

MANUAL ON INTERNAL AUDITING

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Section 1. Foundation of internal auditing

- 1.1 What is internal auditing?
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- 1.3 Purpose of internal auditing
- 1.4 Scope of internal auditing
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1.1 What is internal auditing?

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

Internal Auditor can make:

- an objective assessment of operations and share ideas for best practices.
- provide guidance for improving controls, processes and procedures, performance, and risk management.

Thus, internal audit activity can play an important role and support the board and management in fulfilling an essential component of their governance mechanisms. The internal auditor furnishes analysis, appraisals, recommendations, counsel and information concerning the activities reviewed. The internal auditor can suggest ways for reducing costs, enhancing revenues, and improving profits.

A Partnership...

It is worth remembering that internal audit works in **partnership** with management and provides the board, the audit committee and executive management assurance that risks are held at bay and the organization's corporate governance is strong and effective. They work in the same team and want the organisation to be and remain successful.

1.2 History and background

In 1930s, growth and expansion made it increasingly difficult for organizations to maintain control and operational efficiency. The World War further expanded organizations' responsibilities for scheduling, managing with limited materials and labourers, complying with government regulations, and an increased emphasis on cost finding. It was difficult for management to observe all the operating areas or be in touch with everybody. Then, special staff was appointed to report on happenings in the company who later came to be known as 'Internal Auditors'.

The internal auditing function varied greatly between organisations and a number of internal auditors pushed vigorously for greater understanding and recognition of the internal auditing function. One such person was **John B. Thurston**, head of the internal auditing function at the North American utility company. He is credited with being the person most responsible for the creation of The Institute. He was joined by **Robert B. Milne**, general auditor of the Columbia Engineering Corporation, and **Victor Z. Brink**, a former auditor and Columbia University educator who authored the first major book on internal auditing. They gathered friends and associates from the utilities industries, public accounting firms, and other industries, 25 of whom agreed to participate in forming a new organization for internal auditors.

On November 17, The IIA's Certificate of Incorporation was filed which officially established The Institute of Internal Auditors' name; recognized The Institute as a membership corporation; and identified corporation's specific purposes

1.3 Purpose of Internal Auditing

It's the responsibility of the Board to ensure that risks are managed and controlled. This task is delegated to the executive management which

- ⊖ Determines the risk appetite of the organisation
- ⊖ Establishes the risk management framework
- ⊖ Identifies potential threats and assesses risks
- ⊖ Decides on response to risks like implementation of control
- ⊖ monitors and coordinates the risk management processes and the outcomes,
- ⊖ provides assurance on the effectiveness of risk management processes

This assurance from the management is fundamental. There is a need for additional assurance from a different source. Internal audit can be the key source providing objective assurance that all the significant risks have been identified, risk management process is working effectively and efficiently, risks are being reported and controls are effective. As part of this work, the internal audit activity will provide advice, coaching and facilitation services to assist executive management in carrying out their responsibilities.

1.4 Scope of Internal Auditing

The external auditors have to express an opinion on accuracy and fairness of financial information. The scope of internal audit is much wider than statutory/external audit. It should ideally cover all the organisation's activities. They include:

- ⊖ Financial audit –accuracy, completeness and fairness of financial statements
- ⊖ Operational audit- effectiveness and efficiency of operations
- ⊖ Safeguarding of assets
- ⊖ Review of projects
- ⊖ Management audit
- ⊖ Fraud detection- developing fraud exposures for every audit and detecting red flags
- ⊖ Review of effectiveness of internal control

- Compliance with laws, regulations, policies and procedures
- Preservation of ethical culture – monitor the ethical climate and report on red flags that may compromise ethics
- Providing advise on reducing waste or inefficiency

1.5 Role of Auditors

The auditor's opinion on the truth, fairness, accuracy etc. of the financial statement imposes a larger responsibility on the auditor, which transcends the relationship with the client. The external auditor has to maintain total independence from the client. The auditor is supposed to be a watchdog. Government, creditors, investors and the business and financial community rely on the independence, objectivity and integrity of the auditors for maintaining confidence in operations of a company.

Roles & responsibilities of auditors

Responsibilities of Internal Auditor

Internal Audit is a service to management. Its functions include examining and evaluating internal control and providing assurance to the management. It is a part of the organisation's system of internal control and its scope includes ALL aspects of internal control, not just financial control. The scope of internal audit is much wider than statutory/external audit as discussed in detail above. It should ideally cover all the organisation's activities.

Responsibilities of External Auditor

External auditors have to express an opinion on accuracy and fairness of financial information. An external audit programme encompasses a full-scope financial statement audit, an attestation of internal controls over financial reporting, or other agreed-upon external audit procedures.

A typical report includes inter alia , information on :

- Whether they have obtained all the necessary information
- Whether the companies has kept all the requisite books of accounts
- Whether the financial statements are in conformity with books of accounts
- The financial statements present a true and fair view of the state of affairs
- Proper records for assets, inventory, loans etc. have been maintained by the company
- Adequacy of internal control procedures
- Existence of internal audit system commensurate with nature and size of business.
- Details of statutory dues and matters under litigation

Although internal and external auditors have different and clearly defined roles they do share the same broad purpose of serving the public by helping to ensure the highest standards of regularity and propriety for the use resources and in promoting efficient, effective and economic administration.

1.6 Organisational Independence and Objectivity

The internal audit activity should be independent from the activities it audits. It should also be free from interference in determining the scope of its work, in performing its duties and in communicating the results. To maintain its independence, it should have “solid-line” reporting relationship to the audit committee with a “dotted-line” reporting relationship to a senior executive in the organization for administrative purposes i.e. it should report functionally to those responsible for governance (which can be the audit committee, the board of directors, or another appropriate body) and administratively to an appropriately senior level within the organisation.

The audit committee should safeguard internal audit independence by regularly reviewing and approving the internal audit charter and mandate.

Administrative matters relate to the organisation’s management structure; and the reporting line for them should facilitate the activity’s day-to-day operations. The chief audit executive should have the appropriate seniority in the organisation so that the person has

sufficient authority. This will reinforce the organisational status of internal auditing and support its unrestricted access to staff and information.

The activity has to safeguard its independence by getting involved in functional activities like setting the risk appetite for the organisation, decision-making, and implementation of responses. It can play the role of facilitator but should not be accountable for implementation of organisation's response to risks or any other operational responsibility.

1.7 Professionalism

In the current scenario, the demands for professionalism, knowledge and integrity has increased manifold. To be effective, auditors must serve as objective assurance providers and advisors to the other participants in the governance process like Board of Directors and the audit committee; provide guidance on improving operational efficiency and control; evaluate risk and advise the management on risk identification, risk tolerance and risk management.

The scope on internal audit has widened and may cover the whole gamut of organisation's activities. It is the internal auditor's task to operate within the framework of professionalism to assist the company in achieving the highest-quality results and long-term objectives. This calls for clear and concise guidance that can be readily adopted and followed regardless of the industry, audit specialty, or sector.

Proficiency

Internal auditors need to have the knowledge and skills to perform their individual responsibilities. If the knowledge, skills, or other competencies needed to perform all or part of the engagement are not available within the internal audit staff, then the chief audit executive should obtain competent advice and assistance from outside the activity.

Though the internal auditors are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud, they should have sufficient knowledge to identify the indicators of fraud.

Due Professional Care

The internal auditor is expected to apply due professional care which is expected from a reasonably prudent and competent internal auditor. The internal auditor should exercise due professional care by considering the:

- Extent of work
- Adequacy of risk management, internal control procedures
- Probability of errors, misstatements or irregularities.
- Cost incurred in relation to expected benefits

Continuing Professional Development

Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.

Professional Behaviour

Internal auditors need to act professionally and maintain the good reputation of the profession. The organisation should benefit from the internal audit activity in its risk management and internal control process.

An auditor's responsibility is not limited to satisfy the needs of an individual employer. The standards of the accountancy profession are heavily determined by the public interest, for example - Internal auditors provide assurance about a sound internal control system which enhances the reliability of the external financial information of the employer. Accountancy and audit bodies like IIA and IFAC have formulated some important principles of behaviour.

Independence

Professionalism entails a heavy responsibility. It means subscribing to a Code of Conduct. The professional internal auditor needs to have independence to provide an objective, unbiased opinion. They can never have complete independence but they need sufficient independence.

The Institute of Internal Auditors Code of Ethics provides internal auditors with sufficient mechanism for reporting of audit results, findings, opinion or information. The auditor can report to the appropriate level of management and there should be no need to report in an unauthorized manner to anyone outside the organisation.

Only if the matter is not resolved satisfactorily, or the services of auditor are terminated due to that, he should secure the advice of outside counsel.

Section 2-Types of Internal Audit

2.1 Financial Audit

2.2 Operational Audit

2.3 Grant Audit

2.4 Project Audit

2.5 Information system audit

2.6 Compliance Audit

2.7 Investigative Audit

2.8 Due diligence

2.1 Financial Audit

This type of audit involves a thorough review of a department's records and reports, in order to check that assets and liabilities are properly recorded on the balance sheet, and, all profits and losses are properly assessed.

In financial audits, significance or materiality is usually defined as a monetary value. Consequently, planning decisions mainly involve the intended degree of audit assurance and the extent of audit work required to provide it. The requirements will vary from one organisation to another and applicable laws and regulations. Some activities common to most audits:

- Risk assessment
- Defining Materiality
- Financial statement assertions
- Financial analysis of cash flow statement
- Compliance and substantiative procedures

- Analytical procedures

Meeting these objectives involves verification of:

- Revenue
- Sales
- Bank deposits
- Bank reconciliation
- Accounts payable
- Accounts receivable
- Disbursements
- Petty cash transactions
- Loans & Advances
- Assets

2.2 Operational Audit

This type of audit involves a thorough review of a department's operating procedures and internal controls. They deal with broad performance issues, focusing on whether funds and resources have been economically, efficiently and effectively managed to fulfill the mission and objectives. An operational audit includes elements of a compliance audit, a financial audit, and an information systems audit. In particular, management audits examine and report on matters related to any or all of the following:

- the adequacy of management systems, controls and practices, including those intended to control and safeguard assets, to ensure due regard to economy, efficiency and effectiveness;
- the extent to which resources have been managed with due regard to economy and efficiency; and,
- the extent to which programs, operations or activities of an entity have been effective.

Conducting operational audit

1. **Scope**-Unlike financial audit, the objectives and scope of operational audit are not so clear or well defined. The first step would be to brainstorm along with the client and define the scope and objectives of audit. It is also necessary to decide the exclusions to the scope.
2. **Set audit objectives** -The second step would be to set audit objectives. Appropriate audit evidence can be gathered only when objectives are clear. Three elements need to be identified-criteria, cause and effect. They will be concerned with whether the operating objectives will be met.

Review and update the audit objectives after the preliminary survey.

3. **Set scope**- To manage expectations on what will be achieved by the audit by setting the boundaries of what will and will not be included.
4. **Gathering information**: The sources would be
 - a. Operating standards
 - b. Organisation chart
 - c. Nature of operations
 - d. Operating reports
 - e. Senior management
 - f. Prior audit papers, if available
 - g. Internet
 - h. Industry, trade journals and publications

- i. Files and papers
5. **Preliminary survey:** preliminary survey is essential to gain a working knowledge of the operation to be audited, to logically investigate and evaluate all information. It would be something like:
- a. Information on overall business operations.
 - b. Develop a questionnaire for discussions with staff
 - c. Interview people within the operation
 - d. Learn the objectives, goals, and standards of the operation.
 - e. Ascertain any initial opportunities for improvement.
 - f. Understand the inherent risks and internal controls.
 - g. Learn about the people performing the operation –key personnel, job descriptions, evaluation methods
 - h. Physically inspect operations by touring the entity’s facilities
 - i. Focus on possible cost savings from inefficiencies
 - j. Present the survey results

Update (or create) audit objectives based on this larger information bases. Make the audit plan - time , resources and expertise required, audit programme, audit tests and identify audit risks

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6. **Review of Internal Controls:** To determine what level of reliance can be placed on internal controls. This step takes place throughout the audit process. Methods to review would include
- a. Responses of interviewing staff to control questions in the Internal Control Questionnaire would indicate areas of control weakness to concentrate on
 - b. Prepare flow charts or narrative descriptions
 - c. Walk-through and limited system testing
 - d. Evaluate policy and procedures manuals

Results of Internal Control Review: This will provide information regarding

- e. Identification of the controls that the auditor will rely on during detailed testing
- f. Analysis of the controls
- g. Evaluation of the appropriateness of the controls

- h. Risk Assessment
7. **Existence of controls:** It is important to consider whether there are any factors which might render controls ineffective.
- a. Accidental or deliberate avoidance
 - b. Management override
 - c. Inadequate Backup and recovery
 - d. Environmental impact
 - e. Access control over computer systems
- A re-analysis of risk and budget time will need to be done at this stage..
8. **Detailed testing:** Carry out sufficient audit tests of compliance and substantiation to gain sufficient evidence on the objective of the audit. The testing is aimed at significant controls that have previously been assessed as adequate to evaluate their effectiveness, and those controls assessed as inadequate to verify that the required results are not being consistently achieved.
9. **Report:** the report should inform the recipients of the issues or opportunities for improvement and provide constructive means of achieving the goals.

2.3 Grant Audit

Grant audits include financial and operational elements, but the focus is on compliance with the financial terms of grant agreements. Usually, when the grant is given, the receiver is obligated to review grants to determine whether funds are spent for the purpose for which the funds have been received.

VERIFICATION OF GRANTS:

1. Obtain copies of the Grant application and award documentation (grant file) which specify the purpose and scope of work to be done with the funds provided.

2. Review the reporting requirements, if any, included in the grant/sponsorship agreement. Determine whether the record keeping/reporting process satisfies the requirements. Note discrepancies.
3. Determine whether there are limitations on the use of these funds and test to see if they were observed. Note any exceptions.
4. Verify that the amount of the grant noted in the above documentation was actually received and deposited in the bank account maintained for that purpose. Note any exceptions.
5. Ensure that any unused funds and/or interest earned are returned to the granting agency. Test to determine compliance with such requirements. Note discrepancies.

2.4 Project Audit

Project audits include review of project cost and performance terms. Usually, project is a large and complex activity and the entity may not have the appropriate internal expertise to negotiate and manage these contracts.

Whether it is a commercial business, government entity or a non-profit organisation, all of them face potential financial hazards of fiscal irresponsibility, theft, scams, substandard materials or labour. While the organisation finds it difficult to manage the project, it is the core competency of the contractors who have dedicated staff who help them secure best terms and maximise returns. As a result, many owners end up with ineffective expenditure controls for these projects and place too much reliance on their contractors.

Here the auditors come in. They work with project owners and advise the project owner through the lifecycle of the project as well as audit transaction documentation for compliance with the terms of the contract. They help in negotiating owner favourable contract, design and improve expenditure processes and controls; ensure the accuracy and proper documentation of for payment; ensure full value is received through monthly monitoring and on-site inspections; and reduce overall project costs.

Guidelines to project audit

Each organization is unique, and the audit would be based on assessment of internal controls and the limitations of the audit scope. However, certain issues such as economic justification, regulatory requirements, policies, and controls over contractor selection etc. should also be part of the audit package. Given below are few guidelines that can help auditors to reduce costs and minimize risks to their organizations.

1. Doing a cost benefit analysis: It is necessary that the auditor ask for documented evidence justifying the project to ensure that it is not the result of poor planning or wrong assumptions.
2. Regulatory requirements: It is essential to find out regulatory requirements affecting the project. The auditor should see that all clearances and certifications are obtained.
3. Administration of project: presence of internal control would go a long way in efficient management of construction activities. The auditor should see that following control issues are addressed
 - a. Review and approval process
 - b. Project documentation and reporting
 - c. Construction administration process, including a right-to-audit clause, change orders, substitutions, project overruns, and lien waivers.
 - d. Bid and award process, including project size; contractor solicitation, reference, and selection; and controls over bid opening
 - e. Management involvement and risk management
4. Bid bonds: A bid bond guarantees that the contractor is insurable and can obtain a performance bond, which is procured after the bid is awarded. A contractor who does not have the financial strength to secure a bid bond will be unable to obtain a performance bond.
5. Adequate coverage by performance bond: In case the contractor fails to perform in

accordance with a contract, the insurance company will reimburse the organization for the unfulfilled contract amount. If the contractor goes bankrupt, the proceeds of the bond are available to the owner to finish the project. Certain things need to be ensured in a performance bond:

- a. Whether there is a policy based on acceptable level of risk regarding performance bond based on acceptable level of risk (which is usually a monetary amount)
 - b. Review whether bonds are for adequate amount and contract has not been broken into smaller parts to circumvent the requirement of bonds.
 - c. Review whether senior management is consulted regarding performance bonding coverage limits.
6. Review liability coverage and other details: Ensure that the contractor has taken liability insurance. This provides the organisation protection if an accident or damage occurs as a result of action of any contractor's employee.
- a. Ensure that certificate of insurance is taken before the contractors commence work and retained till completion of project.
 - b. Ensure that Certificate is current and has not expired
 - c. Review a sample COI for compliance with coverage in contract document
 - d. Confirm that :
 - i. General liability limits are adequate
 - ii. Workmen's compensation limits are appropriate
 - iii. Comments and exclusions section is appropriate.
 - iv. the organization is named as the certificate holder.

- v. The certificate is signed by the insurance company.
 - vi. The organization is listed as an additional insured under the "remarks section" of the COI. Being listed as an additional insured gives the organization added protection against an independent third party should someone be injured or property be damaged as a result of the contractor's operation on the organization's premises.
 - vii. The insurance coverage minimums or limits stated in bid and contract documents are reasonable. Also determine when these documents were last updated. The risk management department, senior management, insurance agent, and legal counsel should periodically evaluate the insurance coverage requirements.
 - viii. All organizational areas where contracted work can occur are identified
7. Monitor or attend relevant meetings: Problems or significant issues can often be spotted in the minutes of the meetings.

Internal auditors should try to obtain invitations to as many relevant meetings as possible as direct observations can reveal much more than minutes, which may be filtered by the manager. Additionally, some safety issues may be prevalent, and the risk management or legal departments may have discouraged documentation of certain issues for legal purposes.

8. Look for accounting irregularities -- both intentional and unintentional: Find out how projects are being coded in the general ledger account and determine whether the project should remain active. Coding to the wrong project, whether intentional or unintentional, can result in management decisions that are based on inaccurate data. Intentional coding to another construction project may be contrived to avoid scrutiny of a project-cost overrun and requisite approval and reporting.

Obtain construction project management reports and review contracted amounts, paid-to-

date, and cost-to-complete to determine whether all liabilities have been properly recorded. A payment may have been made for materials that have not been received.

9. Guard against bid-related internal control breakdowns

Competitive bidding helps to ensure a wider choice of suppliers and products and higher quality goods and services at lower prices. A request for proposal, purchase order, or contract document provides adequate authorization for the purchase, clarifies the expectation of goods and services, and outlines the proper segregation of duties. This documentation also guarantees that a purchase decision analysis is made and documented for future reference.

Adherence to a sound system of internal control has never been more important, and the risks may never have been greater. Internal auditors should not be content to look only at contract payments. They should assess project-related exposures and implications from a broad perspective and act to protect and strengthen their organisations.

2.5 Information Systems Audit

This audit consists of determining whether information systems adequately safeguard assets, maintain data and systems integrity, achieve organisational goals and internal controls are adequate to assure that business, operational and control objectives will be met and unwanted events will be prevented or detected and corrected in time.

Information System reviews include the following:

- Reviews of existing or new systems, before and after implementation, to ensure their security and that they meet the needs of users;
- Project management reviews to ensure controls are in place to mitigate project risks or to identify the strengths and improvements required for future projects;
- Organizational or operational reviews to ensure the organizations goals and objectives will be achieved; and,
- Specific technology reviews to ensure security and controls are in place

2.6 Compliance Audit

Various programmes and contracts and grants have specific rules and regulations that must be followed in order to maintain funding. Audits in these areas are usually restricted to verification that recipients are in compliance with the established guidelines. Compliance audit would include compliances with:

- Laws and regulations
- Policies
- Standards
- Contracts

Compliance audit would entail:

- Gathering information about laws, regulations, and other compliance requirements.
- Understanding limitations of auditing in detecting illegal acts and abuse.
- Assessing the risk that significant illegal acts could occur.
- The auditor would design and perform procedures based on risk assessment that would provide reasonable assurance of detecting significant illegal acts.

Factors affecting risks

- complexity of laws and regulations
- newness of laws and regulations
- effectiveness of internal control in preventing and detecting illegal acts and acts of non-compliance.

Sources of obtaining information about Laws, Regulations, and Other Compliance Requirements

- Auditors' training and experience
- Auditors understanding of the programme being audited may provide a basis for recognition that some acts coming to their attention may be illegal.
- Auditors' cannot determine whether an act, in fact, is illegal. However, auditors are responsible for being aware of vulnerabilities to fraud associated with the area being audited in order to be able to identify indications that fraud may have occurred.

Taking the help of an expert: Auditors may seek help of legal counsel in

- designing tests of compliance with laws and regulations
- evaluating the results of those tests
- Auditors also may find it necessary to rely on the work of legal counsel when audit objectives require testing compliance with provisions of contracts or grant agreements.

2.7 Investigative audits

Investigative assignments scrutinize allegations of wrongdoing or breaches of standards of conduct. Allegations may be internal or external to the organisation and may examine the records of individuals, organizations and firms with agreements between them and the organisation

Reasons for conducting Investigation:

- Internal theft,
- misappropriation of assets,
- conflicts of interest

Co-ordination for this audit is usually at the highest level in the organisation like with senior management or security department. Investigative audits differ from other audits because they are normally conducted without first notifying the personnel who may be affected by the findings.

2.8 Due diligence

Due diligence involves investigation and evaluation of a management team's characteristics, investment philosophy, and terms and conditions prior to committing capital. The entire process of research, analysis and investigation which has to be undertaken in advance of an investment, takeover, or business partnership is called due diligence. The potential investor usually takes the help of the internal audit team or hires consultants to investigate the background of the target company.

The team doing the due diligence reviews regulatory and press filings, media reports, legal and regulatory issues, checking for existing and pending lawsuits and other litigation involving the entity. The consulting firm may also look for conflicts of interest, insider trading and other problems. The investigative results may be prepared in a "due diligence report".

In addition to identifying risks and implications of an investment, due diligence may include data on a company's solvency and assets. Due diligence is the responsibility you have to investigate and identify issues, and due care is doing something about the findings from due diligence.

Section 3- Managing the Internal Audit Function

3.1 Organising the internal audit function

3.2 Audit Staff

3.3 Managing the audit

3.3.1 Preliminary survey

3.3.2 Audit Objectives

3.3.3 Risk Management

3.3.4 Engagement memorandum

3.1 Organising the internal audit function

The internal audit function may be provided by in-house staff or an outsourced team. Whether internal audit is a part of the organisation or not its structure would depend on:

- Business of the organisation
- Geographical locations
- Culture of the organisation
- Control risks
- Environment

To be effective it needs a strong leader who has the support of both the authorising body (audit committee, in most cases) and senior management. The Chief Audit Executive must be a person who understands the overall organisation and has the qualities of a leader:

- Keeps the vision clear
- Co-ordinate activities

- Mediate conflicts
- Identify needed resources
- Manage the budget
- Assure that goals are achieved on time and on budget

The first step a chief auditing executive should take to establish an internal auditing organisation is to reach an understanding with management and the board of directors on the rules that will apply to the internal auditing organisation. This understanding should be in writing in the form of a charter.

3.2 Audit Staff

Audit is a service oriented job, its biggest assets are its people . The firm needs to have policies and procedures to provide reasonable assurance that they have the sufficient personnel, with the capabilities, competence and the principles to perform their assigned responsibilities.

It should have policies to address recruitment, performance evaluation, professional advancements, compensation and career development.

Hiring

The firm needs to recruit personnel with appropriate characteristics to meet their needs. Given below are certain illustrative procedures which the department/firm may adopt:

1. Designate an appropriately qualified person to manage the human resource function
2. Establishing criteria to evaluate personal characteristics such as integrity, competence, and motivation.
3. Having additional procedures for hiring experienced personnel like reference checks.
4. Deciding on methods of recruitment like media ads, professional institutions or universities or recruitment agencies and coordinating with them.
5. Training the interviewers and others participating in the recruitment process on the expectations and requirements of the firm.

Engagement Assignment

The responsibility for each engagement should be assigned to a specific partner. The partner assigned to the work has the capability, competence and time to handle the engagement and the workload and availability of the partners is monitored so that they can provide adequate time to discharge the responsibility. There should be policies and procedures requiring that:

1. Team members: The members should be assigned based on factors such as:
 - Engagement size and complexity.
 - Specialized experience and expertise required.
 - Personnel availability and involvement of supervisory personnel.
 - Timing of the work to be performed.
 - Continuity and rotation of personnel.
 - Opportunities for on-the-job training.
2. The firm should assign appropriate staff with the necessary capabilities, competence and time to perform engagements in accordance with professional standards and regulatory and legal requirements.
3. The capabilities and competence considered when assigning engagement teams, and in determining the level of supervision required, would include:
 1. An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
 2. Knowledge of professional standards and regulatory and legal requirements.
 3. Appropriate technical knowledge
 4. Knowledge of client industry.
 5. Ability to apply professional judgment.
 6. An understanding of the firm's quality control policies and procedures.

Continuing Professional Education

The firm to make arrangements so that personnel can participate in general and industry-specific continuing professional educations and professional development activities.

Promotion and career advancement

While selecting personnel for advancement, the firm should ensure that the person selected has the necessary qualifications to fulfill the responsibilities they will be called on to assume. Some procedures, which the firm may have:

1. Designating an appropriate person to frame the firm's policy regarding the qualifications necessary to fulfill responsibilities at each professional level
2. Assigning responsibility to one of its partners for making advancement and termination decisions for staff and recommendations for manager level advancements and terminations to the firm's designated group of partners or managing body.
3. Counseling personnel regarding their progress and career opportunities.

3.3 Managing the Audit

Internal Audit needs a mission statement or audit charter outlining the purpose, objectives, organisation, authorities, and responsibilities of the internal auditor, audit staff, audit management, and the audit committee. A big part of the management profession is creating and enforcing policies and procedures. Policies interpret and tailor laws that apply to an organisation; serving as a written record for good practices the management wants to emphasize and enforce in the organisation, whether or not there are legal implications. While policies are general, procedures are specific.

3.3.1 Audit Planning

Every audit assignment should be planned carefully prior to its start. Circumstances may occur which might call for unscheduled reviews or there might be pressures to begin special audit without delay. However, a properly planned audit will almost always have better audit results. A long-range audit plan should be developed which should be reviewed at regular intervals.

Pre engagement activity –Matters to be considered before accepting new assignment would be:

- i. Gathering information on the integrity, competence of the management
- ii. Past experience, if any with the management
- iii. Communication with previous auditors
- iv. Significant accounting policies of the client
- v. Assessment of Management’s ability to have effective and efficient internal control
- vi. Financial viability of the entity

The auditor should consider the following matters while planning:

- o Nature of work
 - o Knowledge of business
 - o Policies and procedures of the entity
 - o The methods used by the entity to process significant accounting information, including the use of service organisations, such as outside service centers.
 - o Preliminary judgment about materiality levels for audit purposes.
-
- i. Understanding the nature of work: The various sources would be:
 - Likely impact of applicable accounting and auditing pronouncements
 - Financial statements of the entity
 - Prior internal audit reports, external audit reports and reports of any special audits or investigation of the area assigned.
 - Discuss with auditee:
 - Changes in accounting methods or policies

- Changes in information processing methods
- Timing of preliminary audit work, confirmation procedures,
- Assistance required from client personnel
- Records required
- Facilities required like physical space, computer systems etc.

ii. Knowledge of business

- review the prior audit reports
- policy and procedure manual, org chart, flowcharts etc.
- review financial statements or reports filed with various agencies or regulatory bodies
- minutes of meetings of stockholders, the board of directors and relevant committees
- effect of various laws and regulations on financial statement of auditee
- information about nature of entity's business
- client correspondence file
- gain an understanding of type of business, products & services, capital structure, offices/branches/factories
- obtain knowledge of auditee's industry like economic condition, government regulations, competition, financial trends.
- Other external sources such as industrial publications, ICAI standards and guidance etc.

iii. Methods used by entity to process information: The methods used need to be considered as the methods influence the design of internal control. The extent of computer processing and the complexity of processing will influence nature, timing and extent of audit procedures.

iv. Determining audit objectives: Objectives based on management's needs, nature of prior work, available resources and time is an important

aspect of planning. General objectives would be part of audit plan and they should be re-examined before each audit and defined in detail before each audit.

v. **Audit Scheduling:** on the basis of annual plan and preliminary survey the manpower requirements and time budgets need to be fixed. The following factors need to be considered.

- nature of audit
- complexity of work
- staff availability
- special skills required
- audit period

vi. The auditor should consider whether specialized skills are needed for any area such as the effect of computer processing on the audit, to understand the controls, or to design and perform audit procedures. If specialized skills are needed, the auditor should seek the assistance of a professional possessing such skills.

Annual Audit Plan

1. Prepare Annual Internal Audit Plan

- Conduct a preliminary risk assessment in cooperation with the senior and line management.
- Prepare a Draft Annual Internal Audit Plan based upon the results of the risk assessment process.
- Discuss with audit committee and get a formal approval.
- Review the plan on a quarterly basis to ensure that focus remains on high risk areas.

2. Communicate Annual Internal Audit Plan

- Distribute the Annual Internal Audit Plan to senior and line managers.

- Keep senior and line managers informed of any changes to the Annual Internal Audit Plan.

Specific Audit Plan

- Notify auditee of audit and arrange for a meeting.
- Identify information or documents required initially
- Find out whether there are areas which management would like to be included in the audit
- Discuss, finalise and inform auditee
 - Audit period
 - Estimated start date and duration
 - Names of audit staff
 - Facilities required like space, computer systems etc.

3.3.2 Preliminary survey

A. The objective of preliminary survey is to get familiar with the areas being audited. Some of the methods would be :

- a. Information about structure and activities of areas being audited:
 - i. Organisational chart
 - ii. Key Personnel and their major areas of responsibility
- b. Financial information
 - i. Sources of revenue
 - ii. Nature of expenditure
- c. Prior working papers and audit reports and information about past activities
- d. Information about any separate audit in the area being audited.
- e. Review any departmental policies and procedures manuals, flowcharts, or control narratives that may exist.
- f. Any activity /area which the management requests to be included

B. Prepare audit planning memorandum containing:

- a. Planned audit scope
- b. Audit objectives
- c. Audit period and estimated start and completion date
- d. Resources necessary for audit
- e. Areas to be reviewed and reasons for exclusions of any area.

3.3.3 Audit objectives

Determining an audit's objectives is the most crucial step in planning an internal audit. Audit objectives refer to the specific goals of the audit. An audit may have several audit objectives.

Objectives are based on management's needs, nature of prior work, available resources and time is an important aspect of planning. General objectives would be part of audit plan and they should be re-examined before each audit and defined in detail before each audit. Audit objectives should be reviewed with the management or those who have requested the audit.

Audit objectives often focus on substantiating that internal controls exist to minimise risks. These audit objectives include assurance with regard to:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts

3.3.4 Risk management

Risk is a concept used to express uncertainty about events and/or their outcomes that could have a material effect on the goals of the organisation.

Every company that is in business has to take risks. In order to progress, a business entity has to identify risks, evaluate them, decide if they are at an acceptable level and, if they are not, design controls to respond to those risks. After controls have been identified to mitigate risks, the effectiveness of controls has to be evaluated on a regular basis. This is risk management.

Risk management has to be integrated into the organisation's culture and embedded in all its day-to-day and periodic activities. Enterprise-wide risk management is a structured, consistent and continuous process across the whole organisation. The overall responsibility for risk management lies with the Board.

Internal auditing activity's role with regard to Risk Management is to provide objective assurance to the board on the effectiveness of an organisation's ERM activities in managing key business risks and that the system of internal control is operating effectively. The Chief Audit Executive (CAE) has to ensure that the internal audit activity maintains its independence and objectivity when providing assurance and consulting services.

The Institute of Internal Auditor's (IIA) position paper **The Role of Internal Auditing in Enterprise-wide Risk Management** provides guidance to the internal auditor as to what roles internal auditing should and should not play throughout the ERM process. The internal audit activity can be involved in providing assurance that risks are identified, reported, evaluated, mitigated and reviewed regularly.

The roles which auditing should NOT undertake

- ⊖ Setting the risk appetite.
- ⊖ Imposing risk management processes.
- ⊖ Management assurance on risks.
- ⊖ Taking decisions on risk responses.
- ⊖ Implementing risk responses on management's behalf.
- ⊖ Accountability for risk management.

Internal auditors should provide advice, and challenge or support management's decisions on risk, as opposed to making risk management decisions. The nature of internal audit activity's responsibilities should be documented in the audit charter and approved by the audit committee.

3.3.5 Engagement letter / engagement memorandum

Prepare an engagement memorandum or auditee that communicates final objectives and any changes to planned completion of audit.

The internal auditor should send a letter of engagement to the management stating: -

- Objectives of Internal Audit
- Management responsibility for preparation of the financial statements
- Scope of the Internal Audit
- Management's responsibility for selection and consistent application of appropriate accounting policies, including implementation of the applicable accounting standards along with proper explanation relating to material departures from those accounting standards.
- Unrestricted access to relevant records, documentation and other information requested in connection with the audit.
- The fact that the audit process may be subjected to a peer review under the Chartered Accountants Act, 1949.

Section 4: Audit programme and procedures

4.1 Field survey

4.2	Audit programme
4.3	Audit procedures
4.4	Evaluation of internal control system
4.5	Audit sampling
4.6	Audit Tests
4.7	Specimen letters

4.1 Field survey

This is very critical step as it allows auditor to determine the scope and extent of audit effort. It is done in advance of detailed testing and analysis work. The auditors can familiarise themselves with the system and control structure. Typically the audit team would consider:

- The organisational structure and the responsibilities of key members.
- Manuals of policies and procedures and applicable regulations.
- Management reports and minutes of meeting.
- Walkthrough of activity
- Discussions with key personnel

The field survey is the initial contact point and might take one or two days depending on the size of the audit.

The completion of field survey helps the auditor to understand key systems and processes. If the information during preliminary audit planning is imperfect , the audit team can make adjustments to planned audit scope .

4.2 Audit programme

After the conclusion of preliminary survey, the auditor has a fair idea of the audit objectives and the control systems. At this stage the audit programme should be made providing the proposed procedures, budgeting and basis for controlling the audit. The audit programme will prevent the

auditor from going off the scope pursuing irrelevant items and help in completing the audit project in an efficient manner.

Things to be considered while preparing audit programme

- Needs of potential users of the audit report.
- Legal and regulatory requirements
- Management controls
- Significant findings and recommendations from previous audits that could affect the current audit objectives. Also determine whether corrective action has been taken and earlier recommendations implemented.
- Potential sources of data that could be used as audit evidence and consider the validity and reliability of these data.
- Consider whether the work of other auditors and experts may be used to satisfy some of the audit objectives.
- Provide sufficient staff and other resources to do the audit
- Criteria for evaluating areas under audit.

Framing the programme:

- Review the results of preliminary survey with audit supervisor
- The audit team holds a meeting with the audit supervisor to decide on the priority / high risk areas and tests to be conducted.
- Provide a general overview of the auditee's operations. Include in the narrative statistical and monetary information, locations, authority, staffing and main duties and responsibilities.
- The programme should consist of detailed directions for carrying out the assignment.
- Prepare draft audit programme and document transaction flows.

- Audit programmes should be consistent. Some organisation's may have standardised audit programmes.
- It should contain an estimate of the time necessary to complete the project
- Number the audit programme steps consecutively.
- Have the final programme reviewed by Audit supervisor and Audit manager.
- All major changes must be documented in writing and the reason documented.
- The audit programme should contain a statement of the objectives of the area being reviewed. These objectives would be achieved through the detailed audit programme procedure. Objectives should fit within the overall scope of the audit.
- Every audit procedure should help answer one of the objectives and every objective should be addressed in the procedures or steps.
- The tests have to be designed in such a manner that they achieve their objectives. Use imagination, ingenuity and intelligence in creating audit steps responsive to objectives.
- The goals should be made amply clear by prefacing major steps with : to test whether . . . ; or, to determine that . .

TIME BUDGET

- At the planning phase an estimated time budget should be prepared to control the audit and complete it efficiently. The detailed project time budget should be completed at the conclusion of the preliminary review. The time budget should be approved by the audit manager and audit administration. This budget will include all time necessary to complete the audit, from assignment through issuance of the final report.

Planning should continue throughout the audit. Audit objectives, scope, and methodologies are not determined in isolation. They have to be determined together, as the considerations in determining each often overlap.

Audit Evidence

Evidential matter obtained during the course of the audit provides the documented basis for the auditor's opinions, findings, and recommendations as expressed in the audit report.

Types of audit evidence

Evidence may be categorized as physical, documentary, testimonial, and analytical.

Test of Evidence

Internal auditors are obligated by professional standards to collect sufficient, competent, relevant, and useful information to provide a sound basis for audit findings and recommendations.

They would usually hold true but they might not be valid in all cases.

- a. Evidence obtained from a credible third party is more reliable than that secured from the auditee.
- b. Evidence developed under an effective system of management controls is more competent than that obtained where such controls are weak or nonexistent.
- c. Evidence obtained by the auditors themselves through direct physical examination, observation, computation, and inspection is more competent than evidence obtained indirectly.
- d. Original documents provide more competent evidence than copies.
- e. Person providing the evidence: Information obtained from a person having knowledge of the area would be more reliable
- f. Objective evidence would be more reliable than the evidence which require judgment.

The sufficiency, competence and relevance of evidence depends on the source of information.

4.3 Audit procedures

Programme step procedures should be in enough detail so that an experienced auditor could carry out the task with normal supervision. An audit causes disruption and interruptions in the day-to-day operations of an enterprise and it is advisable that the auditors provide a tentative schedule of the planned audit work (unless it is a surprise audit). Documentation should be kept for each step that would generally be in the form of working papers.

Review and Evaluation of Internal Control Environment

The auditor will have to review the internal control structure .The effectiveness and efficiency of the internal control will determine the extent of tests to be performed. This evaluation will also provide assurance on whether the systems are functioning properly. The auditor should provide for tests in the audit programme which could be in the form of interviews, internal control questionnaires , checklists, audit tests.

Matters to be considered while evaluating internal controls

- Identification of risks
- Internal control structure put in place to prevent, detect, correct undesired events
- Whether the control structure is functioning as desired
- Identification of weaknesses in the structure and their effect on auditing procedures .

Procedures to evaluate internal controls:

- Description of system of internal control
- Flowcharts
- Internal Control Questionnaires
- Tests of compliance are performed to obtain sufficient evidence that the system is operating in accordance with the understanding the auditor obtained from the review. The nature, timing, and extent of tests of compliance are closely related to the control procedures and methods studied by the auditor.

4.4 Audit sampling

The auditor can meet the audit objectives through detailed review of the audit evidence. Review of the entire population is not possible where the auditor has to examine large number of items. The internal auditor needs a consistent approach to draw a sample from the data and draw conclusions from that sample. The challenge here is that the sample should be representative of the entire population. Any situation in which one has to draw conclusions based on an inspection of part of a population should consider using statistical sampling techniques.

Any form of sampling, whether statistical or judgmental, is an application of a procedure to less than 100% of the population. Under sampling there is always a risk that some or all errors will not be found and the conclusions drawn (i.e. all transactions were proper and accurate) may be wrong.

Audit sampling can be of two types—statistical and non-statistical. Statistical sampling is a mathematical based method of selecting a sample representative of the population while non statistical sampling or judgmental sampling is not based on mathematics.

The type of sampling used and the number of items selected should be based on the auditor's understanding of the relative risks and exposures of the areas audited. The description of the methods used and reason for selection should be documented in the audit programme and approved by audit administration.

Sample Selection Techniques

The manner in which the population is filed or distributed will determine the kind of selection techniques to be used to select the sample. Several techniques are available :

1. Estimation Sampling : There are two types of estimation sampling.
 - Attributes Sampling.

- Variables Sampling.

2. Acceptance Sampling

3. Discovery Sampling

4. Judgment Sampling

Sampling selection technique

The more commonly used sampling selection techniques are :

1. Unrestricted Random Number.

2. Interval Sampling

3. Stratified Sampling.

4. Cluster Sampling.

Evaluation of Results

Whatever sampling plan or selection technique is used conclusion has to be drawn from the test results. The auditor should keep in mind few rules for better evaluation:

1. Findings for each characteristic being tested should be evaluated separately
2. The auditor has to decide upon the "acceptable error rate" after a full study of the surrounding circumstances.
3. When significant errors are found , the auditor should extend the examination or apply other procedures to attempt to determine the cause and effect of the exception.

4.6 Audit Tests

The Auditor performs tests to validate processes and controls. This would include performance of substantive testing which tests the efficiency of internal control to ensure completeness, accuracy or validity of the accounts or transactions .

Given below are the various tests that the auditor would perform:

Tests involving continuing interaction with client staff and other parties

- Facilitated meetings
- Interviewing
- Questioning
- Surveys
- Confirmation/Representation

Tests carried on by audit team

- Observation and Inspection
- Documentation Review
- Analytical review
- Data Analysis
- Vouching & Verifying
- Reconciliation
- Recalculation & Valuation

Facilitated Meetings

Inquiry involves meeting of concerned officials from different departments and key stakeholders affected like customers and vendors. This method requires lot of efforts in organising such a meeting. A facilitator is required so that the group does not diverge from its objectives Example: meeting of purchasing , accounts payable ,stores and user department to understand the cycle of purchases

Interview: Direct interaction facilitates greater understanding of the business processes as the interviewer can seek clarifications and details on the spot. It has all the advantages of face-to-face communication like establishment of rapport, personal opinions on issues and solutions.

The type of information received depends on the skills of the interviewer. The interviewer has to make the person feel at ease and glean significant information.

Questioning: This is the most pervasive technique and should be used with care so that the auditee is not needlessly alienated. The auditor may seek management reaction through questioning in case of deficiencies or error.

Surveys: Surveys are commonly used to gauge perceptions of a business activity. They are an efficient method of reaching a large number of people. The administrator does not require any special training and the responses can be quantified.

It requires a lot of time and skills to create the survey document. People may give inappropriate or inaccurate replies, as there is less sincerity in filling up survey forms.

Confirmation/ Representation: Usually there are standard formats for confirmation which are sent by the auditor to the relevant party. The responses are mailed directly to the auditor.

Observation and Inspection: These methods are used to understand processes and activities. Observing involves a careful, knowledgeable look at documents processed, activities and assets. These tests need to be corroborated with other evidence as it would be time consuming or even impossible to observe a large number of activities. Also random observation will not provide adequate evaluation.

Documentation Review: This is the most widely used method and a large number of data can be objectively verified. This involves a review of existing reports and documents to identify controls, to understand the business or process, and to provide evidence in supporting audit conclusion.

Analytical review: Analytical auditing procedures provide an efficient and effective method of comparing relationship among data. As the relationship among data is compared against a pre-defined expected relationship which is expected to continue in the absence of unusual or non recurring transactions.

Some Analytical tests are trend analysis, benchmarking and ratio analysis

Data analysis & exception tests: This involves analysis and query of historical data files to identify trends, exceptions. It can be used to understand volume or magnitude of events to understand whether they are significant. It is used for identifying duplicates or gaps in sequences or aging summary of receivables

Vouching & Verifying:It is another very popular method .The transactions or events are verified against supporting documents for accuracy and validity. Examination of accounting transactions against bills, attendance register against wage payments are some examples.

Reconciliation :It is an audit test to match two sets of data which provides similar information and analyse the variances between them. It may help in detecting frauds or errors.

Recalculation & Valuation tests: The auditor may recalculate certain figures like interests or instalments payable on a loan to verify the accuracy .the auditor may also take the help of an external expert to revalue certain expensive assets.

4.7 Specimen letters

Information request list

The following information is requested to facilitate our understanding of your departmental operations and activities. This list is not intended to be all-inclusive. Additional information or questions may be required throughout the course of the audit. . Please feel free to advise us of any additional information/documentation not listed below that may be useful to us in the conduct of this audit.

- Departmental organizational chart.
- List of all accounts (numbers and account titles) maintained by your unit.
- Statement of Account and annual statements for the three fiscal years for the department.
- Operating and/or comparative analysis reports prepared or issued by your department on an annual basis for the past three fiscal years.
- Key departmental productivity and performance measures for the past three fiscal years i.e., productivity measures used for budgeting purposes, etc.
- Description of significant departmental processes (include flowcharts if available).
- Internal policies and procedures manual.
- Copies of external regulations applicable to the department.
- Reports, surveys, etc. issued by external entities to the department.

Audit notification to Auditee

<On the letterhead of Chartered Accountant >

June 20, 200X

Mr. <Name>

CEO, <Company Name> Limited

<Address>

Dear Mr. <CEO>

A routine conformance audit of <Company Name> is scheduled for the period <dates>, 200X. This audit will include the main office at <office name> as well as the two sub-branches at <location1> and <location2>.

The objective of this audit is to conduct an analysis of <Company Name> Limited's policies and procedures to ensure that legislative requirements are met and an acceptable level of internal control is maintained. Standard audit procedures will be used including interviews with key personnel, facility inspections and a review of your company's approved programmes and manuals. A detailed audit plan, including the estimated hours required and names of audit team members and their areas of responsibility will be sent prior to the actual review.

We would like to schedule a pre-audit meeting with your management personnel before June XX at a time and date convenient to you and an exit meeting 20 days from the beginning of the review process. The pre-audit meeting will help in introducing the audit team to company management, provide a review of the audit process and inform the management of the audit process and regulatory responsibilities. The exit meeting will summarize the audit results and identify specific post-audit responsibilities where applicable.

The review will emphasise on the controls in the recently implemented financial system. We will need to access your financial accounting system and its reports. We plan to use some automated testing on your files .Please arrange for the system access and working space for our audit team.

Should you require any further information or clarification, please contact the audit manager<name>, at <number>.

Yours truly,

<Name>

<Designation>

Membership No. <Number>

Section 5 -Computer Assisted Audit Techniques

5.1. Meaning

5.2 Need for CAATs

5.3 Determining the need for CAATs

5.4 Types of CAATs

5.5 Commonly used Audit Software

5.1 Meaning of Computer Assisted Audit Techniques

Internal auditors require audit evidence to support their audit conclusions. With automation, it is a challenge to internal auditors to review, and understand these paperless documents and procedures to support their audit conclusions. It is not enough to audit around the computer or select and review items from output reports and display screens. Internal auditor can have greater reliance and independence if they use their own specialized file retrieval procedures. This can be achieved by using computer assisted auditing techniques. A CAAT is auditor controlled and can be run on production data to test, summarise or analyse data on computer files.

5.2 Need for Computer Assisted Audit Techniques

Auditors make use of computer-assisted audit techniques (CAATs) to improve audit coverage by reducing the cost of testing and sampling procedures that otherwise would be performed manually. With the widespread use of computerized financial and other record keeping, using CAATs has now become a necessity for audit of most organisations. CAATs provide reasonable evidence required to support audit conclusions in paperless environment. They provide a more efficient and reliable method to review items recorded in computer files.

CAATs may be used in performing various audit procedures like:

Tests of transactions and balances, such as recalculating interest;

Analytical review procedures, such as identifying inconsistencies or significant fluctuations;

Compliance tests of general controls and application controls;

Sampling programs to extract data for audit testing;

Penetration testing.

5.3 Determining the need for CAAT

One thing however needs to be considered- CAATS might not always increase audit efficiency or be cost effective. Certain processes may not be right for CAAT.

Need for CAAT depends on:

- Audit Objective
- Nature of data to be reviewed
- Availability of requisite CAAT tools
- Availability of skilled audit staff

5.4 Types of Computer Assisted Audit Techniques.

CAATs include many types of tools and techniques, such as generalized audit software, utility software, test data, application software tracing and mapping, and audit expert systems. CAATs may be:

- Developed by internal programming staff or by outside programmers with audit department supervision;
- Purchased generalized audit software, e.g., audit packages offered by CPA firms or software vendors;
- Developed by IT auditors; or
- Acquired from equipment manufacturers and software houses to analyze machine, programmer, and operations efficiency.

Whatever the source, audit software programs should remain under the strict control of the audit department. For this reason, all documentation, test material, source listings, source and object program modules, and all changes to such programs, should be strictly controlled. In installations using advanced software library control systems, audit object programs may be catalogued with password protection. Computer programs intended for audit use should be documented carefully to define their purpose and to ensure their continued usefulness and reliability.

Types of computer audit software

- Generalised Audit software tools
- Specialised audit test and analysis software
- Utility software
- Test data techniques
- Expert systems
- Embedded audit procedures

With the use of Audit Software, auditors can directly obtain evidence to the quality of records produced and maintained by client's systems. Various software whether off the shelf, specialized or customized are a useful tool in the hands of the auditor to gain access to manipulate the data maintained in the computer systems to achieve audit objectives.

Reasons for using Generalised Audit Software

- Computerized information systems faced by auditors may be different. Companies have different hardware, software, record functions, and different processing functions. With the resource required for customized programs, it is not possible to develop specific programs to extract, manipulate, process and report on the data.
- Audit objectives are constantly changing. Newer areas may be required to be audited; different approach may have to be used.
- Auditor may have a broad understanding of systems but they do not have specific knowledge or experience with particular hardware, software being used.

Functions of Audit Software

- **100% data**
- **File access :**The file access functions enable different file structures to be accessed.
- **File reorganization:** Sorting data, merging data, comparing data can be done
- **Selection:** Extraction of data based on certain criteria.
- **Statistical:** Selection of random data for different types of sampling
- **Arithmetic:** Checking arithmetic accuracy of data, control totals etc.
- **Stratification and frequency analysis** Different types of Stratification, frequency and ageing analysis can be undertaken.
- **Detection of Fraud**
- **File creation and updating**
- **Reporting:** Comprehensive reports can be produced with the data automatically.

Specialised audit test and analysis software

- Used to review specialised computer files
- Manufacturing, production & material scheduling software packages contain reporting sub systems
- CASE
- Test data techniques
- Series of test transactions are checked with copy of live production system to determine if controls are adequate
- Helps in general understanding of complex system
- Tests whether valid transactions are correctly processed
- Tests whether invalid transactions are identified and flagged

Audit tasks

Audit software can help in the accomplishment of various audit tasks:

- Examining the quality of data

- Examine the system processes
- Do analytical reviews

5.5 Some commonly uses Audit software

CAATs provide a complete picture of a system and/or an organization's transactions. This is beneficial both to the auditors as well as the clients.

- Auditors can be sure of the thoroughness and correctness of their analysis while arriving at conclusions.
- It provides an acceptable level of comfort
- All the variables that might possibly affect revenue can be considered to ensure there is nothing unusual in any sub-categories
- Audit provides value addition to the client by providing them new information which is not available with them in the first place.

Some of the software which are widely used are

- ACL
- CaseWare IDEA
- Microsoft Access

Section 6-Audit Work papers

6.1 Importance

6.2 Functions

6.3 Organisation

5.3.1 Document organisation

5.3.2 CAAT workpapers

6.4 Review of work papers

6.5 Retention and Custody

6.1 Importance of workpapers

The work performed is documented in workpapers. The workpapers serve as the connecting link between the audit assignment, the auditor's fieldwork, and the final report. Workpapers contain the records of planning and preliminary surveys, audit procedures, fieldwork, and other documents relating to the audit. Most importantly, the workpapers document the auditor's conclusions and the reasons those conclusions were reached. As each Audit Step in the Audit Procedures is satisfied, the audit supervisor should request review of the related workpapers.

6.2 Functions

Workpapers should be economical to prepare and to review. It is important to achieve a proper balance of completeness and conciseness. Only what is essential should be included.

- Working papers record the information obtained and the analyses made during the audit process.
- Working Papers serve the following purpose
 - Aid in the planning, performance, and review of audits
 - Document whether the audit objectives were achieved
 - A support for audit reports
 - Record information

- Document audit findings and accumulate evidence
- Basis for supervisory review
- Support and evidence for issues like fraud, lawsuits
- Basis /reference for subsequent audit
- Document whether the audit objectives were achieved
- Facilitate third-party reviews
- Aid to peer review
- Provide a basis for evaluating the Internal Audit's quality assurance programme
- Aid in the professional development of the Internal Audit staff

Among other things, workpapers may include:

- Planning documents and audit procedures;
- Controls questionnaires, flowcharts, checklists and narratives;
- Notes and minutes resulting from interviews;
- Organisational data, such as charts and job descriptions;
- Copies of important documents;
- Information about operating and financial policies;
- Results of control evaluations;
- Letters of confirmation and representation;
- Analysis and test of transactions, processes, and account balances;
- Results of analytical review procedures;
- audit reports and management responses; and
- audit correspondence that documents the audit conclusions reached.

Workpapers should be clear and understandable. Anyone reviewing the workpapers, without referring to documents outside of those included in the workpapers and without asking questions, should be able to tell what the auditor set out to do, what they did, what they found, and what they concluded. Conciseness is important; but clarity should not be sacrificed just to save time and space.

Some important things to remember in preparation of workpapers

SCANNED DOCUMENTS :Scanned documents should include a reference to the source and the purpose of the document when relevant to understanding or appreciating the actual audit work performed. Such information needs to be included only when it is not provided elsewhere in the workpapers.

WEBLINKS

When using references to websites in workpapers, to help ensure the site can be readily accessed in the future, both the name of the site and a hotlink to the website should be included. If specific information from a website was referenced, the web page should be saved to a file and attached to the workpapers.

TICKMARKS

Tick marks must be consistent throughout a particular workpaper. Tick mark explanations must be a part of the workpaper.

CROSS-REFERENCING

Workpapers should be prepared using the appropriate cross-referencing. A reference from the Audit Procedures to the primary workpaper provides a reference to where the work was performed. The primary workpaper will then contain reference to other, supporting workpapers, which provide additional information regarding the audit procedures performed, results, conclusions reached, and audit observations.

Specimen:

Workpaper Header

ABC Associates

Client _____

Period _____

Prepared by _____

Date _____

Reviewed by _____

Date _____

(in-charge)

Reviewed by _____

Date _____

(Manager)

Sample Audit File Index

- A. Audit control papers
- A. A1 Financial statements
 - A2 Audit completion checklist
 - A3 Review schedules
 - A4 Time record and budget
- B. Overall audit plan
- B
- C. Intangible assets
- C
- D. Tangible non-current (fixed) assets

- E. Investments

- F. Stock

- G. Receivables

- H. Advances

- I. Cash

- J. Payables

- K. Provisions and contingencies

- L. Taxation

- M. Capital & reserves

- N. Income statement

- O. Revenue

- P. Purchases
- Q. Wages & salaries
- R. Any other item

6.3 Organisation

Auditors today use a wide variety of formats to prepare workpapers. Audit workpapers may be in the form of paper, tape, disk, diskette, film, or other media. Regardless of the media used workpapers should provide a standard framework for documenting internal audit activities. If the audit workpapers are in the form of media other than paper, consideration should be given to generating backup copies. If the Internal Auditor is reporting on financial information, the audit workpapers should document whether the accounting records agree or reconcile with such financial information.

The Internal Auditor should establish standard audit workpaper files, stationary, indexing, and other related matters. Standardized audit workpapers, such as questionnaires and audit programmes, may improve the efficiency of an audit and facilitate the delegation of audit work.

6.3.1 Document organisation

An audit requires large number information to be collected .The form and content of workpapers depend on the nature of activities reviewed and the audit performed. They can be broadly classified into

- Permanent files
- Administrative files
- Audit procedure files
- Bulk files
- Audit reports

- Permanent files: Some audits may be conducted on a periodic basis and have repetitive procedures. Also in case of continuing audits there might be information of continuing importance. All this data of historical or continuing nature should be filed in permanent files.
- Administrative files: These might be required for large or complex audits where there might be large number of workpapers or files.
- Audit procedure files: The content of these files are totally dependent on the type and nature of audit and audit procedures used by the auditor.
- Bulk files: Audit may require large number of evidential material that may be quite bulky and not required to be retained in primary workpapers. Such papers may be filed in bulk files.

6.3.2 Computer Assisted Audit Technique workpapers

Workpapers for computer assisted audit techniques follow a different approach than conventional audit. An auditor may use different automated procedures to perform audit. CAAT uses specialised auditor -developed or –controlled routines to perform audit test and analysis procedures.

The CAAT workpapers should have detailed description of CAAT procedures, timing, problems encountered. Some requirements would be:

- Description of application and process being tested
- Audit objectives, files to be accessed, cut off dates
- Description of software being used
- Documentation of CAAT tests performed
- Schedule of CAAT processes with documentation.

6..4 Review of workpapers

All workpapers should go through an independent internal review process. The overall responsibility of the review is with the Chief Audit Executive but it is usually delegated to supervisory members of the internal audit function. The following need to be confirmed:

- There was compliance with workpaper guidelines.
- Review the preliminary survey to ensure that objectives are defined.
- Review the audit procedures to ensure that they are adequate to accomplish the objectives.
- Review the referenced workpapers to ensure they support the procedures performed and all procedures have been completed.
- Determine that the workpapers adequately document the conclusions reached in the report and the conclusions are reasonable and valid
- Ensure that all the workpapers are relevant and useful.
- Workpapers sufficiently provide an evidence of the work performed.
- Confirm that all observation forms prepared have been discussed with the appropriate member of management, and that the disposition of the audit concern is documented.
- Documentation obtained and not relevant to the audit should be returned/destroyed upon the completion of the audit.

There should be evidence of the supervisory review which would consist of reviewer's initials and dates on each worksheet reviewed. The reviewer might make review notes and raise questions that may arise during the review process and give it to the auditor responsible for resolution. Review questions should be resolved promptly and all questions should be resolved prior to issuing the final report.

6.5 Retention and Custody

Audit workpapers are the property of the organization. They are considered as confidential. Audit workpaper files should generally remain under the control of Internal Audit and should be accessible only to authorized personnel. Workpapers often contain sensitive information or data that must be protected from unauthorized use or review. Management and other members of the organization may request access to audit workpapers. Such access may be necessary to substantiate or explain audit findings or to utilize audit documentation for other

business purposes. The Internal Auditor should approve these requests. It is common practice for internal and independent outside auditors to grant access to each other's audit workpapers. The practice of granting the independent outside auditor access to audit workpapers should be approved by the Internal Auditor.

There are circumstances when requests for access to audit workpapers and reports are made by parties outside the organisation other than the independent outside auditor. Prior to releasing such documentation, the Internal Auditor should obtain the approval of senior management and/or legal counsel, as appropriate.

The Internal Auditor should develop retention requirements for audit workpapers. These retention requirements should be consistent with the organisation's guidelines and any pertinent legal or other requirements. The guidelines could relate to:

- Time period during which files to be kept in current documents
- Subsequent movement of files to archive files.
- Movement of electronic workpapers to an electronic storage media like tape, CD –ROM.
- Separate guidelines for workpapers related to investigative audit or a lawsuit.
- Removal or deletion of workpapers.

Audit workpapers and audit reports are key tangible outputs of the audit process. As the audit report is supported by the workpapers, it is essential that adequate workpapers are available to support the report. The best way to establish a level of confidence is that internal audit management performs adequate levels reviews of all workpapers

Section 7- Audit Reports and Communication

7.1 Purpose of Audit report
7.2 Types of Audit Report
7.3 Form and content of audit report
7.4 Style and Attributes
7.5 Audit Reporting Cycle
7.6 Evaluation and Follow up
7.7 Specimen Internal Audit report

7.1 Purpose of audit report

An audit report is the only output of the Internal Auditor's work, which people outside the Internal Audit function get to see. It is a formal document summarizing the work done and reports the findings and recommendations. It is a means of communicating all of the auditor's work to management. The report must concisely present the total essence of the audit effort. Findings must be supported by sufficient evidence and be within the audit's scope and objectives. Each recommendation must fit the facts of the finding and materially reduce the potential risk as indicated by the facts of the finding. It is not important what an auditor believes; the important thing is what the auditor can prove. Auditor beliefs, without proper documentation will not be carried to the report.

Whether audit report is a formally written document or an informal one it should have the following information:

- Findings
- Description of findings
- Suggestions and Recommendations
- Documentation of plans and Views of auditee

6.2 Types of Report

With today's technology and ever changing requirements, audit results can be reported in a wide spectrum of formats. Certain common approaches to reporting are presented:

- Oral Reports
- Interim reports
- Descriptive (regular) reports
- Summary audit reports

Oral Reports: This mode of communication should be supplementary to written reports. This mode might be used for reporting any findings, which may need emergency action, or as an oral presentation as a prelude to the formal written report.

Interim reports: When management or other recipients of report have to be informed of significant developments or problems for which prompt action needs to be taken, an interim report can be issued.

Regular reports: in most audit assignments a detailed descriptive report is given at the conclusion. A general format of such a report is given under “Form and content of audit report”.

Summary Audit report: Such reports summarise the audit report and describe the range of content. Such reports could be a summary of more than one report.

7.3 Format and content of audit report

The format of report would be guided by the company procedures and nature of work. A general format is suggested below:

Cover Page - A cover page showing the department name, audit title, audit number and audit date should be on each report. Lengthy reports may have an index.

Cover Letter - A letter should be written and signed by the Director /partner and made a part of the audit report. It will be as brief as possible.

Introduction - Describe the type of engagement (regular scheduled, special request, etc.) and the authority of the audit (agenda, special request). The name of the organization or activity being

audited and provide any background information necessary. This can include nature and goals, volume or value, activities, location, staffing, etc.

Statement of Objectives - The audit objectives are stated in the report and are the same ones that appeared in the detailed audit programme.

Statement of Scope - This section should describe the depth and coverage of audit work conducted to accomplish the audit's objectives. It would contain the calendar dates for the test work and a date for the evaluation of internal controls.

Statement of Methodology - The statement on methodology should clearly explain the evidence gathering and analysis techniques used to accomplish the audit's objectives.

Statement of Auditing Standards - The report should include a statement that the audit was made in accordance with auditing standards and disclose when applicable standards were not followed.

Audit Conclusions - The auditor must conclude on the stated audit objectives in the order in which they appeared in the report. The auditor should conclude in the negative or affirmative on each objective.

Findings and Recommendations - Each recommendation should be supported by a set of facts that make up an audit finding. The following are the elements of a finding.

- 1) Facts
- 2) Criteria
- 3) Effect - This is also known as risk (either actual or potential). Describe or show the actual or potential effect on the condition. The risks could be inaccuracy, inefficiency, loss to assets. Provide a monetary value to the effect. If this is not possible, say so and emphasize the potential.
- 4) Cause – The cause needs to be mentioned only when it is not obvious or it is something other than obvious one.

5) Recommendations - Set out in simple, yet specific language, a remedy that management can follow to effectively correct the condition. In multiple part actions, a numbered step by-step solution assists in breaking down the recommendation into an easily understandable process. Emphasize that solutions other than those presented may be acceptable if it minimizes the condition stated in the finding.

Auditee Responses - All recommendations will be followed by the auditee's response.

Auditor's Comments - These comments are used as necessary to evaluate the quality of the auditee's written responses.

General Comments - This section is reserved for points of interest that are of lesser magnitude than findings, but of interest to management.

7.4 Attributes of a report

The audit report must be written in a neutral tone and flawless in its accuracy, logic, clarity, grammar and spelling. It is the only output of the auditor's professional efforts, which is seen by outsiders.

ACCURACY - Reports must be completely and scrupulously factual; every condition and recommendation must be based on evidence that is supportable in the work file. The evidence must be sufficient to support the findings and recommendations and at the same time, be in agreement with the stated objectives of the audit.

CLARITY - Means making the reader understand what the auditor is trying to say while writing the report.

CONCISENESS - This means cutting out what is superfluous. Eliminate what is irrelevant and immaterial. The content of the report depends on the report reader. The report cannot supply both sufficient details for the operating manager and a summary for the executive. The report is written for senior management. The Internal auditor can either provide a separate report to the

operating management or details for the operating manager/supervisor can be provided upon request.

TONE - The report should be courteous and factual. It should not be petty, but should sound like the voice of management.

GRAMMAR AND SPELLING - All auditors are expected to use acceptable grammar, sentence structure and context. Additionally, spelling should be accurate.

7.5 Audit Reporting Cycle

It is desirable that during the course of the audit, a framework of the final report is developed so that the needed information is obtained on time. This will prevent delays in the report writing process. Important and sensitive findings should be shared with responsible managers immediately upon verification by the audit staff; memo reports may be used in this process.

As findings are completed, they are inserted in the proper sections of the report. The audit report is a process in itself, which starts with identification of findings, preparation of draft report, discussions of findings with the concerned people, management responses to audit findings and issuance of final report. An internal audit function may alter or skip any of the steps outlined below to suit its needs and purpose.

- Outline Audit findings
- Preparation of Audit report - First draft
- Discussion with client
- Preparation of Final Audit report draft
- Closing conference
- Issuance of Final report

A. Outline Audit findings

- a. Document all findings
- b. Determine whether there is sufficient support for all findings

- c. Determine whether there is pattern of deficiencies, which could mean procedural changes are required.

B. Preparation of First Draft

- a. The draft report should state that the findings, conclusions and recommendations set forth are preliminary in nature.
- b. The draft report should follow standard format.
- c. Ensure that figures and facts have been checked and cross-referenced to relevant workpapers.
- d. Review that the workpapers provide adequate support for items of significance
- e. Check for tone, spelling and punctuation.
- f. Issue report (stamped "DRAFT") to management for review.

C. Discussion with client

- a. Determine whether the management was aware of the issues and taking corrective action on the same.
- b. There should be no surprises - everything in the draft should have been discussed during the fieldwork.
- c. Be sure you can easily find supporting documentation for findings in the working papers in case questions arise at the meeting.
- d. Ascertain the causes for the deficiencies /problems. Find out whether there are any constraints or limitations for the shortcoming.
- e. Get the client comment on the draft report, and any inaccuracies or impractical recommendations resolved to the extent possible.
- f. Get management's agreement on the facts and wording of the report.
- g. Ask management for written responses (give specific due date for responses).

D. Preparation of Final Audit report draft

- a. Ensure that management's/auditee's viewpoint has been considered.
- b. Determine whether the report is well written and in a manner that all intended recipients may understand.

- c. Ensure that audit staff who wrote the report agree with the changes made.
- d. Make sure that management's /auditee's viewpoint has been rightly stated and adequately rebutted, if necessary.

E. Closing conference

- a. Provide the management or appropriate staff adequate opportunity to study the report.
- b. Departmental administrators and managers have the opportunity to informally provide additional information, question findings, or challenge conclusions. On the basis of those discussions, the final report may be modified.
- c. Try to anticipate potential questions/conflicts.
- d. Inquire from the managers or appropriate staff whether they have any questions about the opinion or background or the audit process.
- e. Normally, only the administrators of the department being reviewed attend the closing conference to allow the parties most affected by the report to more freely and confidentially express their views, and to ensure the accuracy of the final audit report.
- f. Obtain current plans of follow up from the management /auditee.

F. Issuance of Final report

- a. The final report should include modifications and changes discussed and agreed to at the closing conference, if held, in addition to the auditee's written responses.
- b. The auditee's written responses will be reviewed by the staff auditor and the Audit Supervisor and evaluated in writing, if necessary.
- c. When differences of opinion persist even after the final draft, the report will be issued although it may be modified to reflect the position of the audited department or higher-level management.
- d. Before release, the report will be signed by all those responsible for the audit, which would normally be the Audit Director, Audit Supervisor and appropriate staff auditor.

- e. All changes to the report must be documented in the work file and signed off on by the staff auditor, Audit Supervisor and the Audit Director.
- f. Try to provide a balanced presentation by including departments' or units' notable strengths to credit staff for correcting past deficiencies and to recognise superior management.
- g. Make a final reading of the report for content, clarity, consistency and compliance with professional standards.
- h. File final report in project binders and cross-referenced to supporting working papers; provide explanations for comments deleted or changed significantly since original draft.

G. Dissemination of report

- a. The persons to whom the report is to be delivered will vary from organisation to organisation and from one assignment to another. Some of the recipients could be the Corporate Vice President, for Administration or the Vice President for Business and Finance, the Department Head, the CFO, the CEO, the Board of directors and the Audit Committee.
- b. In some organisations the BOD and the Audit committee may be presented with sAudit Committee with periodic summaries of audit findings, with access to summaries or full reports if requested.
- c. In certain organisations the report is published on the website. In that case, Copy the report file to the share drive for eventual publication on the web page. Take the original paper copy of the letter to the management and the signature page from the report to the webmaster. Those two pages will be scanned and converted into a PDF format document and inserted into the report posted on the share drive.

7.6 Evaluation and Follow up

At the completion of each audit, the cognizant audit manager will send an evaluation survey form to the primary clients of the audit. These should be completed and returned to the

Director of Internal Audit, in order to ensure continuous improvement of these procedures and the internal audit function.

After receiving the response determine whether responses address the issues described in the findings, promise action that will correct the weakness reported, and include a reasonable completion date.

Follow up

Each organisation /department may have its own time limits for replying to the report and the internal audit department may have its own rules for follow up. Some internal audit function may conduct a follow up after six months or one year to and ascertain the status of open recommendations.

Internal auditing should determine that corrective action was taken and is achieving the desired results, or that management or the board has assumed the risk of not taking corrective action on reported findings.

7.7 Specimen letter/report

Audit report cover letter

<On the letterhead of Chartered Accountant >

July 14, 200X

Report No. <Number>

Mr. <Name>

CEO, <Company Name> Limited

<Address>

Dear Mr. <CEO>

The audit team has concluded an operational review of the internal control structure and the recently implemented financial system SAP. The objective of our review was to evaluate controls in the financial system, compliance with policy & regulations and the effectiveness and efficiency of the current organisation authority structure.

The review covered operations of the period <date> to <date>. Please find enclosed two copies of the Audit Report of <Company Name> Limited completed on June XX, 200X. I am pleased to inform you that the review found that the financial department is well managed with generally good controls. However, controls need to be strengthened in few areas and documentation policies need to be more strictly enforced for travel expenses. A summary of the most significant audit findings are provided in Part II of the report.

The company must respond in writing to each audit finding. The proposed Corrective Action Plan should detail both short term corrective action to correct the specific deficiencies cited and, where applicable, long term corrective action. Long term corrective action should focus on modifying the system to prevent recurrence of similar deficiencies in the future.

We wish to express our appreciation for the co-operation extended to the audit team by you and your staff during the audit.

Yours truly,

Yours truly,

<Name>

<Designation>

Membership No. <number>

Specimen Internal audit Report

AUDIT NAME AUDIT REPORT

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AUDIT NAME
DATE
INTRODUCTION

Background

Audit Perspective

Present audit status -

Recent past audits -

External audit coverage -

Scope & Objectives

The scope of the (audit or review)

The scope statement should be brief and should include the timing, type and purpose of the work and the standards used when conducting the audit. Types of audits or reviews are financial, operational, compliance and EDP.

(E.g., The scope of the audit was financial and operational in nature .This routine audit was conducted on AAA Foods Limited during the period of (month) (year). The audit covered the period from dd-mm-yyyy to dd-mm-yyyy . The audit was performed to ensure that financial data was properly recorded and adequate operational procedures exist in all the operational areas. The audit was conducted in accordance with the applicable Accounting & Auditing Standards. Included reviews in the following areas:

- a) Royalty payments;
- b) Rent received from sub tenants;
- c) compliance with Food safety and hygiene regulations ;

- d) Cash receipts; and
- e) Credit card receivables .

The last day of fieldwork was _____.)

The objectives of the audit were as follows:

- Determine that cash receipts were recorded correctly as to account, amount and period and are deposited promptly (recording, safeguarding).
- Verify that credit card receivables were correctly accounted, applied and payments received from the credit card company.
- Determine whether food safety inspections have been regularly carried out at various locations and appropriate hygiene levels are maintained.
- Review inspection reports- internal and external and steps taken to correct shortcomings, if any.
- Whether royalty has been calculated correctly and has been paid to the brand owners timely.
- Whether contract has been drawn up with sub tenants and floor space, rent and facilities has been has been agreed upon.

Note: Audit is used in the report when actual tests are performed to corroborate the opinion. Review is used in the report when no tests are performed to corroborate the opinion. Comment should speak directly as to what was done,

i.e., if a test was performed, the word test should be used. If a review was performed, the word review should be used.

Company - General

AAA Foods Limited

Provide information on background of company and its operations .Provide details of functions and personnel in departments. Mention whether any major change in the organisation since the last audit. (E.g. the company has opened new food centres at 12 more locations. The staff strength has risen to 15,000. The company is now undertaking a massive exercise to centralize its processing and accounting at the main office).

Audit Synopsis

Mr. R. Xyz, senior partner of XYZ associates was in charge of the audit. The audit was conducted in accordance with auditing standards and policy & procedures detailed in the AAA Food Limited's manual .These techniques included interviews with key personnel, review of approved documents, sampling of relevant files, and random inspections throughout AAA Food Limited's system.

The audit entry meeting was held in AAA Food Limited's main office on <date>. During this meeting, the audit manager briefed the operator's management on the audit process and the team's audit plans. The officials of the company were regularly updated on audit progress and of all audit findings submitted. The audit was completed and the exit meeting was held in AAA Food Limited's main office on <date> with the senior officials namely<name>.

Corrective Action Plan

Audit Findings identify a situation where a company policy, procedure, or activity does not conform to policies & procedures specified in the company's internal audit manual or to the applicable regulatory standard. The company must respond in writing to each audit finding, detailing short term corrective action to correct the specific examples listed, and long term systemic corrective action to prevent recurrence of similar situations.

XYZ Associates will monitor implementation of AAA Food Limited's Corrective Action Plan through the audit follow-up process

EXECUTIVE SUMMARY

Purpose & Limitations

The executive summary is intended to provide an overview of the audit process, and summarise the significant findings (discussed in the detailed audit report) and the conclusions reached. The reader should not frame an opinion solely on the basis of this summary. The detailed report should be read to obtain the complete understanding of the background, ramifications, and recommendations.

General

The audit examined AAA Foods Limited's operations and finance divisions using applicable checklists referenced from the Internal Audit Manual. A total of xx operations and xy finance audit findings are reported. . These findings identified examples of non-conformance to the standards, regulations AAA Foods Limited's policies or procedures. A number of the findings were administrative in nature and can be easily corrected, whereas others were systemic and will require particular attention to ensure that corrective actions are effective in addressing the identified system faults.

Audit Opinion

As discussed more fully in our opinion on page _____ of this report,

Relevant Findings

- List a summary of each finding (without ramification/implication statement). Cross reference to detail section of report.

AUDIT NAME
INTERNAL AUDIT OPINION

In our opinion, we found the _____ to be adequate, or inadequate (detail of inadequacies to follow the word inadequate).

We have identified opportunities to improve the controls of the (offices/areas/departments) involved in the... as discussed in this report.

AUDITOR-IN-CHARGE

DATE

(E.g. In our opinion, we found the financial transactions were properly recorded and the operational procedures adequate for the period under audit. However, there is still some scope for improving operating efficiency and effectiveness which are discussed in this audit report.

In our opinion, we found the financial transactions to be properly recorded, but the operational procedures inadequate for the period under audit. We have made some recommendations on improvement of efficiency and effectiveness of certain operating procedures as discussed in this audit report.

The areas requiring immediate attention are: <area>, which currently lack some essential elements; <area>, which require a detailed system to ensure that all

requirements have been met; and procedures to monitor and report on <area> activities.

The above deficiencies notwithstanding, the review revealed that AAA Foods Limited is maintaining strict quality control standards and that a knowledgeable, competent management team has been assembled to oversee its staff and employees that have the ability and desire to operate within the regulatory framework. The company's response upon learning of any deficiency was immediate and indicative of their focus on quality control.

AUDIT NAME

DETAIL REPORT

Overview

Pages X through XX outlines the **specific findings** resulting from our substantive audit testing. These issues are discussed in detail in our report and are categorized first on the basis of departments .Within each division, the major primary findings (significant internal control deficiencies and items potentially having a significant or adverse effect on the unit’s operations) are mentioned first and then other matters (items of a lesser nature requiring attention, but not likely to have a significant or adverse effect on the unit’s operations).

Primary Findings

I. COMMENT

Insert summary of the finding included in the Executive Summary

Finding

Ramifications/Implications

Recommendation(s)

Auditee's Response

Other Matters

II. COMMENT

Insert summary of the finding included in the Executive Summary

Finding

Ramifications/Implications

Recommendation(s)

Auditee's Response

Section 8- Relationship management

8.1 Internal Audit and audit committee

8.2 Relationship with management

8.3 Working with the statutory auditors

8.4 Relationship with regulators

In today's world, the internal auditors need to have a variety of skills to be successful. Not only do they have to be good in their traditional area of competency like financial and governance expertise, analytical skills, risk assessment but also be business savvy, have an eye towards creating value, and provide a larger perspective. Soft skills are becoming crucial. Operating managers are requesting assistance from internal audit staff to improve effectiveness and efficiency of operations. Findings are not treated as deficiencies but as practices that can be improved by modification jointly developed by client and auditor working together.

To top it all and ensure that internal audit is effective, communication is most crucial. Sound governance requires effective interaction among the board, management, the external auditor, and the internal auditor.

8.1 Internal Audit and audit committee

The audit committee should be composed of board members who have the knowledge and experience of the organisation's business. They should have the skills to evaluate financial and management controls, and the ability, experience, and willingness to act for the good of the organisation and its stakeholders. They should have the time to find out enough about the organisation so that they can effectively challenge the executive management.

A professional internal audit activity is a major source of information to the board and its special committees. It provides assurance on the effectiveness of governance, risk management and internal control processes, covering strategic, market, credit, operational and financial risks.

The audit committee and the internal audit team need to maintain a strong positive relationship.

The chief audit executive has to report on its findings to the audit committee any deficiencies that have been detected and the audit committee also has to enquire in depth from internal audit into complex issues. The internal audit activity is answerable to the audit committee and not management.

The chief audit executive should attend audit committee meetings and discuss the charter, review the audit plan, staffing requirements, audit findings and status of implementation of recommendations.

The audit committee has to assess the performance of the internal audit team to review whether the activity is effective and capable to be the agent of the of the audit committee in the organization. It may also act as facilitator between the internal audit, executive management and the statutory auditors to ensure proper allocation of work and ensure good corporate governance.

8.2 Relationship with executive management

Maintaining a balanced relationship with the executive management is most crucial and difficult for the internal auditor. For internal audit to be effective, the relationship with executive management has to be constructive. The relationship has to be based on mutual confidence but it should not be too friendly. Nowadays, operating managers are requesting assistance from internal audit staff to improve effectiveness and efficiency of operations. Findings are not treated as deficiencies but as practices that can be improved by modification jointly developed by client and auditor working together.

The chief audit executive should have frequent meeting with the management to share information.

Reports

Within the management, there are different levels. The audit report has to be designed to suit the interest, needs and requirements of different levels of management. All the levels need to know as to what is happening in the areas of their concern and internal audit report can serve as one of the vehicles of information. However the degree of detail required by each is different. The local office needs an in- depth report with all the details and documentation so that follow up actions /rectifications can be taken. The regional offices would need general information on the operations and performance of the local office. The top management needs to be informed of serious issues and frauds and information on problems across offices etc. Thus, as the levels go up the details required are less.

For easy readability and distribution, the report could have an executive summary, a main report divided by functional areas and lastly recommendations. Thus, each level gets focused information according to their needs.

Oral communications

Formal written communications are necessary and but informal communications cannot be ignored altogether. It can help draw management's attention towards important issues. Debriefings minimise the chance of something important passing unnoticed because of other priorities and pressures.

Overview

An audit report consists of details of the audit assignment of the audited unit. At some point it also needs to see things from a larger perspective- to focus on the forest rather than the trees. On the basis of recurring observations and trends, it would be possible to identify areas which need more attention, policy changes or guidance.

8.3 Working with the statutory auditors

Internal audit and statutory audit have different objectives. The primary objective of statutory auditors is to express an opinion on accuracy and fairness of financial statements. The focus of the report is on objectivity, accuracy and brevity. They focus on historical financial data. The objectives of internal audit are much wider. They are involved in operational audits, management audits, review of processes, practices & procedures and other assignments.

However, the statutory auditors need to understand the functioning and operations of the enterprise and the internal control systems. Not only that, they have to include in their report an opinion on the state of internal controls in the organisations. Thus, if they co-ordinate their efforts there would not be any overlapping nor would there be any gaps. Every aspect of the organisation could be covered without duplication of work and improve service to management and the audit committee. Internal and external auditors both are equally important.

There should be sufficient liaison between the auditors. Both should share information regarding scope, audit programme and audit findings. However, several factors determine the type of relationship. Some chief audit executives (CAEs) are of the opinion that the relationship should be arms-length relationship while others feel that there should be a close working relationship.

It is finally up to the organisation and the auditors to decide as to what type of relationship best fits an organization taking into account its resources and time and issues.

Benefits of co ordination

Varied strengths increase effectiveness

By the nature of their responsibilities, internal auditors spend a lot of time working for the same company. This gives them a better understanding of the culture and working of

the organisation. The external auditors on the other hand have exposure to wider variety of financial issues as they have multiple clients.

Increase in efficiency

Coordination increases efficiency. When the audit is not properly coordinated, external auditors may duplicate work already performed by the internal auditors.

Better audit coverage

It is expected that elimination of redundant work will leave time and resources for better audit coverage.



Cost reduction

Coordination reduces the time and efforts which the external auditor would expend on redundant work thus, reducing the audit fees.

Better understanding of each others work

Coordination would imply that the auditors communicate and consult with each other their plans and findings. This will lead to clearer understanding of respective audit roles and requirements and a better understanding by each group of auditors.

Building co-operation

Approval

External and internal auditors owe allegiance to different set of people .The internal auditor is accountable to the management. When the external auditor needs assistance from the internal auditor, he has to first inform the management /governing body and seek their approval.

Commitment

As discussed earlier, both the auditors work with different objectives and responsibilities. Given this situation when the need for coordination arises, it requires commitment. They have to adjust and plan the work to satisfy each others needs.

Communication

Communication is sine qua non for success of any coordination process. . There should be frequent and open communication between internal and external auditors. They should decide on timing and nature of communication-it may be written or electronic or face to face or telephonic or combination of whatever format is suitable.

Trust

There needs to be mutual confidence between both groups of auditors. This confidence is enhanced when the auditors are members of professional bodies and are bound by their professional standards and code of conduct. When the external auditor requires direct assistance or needs to rely on the work in certain area, he may conduct procedures to get specific assurance. There also needs to be confidence that any information exchanged is treated professionally and with integrity.

Areas of co-operation

- Internal control
- Corporate governance
- Reporting and financial statements
- Compliance with laws
- Anti Fraud measures
- Performance indicators
- Testing

- systems
- programs
- Liaison between company and external auditors
 - Ensure that all information, documentation is provided to internal auditor
 - Audit of dispersed organizations
 - Follow up on audit issues and implementation of recommendations

8.4 Relationship with regulators

Internal Audit is gaining more importance with the regulators. The role of Statutory Auditors is confined to reporting on financial accuracy and application of accounting principles and standards. Market regulators are interested not only in financial results but also concerned that business operations are conducted in a manner so that all foreseeable risks are addressed by appropriate internal control mechanism and there are no revenue leakages.

Internationally, the relationship with regulators is significant in the financial services sector due to the Basel Committee on Banking Supervision. In India, increasing number of regulators are demanding internal audit of entities under their supervision. RBI, NSE, NSDL, SEBI all insist on internal audit of operations of entities under them. Not only that The Companies (Auditor's) Report Order, 2003 states that,

“Internal Auditing is applicable to: -

1. Listed Company
2. Unlisted Companies whose paid up capital & reserves as at the commencement of the financial year exceeds Rs.50 Lakhs or the average annual turnover for immediately 3 preceding financial years exceed Rs.5 crores.

Only the internal audit activity can provide a objective assurance to the market regulator

that

- ⊖ the operations are in compliance with laws and regulations set up by them,
- ⊖ internal control exists in all the key risk areas,
- ⊖ internal control framework is functioning effectively and
- ⊖ gaps if any are identified reported and prompt action is taken to rectify the same.

Section 9 -Overview of Standards on Internal Audit

9.1 Standards on Internal Audit (SIA) issued by ICAI

9.2 Internal Audit Standards issued by IIA

9.1 Standards on Internal Audit issued by ICAI

Institute of Chartered Accountants have issued 16 Standards on Internal Audit (SAI) since 2006 which are required to be applied while conduct of internal audit functions by a chartered accountant. An overview of the standards is discussed below.

SIA 1 Planning an Internal Audit Issued in May, 2006.

The basic objective of the SIA is to establish standards and provide guidance in respect of planning an Internal and helping in achieving the objectives of an Internal Audit function. Adequate planning ensures that appropriate attention is devoted to significant areas of audit, potential problems are identified, and that the skills and time of the staff are appropriately utilised. Planning also ensures that the work is carried out in accordance with the applicable pronouncements of the Institute of Chartered Accountants of India. Planning should also be based on the knowledge of the entity's business.

SIA 2 Basic Principles Governing Internal Audit Issued in August, 2007

The purpose of this Standard on Internal Audit (SIA) is to establish standards and provide guidance on the general principles governing internal audit. This Standard explains the principles, namely, Integrity, objectivity and independence, Confidentiality, Due professional care, skills and competence, Work performed by others, Documentation, Planning, Evidence and Reporting which governs the internal auditor's professional responsibilities

SIA 3 Documentation Issued in August, 2007.

The purpose of this Standard on Internal Audit is to establish Standards and provide guidance on the documentation requirements in an internal audit. Adequate documents act as basis for the planning and performing the internal audit. Documents provide the evidence of the work of the internal auditor. This Standard provides guidance regarding the form and content of the internal audit documentation, detention and retention of the same and identification of the preparer and reviewer.

SIA 4 Reporting Issued in August, 2008

The purpose of the Standard on Internal Audit (SIA) 4, Reporting is to establish standards on the form and content of the internal auditor's report issued as a result of the internal audit performed by an internal auditor of the systems, processes, controls including the items of financial statements of an entity. This SIA describes the basic elements of an internal audit report such as opening, objectives, scope paragraphs, and executive summary. This SIA also deals with the different stages of communication and discussion of the report and describes the reporting responsibilities of the internal auditor when there is a limitation on the scope. The Standard also lays down the reporting responsibilities of the internal auditor when there is restriction on usage and circulation of the report.

SIA 5 Sampling Issued in August, 2008.

The Standard on Internal Audit (SIA) 5, Sampling provides the guidance regarding the design and selection of an audit sample and also on the use of the audit sampling in the internal audit engagements. This SIA also deals with the evaluation of the sample results. This Standard also provide guidance on the use of sampling in risk assessment procedures and tests of controls performed by the internal auditor to obtain an understanding of the entity, business and its environment, including mechanism of its internal control. The areas covered by the SIA include design of sample, tolerable and expected error, selection of sample, evaluation of sample results, analysis of errors in the sample, projection of errors, reassessing sampling risk. This also describes the internal auditor's documentation requirements in the context of the sampling.

SIA 6 Analytical Procedures Issued in August, 2008.

The Standard on Internal Audit (SIA) 6, Analytical Procedures provides the guidance regarding the application of analytical procedures during internal audit. The SIA deals with the aspects such as, the nature and purpose of analytical procedures, analytical procedures as risk assessment procedures and in planning the internal audit, analytical procedures as substantive procedures, analytical procedures in the overall review at the end of the internal audit, extent of reliance on analytical procedures and investigating unusual items or trends.

SIA 7 Quality Assurance in Internal Audit Issued in August 2008.

The Standard on Internal Audit (SIA) 7, Quality Assurance in Internal Audit establishes standards and provide guidance regarding quality assurance in internal audit. A system for assuring the quality in internal audit should provide reasonable assurance that the internal auditors comply with professional standards, regulatory and legal requirements so that the reports issued by them are appropriate in the circumstances. This Standard provide the guidance to the person entrusted with the responsibility for the quality of the internal audit whether in-house internal audit or a firm carrying out internal audit. This

Standard also provide the extensive knowledge about the internal quality reviews, external quality reviews and communicating the results thereof.

SIA 8 Terms of Internal Audit Engagement Issued in November, 2008

The Terms of engagement defines the scope, authority, responsibilities, confidentiality, limitation and compensation of the internal auditors. Terms of Internal Audit Engagement lay down clarity between the internal auditors and the users of their services for inculcating professionalism and avoiding misunderstanding as to any aspect of the engagement. This Standard on Internal Audit (SIA) 8, Terms of Internal Audit Engagement provides guidance in respect of terms of engagement of the internal audit activity whether carried out in house or by an external agency. This SIA describes the elements of the terms of engagement viz, scope, responsibility, authority, confidential, limitations, reporting, compensation and compliance with Standards.

SIA 9 Communication with Management Issued in January, 2009

The Standard on Internal Audit (SIA) 9, Communication with Management provides a framework for the internal auditor's communication with management. It identifies some specific matters to be communicated with the management as described in the terms of engagement like the internal auditor's responsibilities in relation to the terms of engagement, planned scope and timing of the internal audit, significant findings from the internal audit. The Standard also provides the extensive knowledge about the communication process to make the two-way communication effective like the forms and timing of communication process. This Standard also provides the guidance the documentation of the same.

SIA 10 Internal Audit Evidence Issued in January, 2009

The purpose of this Standard is to establish standards on the basic principle that the internal auditor should obtain sufficient appropriate audit evidence through compliance

and substantive procedures to substantiate his checking and findings and enable him to draw reasonable conclusions there from. The SIA also explains the concept of sufficient appropriate internal audit evidence, procedures to be performed to obtain internal audit evidence namely, inspection, observation, inquiry and confirmation, Computation and Analytical review.

SIA 11 Consideration of Fraud in an Internal Audit Issued in January, 2009

As the name indicates the purpose of this Standard is to establish Standards on consideration of fraud in an internal audit. This Standard provides guidance on the designing and implementation of the internal controls in an entity that would also help the internal audit to assess the risk of frauds. The Standards also establishes the responsibilities of the internal auditor relating to the fraud prevention and detection. The SIA also provide guidance regarding the communication and documentation of fraud.

SIA 12 Internal Control Evaluation Issued in February, 2009

The purpose of this Standard on Internal Audit is to establish standards and provide guidance on the procedures to be followed by the internal auditor in evaluating the system of internal control in an entity and for communicating weaknesses therein to those charged with governance. The Standard also extensively deals with aspects such as meaning and inherent limitations of internal controls, control environment, risk assessment, tests of control and communication of weaknesses. The SIA also describes role of the internal auditor in evaluating internal controls.

SIA 13 Enterprise Risk Management Issued in February, 2009

The purpose of this Standard on Internal Audit is to establish standards and provide guidance on review of an entity's risk management system during an internal audit or such other review exercise with the objective of providing an assurance thereon. The Standard establishes process of enterprise risk management and the role of the internal

auditor. This Standard also provides guidance regarding the internal audit plan and information which internal auditor should provide in his report.

SIA 14 Internal Audit in an Information Technology Environment Issued in February, 2009

The purpose of this Standard on Internal Audit is to establish standards on procedures to be followed when an internal audit is conducted in an Information Technology (IT) Environment. This Standard describes skills and competence needed by the internal auditor to conduct an internal audit in an information technology environment, factors to consider while planning such an internal audit, matters that may effect audit in an IT environment, assessment of risk, audit procedures, review of the IT environment and Documentation.

SIA 15 Knowledge of the Entity and Its Environment Issued in February, 2009

The purpose of this Standard is to establish standards and provide guidance on what constitutes the knowledge of an entity's business, its importance to the various phases of an internal audit engagement and the techniques to be adopted by the internal auditor in acquiring such knowledge about the client entity and its environment, prior to commencing an internal audit engagement and subsequently thereafter, at all stages of the internal audit process. This Standard also sets out the guidelines regarding the application, usage and documentation of such knowledge by the internal auditor.

SIA 16 Using the Work of an Expert Issued in February, 2009

The purpose of this Standard is to establish standards and provide guidance where the internal auditor uses the work performed by an expert. The Standard also explains situations in which the need for using the work of an expert might arise, factors to consider when deciding whether to use the work of an expert or not, evaluating the skills

and competence and objectivity of an expert, procedures for evaluating the work of an expert, references to an expert in the internal auditor's report, etc.

9.2 INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

These are the standards issued by the Institute of Internal Auditors. Standards are principle-focused and provide a framework for performing and promoting internal auditing. The Standards are mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the statements.

It is necessary to consider both the statements and their interpretations to understand and apply the Standards correctly. The Standards employ terms that have been given specific meanings that are included in the Glossary.

Attribute Standards

1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

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. Final approval of the internal audit charter resides with the board.

1000.A1 – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

1000 C1 – The nature of consulting services must be defined in the internal audit charter.

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the Standards with senior management and the board.

1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved

through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

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.

1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of

impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 – Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

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 expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 – 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.

1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 – Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement’s objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 – 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;
- Relative complexity and extent of work needed to achieve the engagement’s objectives; and
- Cost of the consulting engagement in relation to potential benefits.

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1310 – Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

1311 – Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

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 Definition of Internal Auditing, the Code of Ethics, and the Standards.

Periodic reviews are assessments conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:

- The need for more frequent external assessments; and
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

Interpretation:

A qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process. The evaluation of the competency of the reviewer and review team is a judgment that considers the professional internal audit experience and professional credentials of the individuals selected to perform the review. The evaluation of qualifications also considers the size and complexity of the organizations that the reviewers have been associated with in relation to the organization for which the internal audit activity is being assessed, as well as the need for particular sector, industry, or technical knowledge.

An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, 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 reviewer's or review team's assessment with respect to the degree of conformance.

1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

The chief audit executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement.

1322 – Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

Performance Standards

2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:

The internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
- The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.

2010 – Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consultation with senior management and the board.

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Accepted engagements must be included in the plan.

2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

2040 – Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 – Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- 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, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization sustains and supports the organization’s strategies and objectives.

2110.C1 – Consulting engagement objectives must be consistent with the overall values and goals of the organization.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organizational objectives support and align with the organization's mission;
- Significant risks are identified and assessed;
- 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 organization, enabling staff, management, and the board to carry out their responsibilities.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks.

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization’s risk management processes.

2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

2130.A2 – Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.

2130.A3 – Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.

2130.C1 – During consulting engagements, internal auditors must address controls consistent with the engagement’s objectives and be alert to significant control issues.

2130.C2 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its 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 risk management and control processes compared to a relevant control framework or model; and
- The opportunities for making significant improvements to the activity’s risk management and control processes.

2201.A1 – 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.

2201.C1 – 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.

2210 – Engagement Objectives

Objectives must be established for each engagement.

2210.A1 – 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.

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

2210.A3 – Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria.

2210.C1 – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2220 – Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2230 – Engagement Resource Allocation

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.

2240 – Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 – Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.

2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives.

Interpretation:

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

2320 – Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive 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.

2400 – Communicating Results

Internal auditors must communicate the engagement results.

2410 – Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

2410.A1 – Final communication of engagement results must, where appropriate, contain internal auditors' overall opinion and/or conclusions.

2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1 – 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.

2420 – Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 – Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”

Internal auditors may report that their engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”, only if the results of the quality assurance and improvement program support the statement.

2431 – Engagement Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated.

2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 – 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 and the board.

2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1 – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 – Resolution of Senior Management’s Acceptance of Risks

When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.

Glossary

Add Value

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

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.

Board

A board is an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report.

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.

Chief Audit Executive

Chief audit executive is a senior position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. In the case where internal audit activities are obtained from external service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results. The term also includes titles such as general auditor, head of internal audit, chief internal auditor, and inspector general.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

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. Examples include counsel, advice, facilitation, and training.

Control

Any action taken by management, 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.

Control Environment

The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

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.

Engagement Objectives

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

Engagement Work Program

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

External Service Provider

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

Fraud

Any illegal act characterized by deceit, concealment, or violation of trust. 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.

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 objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

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 sustains and 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.

International Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories – (1) mandatory and (2) strongly recommended.

Must

The Standards use the word "must" to specify an unconditional requirement.

Objectivity

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

Residual Risk

The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

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.

Risk Appetite

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

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.

Should

The Standards use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

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.

Standard

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

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).
