



LEARN WITH

# AUDIT-95

## CA Final & CA Inter Audit

Abki Baar Audit Mei Exemption Paaar!



CA Ankush Chirimar  
AIR 5,6,32

*Free Revision  
Videos &  
Notes*

### Brief about Author

- All India Ranker at all 3 levels of CA
- Scored 95 Marks in Audit - Highest marks in history of ICAI till Nov 23
- Articleship at KPMG, Mumbai in Statutory Audit Domain
- Industrial Training at DBS Bank

Follow us on :



<https://linktr.ee/ankushchirimar>

#Hum\_CA\_Banenge!

**Internal Audit (IA)**

<p><b>IA</b> provides <b>independent assurance</b> on <b>effectiveness of IC &amp; risk mgt</b> processes to enhance governance &amp; <b>achieve</b> organizational <b>objectives</b>. It is <b>not confined to financial</b> transactions only &amp; <b>include</b> review of <b>operational</b> activities as well</p> <p><u>Objectives &amp; Scope of IAF as per SA 610 include</u></p> <ul style="list-style-type: none"> <li>• <b>Governance</b></li> <li>• <b>Risk mgt</b></li> <li>• Examination of <b>financial &amp; operating</b> info</li> <li>• Review of <b>operating activities</b></li> <li>• <b>Monitoring</b> of IC</li> <li>• Review of <b>compliance with L&amp;R</b> - not managing compliance &amp; engaging with regulators</li> </ul> <p><b>Who can be Appointed as IA?</b></p> <ul style="list-style-type: none"> <li>• Either <b>CA or CMA</b> (whether in practice or not) or <b>other professional</b> as decided by <b>Board</b></li> <li>• May or may <b>not</b> be <b>employee</b> of co.</li> <li>• IA must have <b>authority to investigate</b> every organizational <b>activity</b></li> </ul>	<p><b>Applicability</b> - As per <b>section 138</b> of Co. Act, 2013, following co. are required to appoint IA -</p> <ul style="list-style-type: none"> <li>• Every <b>listed co.</b></li> <li>• Every <b>unlisted public co.</b> having -             <ul style="list-style-type: none"> <li>○ O/s <b>deposits</b> of <b>Rs. 25 crores</b> or more <b>at any point of time</b> during <b>preceding FY</b></li> <li>○ Paid up share <b>capital</b> of <b>Rs. 50 crores</b> or more during <b>preceding FY</b> or</li> <li>○ Outstanding <b>borrowings</b> from banks or public financial institutions <b>exceeding Rs. 100 crores</b> at any point of time during <b>preceding FY</b> or</li> <li>○ <b>Turnover</b> of <b>Rs. 200 crores</b> or more during <b>preceding FY</b> or</li> </ul> </li> <li>• Every <b>private co.</b> having -             <ul style="list-style-type: none"> <li>○ Outstanding <b>borrowings</b> from banks or public financial institutions <b>exceeding Rs. 100 crores</b> at any point of time during <b>preceding FY</b></li> <li>○ <b>Turnover</b> of <b>Rs. 200 crores</b> or more during <b>preceding FY</b> or</li> </ul> </li> </ul> <p>If existing co. fulfils any criteria, it shall <b>comply within 6 months of applicability</b></p>
<p><b>As per SIA 210, Activities performed by IAF to achieve its objectives are</b></p> <ul style="list-style-type: none"> <li>• Define <b>plan, scope &amp; methodology</b> of IAF</li> <li>• <b>Plan, acquire &amp; review performance &amp; training</b> of professional <b>staff</b></li> <li>• Identify, engage &amp; manage <b>external experts</b></li> <li>• Oversee &amp; <b>monitor audits</b>, their proper <b>planning, execution &amp; reporting</b></li> <li>• Develop &amp; maintain <b>quality evaluation &amp; improvement</b> program</li> <li>• <b>Communicate</b> with all <b>key stakeholders</b> regarding achievement of objectives</li> </ul>	<p><b>For A/cing function, IA responsibilities include</b></p> <ul style="list-style-type: none"> <li>• At all times, IA must <b>enjoy independent status</b></li> <li>• <b>Not</b> to involve in <b>performance of executive</b> functions to protect objective outlook</li> <li>• To <b>operate independently</b> of <b>a/cing</b> staff</li> <li>• To ascertain <b>adequacy of ICS</b> &amp; provide safeguards for <b>misappropriation of assets</b></li> <li>• To <b>observe facts</b> &amp; bring them to <b>notice of authorities</b> who would never know them</li> <li>• To <b>associate closely with mgt</b> &amp; keep knowledge up to date for important events</li> </ul>
<p><b>Mgt Functions</b></p> <ul style="list-style-type: none"> <li>• In case of Co. covered u/s <b>138</b> - <b>Audit Committee or Board</b>, with Mgt &amp; <b>Chief of IA</b>, is <b>responsible</b> to formulate <b>objectives</b> of IA</li> <li>• In case of <b>other Co.</b> - those <b>who appoint IA</b> are responsible for same</li> </ul>	<p><b>Scope of IA's work includes review of</b></p> <ul style="list-style-type: none"> <li>• <b>ICS &amp; Procedures</b> <ul style="list-style-type: none"> <li>○ Assessing <b>design</b> &amp; operational <b>efficiency &amp; effectiveness</b> of ICS</li> <li>○ Considering <b>limitations</b> of IC</li> </ul> </li> </ul>

**Approach to Prepare IA Plan**

IA should, with **TCWG**, including **audit committee**, develop plan for **each IA engagement**

IA plan should cover both financial & operational activities considering -

- **Effort involved** in IA for particular process
- Coverage of **all auditable areas** within time
- **Risk** underlying business process
- **Risk Appetite** of org
- **Value** that IA can provide to org

**Integrity, Objectivity & Independence of IA**

1. Integrity - IA shall be **honest, truthful** & have high integrity. He shall be **fair** in all his **dealings** & **avoid all conflicts** of interest & not derive personal benefit from his position
2. Objectivity - IA shall conduct his work in **highly objective manner**. He shall **not allow bias** to override his objectivity
3. Independence - IA shall be **free from** any undue **influences**. Independence shall be **both in mind & in appearance**. Chief IA must administratively **report to CEO/MD/CFO**

**Quality of IA - Specialised Knowledge & Expertise**

- Special expertise to **evaluate mgt control systems**
- **Understanding** of **mgt techniques** & ability to deal with **people**
- IA must **provide assurance** to mgt that **confidentiality** will be maintained
- **A/cing & financial expertise** for his duties
- **Understanding** of **a/cing software**, ERP used by org with knowledge of IT controls
- **Evaluate both financial & operational controls** having good knowledge of operations of org
- Good knowledge of **commerce, laws, taxation, costing, economics, quantitative methods & EDP systems**

- **Custodianship & Safeguarding of Assets**

- Review control for **intangible assets**
- Verifying **existence** of assets
- Ensuring **all assets** are **fully accounted**
- Review **SODs**

- **Compliance with Policies & Regulations**

- **Org Structure** - To ascertain if it is in **line with objectives** of entity -

- Examine **org chart** to find out if it is **simple & economical**
- Review **manner** in which **activities** of entity **are grouped** for managerial control
- Examine **reasonableness of span of control** of each executive
- Where **dual responsibilities** cannot be avoided, **primary** one should be specified
- See that **responsibilities** of managerial staff at **headquarters do not overlap** with chief executives at **operating units**
- Review **adequate SODs** is considered in org structure
- Finally, evaluate process of **managerial development** in entity

- **Relevance & Reliability of Info**

- **Accomplishment of Goals & Objectives**

- **Utilisation of Resources**

- Check if **proper operating standards** are established
- Review **methods** of **establishing operating standards**
- They should be **detailed** enough & personnel should be able to **evaluate their performance**
- Where there is **wide divergence** b/w actual performance & standards, **reasons** are considered

**Steps while Performing IA**

1. **Obtain knowledge of Business** - Conduct **meetings with BOD & Key mgt** to obtain understanding of business docs, **IT IS & Regulatory** landscape
2. **Perform Audit Planning**
  - Audit **scope** must be **approved** by Audit **Committee & BOD**

**IA Report**

If IA knows actual or suspected **fraud or misappropriation of assets**, he should bring same **immediately to attention of mgt**

Reporting of IA has 2 stages -

- At **end** of particular **audit**, Report covering specific part of entity is prepared by IA

<ul style="list-style-type: none"> <li>Once approved, <b>IA</b> must <b>share detailed</b> Audit Plan with <b>KMP</b></li> <li>Conduct opening <b>meeting with key stakeholders before</b> start of audit &amp; share IS Access required to perform audit</li> <li><b>Detailed</b> plan must be <b>prepared by manager</b> &amp; <b>approved</b> by Head of IA/<b>Chief IA</b></li> </ul> <p><b>3. Gather required info</b></p> <ul style="list-style-type: none"> <li>Perform checks to ensure <b>correctness &amp; integrity</b> of info received</li> </ul> <p><b>4. Perform audit checks</b> - AP, Sampling, Audit Evidence, Documentation</p> <p><b>5. Reporting of IA Issues</b></p> <ul style="list-style-type: none"> <li>Prepare <b>draft</b> report of IA issues. Mgt <b>Action Plan</b> should be <b>agreed</b> with timelines</li> <li><b>Review actions taken</b> by mgt as agreed during <b>previous</b> audits</li> <li><b>Circulate Final Report</b> &amp; present his findings to <b>Audit Committee</b></li> </ul>	<p><b>highlighting key observations.</b> It is also <b>shared</b> with <b>local &amp; executive mgt</b>, as agreed</p> <ul style="list-style-type: none"> <li>On <b>periodic basis</b> (normally <b>quarterly</b>), at close of plan period, <b>comprehensive report</b> of all IA <b>activities</b> covering entity is prepared by <b>Chief IA</b> &amp; submitted to <b>highest governing authority</b> responsible for IA, generally Audit Committee</li> <li>SIA deals with <b>only 1st type</b> of reports</li> </ul> <p><b>Key Elements of IA Report</b></p> <ul style="list-style-type: none"> <li>Overview of <b>objectives, scope &amp; approach</b> of audit</li> <li>Fact that IA is conducted <b>as per SIA</b></li> <li><b>Nature of assurance</b> from observations</li> <li>Executive <b>summary</b> of <b>key observations</b> covering all important aspects</li> <li>Summary of <b>corrective actions</b> required</li> </ul> <p><b>No</b> IA report shall be issued in <b>final form</b> unless written <b>draft</b> of report was <b>previously shared</b> with auditee</p>
<p><b>Content &amp; Format of IA Report include</b></p> <ul style="list-style-type: none"> <li>Audit <b>Scope</b> performed</li> <li>Audit <b>Period</b> Covered</li> <li>Executive <b>Summary</b></li> <li><b>Summary</b> of critical <b>findings</b></li> <li><b>Detailed</b> audit <b>findings</b> with elaboration on business impact &amp; its <b>root cause</b></li> <li><b>Rating</b> of issues (high/low) as per rating <b>criteria</b> approved by <b>Audit Committee</b></li> <li>Audit <b>recommendation</b> to improve control environment &amp; address finding</li> <li><b>Response</b> received from responsible authority containing <b>action plan</b></li> </ul> <p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>Copies of <b>draft &amp; final IA reports</b>, cross referenced to specific observations</li> <li><b>Mgt action plans</b> may be counter signed by respective mgt personnel</li> </ul>	<p><b>Follow-up</b></p> <p><b>Chief IA</b> is responsible for <b>monitoring</b> closure of <b>prior audit issues</b> through implementation of action plans, in form of "<b>Action Taken Report of previous audits</b>" which includes -</p> <ul style="list-style-type: none"> <li><b>Reference</b> to previous audit <b>reporting</b> containing issues</li> <li>Any <b>critical</b> audit <b>finding</b> that require <b>immediate action</b></li> <li><b>Implementation of Action</b> agreed by Mgt with date</li> <li><b>Status</b> of <b>action</b> taken by Mgt</li> <li><b>Residual risk &amp; rating</b> for unimplemented action</li> <li>Audit <b>findings not implemented</b> for long period</li> </ul> <ul style="list-style-type: none"> <li>If <b>no follow-up</b> action is taken by Mgt within reasonable time, IA should <b>draw mgt's attention</b> to it &amp; ascertain <b>reasons</b></li> <li>If <b>mgt</b> has <b>accepted</b> his <b>recommendations</b> &amp; initiated action, he should periodically <b>review implementation</b> of recommendations &amp; <b>highlight</b> recommendations which are <b>not implemented</b> fully or partly</li> </ul>

Basis	Internal Audit	External Audit
Users of Report	Top Mgt & EA	Stakeholders
Reporting	Weakness in IC & effectiveness of operational activities	Truthfulness & fairness of FS
Examination	Adequacy of operational controls of Org	Accuracy & Validity of FS
Performed by	Independent IAF within org or by external body	Independent body which is not part of org
Appointment	By Audit Committee or BOD	By Members
Status of Auditor	Can be employee of Co.	Mandatorily not employee of Co.
<p><b>Relationship B/w IA &amp; EA</b></p> <ul style="list-style-type: none"> <li>• <b>IA</b> is <b>statutory requirement</b> u/s 138 of Co. Act</li> <li>• <b>Scope &amp; objective</b> of IA are dependent upon size &amp; structure of entity. There is lot of <b>overlap b/w work of IA &amp; EA</b></li> <li>• <b>Work</b> done by <b>IA</b> has <b>important</b> bearing on work performed by <b>EA</b></li> <li>• It is <b>obligatory for EA</b> to examine <b>scope &amp; effectiveness of IA's</b> work</li> <li>• <b>Independence of IA</b> is <b>important</b> factor for determining effectiveness of his audit</li> <li>• <b>EA</b> should <b>evaluate IAF</b> to extent it is relevant in determining NTE of procedures</li> </ul>		
<p><b>If EA uses IA to Provide Direct Assistance, EA shall include in Audit Documentation</b></p> <ul style="list-style-type: none"> <li>• <b>Written agreements</b> from authorized representative of <b>entity &amp; IAs</b></li> <li>• <b>Evaluation</b> of existence &amp; significance of <b>threats to objectivity &amp; competence</b> of IAs</li> <li>• <b>Basis for decision</b> for nature &amp; extent of work performed by IAs</li> <li>• <b>Who reviewed</b> work performed &amp; <b>date</b> &amp; extent of review</li> <li>• <b>Working papers</b> of IAs who provided direct assistance on audit</li> </ul>		
<p><b>Audit Trail</b> Audit Trail (or <b>Edit Log</b>) is visible <b>trail of evidence</b> to trace info contained in reports <b>back to original</b> input source. They are <b>chronological record</b> of <b>changes</b> made to data</p> <p><b>Records maintained as audit trail may include</b></p> <ul style="list-style-type: none"> <li>• <b>When changes</b> were made i.e., date &amp; time</li> <li>• <b>Who made</b> change i.e., User Id</li> <li>• <b>What</b> data was changed i.e., reference</li> </ul> <p><b>Audit Trail includes IC to ensure that</b></p> <ul style="list-style-type: none"> <li>• Audit trail feature is <b>not disabled or deactivated</b></li> <li>• <b>Access</b> to audit trail is <b>disabled or restricted</b> &amp; access logs are maintained</li> <li>• <b>User IDs</b> are assigned to each individual &amp; that is <b>not shared</b></li> <li>• <b>Changes</b> to configurations of audit trail are <b>authorized &amp; logs</b> of changes are <b>maintained</b></li> <li>• <b>Periodic backups</b> of audit trails are taken &amp; <b>archived</b> as per statutory period</li> </ul>		
<p><b>Factors responsible for high employee attrition rate are</b></p> <ul style="list-style-type: none"> <li>• <b>Unbearable behaviour</b> of Senior Staff</li> <li>• Job <b>Stress</b> &amp; work life imbalance</li> <li>• <b>Wrong policies</b> of Mgt</li> <li>• <b>Limited opportunities</b> for promotion</li> <li>• <b>Low monetary</b> benefits</li> <li>• <b>Lack</b> of labour <b>welfare</b> schemes</li> <li>• <b>Safety</b> factors</li> </ul>		