

Internal Auditing & Assurance Standards

First Exposure Draft



Prepared & Hosted by:
Internal Auditing and Assurance Standards Board (IAASB)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

CMA BHAWAN, HEADQUARTERS, 12, SUDDER STREET, KOLKATA – 700016
CMA BHAWAN, NEW DELHI OFFICE, 3, INSTITUTIONAL AREA, LODHI ROAD,
NEW DELHI – 1100 03.

Institute of Cost Accountants of India
Internal Audit & Assurance Standards Board (IAASB)

INTERNAL AUDIT & ASSURANCE STANDARDS (IAAS)

INTRODUCTION TO THE STANDARDS

Legal Requirements for Internal Audit

Section 138 (1) of the Companies Act 2013 provides that such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company. Sub-section (2) provides that the Central Government may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

Rule 13 (1) of the Companies (Accounts) Rules, 2014 provides that the following class of companies shall be required to appoint an internal auditor, which may be either an individual or a partnership firm or a body corporate, namely:-

- (a)* every listed company;
- (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 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;

Securities and Exchange Board of India (SEBI)'s Listing Obligations and Disclosure Requirements (LODR) Regulations prescribe that the Internal Auditor may report directly to the Audit Committee [or the Board] and the role of Audit Committee shall include:

- reviewing, with the management, performance of internal auditors;
- 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;
- reviewing the appointment, removal and terms of remuneration of the chief internal auditor;
- reviewing internal audit reports relating to internal control weaknesses;
- discussion with internal auditors of any significant findings and follow up there on; and
- 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.

Companies (Auditor's Report) Order, 2020 requires that the auditor's report shall include a statement whether the company has an internal audit system commensurate with the size and nature of its business; and whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor.

In addition, Companies (Cost Records and Audit) Rules, 2014 require the Cost Auditor to certify whether the company has adequate system of internal audit of cost records which is commensurate to nature and size of its business.

With these developments, the internal audit has attained considerable significance and its scope has widened in Indian companies.

Standards - Purpose and Compliance Requirements

Internal audit is an independent assurance and consulting activity performed to provide value addition to the entity's operations to achieve its objectives. It helps to evaluate and improve the effectiveness of internal control, risk management and governance processes.

Internal Audit & Assurance Standards (IAAS) are a set of principle-based minimum requirements that are issued by and under the authority of the Council of the Institute of Cost Accountants of India (hereinafter referred to as "Institute").

Internal auditing is conducted in diverse legal environments for entities that vary in size, complexity, and structure. It may be performed by the entity's own employees or by

external firms. But conformance with these Standards is essential in meeting the responsibilities of internal auditors and the internal audit activity. Members of the Institute, whether in service or in practice, must comply & conform while performing internal audit functions or services in any entity, individually or as member of the team. These Standards also provide the basis to evaluate responsibilities of the management in areas relating to internal audit and also the performance of internal auditors.

All other professionals, who are not members of the Institute, are also advised to follow the requirements of these Standards while executing or are part of the team executing any internal audit engagement.

Framework of the Standards

The Internal Audit & Assurance Standards comprise two categories.

Category-I: Standards on General Principles of Internal Audit. It includes the following Standards:

- ♦ 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 - Disclosure 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. It includes the following Standards:

- ♦ 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 - Communication and Reporting
- ♦ IAAS 27 - Monitoring Progress

Structure of the Standards

The Internal Audit & Assurance Standards consist of two parts; both have equal authority and application.

- Part-I covers the statements of main principles and core requirements for the professional practice of internal auditing. These are set out in ***bold italic*** type.
- Part-II includes Application Guidance to the requirements. These paragraphs are set out in plain type.

All terms used in the Internal Audit & Assurance Standards, including those relevant to the practice of internal auditing, have been defined and included in the Glossary appended at the end of Standards.

Standards Setting Process

Issue of Internal Audit & Assurance Standards follows an extensive consultation process. First, exposure drafts of the Standards, including Introduction and Glossary, are prepared by the Study Group of Technical Experts constituted by the IAASB. These are thoroughly discussed, clause-by-clause, in the IAASB. These exposure drafts are then hosted on the Institute website and published in Management Accountant journal for comments of all stakeholders and public at large. Copies of these drafts are also circulated to the concerned Government authorities, regulatory bodies, professional institutes, past Presidents, members of the Central & Regional Councils and all Chapters and Centres in India & abroad. Based on the comments received, the IAASB will update and finalise the Standard for consideration by the Council of the Institute. After approval by the Council, the Standards are issued.

While formulating the Standards, the IAASB takes into consideration the applicable laws, rules and regulations. However, if a particular Standard or any part thereof is inconsistent with a law, provisions of the said law shall prevail.

Effective Date

The Standards are effective for all internal audit services & engagements effective from the first day of April, 2021.

Stakeholders Suggestions & Comments

The Internal Audit & Assurance Standards are reviewed as an ongoing process. Stakeholders may send their suggestions and comments regarding the Standards to the Secretary, Internal Audit and Assurance Standards Board, the Institute of Cost Accountants

IAAS 1 – OBJECTIVES, AUTHORITY AND CHARTER

Requirements

- 1.1 *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 assurance and consulting services included in the internal audit activity.*
- 1.2 *The authority to define and approve the internal audit charter lies with the Audit Committee/ Board, unless law prescribes otherwise.*
- 1.3 *The mandatory nature of the core principles and requirements of internal auditing, as set out in the IAA Standards, must be recognized in the internal audit charter.*
- 1.4 *The Chief Internal Auditor must periodically review the internal audit charter and present it to the Audit Committee/ Board for approval.*
- 1.5 *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 process.*
- 1.6 *The internal audit assignment plan shall be continuously monitored during the execution phase for achievement of the objectives and to identify deviations, if any.*
- 1.7 *Non-conformance with the Standards, unless when applying professional judgment, circumstances justify deviation, must be disclosed, alongwith the impact to the Audit Committee/ Board for approval.*

Application Guidance

- 1.8 The Charter of Internal Audit is the principal document that defines the internal audit activity within the entity. It lays down all important aspects of internal audit. An indicative list of areas covered in the internal audit charter is given below:
 - Purpose, & objectives of internal audit;

- Scope of internal audit activities commensurate with the size and nature of entity's business;
 - Conformance with the principles of internal auditing laid down in the Internal Audit & Assurance Standards;
 - Independence and access to records and personnel;
 - Authority and responsibility of the Chief Internal Auditor;
 - Accountability and Reporting structure of the Chief Internal Auditor; and
 - Quality assurance by the Chief Internal Auditor.
- 1.9 The nature of assurance and/or consulting services to be provided by the internal audit is defined in the internal audit charter. If these services are out-sourced to parties outside the entity, their nature & scope is also clearly laid out in the internal audit charter.
- 1.10 The internal audit charter establishes the internal audit activity's position within the organization, including the nature of functional reporting relationship with the Audit Committee/ Board; and authorizes access to records, personnel, etc.
- 1.11 As per the provisions laid down in the Companies Act 2013 and the SEBI's LODR Regulations, the authority to define and approve the internal audit charter lies with those charged with governance i.e. the Audit Committee/ Board.
- 1.12 The Charter of Internal Audit must be periodically reviewed by the Chief Internal Auditor, discussed with the senior management and presented to the Audit Committee / Board for approval.
- 1.13 When nonconformance with the Standards impacts the overall scope or operation of the internal audit activity, the chief of internal audit must disclose the nonconformance and the impact to the Audit Committee and the Board.
- 1.14 The terms of the internal audit engagement are documented in the Engagement Letter which is entered into between the Chief Internal Auditor [or the Engagement Partner] and the entity.

IAAS 2 – INTERNAL AUDIT ENGAGEMENT

Requirements

- 2.1 ***The Internal Auditor must agree to the terms of the internal audit engagement with management.***

- 2.2 *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.*
- 2.3 *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.*
- 2.4 *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 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.*
- 2.5 *The scope of the engagement must include availability and access of internal auditor to the relevant systems, records, personnel, etc. and including those under the control of third parties.*
- 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.*
- 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.*
- 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 internal auditor must agree to express an opinion in order to enhance the confidence of the assurance user about the outcome of internal audit.*
- 2.9 *In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If 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 key factor in deciding whether consulting services are compatible with the assurance role is to determine whether the internal auditor is assuming any management responsibility.***
- 2.11 ***Internal auditors 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.***

Application Guidance

- 2.12 The management of the entity and the Internal Auditor should discuss and agree to the terms of the internal audit engagement, whether performed by the internal team or outsourced to a party outside the entity. The role of management in agreeing the terms of the internal audit engagement for the entity depend on its governance structure and relevant law or regulation.
- 2.13 The internal audit engagement objectives, scope and responsibilities must be drawn in compliance with the Charter of Internal Audit and approved by the Audit Committee/ Board.
- 2.14 When internal audit is performed by a party outside the entity, the agreed terms of the internal audit engagement must be recorded in the internal audit engagement letter or other suitable form of written agreement.
- 2.15 The form and content of the internal audit engagement letter may vary for each entity. Information included in the engagement letter on the internal auditor's responsibilities may be based on Internal Audit & Assurance Standards. An internal audit engagement letter may include the following:
- i) Elaboration of the objectives and scope of the internal audit, including reference to applicable laws, regulations, standards, ethical and other pronouncements of professional bodies to which the internal auditor adheres;
 - ii) Responsibilities of the internal auditor and that of the management;
 - iii) Arrangements regarding the planning and performance of the internal audit, including the composition of the engagement team;
 - iv) Applicable form and content of the reporting framework; and
 - v) The basis on which fees are computed and any billing arrangements.
- 2.16 When relevant, the following points could also be considered in the internal audit engagement letter:

- i) Arrangements concerning the involvement of experts in some aspects of internal audit.
 - ii) Arrangements concerning the involvement of external auditors and other staff of the entity.
 - iii) Arrangements to be made with the previous internal auditor, if any.
 - iv) Any restriction of the internal auditor's liability when such possibility exists.
 - v) Any obligations to provide internal audit working papers to other parties.
- 2.17 Internal auditors should ascertain the extent to which management has established adequate criteria to evaluate governance, risk management, and controls and to determine whether objectives and goals have been accomplished. If adequate, internal auditors may use such criteria in their evaluation. If inadequate, internal auditors may identify appropriate evaluation criteria through discussion with management and/or the Board.
- 2.18 The established scope of internal audit should be sufficient to achieve the objectives of the engagement. The internal audit team should have appropriate mix of knowledge, skills, and other competencies needed to perform the engagement. Internal auditor should have sufficient resources needed to accomplish the engagement with due professional care.
- 2.19 Consulting engagement objectives should be consistent with the entity's values, strategies, and objectives and should clearly address the governance, risk management, and control processes to the extent agreed upon with the client.
- 2.20 When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

IAAS 3 – INDEPENDENCE, INTEGRITY AND OBJECTIVITY

Requirements

- 3.1 ***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.***
- 3.2 ***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.

- 3.3 *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.*
- 3.4 *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.*
- 3.5 *If independence or objectivity is impaired in fact or appearance, the Chief Internal Auditor must disclose such impairment to the Audit Committee/ Board.*
- 3.6 *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.*
- 3.7 *Assurance engagements for functions over which the chief internal auditor has responsibility must be overseen by a party outside the internal audit activity.*
- 3.8 *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.*
- 3.9 *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.*
- 3.10 *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.*

Application Guidance

- 3.11 Independence is the freedom from those conditions that threaten the ability of the internal auditors to perform their responsibilities in an unbiased manner. The independence of the internal audit function as a whole, and the internal auditor within the organisation, plays a large part in establishing the independence of the

internal audit activity. The overall organisation structure of key personnel, the position and reporting of the Chief Internal Auditor within this structure, along with the powers and authority which is derived from superiors establishes the independence of the internal auditor. Therefore, to achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Chief Internal Auditor should have direct and unrestricted access to the senior management, Audit Committee and the Board.

- 3.12 Independence of internal audit activity can be achieved through a dual-reporting relationship. The Chief Internal Auditor should report directly to the Audit Committee/ Board, who are responsible to appoint the Internal Auditors as per Rule 8 of “The Companies (Meetings of Board and its Powers) Rules, 2014”. The Chief Internal Auditor may have dual reporting responsibility, wherein the administrative reporting is to an executive officer (e.g. MD or CEO), but functional reporting to the Chairman of the Audit Committee/ Board. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.
- 3.13 Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.
- 3.14 The internal auditor should operate in a highly professional manner and seen to be fair in all his dealings. Any conflict of interest in which he has a competing professional or personal interest is unethical & improper. It may affect his independence and objectivity. Such conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. Therefore, he should avoid all conflicts of interest and not seek to derive any undue personal benefit or advantage from his position.
- 3.15 To ensure independence and objectivity, the internal audit function should be positioned outside the functions which are subject to internal audit (e.g. Finance and Accounts) and the Internal Auditor should report directly to the highest governing body of the entity.
- 3.16 Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding. The determination of appropriate parties to which the details of an

impairment to independence or objectivity must be disclosed is dependent upon the nature of impairment, expectations of the management and the chief internal auditor's administrative and functional reporting framework.

- 3.17 While assigning assurance or consulting engagements, the Internal Auditor may be exposed to a different type of risk to independence, whereby he is assigned certain operational responsibilities (such as risk management, compliance, etc.). Internal auditor may accept such operational role for a short duration only after communicating his limitations to assume ownership or accountability of the process; and his inability to take operational decisions which may be subject to an internal audit later on.

IAAS 4 – PROFICIENCY AND DUE PROFESSIONAL CARE

Requirements

- 4.1 *Internal audit engagements must be performed with proficiency and due professional care.*
- 4.2 *The internal auditor must either have or obtain such skills and competence as are necessary for the purpose of discharging his responsibilities. The internal auditor may acquire required skills and competence through general education, or technical knowledge obtained through study and formal courses.*
- 4.3 *The internal audit team collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.*
- 4.4 *The 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.*
- 4.5 *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.*
- 4.6 *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.

- 4.7 ***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.***
- 4.8 ***In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analytic techniques.***
- 4.9 ***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.***
- 4.10 ***The internal auditor must decline the consulting engagement if they lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.***

Application Guidance

- 4.11 The internal auditor should have sound knowledge, strong inter-personal skills, practical experience, professional expertise and other competencies required to conduct a quality audit. He should undertake only those assignments for which he has the requisite competence.
- 4.12 The internal auditor shall obtain such skills and competencies as necessary for the purpose of discharging his responsibilities. In addition to the basic auditing & technical skills, he should have adequate knowledge and expertise in softer skills (such as information technology and communication skills).
- 4.13 Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.
- 4.14 Internal auditors must have sufficient knowledge of information technology, control systems, machine learning, data analytics and other technology-based audit techniques to perform their assigned work. However, information technology audit should be conducted only by those internal auditors having requisite knowledge, skill and expertise.

- 4.15 Where the internal auditor lacks certain expertise, he shall obtain the required assistance and support either from the in-house experts or through the services of an outside expert.
- 4.16 Internal auditors must exercise due professional care during a consulting engagement by considering the needs and expectations of clients, including the nature, timing, and communication of engagement results; the extent of work needed to achieve the engagement's objectives; and the cost of consulting engagement in relation to its potential benefits.
- 4.17 The internal audit activity is effectively managed when:
- It is undertaken in a systematic, disciplined and professional manner by the internal audit team having required knowledge, skills and competencies;
 - It achieves the purpose, objectives and responsibility included in the internal audit charter or engagement letter;
 - It conforms with the Internal Audit & Assurance Standards; and
 - Its outcomes add value to the entity.
- 4.18 The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

IAAS 5 – USING THE WORK OF AN EXPERT

Requirements

- 5.1 *In conducting internal audit assignments, the Chief Internal Auditor may seek the assistance and place reliance on the work of an expert. This may be in a complex area or a unique and specialised discipline.*
- 5.2 *The expert may either be an employee of the entity, or the internal auditor's staff or an outside professional.*
- 5.3 *The 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.*

- 5.4 ***The internal auditor may have the authority to select, appoint and engage the expert. The 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.***
- 5.5 ***The internal auditor must participate in defining the scope, approach and work to be conducted by the expert. The 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 evidence.***
- 5.6 ***The 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 assurance user.***

Application Guidance

- 5.7 An Expert is a person or an entity, who possesses certain specialized skills and expertise in a particular area, field or discipline.
- 5.8 The internal auditor may seek the assistance and place reliance on the work of an Expert in specialized areas such as Information Technology, Engineering, Banking, Actuarial Services, Forensic Audit, Taxation, Risk Modelling, Intellectual Property, etc.
- 5.9 An expert is generally engaged to help in an internal audit assignment where the required skills are not available within the internal audit team or function. The Expert can be an employee of the entity, provided he fulfils all criteria relating to his independence and objectivity.
- 5.10 The objectives of using the work of an expert is to ensure that the internal audit procedures are conducted in complex and specialised areas with the assistance and support from competent experts who possess the necessary knowledge and expertise, so as to ensure that the outcome of internal audit is credible, reliable, and meet the expected quality standards.
- 5.11 Where the expert has any relationship with the entity management or has any personal, financial or organisational interests, the objectivity of the expert may get compromised and it may prevent the rendering of an unbiased and impartial report.

- 5.12 Where the internal auditor plans to incorporate the findings of the work of the expert as part of his internal audit report, the internal auditor must participate in defining the plan and procedures of the expert.
- 5.13 During and after completion of the work by the expert, the internal auditor should evaluate the outcome of the expert's findings to validate the quality of work performed and the reliability of his findings.
- 5.14 In exceptional cases, where the findings of the expert are not consistent with other audit evidence, the internal auditor should attempt to resolve the inconsistency through discussions and in extreme situations, may conduct additional procedures or engage another expert to resolve the inconsistency.

IAAS 6 – QUALITY ASSURANCE AND CONTINUOUS IMPROVEMENT

Requirements

- 6.1 *The internal auditor must have such skills and competence as are necessary for the purpose of discharging his responsibilities.*
- 6.2 *The internal auditor must, through study and formal courses, obtain such skills and competence as are necessary for the purpose of discharging his responsibilities.*
- 6.3 *Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.*
- 6.4 *The chief internal auditor must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.*
- 6.5 *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 organization should be entrusted with this responsibility, irrespective whether the internal audit is done in-house or by an external agency.*
- 6.6 *The quality assurance and improvement program must include both internal and external assessments.*
- 6.7 *Internal assessments must include:*
- *Ongoing monitoring of the performance of the internal audit activity; and*

- *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.*
- 6.8 *External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief internal auditor must discuss with the Audit Committee/Board:*
- *The form and frequency of external assessment; and*
 - *The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.*
- 6.9 *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:*
- *The scope and frequency of both the internal and external assessments;*
 - *The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest;*
 - *Conclusions of assessors; and*
 - *Corrective action plans.*
- 6.10 *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.*
- 6.11 *Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.*

Application Guidance

- 6.12 A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the professional Standards and an evaluation of whether internal auditors apply the ethical requirements. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 6.13 Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate

conformance with the professional Standards, and regulatory, legal & ethical requirements.

6.14 A person within the organization is entrusted with the responsibility to establish policies and procedures designed to provide reasonable assurance on the following:

- Quality in internal audit, whether done in-house or by an external agency;
- Internal auditors' compliance with the professional Standards, and regulatory and legal requirements;
- Internal auditors' compliance with the relevant ethical requirements;
- Assessment of the internal audit team members' capabilities, competence and commitment;
- That the reports issued by the internal auditors are appropriate in the circumstances; and
- These policies and procedures relating to the system of quality assurance are relevant, adequate, operating effectively and complied with in practice.

6.15 The internal audit quality assurance framework must address the following:

- Developing an internal audit manual clearly defining the specific role and responsibilities, policies and procedures, documentation requirements, reporting lines and protocols, targets and training requirements for the staff, internal audit performance measures and the indicators.
- Ensuring that the internal audit staff at all levels is appropriately trained and adequately supervised and directed on all assignments.
- Establishing a formal process of feedback from the users of the internal audit services, such as the senior management executives, etc. Some of the attributes on which the feedback may be sought include quality, timeliness, value addition, efficiency, innovation, effective communication, audit team, time management. The responses received from the users of the internal audit services should also be shared with the appropriate levels of management and those charged with governance.
- Establishing appropriate performance criteria for measuring the performance of the internal audit function. In case the internal audit activity is performed by an external agency, the contract of the engagement should contain a clause for establishment of performance measurement criteria and periodic performance

review. These performance measurement criteria should be approved by the management.

- 6.16 External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the professional Standards, and regulatory, legal & ethical requirements.
- 6.17 An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief internal auditor should encourage oversight by the Audit Committee/Board in the external assessment to reduce perceived or potential conflicts of interest.
- 6.18 The external quality review should be done by a professionally qualified person having an in depth knowledge and experience of, inter alia, the professional Standards applicable to the internal auditors, the processes and procedures involved in the internal audit generally and those peculiar to the industry in which the entity is operating. The external quality reviewer should be appointed in consultation with the person entrusted with the responsibility for the quality in internal audit, senior management and audit committee/Board.
- 6.19 The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management, audit committee and the Board. It should be the responsibility of chief internal auditor and as enshrined in the internal audit charter.
- 6.20 To demonstrate conformance with the professional Standards, and regulatory, legal & ethical requirements, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.
- 6.21 The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief internal auditor has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

IAAS 7 – DISCLOSURE AND CONFIDENTIALITY

Requirements

- 7.1 *The chief internal auditor must determine the appropriate person(s) within the entity's governance structure with whom to communicate.*
- 7.2 *The chief internal auditor must establish a written communication process and protocol with management, which is shared and agreed with them. All communication must be accurate, objective, clear, concise, constructive, complete, and timely.*
- 7.3 *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.*
- 7.4 *The chief internal auditor must communicate and interact directly with the senior management, Audit Committee and the Board.*
- 7.5 *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.*
- 7.6 *The chief internal auditor must report periodically to senior management, Audit Committee and the Board on the*
 - *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*
 - *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.*
- 7.7 *The chief internal auditor must communicate with the senior management, Audit Committee and the Board, the responsibilities of the internal auditor and the fact that the audit of any matter does not relieve management of their responsibilities.*
- 7.8 *The chief internal auditor must communicate with the senior management, Audit Committee and the Board, a statement that the audit team and others in the firm 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.

- 7.9 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.***
- 7.10 The chief internal auditor must not communicate the engagement results to parties outside the entity without the written consent of management, unless otherwise mandated by legal, statutory, or regulatory requirements. When releasing engagement results to parties outside the entity, the communication must include limitations on distribution and use of the results.***
- 7.11 If a final communication contains a significant error or omission, the chief internal auditor must communicate corrected information to all parties who received the original communication.***

Application Guidance

- 7.12** The frequency and content of reporting should be determined by the chief internal auditor in consultation with the senior management, Audit Committee and the Board.
- 7.13** Matters that may contribute to effective two-way communication include discussion about the purpose of communications. When the purpose is clear, the internal auditor, and the senior management, Audit Committee and the Board would have mutual understanding of relevant issues and the expected actions arising from the communication process.
- 7.14** The communication process will vary with the circumstances, including the size and governance structure of the entity, how the entity operate, and the internal auditor's view of the significance of matters to be communicated. Difficulty in establishing effective two-way communication may indicate that the communication between the internal auditor and the senior management, Audit Committee and the Board is not adequate for the purpose of internal audit.
- 7.15** The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by the senior management, Audit Committee and the Board.
- 7.16** The chief internal auditor's reporting and communication to the senior management, Audit Committee and the Board must include information about the

internal audit charter, independence of the internal audit activity, audit plan and progress against the plan, resource requirements and results of audit activities.

- 7.17 The internal audit must be conducted in compliance with the applicable professional Standards and legal, regulatory & ethical requirements. The chief internal auditor should communicate to the senior management, Audit Committee and the Board, that the engagements have been conducted in conformance with the applicable Standards and Requirements. In case of any nonconformance with the applicable professional Standards and legal, regulatory & ethical requirements, the chief internal auditor should communicate to the senior management, Audit Committee and the Board, the reasons for nonconformance.
- 7.18 The chief audit executive is responsible for communicating the final results of all engagements to clients. Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, Audit Committee and the Board, and must be supported by sufficient, reliable, relevant, and useful information.
- 7.19 During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management, Audit Committee and the Board. Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.
- 7.20 The senior management, Audit Committee and the Board may wish to provide information to third parties. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for the senior management, Audit Committee and the Board is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind and any restrictions on disclosure or distribution to third parties.
- 7.21 The chief internal auditor is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief internal auditor delegates these duties, he or she retains overall responsibility.

IAAS 8 – RISK BASED INTERNAL AUDIT

Requirements

- 8.1 *The Internal Auditor must ensure that the entity has designed, implemented and maintains effective and efficient internal controls. The internal auditor should obtain an understanding of the various aspects of the control environment and evaluate the same as to the operating effectiveness.*
- 8.2 *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.*
- 8.3 *The internal audit must evaluate and provide an assurance relating to effectiveness of operations, reliability of financial management systems and reporting, and compliance with laws and regulations.*
- 8.4 *The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.*
- 8.5 *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 they continue to operate effectively and risks, responses and actions are being properly classified and reported.*
- 8.6 *The internal auditing assurance role in Enterprise Risk Management (ERM) would include evaluating and giving assurance on risk management processes; reporting of risks; and reviewing the management of key risks. These assurance activities form part of the wider objective of giving assurance on risk management.*
- 8.7 *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 RM strategy for Board approval.*

- 8.8 ***As a safeguard, 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.***
- 8.9 ***The 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.***
- 8.10 ***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 organization's risk management processes.***
- 8.11 ***When the chief internal auditor concludes that management has accepted a level of risk that may be unacceptable to the entity, the chief internal auditor must 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.***

Application Guidance

- 8.12 Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. Therefore Risk management is the continuing process to identify, analyze, evaluate, and treat loss exposures and monitor risk control and financial resources to mitigate the adverse effects of loss. Internal Audit to provide assurance that those risks have been properly managed. This is achieved through Risk Based Internal Audit (RBIA)
- 8.13 Risk based internal auditing (RBIA) is a methodology that links internal auditing to an entity's overall risk management framework. RBIA allows internal audit to provide assurance to the Board that risk management processes are managing risks effectively, in relation to the risk appetite.
- 8.14 Enterprise-wide risk management (ERM) is a structured, consistent and continuous process across the whole organization for identifying, assessing, & deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.
- 8.15 The internal auditor makes an assessment to determine whether risk management processes are effective to support an entity's mission & objectives; that significant

risks are identified and assessed; that appropriate risk responses are selected that align risks with the organization's risk appetite and relevant risk information is captured and communicated in a timely manner across the entity's staff, management, and the Board to carry out their responsibilities.

- 8.16 The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.
- 8.17 The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.
- 8.18 Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.
- 8.19 Internal Audit may add value by reviewing critical control systems and risk management processes; performing effectiveness review of management's risk assessments and the internal controls; providing advice in the design and improvement of control systems and risk mitigation strategies; implementing a risk-based approach to planning and executing the internal audit process; ensuring that internal audit's resources are directed at those areas most important to the organization; challenging the basis of management's risk assessments and evaluating the adequacy and effectiveness of risk treatment strategies; facilitating ERM workshops; and defining risk tolerances where none have been identified, based on internal audit experience, judgment, and consultation with management.
- 8.20 Management is in a unique position to perpetrate fraud because of its' ability to manipulate records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.
- 8.21 If the internal auditor identifies a misstatement and has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the internal auditor must re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The

internal auditor must also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.

IAAS 9 – TECHNOLOGY DRIVEN INTERNAL AUDIT

Requirements

- 9.1 *The internal auditor should consider the IT environment in designing audit procedures to review the systems, processes, controls and risk management framework of the entity.*
- 9.2 *The internal auditor should review the robustness of the IT environment and consider any weakness or deficiency in the design and operation of any IT control within the entity.*
- 9.3 *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 internal auditor should consider the effect of technology on internal audit engagement, including its use in data analysis.*
- 9.4 *In planning the portions of the internal audit which may be affected by the IT environment, the internal auditor should obtain an understanding of the significance and complexity of the IT activities and the availability of the data for use in the internal audit.*
- 9.5 *The internal auditor should review whether the information technology system in the entity considers the confidentiality, effectiveness, integrity, availability, compliance and validity of data and information processed. The internal auditor should also review the effectiveness and safeguarding of IT resources, including – people, applications, facilities and data.*
- 9.6 *The internal auditor should 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 internal auditor should consider whether any specialised IT skills are needed in the conduct of the audit, for example, the operating knowledge of a specialised ERP system.*
- 9.7 *If specialized skills are needed, the internal auditor should 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 internal auditor should obtain sufficient appropriate evidence that the work performed by the expert is adequate for the purposes of the internal audit.

- 9.8 ***The 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.***
- 9.9 ***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 risk management. These technologies are fast impacting and accelerating the automation efforts. The internal auditors must re-draw audit procedures suited in such environment.***
- 9.10 ***The internal auditor must assess their data analytical capabilities, strengths and weaknesses. The internal auditors must learn to use data more intelligently to deduce critical business analytical insights, build a framework of data, people and technology to administer analytics, groom analytical users and leaders, and set and monitor SMART targets for analytical pursuits.***

Application Guidance

- 9.11 IT system uses technology to capture, classify, summarize and report data in a meaningful manner to all users. It includes an enterprise resource planning (ERP) system. The use of IT changes the processing, storage, retrieval and communication of financial & non-financial information and the interplay of processes, systems and control procedures.
- 9.12 The internal auditor should obtain an understanding of the systems, processes, control environment, risk-response activities and internal control systems sufficient to plan the internal audit and to determine the nature, timing and extent of the audit procedures. Such an understanding would help the internal auditor to develop an effective audit approach.
- 9.13 Information Technology systems may generate reports that might be useful in performing substantive tests (particularly analytical procedures). The potential for use of computer-assisted audit techniques may permit increased efficiency in the performance of internal audit procedures, or may enable the auditor to economically apply certain procedures to the entire population of transactions.

- 9.14 When the information technology systems are significant, the internal auditor should also obtain an understanding of the IT environment and whether it influences the assessment of inherent and control risks.
- 9.15 The internal auditor should make an assessment of inherent and control risks for material assertions related to significant processes and systems. These assertions apply to significant processes and systems for example - sales, procurement, inventory management, production, marketing, human resources and logistics.
- 9.16 If the internal auditor is not able to rely on the effectiveness of the IT environment as a result of the review, he may perform such substantive testing or test of IT controls, as deemed fit in the circumstances. The internal auditor should apply his professional judgment and skill in reviewing the IT environment and assessing the interfaces of such IT infrastructure with other business processes.
- 9.17 The internal auditor should assess and review the reliance which the management of the entity places on the outsourced agency, in case where such information processing has been outsourced to the outside party. The risks associated with such outsourced services should be considered by the internal auditor in light of the review of IT controls prevalent in such outside entity. The internal auditor should also review the extent to which the entity's controls provide reasonable assurance regarding the completeness, validity, reliability and availability of the data and information processed by such outsourced agency.
- 9.18 Computer Assisted Audit Techniques (CAATs) are computer programs that the internal auditor uses as part of the audit to process data of audit significance to improve the effectiveness and efficiency of the audit process.
- 9.19 General Audit Software applications can be used by the internal auditor for transaction testing, compliance review, fraud investigation, MIS reporting, advanced statistical forecasting and correlation, large database reconciliation of electronic data from different industry verticals and for intelligent analysis of electronic data from key business processes. General Audit Softwares gives internal auditor the power to sift through Windows network security event logs to extract the entries that may have a security impact or identify deviations from corporate policy, security breaches and inappropriate usage.
- 9.20 Data Analysis may help the internal auditors meet their auditing objectives. By analysing data within key organizational processes, internal audit is able to detect changes or vulnerabilities in organizational processes and potential weaknesses that could expose the organization to undue or unplanned risk. This helps identify emerging risk and target internal audit resources to effectively safeguard the

organization from excessive risk and improve overall performance. This also enables internal audit to identify changes in the organizational processes.

- 9.21 By analysing data from a variety of sources against control parameters, business rules and policies, internal audit may provide fact-based assessments of how well automated controls are operating. Data analysis technology also may be used to determine if semi-automated or manual controls are being followed by seeking indicators in the data. By analysing 100 percent of relevant transactions and comparing data from diverse sources, the internal audit can identify instances of fraud, error, inefficiencies and / or non-compliance.
- 9.22 Embarking on an increased focus on data analysis using technology may have obstacles and challenges such as underestimating the effort required to implement correctly, lack of senior management and Audit Committee support, lack of sufficient understanding of the data and what it means and the need to develop expertise to appropriately evaluate the exceptions and anomalies observed in the analysis. The chief internal auditor may address these obstacles by preparing a well structured audit plan that commits sufficient resources and time.
- 9.23 Data Analytics is a science of analysing the raw data in a structured manner and making decisions based on it. It provides deeper view & helps in 360^o profiling of the business. It also helps in early detection of risks in the audit process. Data analytics may be effectively used in three stages i.e. audit planning, execution and reporting. Therefore, the internal audit team should have or take help of an IT expert. For remotely doing audit, the internal auditors may undertake analysis of the data using data analytics that would also help to identify the frauds or areas where internal controls are missing.
- 9.24 The internal auditor should document the internal audit plan, nature, timing and extent of audit procedures performed and the conclusions drawn from the evidence obtained. In an internal audit in IT environment, some or all of the audit evidence may be in the electronic form. The internal auditor should satisfy himself that such evidence is adequately and safely stored and is retrievable in its entirety as and when required.
- 9.25 Under the COSO Guidance on Monitoring Internal Control Systems, 2009 - periodical, one-time and adhoc review of controls is not effective as controls can fail, deteriorate or become irrelevant during the intermittent period resulting into fraud, abuse, wastage and non-compliance. Continuous auditing allows the user to monitor the functioning of the controls during the intermittent period's referred to as blind-spots. The internal auditors are able to meet this challenge by doing continuous

auditing i.e. by performing audit-related activities on a more continuous or continual basis.

IAAS 10 – ENHANCING GOVERNANCE THROUGH INTERNAL AUDIT

Requirements

- 10.1 *The internal audit activity must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.*
- 10.2 *The internal audit activity must assess and make appropriate recommendations to improve the organization’s governance processes for:*
 - *Making strategic and operational decisions;*
 - *Overseeing risk management and control;*
 - *Promoting appropriate ethics and values within the organization;*
 - *Ensuring effective organizational performance management and accountability;*
 - *Communicating risk and control information to appropriate areas of the organization; and*
 - *Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.*
- 10.3 *The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.*
- 10.4 *The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.*

Application Guidance

- 10.5 Governance is the set of responsibilities and practices exercised by the Board and executive management with the goal of providing strategic directions, ensuring that objectives are achieved, ascertaining that risks are managed appropriately, and verifying that the organization's resources are used responsibly.
- 10.6 Among all audits, 'Internal Audit' has become most valuable tool for the management as it assists the organization to accomplish its objectives; to evaluate and improve the adequacy & effectiveness of its operations, internal controls, governance processes, and the risk management & control systems.
- 10.7 The internal audit provides assurance to the Board & Audit Committee relating to reliability of financial management and reporting, efficiency of systems, processes and governance, and compliance with various laws and regulations.
- 10.8 Therefore, Companies Act 2013 provides for mandatory requirement of internal audit in all listed companies and large number of unlisted public and private companies. These companies are required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company. Further, the Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.
- 10.9 The internal audit provides an assurance to the management on the adequacy and effectiveness of its systems, processes, and controls by undertaking review of the enterprise risk management (ERM) system and adequacy & effectiveness of internal controls that should cover the strategic, operational, financial, compliance, reporting and reputational risks.
- 10.10 The internal audit performs a very critical role in organizational governance by understanding and evaluating all components of enterprise governance, and providing value added support for their improvement. Therefore, the internal auditors must possess & upgrade the necessary knowledge, skill, competence and expertise to succeed as a valuable source for the Audit Committee and the Board.
- 10.11 Internal Audit can add value by
- Reviewing critical control systems and risk management processes,
 - Performing effectiveness review of management's risk assessments and the internal controls,

- Providing advice in the design and improvement of control systems and risk mitigation strategies,
- Implementing a risk-based approach to planning and executing the internal audit process,
- Ensuring that internal audit's resources are directed at those areas most important to the organization,
- Challenging the basis of management's risk assessments and evaluating the adequacy and effectiveness of risk treatment strategies,
- Facilitating ERM workshops, and
- Defining risk tolerances where none have been identified, based on internal audit experience, judgment, and consultation with management.

10.12 In all organizations, the governance framework now focuses on long-term sustainable value creation. Implementing and maintaining a sustainability management system in an organization is a continuous process. Internal auditors play an important role in formulating the required strategy framework and sustainability policy.

IAAS 11 – INTERNAL AUDIT OF COST RECORDS

Requirements

- 11.1 *The scope, functions, and activities of internal audit as embedded in the internal audit charter approved by the Audit Committee/Board must include 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.*
- 11.2 *The internal audit must provide assurance to the Audit Committee and Board relating to reliability of financial management and reporting, efficiency of operations, control systems, processes and governance, effectiveness of cost accounting & reporting framework, and compliance with various laws and regulations.*
- 11.3 *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.

- 11.4 ***The internal audit of the cost records must assure the management that the cost information, which is basis of their evaluation of performance, risk management and control, is reliable and timely.***
- 11.5 ***The work of internal audit function 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;***
 - (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.***

Application Guidance

- 11.6 The purpose of maintaining robust cost accounting system, cost data analysis & reporting, and performance analysis is to determine if an entity is performing well and to identify areas, activities, processes, products, services, etc. that requires improvement.
- 11.7 The cost performance data aims to discover various drivers of costs and profitability and their impact on the performance variables with the objective of helping the entity to improve profits and profitability; to optimize resource allocation and utilization thereof; to optimize the product and services portfolio; to monitor performance of the entity in various areas; and to know if the management is meeting its goals.

- 11.8 Section 148 of Companies Act, 2013 provides for prescribed class of companies to maintain cost records and audit of these records. As part of these provisions, Central Government notified the Companies (Cost Records and Audit) Rules, 2014. These Rules require 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. Therefore, the internal audit scope must include audit of cost records of the entity, irrespective of its inclusion/exclusion from the abovementioned rules.
- 11.9 The cost accounting requires three dimensional data viz. quantity, rate & value, compared to the financial accounting that largely require one dimensional data viz. values only. Further, the cost accounting system also requires distinct identification of products/services, product lines, cost centers, etc. Hence, cost records are different from the financial records; though some books and records are common to both. Therefore, internal audit of cost records would require not only the audit of common books of account and records, but also the specific books and records covering the following areas:
- Capacity Determination; Production Records; Sales Records; Materials Cost; Employee Cost; Utilities; Direct Expenses; Repairs and Maintenance; Overheads – Production Overheads, Administrative Overheads and Selling & Distribution Overheads; Transportation Cost; Royalty and Technical Know-how; Research and Development Expenses; Quality Control Expenses; Pollution Control Expenses; Service Department Expenses; Packing Expenses; Interest and Finance Costs; Fixed Assets and Depreciation; Work-in-Progress and Finished Stock; Records of Physical Verification; Captive Consumption; By-Products and Joint Products; Adjustment of Cost Variances; Reconciliation of Cost and Financial Accounts; Related Party Transactions; Expenses or Incentives on Exports; and Cost Statements
- 11.10 Cost Auditing Standard 104 - Knowledge of Business, its Processes and the Business Environment provides that if an entity has an internal audit function, inquiries of the appropriate individuals within the function may provide information that is useful to the cost auditor in obtaining an understanding of the entity and its environment, and in identifying and assessing risks of material misstatement at the cost statement and assertion levels. If based on responses to the cost auditor's inquiries, it appears that there are findings that may be relevant to the entity's audit; the cost auditor may consider it appropriate to read related reports of the internal audit function.

- 11.11 In carrying out his duties and discharging his audit responsibilities, the external auditor may also derive much assistance from the internal auditor's intimate knowledge of the accounting system and technical knowledge of the business, particularly in connection with the various processes of manufacture, key points of controls, stocks-in-process, physical existence of fixed assets, depreciation charges, inter-connection between various operational activities, the ascertainment of liabilities, the adequacy and effectiveness of financial as well as non-financial controls and the risks and chances of fraud or misappropriation, and also intercompany transactions.
- 11.12 While the external auditor has sole responsibility for his report and for the determination of the nature, timing and extent of auditing procedures, much of the work of internal audit in this direction (i.e. related controls) may be useful to him in his examination of the cost and financial information. Where the external auditor can conclude that the internal auditor has adequately covered part of the work which the external auditor would do otherwise, he may be able to reduce the extent of his examination of details.
- 11.13 Following recommendations contained in the international auditing guideline issued by the International Federation of Accountants (IFAC) are very relevant:
- The report of the external auditor is his sole responsibility and his responsibility is not reduced by any use he makes of the internal auditor's work. Thus, judgments relating to the audit of the financial information must be those of the external auditor.
 - The external auditor should also test the work of the internal auditor which he intends to use. The nature, timing and extent of his tests will depend upon the external auditor's judgment as to the materiality of the area concerned to the financial statements taken as a whole and the results of his evaluation of the internal audit function and of the specific internal audit work. His tests may include examination of items already examined by the internal auditor, examination of other similar items and observation of the internal auditor's procedures.

IAAS 21 – INTERNAL AUDIT PLANNING

Requirements

- 21.1 ***The Chief Internal Auditor must prepare an overall internal audit plan for the entire entity for a given period of time (usually a year) and presented to the***

Audit Committee and Board of Directors who are responsible for internal audits. The audit plan will include the nature, extent and timing of risk assessment, audit procedures and other activities.

- 21.2 ***Rule 13(2) of the Companies (Accounts) Rule, 2014 provides that the Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity, and methodology for conducting the internal audit. Accordingly, the Audit Committee or the Board must finalise the internal audit plan, in consultation with the Chief Internal Auditor.***
- 21.3 ***The Chief Internal Auditor must undertake a comprehensive knowledge of the entity, its business and operating environment to determine the type of audit assignment, nature of audit procedures and tests to be conducted. As part of the planning process, a discussion with management and other stakeholders must be undertaken to understand the intricacies of each unit subject to audit. Other key members of the internal audit team must be involved in planning the audit, including participating in discussion with the management.***
- 21.4 ***A risk based planning exercise must form the basis of the overall internal audit plan. The Chief Internal Auditor must undertake an independent risk assessment exercise to prioritise and focus the audit work on high risk areas, with due attention to matters of importance, complexity and sensitivity. The input of senior management, Audit Committee and the Board must be considered in this process. The Chief Internal Auditor must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.***
- 21.5 ***The Chief Internal Auditor must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.***
- 21.6 ***The Chief Internal Auditor must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management, Audit Committee and the Board for review and approval. The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. The Chief Internal Auditor must also communicate the impact of resource limitations.***
- 21.7 ***The Chief Internal Auditor must formulate an overall audit strategy that sets the scope, timing and direction of the audit. The Chief Internal Auditor must update***

the overall audit strategy and the audit plan as required during the course of audit.

- 21.8 The Chief Internal Auditor must establish policies and procedures to guide the internal audit activity. The Chief Internal Auditor must plan the nature, extent and timing of the direction and supervision of the internal audit team members and the review of their work.***
- 21.9 The Chief Internal Auditor should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.***
- 21.10 The Chief Internal Auditor may consider accepting consulting engagements based on the potential to improve management of risks, add value, and improve the entity's operations. Accepted consulting engagements must be included in the internal audit plan.***
- 21.11 The internal audit plan must be continuously monitored during the execution phase for achievement of the objectives and to identify any deviations. All significant deviations must be communicated and discussed with the management. Any modifications in the internal audit plan must be approved by the Audit Committee and Board of Directors.***
- 21.12 The Chief Internal Auditor must document the internal audit plan, and overall audit strategy. Any significant changes made therein during the course of audit engagement must also be documented alongwith the reasons for the changes.***

Application Guidance

- 21.13** To develop the risk-based plan, the chief internal auditor consults with senior management, audit committee and the Board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief internal auditor must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually.
- 21.14** The purpose of an internal audit plan is to align internal audit objectives with the entity's goals and stakeholder expectations; to clearly lay down the scope, coverage and methodology of audit procedures; to assign appropriate skills to complex issues; to allocate adequate time and resources to important aspects of the

assignment and to ensure audit procedures are conducted in an efficient and effective manner.

21.15 In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

21.16 The nature and extent of planning activities will vary according to the size and complexity of the entity's activities, number of areas/activities to be covered, the audit team members' previous experience with the entity and the industry, and any changes in circumstances that occur during the audit.

21.17 The audit plan is more detailed than the overall audit strategy as it includes the nature, timing and extent of audit procedures to be performed by audit team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures.

21.18 A key element of the internal audit assignment planning exercise involves understanding the extent to which the entity has deployed Information Technology (IT) in its business, operations and transaction processing, especially if it is unique and different to the overall entity; and the auditor needs to deploy IT tools, data mining & analytic procedures, and the expertise required for conducting the audit activities and testing procedures. This helps to design and plan the audit and testing procedures more efficiently and effectively.

21.19 The Internal Auditor shall prepare a detailed work schedule to estimate the time required for each audit procedure depending on the audit attention it deserves on the basis of risk assessment and map this with the competencies i.e. knowledge,

experience, expertise etc. of the resources available to ensure proper resource availability and allocation.

- 21.20 Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.
- 21.21 When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.
- 21.22 Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.
- 21.23 In coordinating activities, the chief internal auditor may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief internal auditor should consider the competency, objectivity, and due professional care of the assurance and consulting service providers.
- 21.24 The chief internal auditor should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief internal auditor is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

IAAS 22 – INTERNAL AUDIT SAMPLING

Requirements

- 22.1 *When designing the audit sampling, the internal auditor must consider the purpose of the audit procedure, characteristics of the population, its sufficient size and selection of items in such a way that each sampling unit in the population shall have the chance for testing in order to reduce sampling risk to an acceptably low level.*
- 22.2 *When using either statistical or non-statistical sampling methods, the internal auditor should design and select an audit sample, perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate*

audit evidence to meet the objectives of the internal audit engagement unless otherwise specified by the client.

- 22.3 ***The internal auditor must perform audit procedure, appropriate to the purpose, on each item selected and if the audit procedure is not applicable to the selected item, the auditor must perform the audit procedure on replacement items.***
- 22.4 ***If the internal auditor is unable to apply the designated audit procedure, or suitable alternative procedures, to a selected item, the internal auditor must treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.***
- 22.5 ***The internal auditor must investigate the nature and causes of any deviation or misstatement identified, and thereby evaluate their possible effect on the purpose of audit procedure and on other areas of audit. The internal auditor must project misstatements found in the sample to the population for the purpose of tests of details.***
- 22.6 ***Sampling risk can be reduced by increasing sample size for both tests of controls and tests of details. Non-sampling risk can be reduced by proper engagement planning, supervision, monitoring and review.***
- 22.7 ***The internal auditor must ensure that the use of audit sampling has provided a reasonable basis for conclusions about the population tested and thereby must evaluate the results derived from sample tested.***

Application Guidance

- 22.8 An internal auditor will not be able to test 100% of the transactions within a set of financial statements as this will be far too costly and impracticable. Instead, he will use a technique known as 'audit sampling'. Audit sampling is the use of audit procedures to less than 100% of the items within an account balance or class of transactions. Its overall objective is to enable internal auditor to obtain and evaluate evidence about some of the characteristics of the items selected in order to form a conclusion about the population sampled.
- 22.9 The need for audit sampling arises from the increasing complexities in business, internal auditor's time involved and the volume of transactions involved in the business.
- 22.10 The purpose of audit sampling is to obtain an evidence, to fulfil the audit objectives set by the auditor, which enables the internal auditor to test the validity and accuracy of the transactions.

- 22.11 Having carried out, on each sample item, those audit procedures that are appropriate to the particular audit objective, the internal auditor should analyse the nature and cause of any errors detected in the sample; project the errors found in the sample to the population; reassess the sampling risk; and consider their possible effect on the particular internal audit objective and on other areas of the internal audit engagement.
- 22.12 The internal auditor shall consider the following steps in planning, selecting and performing test thereupon, and evaluating the results derived from audit sampling:
- Planning the audit sampling - state the objective of audit test; decide whether audit sampling applies; define attributes and expectation conditions, population & sampling unit; specify the tolerable expectation rate & acceptable risk of assessing control risk; estimate population expectation rate; and determine the initial sample size.
 - Selecting audit sampling and performing the tests - select the audit sampling and perform the audit procedures.
 - Evaluating the audit sampling the results - generalize from the sample to population; analyze exceptions; and decide the acceptability of the population.
- 22.13 The internal auditor should evaluate the sample results to determine whether the assessment of the relevant characteristics of the population is confirmed or whether it needs to be revised.
- 22.14 There are many methods of selecting samples. The internal auditor shall apply his professional judgement in selecting the relevant method.
- Random Selection
 - Systematic Selection
 - Monetary unit sampling
 - Value Weighted Selection
 - Haphazard selection
 - Block selection
- 22.15 Audit Sampling can use either a statistical or a non-statistical approach. The internal auditor shall determine the selection to use a statistical or non-statistical sampling approach on the basis of professional judgement. However, sample size is not a valid criterion to distinguish between statistical and non-statistical approaches. The

method of sample selection will affect not only the sample sizes used but also the method by which errors will be evaluated.

- 22.16 There is an inverse relationship between sample size and materiality and a direct relationship between sample size and the desired level of assurance. A lower materiality requires the internal auditor to use larger sample. As desired assurance for a given materiality amount increases, sample size increases.
- 22.17 In the design of the sample, the internal auditor should consider the audit objectives, population, stratification, sample size and sampling risk. The internal auditor shall also include the following consideration when designing an audit sampling. These considerations shall also assist internal auditor in defining what constitutes a deviation or misstatement and what population to be used for sampling.
- Specific purpose to be achieved,
 - Combination of audit procedure that is likely to best achieve audit purpose,
 - Nature of audit evidence sought,
 - Factors of possible deviation or misstatement conditions or other characteristics relating to audit evidence, and
 - Circumstances relevant to the purpose of audit procedures shall also be included for the purpose of evaluation of deviation or projection of misstatement.

IAAS 23 – ANALYSIS AND EVALUATION

Requirements

- 23.1 *The internal auditor must design and perform substantive analytical procedures that assist the internal auditor when forming an overall opinion.*
- 23.2 *Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.*
- 23.3 *Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.*
- 23.4 *Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.*

- 23.5 ***The internal auditor may apply analytical procedures as the risk assessment procedures at the planning and overall review stages of the internal audit.***
- 23.6 ***In determining the extent to which the analytical procedures should be used, the internal auditor may consider the significance of the area being examined, adequacy of the system of internal control, and the availability and reliability of financial and non-financial information. After evaluating these factors, the internal auditor should consider and use additional auditing procedures, as necessary, to achieve the audit objective.***
- 23.7 ***The internal auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the business, the entity and its environment and in identifying areas of potential risk.***
- 23.8 ***The internal auditor should apply analytical procedures at or near the end of the internal audit when forming an overall conclusion as to whether the systems, processes and controls as a whole are robust, operating effectively and are consistent with the internal auditor's knowledge of the business.***
- 23.9 ***When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the Board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.***

Application Guidance

- 23.10 “Analytical procedures” means the analysis of significant ratios and trends, including the resulting investigation of fluctuations and relationships in both financial and non-financial data that are inconsistent with other relevant information or which deviate significantly from predicted amounts. Analytical procedures provide the internal auditor with an efficient and effective means of making an assessment of information collected in an audit. The assessment results from comparing such information with expectations identified or developed by the internal auditor.
- 23.11 Analytical procedures are used to assist the internal auditor as risk assessment procedures to obtain initial understanding of the entity and its environment and thereafter in planning the nature, timing and extent of other internal audit procedures.
- 23.12 Analytical procedures may identify differences that are not expected (or absence of differences when they are expected), which may have arisen on account of factors such as errors, frauds, unusual or non recurring transaction or events, etc.

- 23.13 Analytical procedures used as risk assessment procedures help to identify matters that have audit implications. Some examples are unusual transactions or events, amounts, ratios, and trends.
- 23.14 Analytical procedures include the consideration of comparisons of the entity's information with the information for previous years or periods or with anticipated results or with similar industry norms or averages.
- 23.15 Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses using advanced statistical techniques. Analytical procedures may be applied to the entity's overall results or to each service, operation or function separately.
- 23.16 Different types of analytical procedures provide different levels of assurance. Analytical procedures can provide persuasive evidence or may eliminate the need for further verification by means of tests of details, provided the ratios are correctly calculated.
- 23.17 The application of planned analytical procedures is based on the expectation that relationships among performance data exist and continue in the absence of known conditions to the contrary. However, the suitability of a particular analytical procedure will depend upon the internal auditor's assessment of how effective it will be in detecting a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.
- 23.18 In addition to being a risk assessment procedure, analytical procedures can also be used as further audit procedures in obtaining evidence about a financial statement assertion. This would be a substantive analytical procedure in performing an overall review of the financial statements at, or near, the end of the audit.
- 23.19 Most analytical procedures are not very detailed or complex. They often use data aggregated at a high level, which means the results can only provide a broad initial indication about whether a material misstatement may exist.

IAAS 24 – INTERNAL AUDIT EVIDENCE

Requirements

- 24.1 ***The internal auditor must design and perform internal audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence that can form the basis of audit findings and allow reliable conclusions to be drawn from those findings.***

- 24.2 *The internal auditor must consider the relevance and reliability of the information to be used as audit evidence when designing and performing the internal audit procedures. The evidence must be obtained from reliable sources with consistency between various evidences collected.*
- 24.3 *Evidence collected through various audit procedures must be complementary and relevant to the objectives of the internal audit procedure conducted.*
- 24.4 *If information to be used as audit evidence has been prepared using the work of a management's expert, the internal auditor may, to the extent necessary, having regard to the significance of that expert's work for the internal auditor's purposes, evaluate the competence, capabilities and objectivity of that expert; obtain an understanding of work of that expert; and evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.*
- 24.5 *The internal auditor must evaluate whether the information is sufficiently reliable for the audit purpose, including, as necessary in the circumstances obtaining audit evidence about the accuracy and completeness of the information; and evaluating whether the information is sufficiently precise or detailed for the cost auditor's purposes.*
- 24.6 *The internal auditor must obtain sufficient appropriate audit evidence regarding compliance with various laws and regulations that may have a direct effect on the disclosures in the financial statements.*
- 24.7 *The internal auditor must obtain sufficient appropriate audit evidence about management's assertion that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction.*
- 24.8 *The internal auditor must determine means of selecting items for testing that are effective in meeting the purpose of internal audit procedures, when designing tests of controls and tests of details for obtaining audit evidence.*
- 24.9 *The internal auditor must determine extent of modification or addition to internal audit procedures that are necessary to resolve the matter and must also consider the effect of matter, if any, on the other aspects of internal audit, if the audit evidence obtained from one source is inconsistent with that obtained from another; or the internal auditor has doubts over the reliability of information to be used as audit evidence.*

Application Guidance

- 24.10 Audit evidence is necessary to support the internal auditor's opinion and internal audit report. It is cumulative in nature and is primarily obtained from internal audit procedures performed during the course of the internal audit. It may, however, also include information obtained from other sources.
- 24.11 Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information is used by the internal auditor, and therefore, also constitutes audit evidence.
- 24.12 The internal auditor shall apply internal audit procedures to obtain and evaluate audit evidence in forming the opinion. Such internal audit procedures can include inquiry, inspection, observation, recalculation, re-performance and analytical procedures, often in some combination.
- 24.13 The internal auditor shall obtain sufficient appropriate audit evidences which are closely interrelated. Sufficiency is the measure of quantity of audit evidence, whereas appropriateness is the measure of the quality of audit evidence. Obtaining more audit evidence, however, may not compensate for its quality. The relevance and reliability in providing support for the conclusions on which the internal auditor's opinion shall be based on appropriateness.
- 24.14 The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant.
- 24.15 The internal audit procedures may be used as risk assessment procedures, tests of controls or substantive procedures, depending on the context on which they are applied by the internal auditor.
- 24.16 The nature and timing of the audit procedures to be used may be affected by the fact that some of the internal data and other information may be available only in electronic form or only at certain points or periods in time that may not be retrievable after a specified period of time. Accordingly, the internal auditor may find it necessary as a result of the entity's data retention policy to perform audit procedures at a time when the information is available.
- 24.17 Relevance of audit evidence refers to its relationship to the assertion or to the objective of the control being tested. The relevance of audit evidence depends on the design & timing of the internal audit procedure used to test the assertion or control.

- 24.18 An understanding of the relevant field of expertise may be obtained in conjunction with the internal auditor's determination of whether the internal auditor has the expertise to evaluate the work of the management's expert, or whether the internal auditor needs an expert for this purpose.
- 24.19 Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include the relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the internal statements.
- 24.20 When using information produced by the company as audit evidence, the internal auditor should evaluate whether the information is sufficient and appropriate for purposes of the internal audit by performing procedure to test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and evaluate whether the information is sufficiently precise or detailed for purposes of the internal audit.
- 24.21 If audit evidence obtained from one source is inconsistent with that obtained from another, or if the internal auditor has doubts about the reliability of information to be used as audit evidence, the internal audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the internal audit.

IAAS 25 – INTERNAL AUDIT DOCUMENTATION

Requirements

- 25.1 *As part of the audit documentation, the Chief Internal Auditor must record the nature, timing and extent of completion of all internal audit activities and audit/testing procedures performed, relevant audit evidence obtained, and conclusions reached.*
- 25.2 *The Chief Internal auditor must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.*
- 25.3 *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.*
- 25.4 *If, in exceptional circumstances, internal auditor performs any new or additional audit procedures or draws new conclusions, after the date of internal*

audit report, then the internal auditor must document such circumstances and details of such procedures performed

- 25.5 ***The internal audit documentation and work paper files must be completed prior to the issuance of final internal audit report.***
- 25.6 ***The Chief Internal Auditors must develop and document policies and guidelines explaining the manner and the medium in which internal audit documentation will be prepared, reviewed, stored and finally discarded.***
- 25.7 ***The Chief Internal Auditor must control access to the internal audit documents and records. The Chief Internal Auditor must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.***

Application Guidance

- 25.8 Audit Documentation means the records, in physical or electronic form, including working papers prepared by and for, or obtained and retained by the internal auditor, in connection with the performance of various audit activities and procedures conducted, including evidence gathered, information collected, notes taken and meetings held.
- 25.9 Internal Audit working papers are the documents which record all audit evidence obtained during audit. Such documents are used to support the internal audit work done in order to provide assurance that the audit was performed in accordance with the relevant Internal Audit & Assurance Standards.
- 25.10 The extent of working papers is a matter of professional judgement. They may cover the detailed aspects of the internal audit or may include the daily work sheets or daily diary maintained by each member of the internal audit staff engaged on the assignment.
- 25.11 All significant matters which require exercise of judgment, together with the internal auditor's conclusion thereon, must be included in the internal audit documentation.
- 25.12 Content and form of audit documentation will depend on a number of factors such as the size and complexity of the operations of the entity, the extent of computerization of records, the assessed risks, the audit methodology and tools used, and the nature of the audit procedure performed.

- 25.13 Internal audit documentation, including audit work papers, must be collated and arranged logically in files (electronic or otherwise) and retained to support the performance of internal audit.
- 25.14 The audit documents should have self custody, easy but protected accessibility. If the data / information / audit evidence is in electronic form, it must be retrievable only with proper authorization. The electronic documents should have proper and safeguarded password protection and back up mechanism.
- 25.15 A safeguard should be taken so that the documentation or audit evidence is not altered, or additions or deletions made without the knowledge of the proper authority. The documentation should be fully protected from physical loss or damage. The audit documents should be divided in sections and properly indexed with serial numbers.
- 25.16 The Chief Internal Auditor must develop policies governing retention of engagement records, regardless of the medium in which each record is stored, and their release to the internal and external parties. These policies must be consistent with the organization's guidelines and comply with any regulatory or other requirements. The real test will be the full confidentiality of internal audit documents and records.

IAAS 26 – COMMUNICATION AND REPORTING

Requirements

- 26.1 *The Chief Internal Auditor must establish a written communication process with the management, which is shared and agreed with them.*
- 26.2 *All communication must be clear, appropriate and in line with the agreed process and timelines.*
- 26.3 *The Chief Internal Auditor must play an active role in resolving conflicts through timely communication with management.*
- 26.4 *The Chief Internal Auditor must issue a clear, and well documented internal audit report which includes overview of the objectives, scope and approach of the audit assignments; an executive summary of key observations covering all important aspects of the assignment; a summary of the corrective actions required (or agreed by management) for each observation; and the nature of assurance, if any, which can be derived from the observations.*

- 26.5 *The Chief Internal Auditor, based on his best professional judgement and in consultation with the client, may decide the content, form and structure of the internal audit report.*
- 26.6 *Before issue of internal audit report, the Chief Internal Auditor must share and discuss the draft report with the management.*
- 26.7 *The internal audit report must be issued within a reasonable time frame from the completion of the internal audit work.*

Application Guidance

- 26.8 Regular communication with the management is essential to bring clarity and consensus between the Chief Internal Auditor and the management with regard to the scope, approach, and timing of an internal audit and to the achievement of internal audit objectives.
- 26.9 The Chief Internal Auditor must issue an internal audit report at the end of a particular audit assignment highlighting key observations arising from such assignment.
- 26.10 The Chief Internal Auditor must issue an internal audit report at the close of a plan period. Normally, such reporting is done on a quarterly basis.
- 26.11 The framework of internal audit report is decided by the Chief Internal Auditor based on his best professional judgement and discussion with the management.

IAAS 27 – MONITORING PROGRESS

Requirements

- 27.1 *The Chief Internal Auditor must establish and maintain a follow-up system to monitor the management actions on the disposition of results communicated to the management.*
- 27.2 *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.*
- 27.3 *The Chief Internal Auditor must monitor and ensure that the senior management has accepted the risk of not taking action.*

- 27.4 *The Chief Internal Auditor must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.*

Application Guidance

- 27.5 The responsibility to implement the action plans and internal audit results, recommendations, and suggestions remains with the management.
- 27.6 The Chief Internal Auditor is responsible for continuously monitoring the closure of prior audit issues through a timely implementation of action plans included in past audits.
- 27.7 The internal auditor shall periodically report status of all prior issues to the management, and Audit Committee/ Board. Such 'Action Taken Report' should include issues closed and issues pending closure alongwith reasons for the delays.
- 27.8 In case of delays or ineffective implementation of the agreed corrective actions, the Chief Internal Auditor shall escalate such delays and concerns to the senior management and Audit Committee/ Board. In case of justified reasons for delayed or ineffective implementation, the Chief internal auditor may agree to the revised action plan.

GLOSSARY

Add Value: The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Analytical Procedures: means evaluation of financial information through analysis of possible relationship among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Appropriateness (of audit evidence): The measure of the quality of internal audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

Arm's length transaction: A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and reacting independently of each other and pursuing their own best interest.

Assurance Services: An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Audit documentation: Audit Documentation means the records, in physical or electronic form, including audit procedures performed & working papers prepared by and for, or obtained and retained by the auditor, in connection with the performance of the audit.

Audit evidence: It refers to all the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit Evidence includes both information contained in the accounting records underlying the financial statements and other information.

Audit file: Audit file means one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

Audit partner: Audit partner means the partner in the firm who is a member of the recognized professional Institute and is in full time practice and is responsible for the audit and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Audit plan: A record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks.

Audit risk - Audit risk is the risk of expressing an inappropriate audit opinion on financial statements that are materially misstated. Audit risk is a function of risks of material misstatement and detection risk.

Audit sampling: The application of audit procedure to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the internal Auditor a reasonable basis to draw conclusions about the entire population.

Audit team: All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.

Audit working papers: Audit working papers are the documents which record all audit evidence obtained during audit. Such documents are used to support the audit work done

in order to provide assurance that the audit was performed in accordance with the relevant Standards.

Audit: Audit is an independent examination of financial and other related information of an entity whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.

Auditee: Auditee means a company or any other entity for which audit is being carried out.

Auditor: Auditor is used to refer to the person or persons conducting the audit, usually the audit partner or other member of the audit team, or, as applicable, the firm.

Auditor's expert: An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner⁶ or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.

Board: The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with governance and responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Generally, the board members are not part of management.

Chief Internal Auditor: Chief internal auditor describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the 'requirements' of the Internal Audit & Assurance Standards.

Compliance: Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest: Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services: Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Control: Any action taken by management, the audit committee, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Deficiency in Internal Control: This exists when (a) a control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or (b) a control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

Detection risk: the risk that the procedures followed by the auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

Engagement Objectives Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion: The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Program: A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

Engagement: A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Error: An unintentional misstatement, including the omission of an amount or a disclosure, in financial statements.

Ethical Requirements: Means relevant provisions of Cost and Works Accountants Act, Rules and Regulations, Code of Professional Ethics, Internal Audit & Assurance Standards and other Statements issued by the Institute of Cost Accountants of India.

Expertise: Skills, knowledge and experience in a particular field.

External Service Provider: A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Firm: Firm means a sole practitioner, partnership including LLP (Limited Liability Partnership) or any other entity of professional accountants as may be permitted by law and constituted under applicable Act & Regulations.

Fraud risk factors: Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Fraud: Any illegal act characterized by deceit, concealment, or violation of trust. It includes an intentional act involving the use of deception to obtain an unjust or illegal advantage. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance: The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. It includes the role of person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.

Impairment: Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence: The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls: Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

Information Technology Governance: Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives.

Internal Audit Activity: A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

Internal Audit Charter: The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Internal audit function: A function of an entity that performs assurance and consulting activities designed to, amongst other things, examining, evaluating and monitoring the

adequacy and effectiveness of the entity's governance, risk management, and internal control processes.

Internal auditors: Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.

Internal control: The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

Management: The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance.

Management's expert: An individual or organisation possessing expertise in a field other than accounting and auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

May: The word "may" describes actions and procedures that internal auditors have a responsibility to consider. Matters described in this fashion require the internal auditors' attention and understanding. How and whether the internal auditor implements these matters in the engagement will depend on the exercise of professional judgement in the circumstances consistent with the objectives of the standards.

Misstatement: A difference between the amounts, classification, presentation or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Must: The word "must" indicates an unconditional responsibility. The internal auditors must fulfill requirements of this type in all cases in which the circumstances exist to which the requirement applies.

Non-compliance: Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

Non-sampling risk: The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.

Objectivity: An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall audit strategy: Overall Audit Strategy sets the scope, timing and direction of the audit, and guides the development of the detailed audit plan.

Overall Opinion: The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Performance materiality: The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

Population: The entire set of data from which a sample is selected and about which the internal auditor wishes to draw conclusions.

Professional judgement: The application of relevant training, knowledge, experience and objectivity, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional skepticism: An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatements due to error or fraud, and a critical assessment of audit evidence.

Related party: A related party as defined in the applicable law and regulations.

Risk Appetite: The level of risk that an organization is willing to accept.

Risk assessment procedure: The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.

Risk Management: A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

Risk of material misstatement: The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level: (a) *Inherent risk*: The susceptibility of an assertion about a class of transaction, account balance, or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls. (b) *Control risk*: The risk that a misstatement that could occur in an assertion about a class of transaction, account balance, or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

Risk: The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Sampling risk: The risk that the internal auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions: (i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. (ii) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not.

Should - The word "should" indicates responsibilities that are presumptively mandatory i.e. where conformance is expected unless, when applying professional judgment, circumstances justify deviation. The internal auditors must comply with requirements of this type unless the internal auditors demonstrate that the alternative actions which were followed under the circumstances were sufficient to achieve the objectives of the standards.

Significance: The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Significant deficiencies in Internal Control: A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of management or those charged with governance.

Significant risk: An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.

Standard: A professional pronouncement promulgated by the Internal Audit & Assurance Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Statistical sampling: An approach to sampling that has the following characteristics: (a) Random selection of the sample item; and (b) The use of probability theory to evaluate sample results, including measurement of sampling risk. A Sampling approach that does not have characteristic (a) and (b) is considered non-statistical sampling.

Substantive procedure: The procedures performed by an auditor to detect whether there are any material misstatements at the assertion level. Substantive procedures are intended to create evidence that an auditor assembles to support the assertion that there are no material misstatements in regard to the completeness, validity, and accuracy of the accounting records of an entity. It comprises of: (i) Tests of details (of classes of transactions, account balances, and disclosures); and (ii) Substantive analytical procedures. (Substantive analytical procedures are types of analytical procedures being used as a substantive procedure to obtain evidence about particular assertions related to account balances or classes of transactions.)

Sufficiency (of audit evidence): The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

Technology-based Audit Techniques: Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

Tests of controls: An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Those Charged with Governance: The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.

Tolerable error: Means the maximum error in a population that the internal auditor is willing to accept.

Tolerable misstatement: A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.

Tolerable rate of deviation: A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

Written representation: A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.
