

## Chapter - 16 "Internal Audit"

- Topics covered:
- (1) Meaning, Objectives and Scope of Internal Audit
  - (2) Management Functions and scope of Internal Auditing
  - (3) Integrity, Objectivity, Independence and other Qualities of Internal auditor.

### (4) Performing Internal audit Engagement:

Step-1: Obtaining knowledge of the Business and its Environment

Step-2: Perform Audit Planning (as per the requirements of SIA 310).

Step-3: Gather required Information

Step-4: Perform Audit checks

- Perform Analytical Procedures to identify key trends in accordance with SIA 6

- Wherever needed, select samples in accordance with SIA 5

- Ensure adequate Evidences collected in accordance with SIA 320

- Interim reports may be issued after review of work performed as per SIA 350 "Review and Supervision of Audit Assignments"

- Adequate document of working papers to be ensured as per

330 - Documentation. SIA 330 - Internal audit documentation.

350 - Review/Supervision.

Step 5: Reporting of Internal audit Issues:

- Present findings to the audit Committee (TCWG).

- Ensure adherence to SIA-360 "Communication with Mngt." and

SIA - 370 "Reporting Results"

360 - Communication.

370 - Reporting while sharing the results of Internal Audit with the stakeholders.

390 - Monitoring of Prior period Issues.

## (4) Internal Audit Reports:

(A) Stages in Reporting Result: 2 stages

✓ Completion of specific audit activity

(Internal Audit Report pertaining to specific audit engagement) - dealt by SIA 370

Report Issued to auditee with copies shared with local and executive management.

✓ Comprehensive Report / Periodic Report:

- Issued at the close of a plan period for all internal audit activities covering the Entity and the plan period.

- Generally issued Quarterly and submitted to TCGA (Audit Committee)

- Report prepared by Chief Internal Auditor or EP).

### ✓ Key Elements of IA Report:

(a) Objective, scope and approach of audit assignment.

✓ (b) Fact that audit has been conducted in accordance with SIA.

(c) Executive Summary of key observations.

(d) Summary of corrective actions required for each observation.

(e) Nature of assurance, if any, which can be derived from the observations.

✓ Such Elements may be arranged as follows: (a) Audit Scope

(b) Audit Period

(c) Executive Summary

(d) Summary of critical findings

(e) Detailed audit findings

(f) Rating of highlighted issues (High/Medium/Low)

low) in accordance with approved rating.

(g) Audit Recommendations

(h) Response received from <sup>responsible</sup> authorities.

## (B) Follow-up (SIA-390 "Monitoring and Reporting of Prior Period Issues")

- Chief Internal auditor is responsible for continuous monitoring of closure of prior audit issues.
- Responsibility to implement action plans remains with the management.
- In monitoring and reporting of prior audit issues, responsibility of IA is usually in the form of an "Action Taken Report" of previous audits.
- Internal auditor shall review whether follow-up action is taken by mgmt. If mgmt. has not acted upon his suggestions, ascertain reasons thereof.
- Action Taken Report may include the following:
  - (a) Reference to the previous audit reporting containing the reported issue;
  - (b) Implementation action agreed by mgmt. along with target implementation date.
  - (c) Status of action taken by Mngt. any may be classified as Implemented/ non implemented.
  - (d) Residual Risk and rating for unimplemented action.
  - (e) Audit findings not implemented for long period of time.
  - (f) Any critical finding that require immediate action.

(6) Internal Auditors and External Auditors: - Already covered and discussed with SA 610.

(7) Misc. (A) Internal audit as a management function:

- Management is a process by which affairs of an entity are conducted in a manner that its objectives are attained through optimum utilisation of all available resources.
- Management functioning comprises of 5 functions: Planning, Organising, Staffing, Directing and Controlling.
- Internal audit is an Important Element of Mngt. Controlling function; it helps the management to setup the appropriate systems and processes to mitigate risks.
- Internal auditor is expected to report on identified gaps and areas of weak internal control; further he is expected to identify root cause of problems and suggest appropriate mitigating steps and hence strengthen the I.C. Environment of the Organisation.
- Accordingly, Internal audit is seen as an Important function that helps the management to achieve Organisation goals and perform its functions in an orderly manner.

(B) Audit Trail: Visible trail of Evidence enabling a person to draw information contained in reports or statements back to original input source.

- Records maintained as audit trail may include the following information:
  - (a) when changes are made i.e. date and time;
  - (b) who made the changes i.e. User id;
  - (c) what data has changed i.e. data transaction.
- To demonstrate that audit trail feature was functional and not disabled, specific Internal Controls need to be designed and implemented, which in turn, would be evaluated by auditor.

## Imp List of Internal Controls - required to be implemented:

- (1) Controls to ensure that audit trail feature has not been disabled or deactivated.
- (2) Controls to ensure that user ids are assigned to each individual and that user ids are not shared.
- (3) Controls to ensure that changes to configuration of audit trail was authorised and logs of such changes are maintained.
- (4) Controls to ensure that access to audit trail is restricted and access logs, whenever the audit trails have been accessed, are maintained.
- (5) Controls to ensure that periodic back-ups of audit trail are taken and archived as per the statutory period specified under the provisions of Companies Act, 2013.