



Internal Audit - Module 1

(ADVANCED CERTIFICATE COURSE IN INTERNAL AUDIT)

ACIA

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Agenda- Introduction to ACIA & Internal Audit

- ◆ **Module 1- PART 2**
- ◆ **Basic Principles of Internal Audit – Roles - Consulting**
- ◆ **Overview of Internal Auditing Standards**
- ◆ **Laws and Regulations on Internal Audit**
- ◆ **Internal Audit Charter – Meaning, Purpose, & Components**
- ◆ **ICAI – Model IA Charter**
- ◆ **Case Studies**

- ◆ Internal Audit can provide consulting support in following areas :
 - Basic analyses to improve information and communication flows
 - Creation of early warning systems with regard to Risks , budgets or revenue
 - Assessment and commentary on problems and suggested solutions.
 - Mediation associated with above.
 - Improvement of decision processes
 - General support for procedure and conduct recommendations
 - IT/ ERP / Cloud implementation

Internal Audit Core roles (IIA Guidelines)

- ◆ Assurance on risk
management process
- ◆ Evaluating key risk
reporting
- ◆ Evaluating
management of key
controls
- ◆ Assisting in Compliance

Internal Control & Internal audit

This includes all the policies and procedures adopted by the management of an entity to assist in achieving management's objective:

- The orderly and efficient conduct of business

- Adherence to Management objectives

- The safeguarding of Assets

- Prevention of fraud and error

- Accuracy and completeness of Accounting records

- Timely preparation of reliable financial information

- Sec 134, 177 – Companies Act 2013

- Sec 138 – Companies Act 2013

- GRC- Governance, Risk, Compliance / Controls

Internal Audit Audit Process

Audit Cycles:

- Engagement Planning
- Fieldwork
- Report Writing
- Follow Up
- Review of ATR

Internal Audit

Audit Process- Micro level

- ◆ **Planning**
 - Background Review (authoritative references, contractual requirements, budgetary information, policy and procedure review, process mapping, and risk & control assessment)
 - Entrance Conference
 - Work Program Development
- ◆ **Fieldwork**
 - Work Program Execution
 - Testing of controls
- ◆ **Report Writing**
 - Draft and Approval
 - Exit Conference
 - Management Response (20 working days)
 - Final Report Issuance w/ Management Response
- ◆ **Follow Up (6 month intervals)**
 - Corrective Action Status Updates
 - Verification
 - Status Report Issued

Internal Auditing and Assurance Standards Board (IAASB)

- ◆ *“ The Institute & eminent resource persons from our profession have felt the need for the constitution of board for Internal Audit.*
- ◆ *The Institute has formulated and issue standards, guidelines and advisory for the Internal Audit Function.*
- ◆ *The Cost Accountants have been recognized by the Companies Act, 2013 and other regulatory bodies for appointment as Internal Auditors. “*
- ◆ **IAAS**
- ◆ **Category-I: Standards on General Principles of Internal Audit**
- ◆ **Category-II: Standards on Principles related to Internal Audit Process**
- ◆ **Glossary to the Internal Audit & Assurance Standards**

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

Laws and Regulations on Internal Audit

- ◆ As per section 138 of Indian Companies Act 2013 read with Rule 13 Of Companies (Accounts) Rules, 2014, certain class of companies are required to appoint Internal Auditors.
- ◆ Extract of **Rule 13 of Companies (Accounts) Rules, 2014** “13. Companies required to appoint internal auditor.-
- ◆ (1) The following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely:-
- ◆ (a) every listed company; = Always applicable
- ◆ (b) every unlisted public company having–
 - ◆ (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or
 - ◆ (ii) turnover(income) of two hundred crore rupees or more during the preceding financial year; or
 - ◆ (iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
 - ◆ (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and

- ◆ (c) every private company having—
 - (i) turnover of two hundred crore rupees or more during the preceding financial year; or (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year:
- ◆ Provided that an existing company covered under any of the above criteria shall comply with the requirements of section 138 and this rule within six months of commencement of such section.

- ◆ **Sec 144** – The statutory auditor shall not provide the internal audit services to the company, its holding co. , Subsidiary co. (directly or indirectly)
- ◆ **Sec 177(4)(vii)** - The Audit Committee should evaluate the internal financial control and risk management systems and may discuss the related issue with the internal and statutory auditors

SEBI (LODR) Regulations - roles of Audit Committee

- ◆ The audit committee at its discretion shall invite the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee
- ◆ reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems
- ◆ reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
- ◆ discussion with internal auditors of any significant findings and follow up there on;
- ◆ reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
- ◆ Review of internal audit reports relating to internal control weaknesses;
- ◆ the appointment, removal and terms of remuneration of the chief internal auditor shall be subject to review by the audit committee.

Companies Auditors Report Order - CARO 2020

- ◆ MCA order dated 25 February 2020, CARO 2020 was applicable for FY 2019-20 onwards.
- ◆ Subsequently, MCA amended applicability of CARO 2020 from FY 2019-20 to 2020-21
- ◆ Thus, CARO 2020 is applicable from 1 April 2021.
- ◆ CARO 2020 has included additional reporting requirements after consultations with NFRA
- ◆ Section 143(11) of the Companies Act, 2013 empowers Central Government to notify special matters for the inclusion in auditor's report
- ◆ CARO 2020 contains 21 clauses, whereas CARO 2016 has only 16 clauses.
- ◆ In CARO 2020, 7 new clauses have been inserted, and the existing clauses of CARO 2016 have been re-drafted to elicit detailed comments from the auditors.
- ◆ **Clause 14. Internal audit system**
 - ◆ – Does the company have an internal audit system in accordance with its size and business activities.
 - ◆ – Have the reports of the internal auditors been considered by the statutory auditor.
- ◆ ICAI SA 610

Model Internal Audit Charter – IAASB, ICAI Guidelines

- ◆ ***Introduction – The charter should include:***
- ◆ □ A brief about the Internal Auditing including its' role, objectives, scope, and outcomes expected, etc.
- ◆ □ Brief about the internal audit activity's responsibilities as defined by the Audit Committee/ Board.
- ◆ □ The internal auditors' strict accountability for confidentiality and safeguarding records and information.
- ◆ ***Authority – The charter should include:***
- ◆ □ The authority of internal auditor to have full, free, and unrestricted access to any and all of records, physical properties, and personnel pertinent to carrying out any engagement.
- ◆ □ The Chief Internal Auditor to have free and unrestricted access to the Audit Committee/ Board.
- ◆ □ The Chief Internal Auditor's authority to engage experts with the prior approval of Audit Committee/ Board or the senior management

◆ ***Organization – The charter should include:***

- ◆ □ The Chief Internal Auditor will report functionally to the Audit Committee/ Board and administratively to the Chief Executive Officer.
- ◆ □ Audit Committee/ Board shall review & approve the internal audit charter, internal audit plan, internal audit budget and resource plan.
- ◆ □ Audit Committee/ Board shall approve the appointment & remuneration of the Chief Internal Auditor.
- ◆ □ Audit Committee/ Board shall monitor the performance of Chief Internal Auditor

◆ ***Independence and Objectivity – The charter should include:***

- ◆ □ The internal audit activity to remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content etc.
- ◆ □ Internal auditors shall have no direct operational responsibility or authority over any of the activities audited. Nor it will assume any management responsibility.
- ◆ □ Internal auditors will exhibit the highest level of professional objectivity & integrity.
- ◆ □ Internal auditors will not be unduly influenced by their own interests or by others in forming judgments, conclusions & opinions.
- ◆ □ Chief Internal Auditor will confirm to the Audit Committee/ Board about the organizational independence of internal audit activity.

- ◆ ***Responsibility – The charter should include:***
- ◆ The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of adequacy and effectiveness of organization's
 - ◆ □ Governance structure & process,
 - ◆ □ Risk management policy, risk exposure, identification & mitigation plan,
 - ◆ □ Internal controls systems,
 - ◆ □ Reliability and integrity of information and data flow,
 - ◆ □ Compliance with approved policies, plans, & procedures,
 - ◆ □ Systems established to ensure compliance with applicable laws, and regulations,
 - ◆ □ Means for safeguarding the assets,
 - ◆ □ Resource utilization, and
 - ◆ □ Internal & External audits

- ◆ ***Internal Audit Plan – The charter should include:***
- ◆ □ Chief Internal Auditor shall submit to the Audit Committee/ Board or senior management an internal audit plan for review and approval.
- ◆ □ The internal audit plan shall consist of a work schedule as well as budget and resource requirements for defined period of internal audit, alongwith the impact of resource limitations.
- ◆ □ Chief Internal Auditor shall review and modify the plan, as necessary, in response to changes in the entity's business, risks, operations, programs, systems, and controls.
- ◆ □ Any significant deviations from the approved internal audit plan shall be communicated to the Audit Committee/ Board or senior management.

- ◆ ***Reporting and Monitoring – The charter should include:***
- ◆ □ Chief Internal Auditor to prepare and issue internal audit report on conclusion of each internal audit engagement.
- ◆ □ Communication of internal audit results/findings to the Audit Committee/ Board.
- ◆ □ The internal audit report to include management's response and corrective action taken or to be taken [alongwith timetable for anticipated completion of action] regarding specific findings and recommendations.
- ◆ □ Chief Internal Auditor to be responsible for appropriate follow-up on engagement findings and recommendations.

- ◆ ***Quality Assurance and Improvement Program – The charter should include:***
- ◆ □ Details of quality assurance and improvement program.
- ◆ □ Evaluation of conformance with the Standards and Code of Ethics.
- ◆ □ Assessment of the efficiency and effectiveness of the internal audit activity.
- ◆ □ Identification of opportunities for improvement