audit Committee/Board must include internal audit of cost accounting records of the entity, besides audit of financial records, operations, internal financial controls, legal & regulatory compliance, risk management, governance process, etc.

2. The internal audit must provide assurance to the Audit Committee and Board relating to reliability of financial management and reporting, efficiency of operations, internal control systems, processes and governance, effectiveness of cost accounting system, cost flow process, cost reporting framework, and compliance with various laws and regulations.

3. The internal auditor must use the product & service unit-wise, SKU-wise, business vertical-wise, and customer group-wise cost data to evaluate efficiency, productivity, & effectiveness of a plant, department, function, technology, process, product, activity, machine, material, customer, market, etc. with the objectives to review & design business strategy for enhanced value creation and sustainability.

4. The internal audit of the cost records must assure the management that the cost information, which is the basis of their evaluation of performance, risk management and control, is reliable and reported timely.

ICMAI Guideline - IAAS 27 : Monitoring Progress*

Requirements

- *establish and maintain a follow-up system to monitor the management actions on the disposition of results communicated to the management.*
- *The Chief Internal Auditor must monitor and ensure that the management actions have been effectively implemented **or the management has not accepted the results communicated to the management (not accepted ones should not form part of Action Plan. However, a situation may arise that post acceptance as actionable point, the Management decided not to pursue the same or supervening impossibility leading to non-implementation, then the same to be taken note of.)***
- *Responsibility of non-implementation and consequential risk has been accepted by the senior management.*
- **The Audit Committee/ Board and senior management to review ‘Action Taken Report (ATR) ’ for issues closed , issues pending and partially implemented with reasons for the delays in completion.**

*** Monitoring Progress of implementation status of Recommended Action Plan/s**

ICMAI Guideline - IAAS 27 : Monitoring Progress*

AB LIMITED									
IMPLEMENTATION STATUS TRACKING									
Dept : Audit and Assurance			Section :		Location: DELHI			Unit: All	
Doc. No. :		IMS/19/01/FOR/07			Page :__3__ of __3__				
Edition No.		Issue No:							
: 01		01		Effective Date : 01.04.2014			Amendment Code (for office use only) :		
PROGRESS REPORT ON IMPLEMENTATION OF SUGGESTIONS - INCOMPLETE									
(Status as reported by Auditee)									
7.Audit Observation : Transporters were allowed to work without requisite 'Security Deposit'.								Responsibility	
Month	% completion			<div><div>Approval from Core Committee for relaxation of Deposit.</div><div><div><div><div>% Comp.</div><div>100</div><div>75</div><div>50</div><div>25</div><div>0</div></div><div><div>Jun-19</div></div></div><div><div>Month</div></div></div></div>				Mr Yogesh	
Jun-19	50								
Jan-20	70								
Action Plan: Logistic Dept has agreed to obtain approval from "Core Committee" for relaxation of 'Security Deposit' from Transporters.									

IAAS 1: Objectives , Authority and Charter

Remark	Requirements
	The purpose, objectives, authority, and responsibility of the internal audit activity must be formally defined in a Charter of Internal Audit. It must also include the nature and scope of audit, assurance and consulting services included in the internal audit activity.
	The authority to define and approve the internal audit charter lies with the Audit Committee/ Board unless law prescribes otherwise.
	The mandatory nature of the core principles and requirements of internal auditing, must be recognized in the internal audit charter.
Post review of Charter , changes if any, to be presented to Audit Committee/Board for approval	The Chief Internal Auditor must periodically review the internal audit charter and present it to the Audit Committee/ Board for approval.
	The Chief Internal Auditor has the overall responsibility to ensure the achievement of the objectives of the internal audit function through a well-documented internal audit plan & process.
Deviations and reasons therefor need to be documented and discussed with Auditee. If the same requires escalation to higher level and if circumstances demand ,the Audit Committee/Board to be appraised.	The internal audit assignment plan shall be continuously monitored during the execution phase for achievement of the objectives and to identify deviations, if any.
	When professional judgment & circumstances justify non-conformance with these Standards, it must be disclosed to the Audit Committee/Board for approval, alongwith the impact and reasons of non-conformance or deviation.

IAAS 2: Internal Audit Engagement

Remarks	Requirements
Presumption made for "Internal IA", for outsourced teams the term should be Partner or Audit Leader. For internal Dept. the IA Plan to fulfil Management objectives and hence a discussion for suggestion and subsequent finalization process need to be in place. For outsourced team, management specifies the areas of concern and post joint discussion acceptance takes place.	The Chief Internal Auditor must agree to the terms of the internal audit engagement with management.
	The agreed terms of the internal audit engagement must be recorded in the internal audit engagement letter or other suitable form of written agreement and must include the objective and scope of internal audit; responsibilities of internal auditor; responsibilities of management; and applicable form and content of the reporting framework.
	If law or regulation prescribes in sufficient detail the terms of the internal audit engagement referred to above, the internal auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that the management acknowledges and understands its responsibilities.
	The nature, objectives and scope of internal audit engagement must be reviewed, if there is change in the circumstances and there is reasonable justification for doing so. If the terms of the internal audit engagement are changed, the chief internal auditor and management must agree and record the new terms of engagement in a supplementary engagement letter or other suitable form of written agreement.
	The scope of the engagement must include availability and access of chief internal auditor to the relevant systems, records, personnel, etc. and including those records under the control of third parties.

IAAS 2: Internal Audit Engagement (Contd.)

Remarks	Requirements
Under RBIA the detail risk assessment is first step to include /plan the area for review. Industry /Business and relevant knowledge of Process guides for fixation of engagement scope.	2.6 Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.
ICAI having a separate SIA (SIA 18) on Related Party transaction review. Related Party pricing and related cost having a major impact on financials of parties at both the end. However, IAAS -11 on "Audit of Cost Records" also silent on the related party aspect.	2.7 The internal audit engagement must include evaluation of nature, extent, purpose, pricing and value of all related party transactions and their compliance with the extant laws and regulations.
For Advisory and Consulting function also, the service provider or internal IA Dept. to convince the Management about the quality of guidance given and probable fallout on implementation.	2.8 The internal audit engagement document must clearly define the nature and extent of assurance services and consulting or advisory services. In case of assurance services, the chief internal auditor must agree to express an opinion in order to enhance the confidence of the assurance user about the outcome of internal audit.
This is typically from the perspective of outsourced audit function. Whatever be the mode of audit execution i.e in-house team or outsourced function; the sensitive areas to be discussed with Management and if required with Board/Audit Committee with a rider for scope limitation. Such scope limitation need to be documented as part of engagement	2.9 In performing consulting engagements, the chief internal auditor must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If chief internal auditor develops reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.
	2.10 The chief internal auditor shall not assume any management responsibility either while performing assurance role or providing consulting services
For outsourced teams, the quality and qualification of the audit execution team is mentioned in Engagement Letter. For in-house team a process of lien from other Department can be agreed upon between CIA and Management.	2.11 The chief internal auditor must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

IAAS- 3: Independence, Integrity and Objectivity	
	<p>1.1 The internal audit activity must be independent, and the Internal Auditor must be free from any undue influences which force him to deviate from the truth. This independence must be not only in mind, but also in appearance.</p>
	<p>1.2 The Internal Auditors must be objective in performing their work. The internal auditor must resist any undue pressure or interference in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives i.e. the internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The Chief Internal Auditor must disclose any such interference to the Audit Committee/ Board.</p>
	<p>1.3 The Chief Internal Auditor must report to the Audit Committee and the Board i.e. at a level within the entity that allows the internal auditor to fulfill its responsibilities. The chief internal auditor may have administrative reporting to a different level within the entity.</p>
	<p>1.4 The Internal Auditor must be honest, truthful and be a person of high integrity. Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. The integrity of the internal auditor establishes trust and thus provides the basis for reliance on their judgements.</p>
	<p>1.5 If independence or objectivity is impaired in fact or appearance, the Chief Internal Auditor must disclose such impairment to the Audit Committee/ Board.</p>

IAAS- 3: Independence, Integrity and Objectivity

Example Previous IT implementation Head now heading IA Asked to review IT implementation quality review	1.6 The internal auditors must refrain from performing such assurance engagements or providing such consulting services or assessing specific operations for which they were previously responsible.
	1.7 Assurance engagements for functions over which the chief internal auditor has responsibility must be overseen by a party outside the internal audit activity.
	1.8 Internal auditors may provide such assurance services where they had previously performed consulting services, provided the nature of the consulting did not impair objectivity and the services are performed by different engagement team.
	1.9 Internal auditors may provide consulting services relating to operations for which they had previous responsibilities. If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, they must disclose to the client prior to accepting the engagement.
	1.10 Where the Chief Internal Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

IAAS- 4: Proficiency and due professional care

	1.1 Internal audit engagements must be performed with proficiency and due professional care.
	1.2 The internal auditors must either have or obtain such skills and competence as are necessary for the purpose of discharging their responsibilities. The internal auditors may acquire required skills and competence through general education, or technical knowledge obtained through study and formal courses.
	1.3 The internal audit team collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.
	1.4 The chief internal auditor may 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.
	1.5 Although, normally, an internal auditor is not expected to possess skills and knowledge of a person expert in detecting and investigating frauds, he must, however, have reasonable knowledge of factors that might increase the risk of opportunities for frauds in an entity and exercise reasonable care and professional skepticism while carrying out internal audit. An internal auditor must, therefore, use his knowledge and skills to reasonably enable him to identify indicators of frauds.

IAAS- 4: Proficiency and due professional care

- 1. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. “Due Professional Care”, however, neither implies nor guarantees infallibility, nor does it require the internal auditor to go beyond the established scope of the engagement.*
- 1. Internal auditors must exercise due professional care by considering the extent of work needed to achieve the engagement’s objectives; adequacy and effectiveness of governance, risk management, and control processes; and the cost of assurance in relation to its potential benefits.*
- 2. In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analytic techniques.*
- 3. The internal audit team must perform all activities to achieve its objectives as outlined in the internal audit charter or engagement letter. The Chief Internal Auditor must effectively manage the internal audit activity to ensure it achieves its objectives and adds value to the entity.*
- 4. The internal auditors must decline the consulting engagement if they lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.*

IAAS-5: Using the work of an Expert

Comments	Requirements
	1.1 In conducting internal audit assignments, the Chief Internal Auditor may seek the assistance and place reliance on the work of an expert.
<u>Employee of the Company or External Service provider:</u> An external professional would not be influenced by company management in comparison to an Expert who is an employee of the company and reporting to management.	1.2 The expert may either be an employee of the entity, or the internal auditor's staff or an outside professional who possess specialized domain knowledge and skills.
	1.3 The chief internal auditor must take assistance of an expert in highly technical and complex matters where the required expertise is not available within the internal audit team. The engagement of expert would depend on the risk assessment, materiality, and importance of the subject matter of internal audit.
<u>The Appointing and Supervisory Authority:</u> Where the authority to appoint and supervise the Expert rests with someone other than the Internal Auditor, the outcome of the Expert's work may be influenced by such authority.	1.4 The chief internal auditor may have the authority to select, appoint and engage the expert. The chief internal auditor must conduct an independent evaluation of the qualifications and credentials of the expert and validate his independence and objectivity if he is selected and engaged by the management.
	1.5 The chief internal auditor must participate in defining the scope, approach, and work to be conducted by the expert. The chief internal auditor must evaluate the work completed by the expert including the relevance and reasonableness of the expert's assumptions, methods, findings or conclusions and their consistency with other audit findings & evidence.
<u>Personal Interests:</u> Where the Expert has any personal, financial or organizational interests (such as significant portion of his income is derived from the company) it may prevent the rendering of an opinion.	1.6 The chief internal auditor must be responsible for the conclusions and opinions incorporated in the internal audit report and may not refer to the work of an expert in the report unless specifically mandated otherwise by the

IAAS- 6: Quality assurance and continuous improvement	
Remark	Requirement
<p>Quality of Internal Audit function must fulfil the following : (1) Factual Information and accurate assessment of outcome (2) Appropriate measurement of "control weakness" (3) "Loss value and/or "Improvement Value /Saving Potential" identification with accuracy (4) Brief and relevant presentation of issues/audit outcome (5) implementable and relevant suggestions for improvement (6) unbiased and independent reporting .</p>	The internal auditors must have such skills and competence as are necessary for the purpose of discharging their responsibilities.
	The internal auditors must, through study or formal courses, obtain such skills and competence as are necessary for the purpose of discharging their responsibilities.
	Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.
	The chief internal auditor must develop and maintain a quality assurance and improvement program that covers all aspects of the IA activity
	The chief internal auditor must develop a system to ensure quality in internal audit and provide reasonable assurance that the internal auditors comply with professional standards, and regulatory & legal requirements. A person within the entity should be entrusted with this responsibility, irrespective whether the internal audit is done in-house or by an external agency.
	The quality assurance and improvement program must include both internal and external assessments
	Internal assessments must include: 1. Ongoing monitoring of the performance of the internal audit activity; and 2. Periodic self-assessments or assessments by other persons within the entity with sufficient knowledge of internal audit practices.

IAAS- 6: Quality assurance and continuous improvement (contd.)

Remark	Requirement
	External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the entity. The chief internal auditor must discuss with the Audit Committee/Board: o The form and frequency of external assessment; and o The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
	The chief internal auditor must communicate the results of the quality assurance and improvement program to senior management, Audit Committee, and the Board. Disclosure should include: o The scope and frequency of both the internal and external assessments;o The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest; o Conclusions of assessors, and o Corrective action plans.
	Indicating that the internal audit activity conforms with the professional Standards, and regulatory and legal requirements is appropriate only if supported by the results of the quality assurance and improvement program.
	Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

IAAS- 7: Communication and confidentiality	
Remark	Requirement
	Overall organizational structure including IA Dept. with Audit Charter to define the line of communications with agreed protocol for communication with senior management , Board and Audit Committee.
	The chief internal auditor must be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the internal auditor would otherwise communicate in their governance capacity.
	The chief internal auditor must communicate with the senior management, Audit Committee, and the Board an overview of the planned scope and timing of the internal audit.
	The chief internal auditor must report periodically to senior management, Audit Committee, and the Board on the
	o Internal audit activity’s purpose, authority, responsibility, and performance relative to its plan and on its conformance with the professional Standards and ethical requirements; and
	o Significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management, Audit Committee and/or the Board.
Tone from the Top - Saviour	The chief internal auditor must communicate with the senior management, Audit Committee and the Board, a statement that the audit team and others as appropriate, have complied with relevant ethical requirements regarding independence; and related safeguards have been applied to eliminate identified threats to independence or reduce them to an acceptable level.
	The chief internal auditor is responsible and must communicate the engagement results to appropriate parties who can ensure that the results are given due consideration.
	The chief internal auditor must not communicate the engagement results to parties outside the entity without

IAAS- 8: Risk Based Internal Audit (RBIA)	
Remark	Requirements
The objectives : Protects the enterprise against surprises; stabilizes overall performance with less volatility in cost and earnings; operates within established risk appetite; protects ability of the enterprise to attend to its core business and; creates a system to proactively manage risks	1.1 The Chief Internal Auditor must ensure that the entity has designed, implemented, and maintains effective and efficient risk management & internal control system. The chief internal auditor should obtain an understanding of the various aspects of the control environment and evaluate the same as to the operating effectiveness.
	1.2 The internal audit must assist the entity to accomplish its objectives by bringing a systematic, & disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
	1.3 The internal audit must evaluate and provide an assurance relating to effectiveness of operations, reliability of financial management systems and reporting, safeguarding the assets, and compliance with laws and regulations.
	1.4 The internal audit activity must evaluate the potential for the occurrence of fraud and how the entity manages fraud risk.
The internal auditor should not manage any of the risks on behalf of the management or take risk management decisions. The internal auditor should not assume any accountability for risk management decisions taken by the management. Internal auditor has a role only in commenting and advising on risk management and assisting in the effective mitigation of risk.	1.5 By following Risk Based Internal Audit (RBIA), the internal auditor may be able to conclude that the management has identified, assessed and responded to risks above and below the risk appetite; the responses to risks are effective but not excessive in managing inherent risks within the risk appetite; where residual risks are not in line with the risk appetite, action is being taken to remedy that; risk management processes, including the effectiveness of responses and the completion of actions, are being monitored by management to ensure these continue to operate effectively and risks, responses and actions are being properly classified and reported.

LAAS- 8: Risk Based Internal Audit (RBIA) Contd.

-	Requirements
	1.6 The internal auditing assurance role in Enterprise Risk Management (ERM) would include evaluating and giving assurance on risk management processes; reporting on risks; and reviewing the management of key risks. These assurance activities form part of the wider objective of giving assurance on risk management.
	1.7 The internal auditing consulting role in ERM would include facilitating Identification & evaluation of risks; coaching management in responding to risks; coordinating ERM activities; consolidated reporting on risks; maintaining & developing the ERM framework; championing establishment of ERM; and developing risk management strategy for the entity's Board approval.
Role of CRO (Chief Risk Officer) & CIA (Chief Internal Auditor) need proper clarity	1.8 As a safeguard, chief internal auditor may not undertake the responsibilities for setting the risk appetite; imposing risk management processes; management assurance on risks; taking decisions on risk responses; implementing risk responses on management's behalf; and accountability for risk management.
	1.9 The chief internal auditor may not manage any of the risks on behalf of the management or take risk management decisions or assume any accountability for risk management decisions taken by the management.
	1.10 During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks. Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the entity's risk management processes.
Management and Senior Management with decision making power of each needs clarity	1.11 When the chief internal auditor concludes that management has accepted a level of risk that may be unacceptable to the entity, he must re-discuss the matter with senior management. If the chief internal auditor determines that the matter has not been resolved, he must communicate the matter to the Audit Committee and the Board.

IAAS- 9: Technology driven Internal Audit	
Remarks	Requirements
The Guideline talks about Technology/IT environment, in which IA is supposed to operate. Use of IT tools for performing audit not mentioned herein.	1.1 The internal auditor must consider the IT environment in designing audit procedures to review the systems, processes, controls, and risk management framework of the entity.
Maintenance of transaction trail and Audit trail	1.2 The internal auditor must review the robustness of the IT environment and understand any weakness or deficiency in the design and operation of an IT control within the entity.
Programs are safeguarded against possible manipulations	1.3 The use of technology does not change the overall objective and scope of internal audit. However, this may affect the entity’s processes, operations, internal control systems and risk management. Accordingly, the chief internal auditor must consider the effect of technology on internal audit engagement, including its use in data analytics.
Ensure "no data loss" , which having a bearing on analytics and outcome	1.4 In planning the portions of the internal audit which may be affected by the IT environment, the internal auditor must obtain an understanding of the significance and complexity of the IT activities and the availability of the data for use in the internal audit.
Physical maintenance of Data and security system in place	1.5 The chief internal auditor must review whether the information technology system in the entity considers the confidentiality, effectiveness, integrity, availability, compliance and validity of data and information processed. The chief internal auditor must also review the effectiveness and safeguarding of IT resources, including – people, applications, facilities, and data.

IAAS- 9: Technology driven Internal Audit (contd.)

	<p>1.6 The chief internal auditor must have sufficient knowledge of the information technology systems to plan, direct, supervise, control, and review the work performed. The sufficiency of knowledge would depend on the nature and extent of the IT environment. The chief internal auditor should consider whether any specialized IT skills are needed in the conduct of internal audit activities, for example, the operating knowledge of a specialized ERP system.</p>
	<p>1.7 If specialized skills are needed, the chief internal auditor must seek the assistance of a technical expert possessing such skills, who may either be the internal auditor's staff or an outside professional. If the use of such a professional is planned, the chief internal auditor must obtain sufficient appropriate evidence that the work performed by the expert is adequate for the purposes of the internal audit.</p>
	<p>1.8 The chief internal auditor must understand the significance of data analysis, data analysis technology, associated risks & challenges and the opportunities, trends, and advantages of making use of data analysis technology.</p>
	<p>1.9 The internal auditors must learn the interplay of major technology led disruptions caused by Robotic Process Automation (RPA), Artificial Intelligence (AI) and Machine Learning (ML) and monitor their impact on the business processes and</p>

IAAS- 10: Enhancing Governance through Internal Audit	
Remark	Requirement
	1.1.internal audit activity must evaluate and contribute to the improvement of the entity’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.
	1.2. IA must perform proactively and efficiently in improving the entity’s performance and conformance governance. The internal audit activities must enhance value for the entity’s operations and internal auditors’ evaluations must offer new insights with substantial future impact.
	1.3.The internal audit activity must assess and make appropriate recommendations to improve the entity’s governance processes for:
	Making strategic and operational decisions;
	Overseeing risk management and control;
	Promoting appropriate ethics and values within the entity;
	Ensuring effective performance management and accountability;
	Communicating risk and control information to appropriate areas of the entity; and
	Coordinating the activities of ,and communicating information among , the board,external and internal auditors, other assurance providers, and management.
	1.4 The IA activity must evaluate the design, implementation and effectiveness of the entity's ethics related objectives, programs , and activities
	1.5The internal audit activity must assess whether the information technology governance of the entity supports the entity’s strategies and objectives.

IAAS- 11: Internal Audit of Cost records

Remarks	Requirements
	1.1 The scope, functions, and activities of internal audit as embedded in the internal audit charter approved by the Audit Committee/Board must include internal audit of cost accounting records of the entity, besides audit of financial records, operations, internal financial controls, legal & regulatory compliance, risk management, governance process, etc.
	1.2 The internal audit must provide assurance to the Audit Committee and Board relating to reliability of financial management and reporting, efficiency of operations, internal control systems, processes and governance, effectiveness of cost accounting system, cost flow process, cost reporting framework, and compliance with various laws and regulations.
	1.3 The internal auditor must use the product & service unit-wise, SKU-wise, business vertical-wise, and customer group-wise cost data to evaluate efficiency, productivity, & effectiveness of a plant, department, function, technology, process, product, activity, machine, material, customer, market, etc. with the objectives to review & design business strategy for enhanced value creation and sustainability.
Evaluation of Cost Data maintenance quality to accomplish the objective of timely submission of mandatory Cost Audit Report. In general to help management is taking appropriate and timely decision through various cost drivers.	1.4 The internal audit of the cost records must assure the management that the cost information, which is the basis of their evaluation of performance, risk management and control, is reliable and reported timely.

IAAS- 11: Internal Audit of Cost records (Contd.)

Remarks	Requirements
	1.5 The work of internal audit function relating to cost analytics and performance optics may be used by the external auditors after evaluating the following:
	(a) The extent to which organizational status and relevant policies and procedures of the internal audit function support the objectivity of the internal auditors;
	(b) The level of competence of the internal audit function;
Integrated or standalone Cost data as per Books of Accounts (Financial) along with reconciliation for difference, if any, provides better clarity and quality of accounting for evaluating by Statutory Auditor.	(c) Whether the internal audit function applies a systematic and disciplined approach, including quality control;
	(d) Whether the work of the internal audit function had been properly planned, performed, supervised, reviewed, and documented;
	(e) Whether sufficient appropriate evidence had been obtained to enable the internal audit function to draw reasonable conclusions; and
	(f) Whether conclusions reached are appropriate in the circumstances and the reports prepared by the internal audit function are consistent with the results of the work performed.

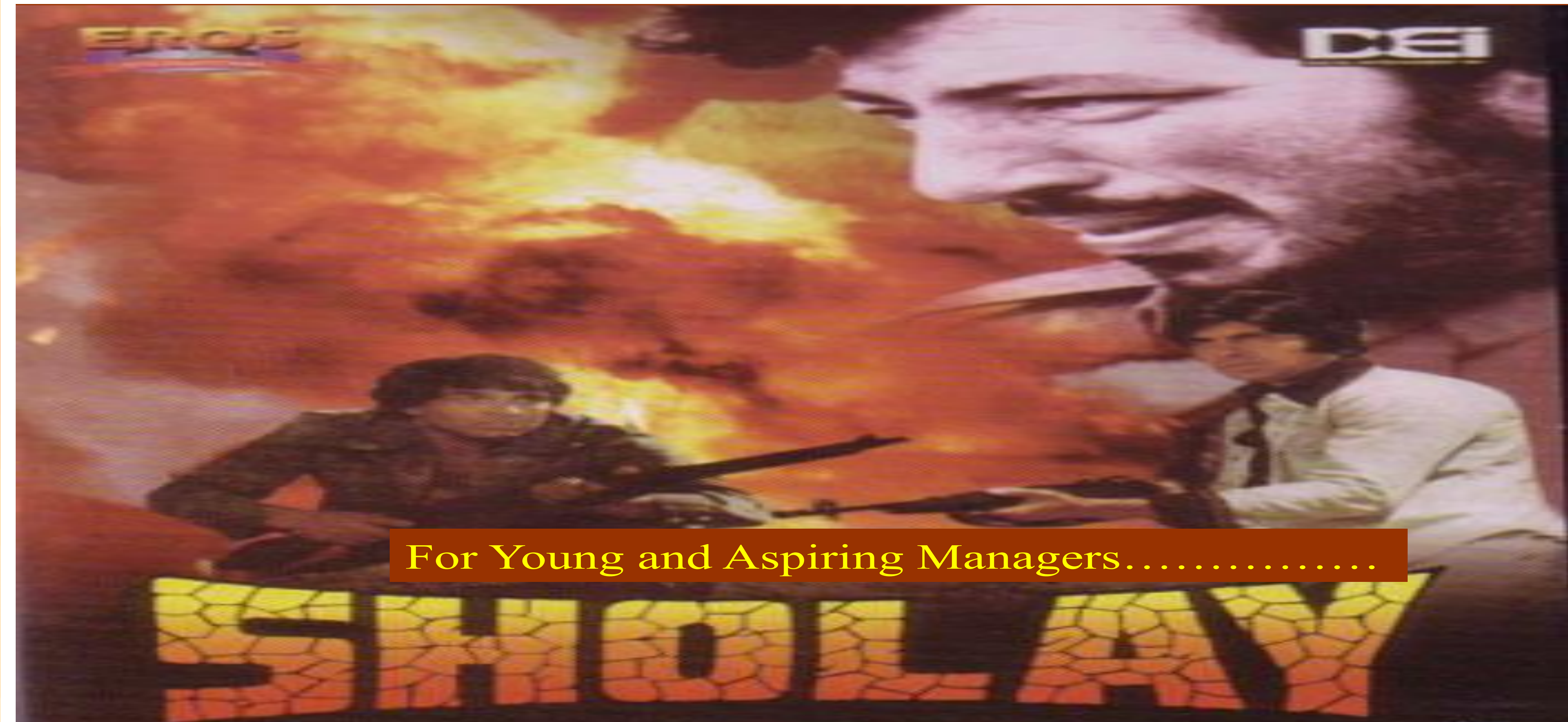
IAAS-25: Internal Audit Documentation	
Remark	Requirement
	1.1 Relevant audit evidence obtained, and conclusions reached based on the same.
	1.2 Documentation and recording of the significant matters that arises during the audit, and any material departures from law or regulation, and standards.
	1.3 The Audit Documentation must be complete and sufficient to support the analysis conducted on the audit evidence, the identification of findings, the formulation of audit observations and the drafting of the internal audit reports based on the findings.
	1.4 Any new or additional audit procedures or draws new conclusions, after the date of internal audit report, document to such circumstances and details of such procedures performed including the changes required in internal audit report, need to be maintained.
	52

IAAS-25: Internal Audit Documentation (Contd.)

	1.5 The internal audit documentation and assembling of all working paper files must be completed prior to the issuance of final internal audit report.
The content and extent of documentation is a matter of professional judgment since it is neither practical nor necessary to document every matter or observation. However, all significant matters which require exercise of judgment, together with the Internal Auditor's conclusion thereon, shall be included in the internal audit documentation.	1.6 Documentation policies and guidelines explaining the manner and the medium in which internal audit documentation will be prepared, reviewed, stored, and finally discarded.
	1.7 The internal audit documentation and working paper files must be retained and preserved for the period prescribed by law or regulation.
	1.8 Access control over documents and approval mechanism for releasing such records to external parties, as appropriate.

Fraud fraud everywhere,
Apparently You can't see it anywhere.
It's under the carpet and hush-up, mostly without any show-up,
Gets importance when it is unearthed ,whether Start-up or grown-up.
We read in professional literature,
Fraud triangle and the departure.
Biggies talk on modus of fraud and prevention,
Which many of them even failed to detect in their respective
organization.
Many of them lost their job in the bargain,
Hence, the lectures are bookish and in vain.
One knows what happened in past many a times,
Symptoms of control lapses blamed by leaders on same lines.
New inventions to defraud and creative ones,
Remained unnoticed, which perpetrators always cherish.
Technology and solution, to some extent an illusion
Reading action and re-action of human mind is the best resolution.

Lessons for Auditing function



For Young and Aspiring Managers.....

OLD WINE IN A NEW BOTTLE

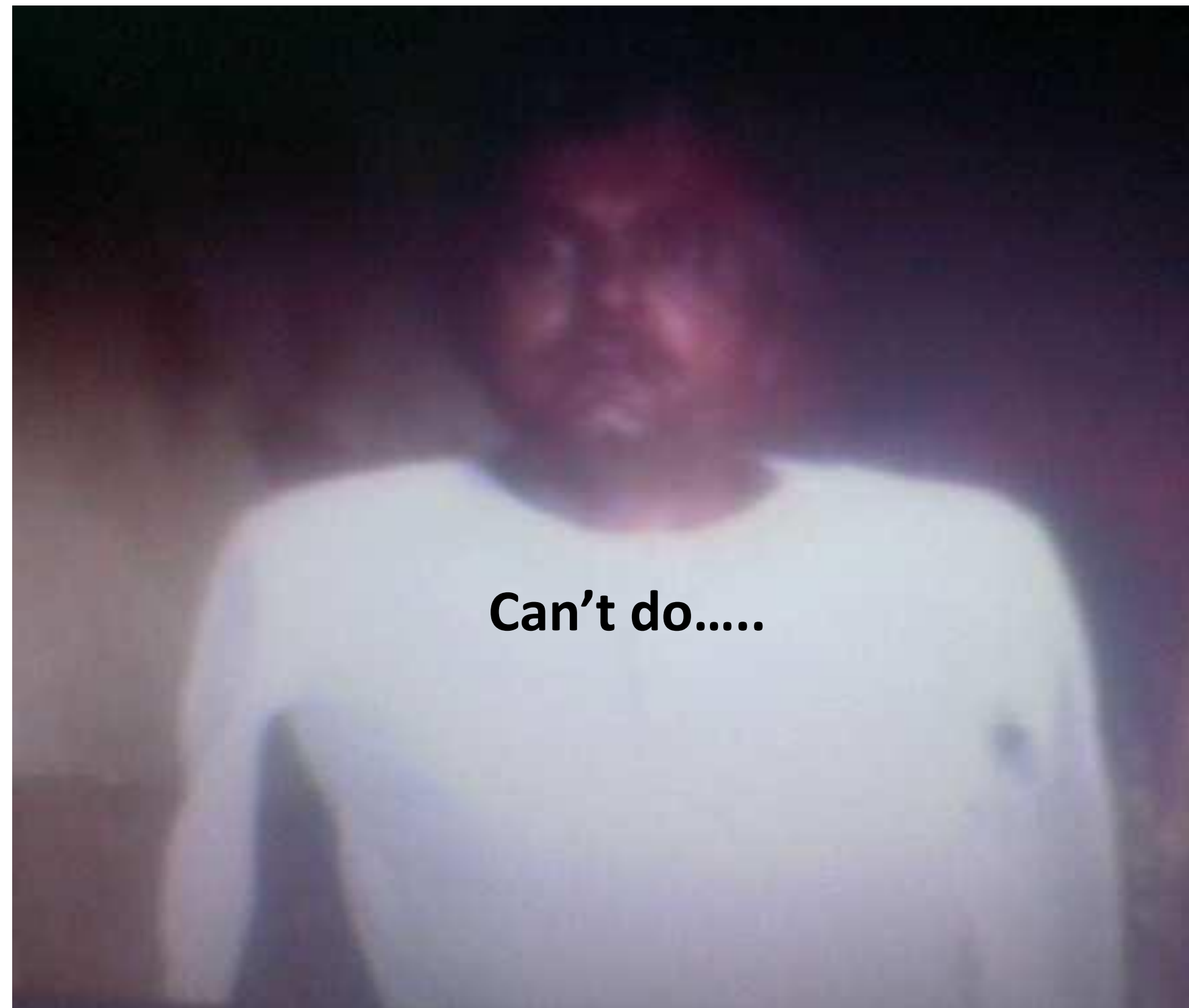
Today's Auditing is a highly Technical Function

Lack of experience ?

Lack of Technical Knowledge?

Diversified, Multilocalational, global conglomerate?

Language barrier etc.?



Effective Communication from Management and CAE



Two way communication i.e from Management to set the Audit Objective and from CAE to Audit Team for effective and efficient way of conducting the Audit

Conduct proper analysis before crystalizing Observation



Do not believe in Grapevine
Make proper analytical review
Decipher issues properly
Do not produce half baked result

Teamwork is the Key

Today's Auditing is a multidisciplinary function
Specialization required to handle criticality
'All in One' is a rarity



Teamwork is the Key



Example of Teamwork

Do you rely on each other for :

- Information
- Advice
- Reasonableness Checks
- Encouragement

If you are not doing the above you are not leveraging readily available skills

All Auditors should consider reaching out to peers as well as making themselves available to others.



Respect Your Team Members



Take a Balanced Approach while discussing Audit Observations



Wear the Auditee's Hat

Keep Organization interest first, do not put Your personal Agenda

Be diplomatic while discussing your observations











Transfer ownership of your Observation, give credit to Auditee for implementation of Your idea

Mock Discussion :Win the Heart

“We are going to discuss with you the report on inventory management, the areas which we have covered are-----“

Basic Guidelines

-  Organize and develop your discussion logically. Follow the sequence. E.g. if you are discussing an audit observation;
 - Present what is happening and what is wrong
 - Reason behind the same
 - Suggest corrective measure to rectify the same
 - Appeal for action (evoke desired results)
-  Support your points with logical and relevant (facts, statistics, examples, analysis etc.). Do enough home work.
-  Don't get drawn into an argument with auditee in course of discussion.
-  Be courteous all throughout the discussion.
-  Don't allow auditee to divert the subject, keep a tab on the subject matter.
-  Try to sale your point/observation and win his confidence.
-  Try to be within time schedule.
-  Accept auditee's view ,if it's logical

Thank the auditee for giving his **Valuable** time.

Mock Discussion :Win the Heart (Contd.)

Auditee – “We appreciate your recommendations but you should also appreciate our limitations. We do not have sufficient storage facility to stock materials properly.”

You – “That’s right, but you see how much production loss the company is incurring due to non-availability of material in time? This need to be controlled”

Auditee – “I have no clue as to how do I achieve this with limited resources and Capex sanction?”

You – (Staring at him blankly!)

Auditee – “I am not sure whether I will be able to enforce your recommendation for additional space/storage”

You – “You must work on some solution.”

Auditee – We appreciate your recommendations but you should also appreciate our limitations. We can’t pay demurrage when a vessel accepted under compulsion.

You – Yeah, Sir, in fact we did consider this before putting this recommendation! We were wondering what stopped you from making a proper chartering schedule with stock-out planning for so long!

Auditee – Exactly, (gets excited). Even my supervisor/storekeepers could not help me in this?

Mock Discussion :Win the Heart (Contd.)

You – We understand sir! We were also concerned about volume of production which ‘We’ are losing.

Auditee – I am not sure whether I can achieve this, may be I will try to convey this to the Inventory Management Team in small group meetings!

You – Sure, this will definitely help you to convey ‘YOUR’ ideas to them in positive manner.

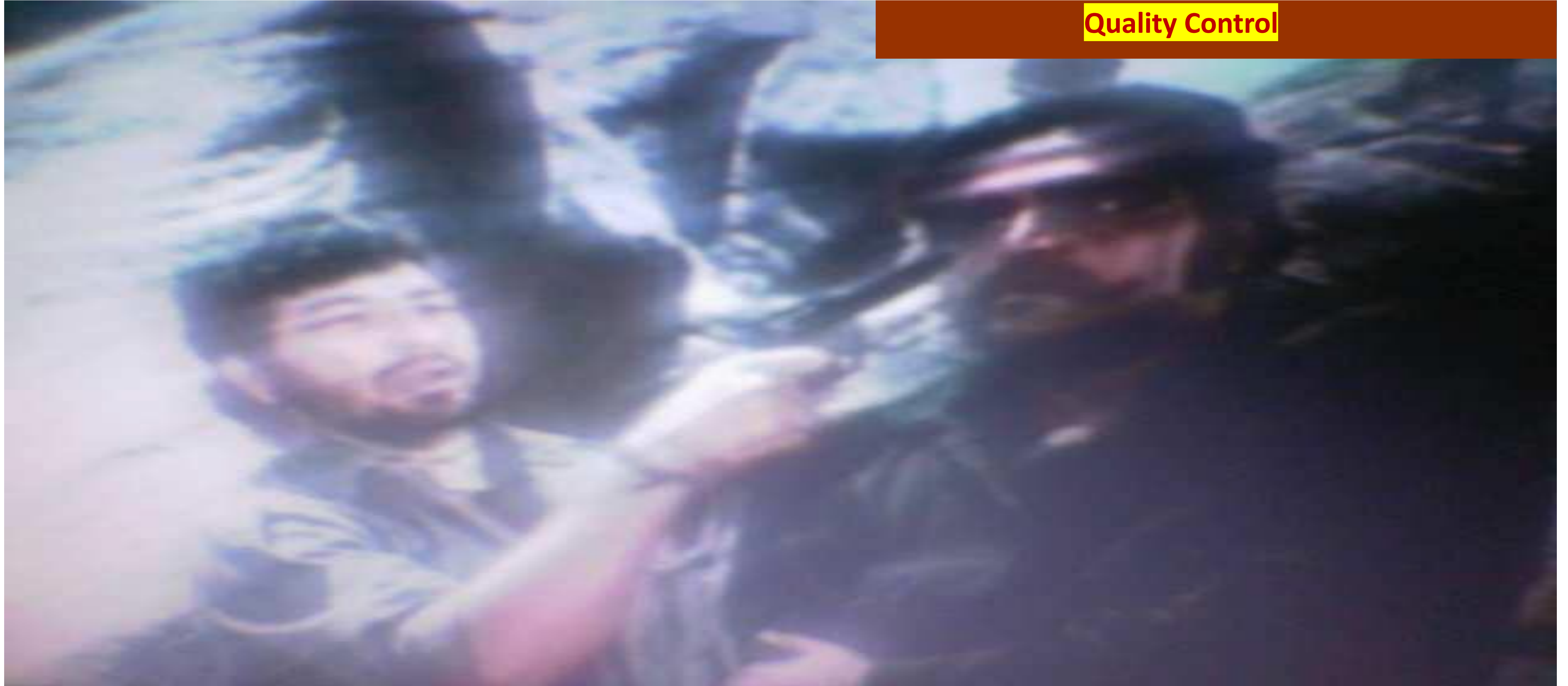
Auditee – Let’s see, I will plan something next week. Also ask for a enhanced capex budget sanction.

You – Sure, sir, do let us know if you need our help!

Auditee – Sure , thank you very much.

More such areas/ Report in entirety can be discussed at workshop with playing different roles by the Team.

Audit work must be of appropriate Quality



Avoid poor quality and re-work including re-drafting of Observation

Cost of Poor Quality :

1. High Audit Cost
2. Poor performance of Dept./Firm appointed
3. Wastage of time and resources
4. Lack of proper guidance to resources
5. Inexperienced resources
6. Rework to save reputation of Firm/Dept.
7. Fail to fulfil Management expectation
8. Lack of understanding audit objective
9. Poor drafting and presentation of Report
10. Lack of analytical skills
11. Shallow or quick fix recommendations

Definition of Internal Audit -



Corporates exist to create value or benefit to their owners, other stakeholders (not only stockholders), customers, and clients.

IIA definition of Auditing, Assurance and our focus :

“It is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a **systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance process.**”

Evolution and history of Auditing

The word “ Audit “ has come from the Latin “ Audire“ , means ” to hear”.

In ancient time, the King of state **used to listen** Income/Expenditure and transaction Report from the designated persons - “King’s Men”.

- ❑ Mesopotamian relics of commercial transactions pertaining to period 3600 - 3200 BC reveal many tiny marks , ticks ,dots at the side of the figures, indicating those figures being checked.
- ❑ The ancient Egyptians got their fiscal receipts recorded separately by two officials ,while another one conducted their audit.
- ❑ Greeks appointed checking clerks to scrutinize the accounts of public officials at the expiry of their term of office.
- ❑ Romans also separated the receipt/payments role and authorization of the same by a different person.
- ❑ In Valmiki Ramayana , Rama asked Bharata during the Vanabhas period , “ Is your income more than your expenditure ?” In Mahabharata Yudhistir ordered his brother Nakula to look after army’s accounts’.

Evolution and history of Auditing.... Contd.

Chanakya in 'Arthasastra' mentioned that "it is very difficult to ascertain how much water the fishes are consuming from a pond full of water, similarly it is difficult to stop unauthorized use of funds by King's men unless proper controls are in place.'

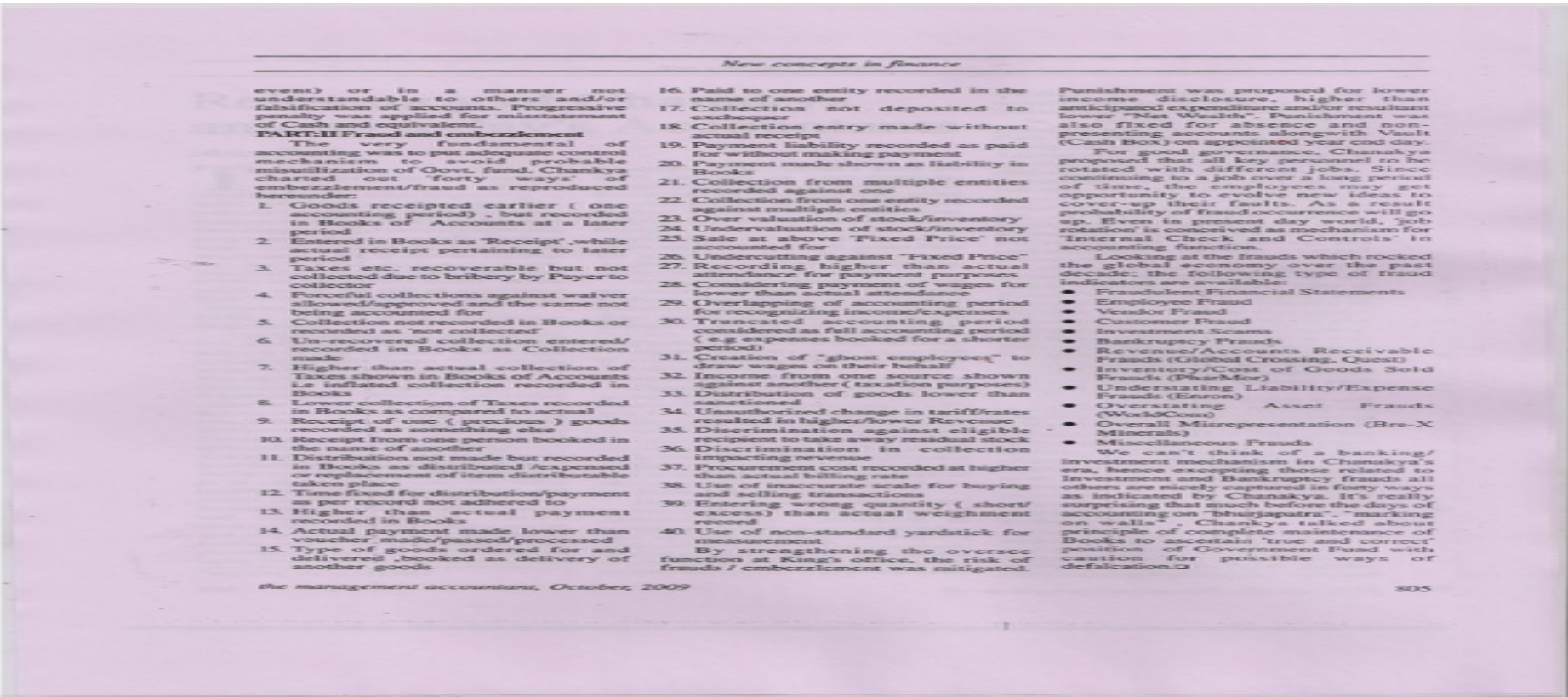
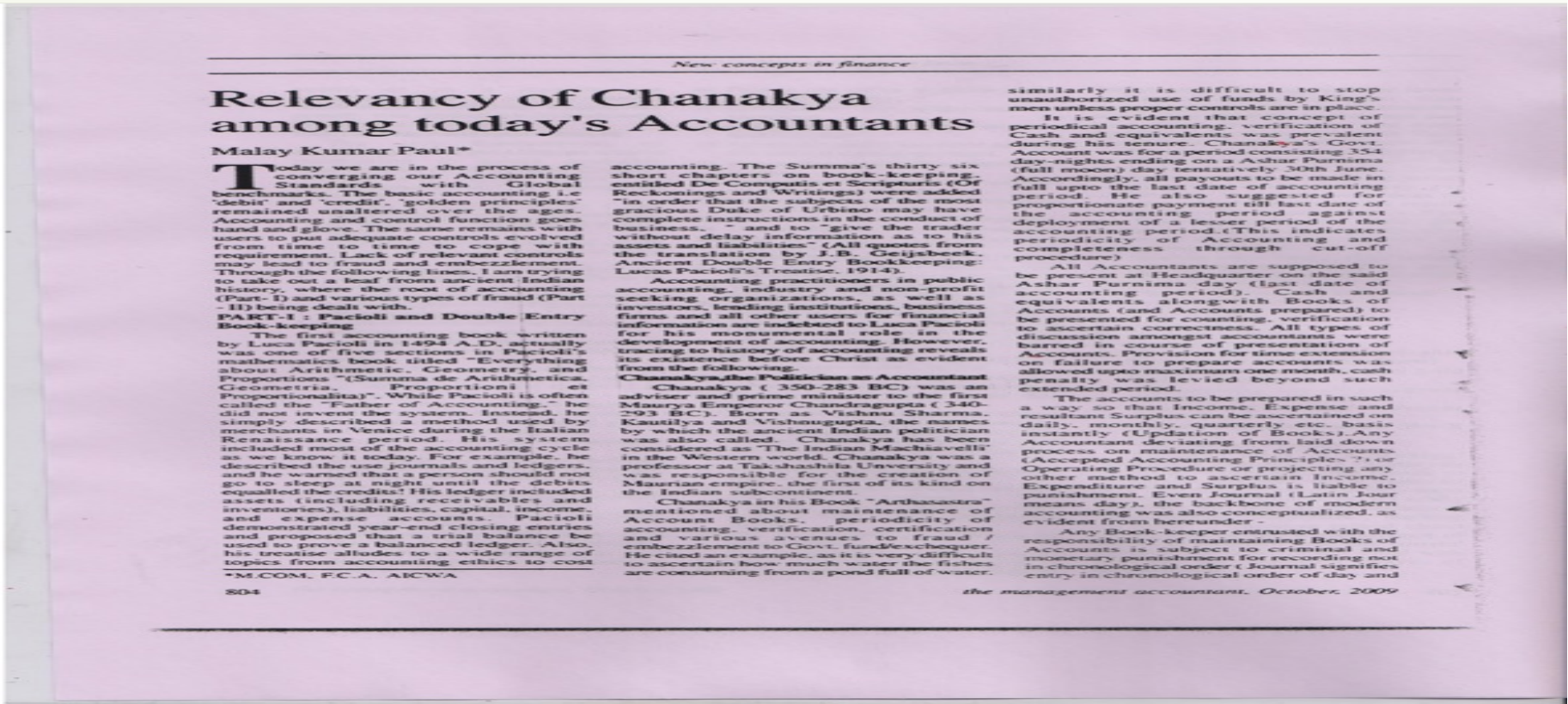
To assess the above, requirement of a 'class of people' called Auditors are adopted in the social eco-system.

For reasonable assurance, these people has to undertake **ABCDEFGHI** to ensure: **A- Accuracy** (w.r.t) ; **B – Books (Accounts) ; (by) C – Checking , D- Directing (and) E- Expected (to) F- Fix , G –Governance(standard) and H- Hygiene(by) I –Implementation(of audit issues).**

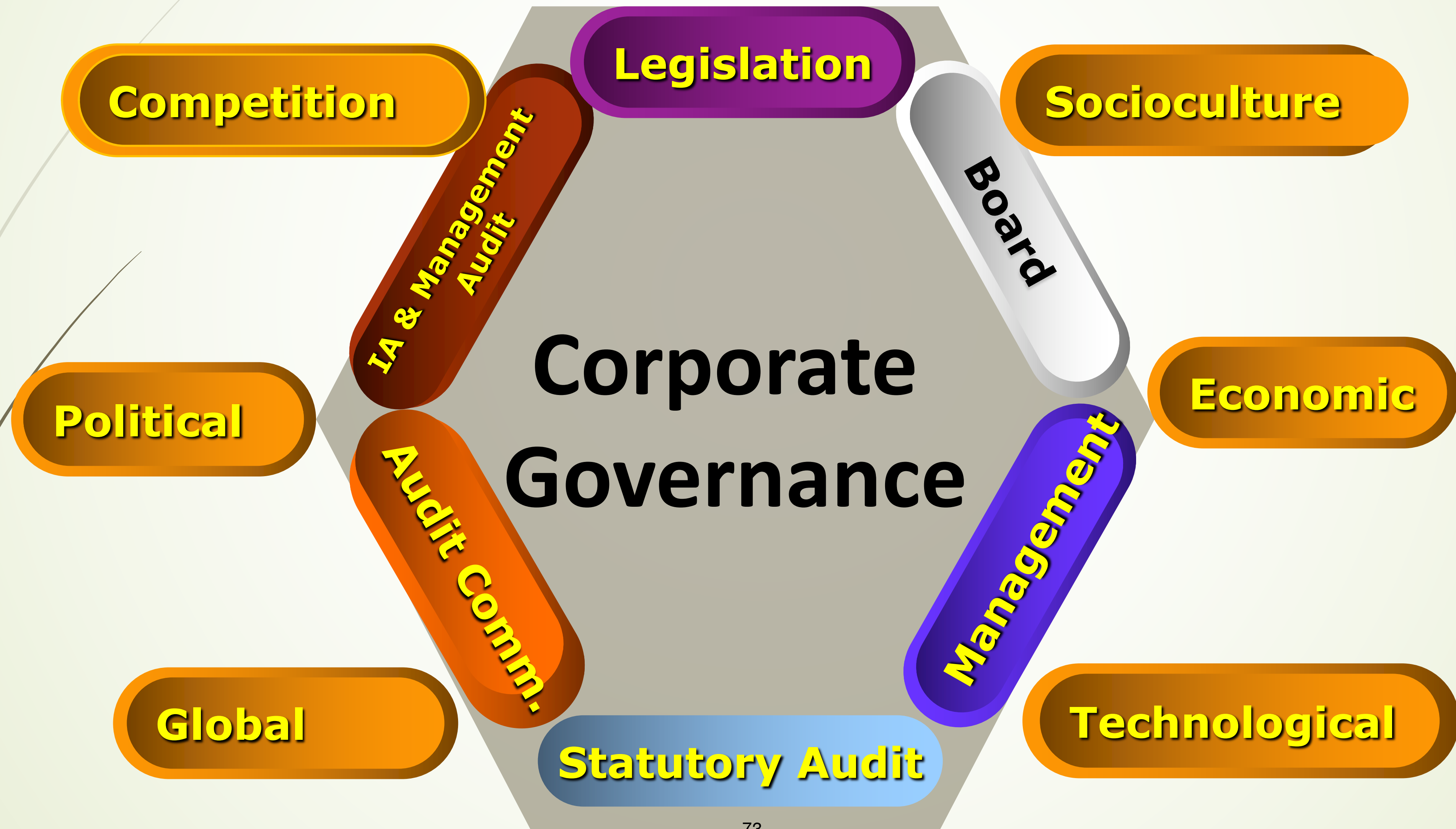
Evolution and history of Internal Auditing – Chanakya way

Basic Highlights-

- ❑ Chanakya on Accounting and Controls
- ❑ Concept of “Periodical Accounting and Accounting period”
- ❑ Auditing of Expenditure and Income
- ❑ The 40 Ways of embezzlement (except banking)
- ❑ Fraud – may go unnoticed



Application Base :Today's Challenge – Good Governance

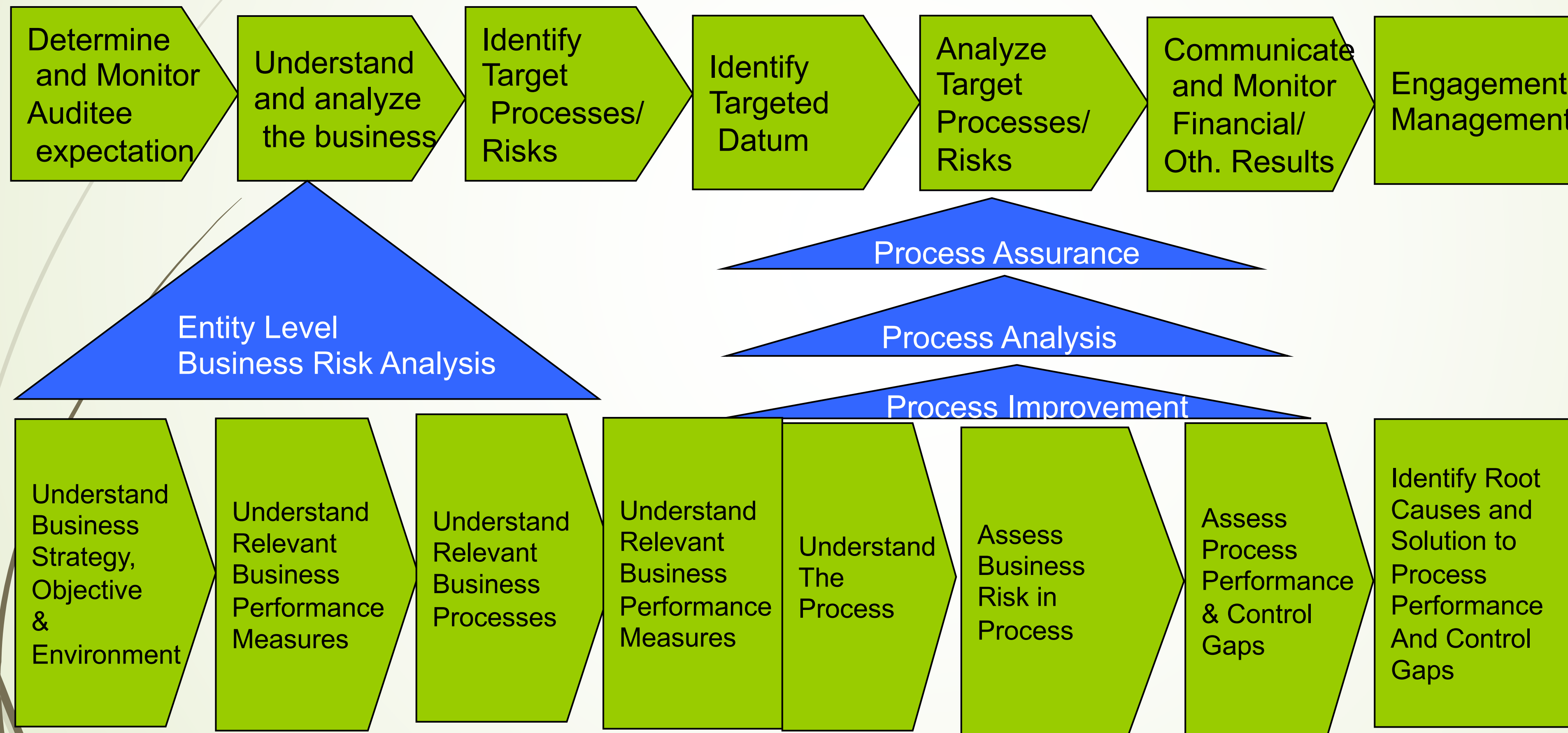


Broad Nature and Types of Audit

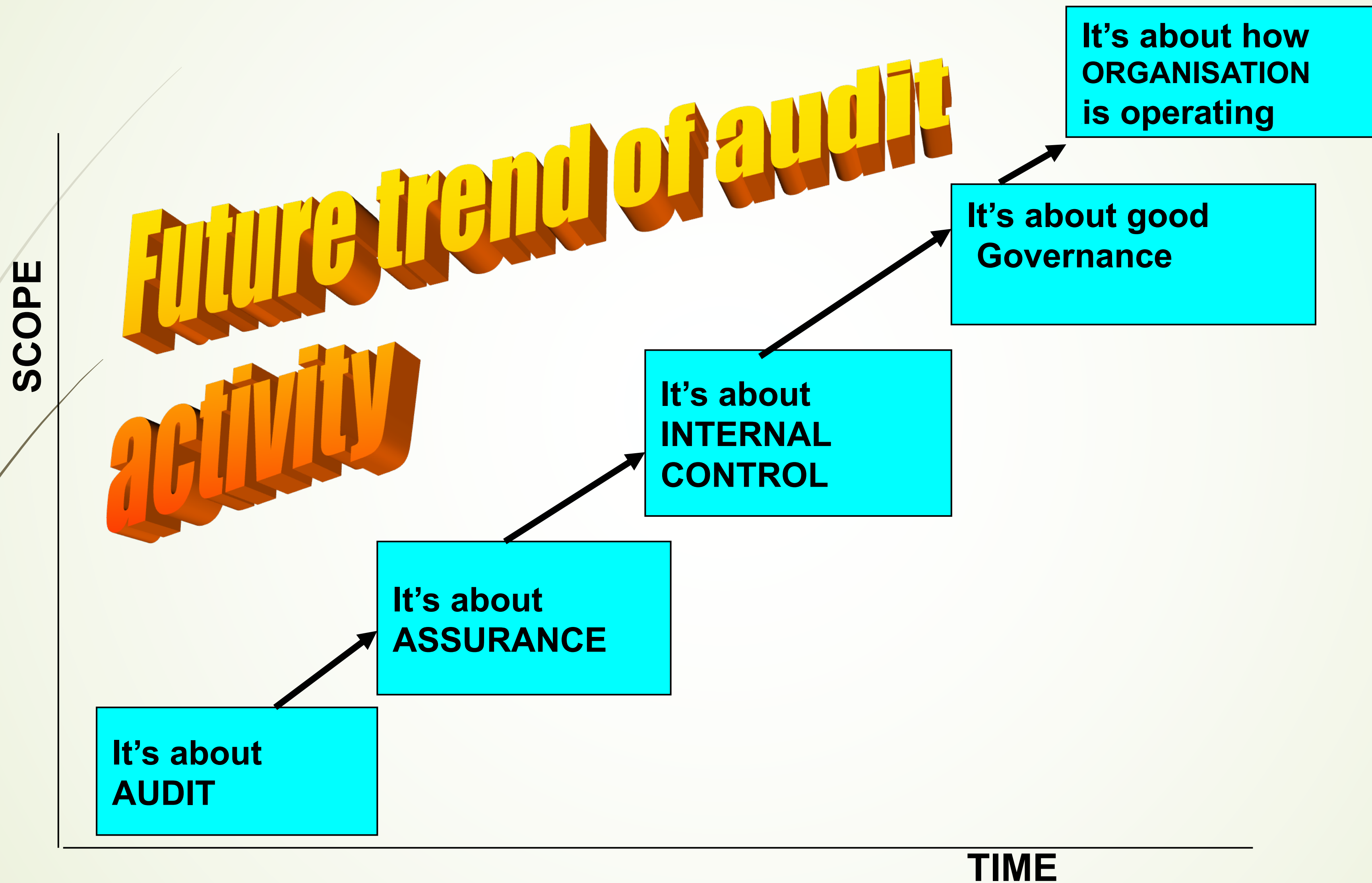
- Statutory audits.
- Internal Audit.
- External audits.
- Financial statement audits.
- Performance audits.
- Operational audits.
- Compliance audits.
- Concurrent Audits.
- ESG Audit.
- Social Audit.
- Energy Audit.
- Circulation Audit.
- Quality Audit.
- Cost Audit

Standard Audit Flow -

Auditor must learn how to turn hindsight into foresight that helps Audit Committee to develop insight



Future of Audit/Assurance Function: Beyond Compliance



**Audit Vs.
Investigation**

Audit	Investigation
Audit is mainly for compliance purposes	Investigation is for specific purposes
Audit is generally for a period/year	Investigation can comprise many years
Process followed for Audit generally laid down in different legislations	Investigation process generally depends on the Investigator
Audit objective is as stipulated under the required legislation	Investigation objective/purpose depends on the appointing authority
Report distribution depends on the Organization structure	Investigation report must be issued to the concerned appointer
Audit Report format is stipulated under the Governing Acts	Any format to address the issue can be considered
Audit can resort to test checking even	Investigation must be detailed and thorough
True and fair view for Accounts and operational improvement , compliance, process gaps, control effectiveness	Fact finding activity
Broad based and general in nature	Investigation is narrow and specific

Internal Audit , Internal Check and Internal Controls :

Internal Check can be defined as ‘ allocation of staff duties in such a way that job done by one ,will automatically checked by the other person/s preferably occupying the higher position in the Organizational hierarchy(Organization chart)’.

Internal Control is defined as the **mechanisms, rules, and procedures** (1)implemented by a company to ensure the integrity of **financial and accounting information, promote accountability, and prevent fraud**(2).

Besides complying with laws and regulations and preventing employees from misuse of assets or committing fraud, internal controls can help improve operational efficiency by improving the accuracy and timeliness of **financial reporting**(3).

1. Developing of SOP (Standard Operating Process) , Guidance Notes, Process Notes
2. Maintenance (Better through SAP/ERP) of MIS , Verification of Assets , developing control environment
3. IFC (Internal Financial Control)

Planning and Executing Internal Audit

□ “Planning an internal audit” is the primary course of action for initiating the activities. An internal audit plan is a document defining the scope, coverage and resources, including time, required for an internal audit over a defined period. For the purpose of planning, many a times ‘Finger On The Pulse- FOTP’ approach on ‘Risk’ is adopted, which in other words means planning for audit without detailed risk assessment pertaining to the entity. Business risks need to be understood, considered as yardstick for selection of ‘audit areas’.

RBIA (Risk Based Internal Audit will be dealt separately)

Planning and Executing Internal Audit : Function Based

1. Production and Operations
2. Purchase and Inventory Management incl. Quality Control
3. Sales, Marketing, Storage and Distribution
4. HRD & Personnel Department
5. Corporate and Administration

RBIA (Risk Based Internal Audit will be dealt separately)

Planning and Executing Internal Audit : Function Based

Production

Production of Clinker (wherever applicable) and conversion to Cement, bagging (not applicable for sale in dumpers) activities are considered as production.

- Whether Production budget/plan for each of the product variety is duly compiled on a timely basis?
- Whether there exists Pre-defined authority level for review and modification in the production plan?
- Whether Production Plan vis-à-vis changes in Sales Plan or availability of raw materials & documentation thereof is done on a periodic basis?
- Whether compilation & documentation of actual consumption vis-à-vis standard consumption is done on a periodic basis?
- Whether review of periodicity of comparison of actual consumption and standard consumption is in place?
- Whether compilation of reason-wise variance analysis for deviation in consumption is done on a regular basis?
- Whether all controllable and non-controllable factors resulting in variation in the consumption norms identified?
- Whether department takes appropriate action plan to remedy the controllable factors?