

# Internal Audit Engagements and Planning

## Lesson 4

### KEY CONCEPTS

- Audit Planning ■ Audit Universe ■ Audit Programme

### Learning Objectives

#### To understand:

- What is Audit Plan?
- How to develop the Audit Plan?
- What are the steps involved in Audit Planning?
- Benefits for formulating Audit Plan
- How to obtain knowledge of the client's business?
- What is Audit Universe?
- Factors for developing Internal audit universe.
- How to supervise Audit Engagement?
- How to monitor Audit Engagement Outcomes?

### Lesson Outline

- Introduction
- Audit Planning
- Internal Audit Life Cycle
- Phase 1 – Obtain Business understanding
- Phase 2 – Plan Audit Engagement
- Phase 3 – Perform Audit Execution and Supervise Engagement
- Phase 4 – Communicate Engagement Results
- Phase 5 – Monitor Engagement Outcomes and Project Closure
- Documentation
- Audit Programme
- Lesson Round-Up
- Test Yourself
- List of Further Readings

## INTRODUCTION

World has witnessed many industrial revolutions that has transformed the way business are owned, conducted and governed. The first industrial revolution was referred as proto-industrialization period that started at the end of the 18th century to the beginning of the 19th century. This was followed by second industrial revolution at the end of the 19th century, with massive technological advancements in new source of energy. Last few decades of 20th century witnessed the Third Industrial Revolution, where we saw emergence of nuclear energy, rise of electronics, telecommunications and, of course, computers. With these transformation changes business operations have become complex day by day with high volume of transactions carried out at multiple locations with increasing dependency on technology. Further to carry out such large and complex operations organizations are compelled to delegate and decentralize tasks and authorities.

Thereby, stakeholders including Board of Directors, senior management, shareholders, lenders, investors and government are concerned with the controls, transparency and probity of the transactions carried out on daily basis and there arises need to have strong governance, transparent operations and reporting of underlying gaps, errors or frauds for initiating appropriate actions on proactive basis. Accordingly, the stakeholders get internal audit conducted to obtain report on the deficiency in internal controls system and underlying transactions for better governance of organization and take timely remedial actions wherever needed.

Traditionally internal auditing was being performed as one time activity with dual verification on documentation and vouchers. There has been a steep rise in the trend of frauds over the last couple of decades and regulators have also become more vigilant towards the requirement of strong internal control system which resulted in the announcement of statutory obligations viz. Sarbanes Oxley Act in USA, Listing and Disclosure Requirements of SEBI and Company's Act, 2013 & rules there-under. Additionally Internal Audit have become mandatory for certain class of companies as per Company's Act.

Internal auditor is expected to review business processes and various transactions to provide report to management on adequacy of internal controls. With the large volume transactions and complexity of the business processes, it is not possible for Internal Auditor to check 100% of the business transactions. Therefore, internal auditor is normally expected to focus on areas of high risk and he needs to adopt sampling techniques for verification of transactions and form his opinion. This leaves him with inherent risk of some material misstatement or gaps remains undetected. Also, there are many challenges being faced by the internal auditors in performance of their duties. The major challenges include:

- Mismatch in the expectations from and output of the internal audit function
- Audit Risk
- Uncertainties due changing environment – internal as well as external.

**Audit Risk** - Audit risk refers to the risk that an auditor may issue unqualified report due to the auditor's failure to detect material misstatement either due to error or fraud. This risk is composed of inherent risk (IR), control risk (CR) and detection risk (DR).

## AUDIT PLANNING

Planning an audit involves:

- (a) Establishing the overall audit strategy
- (b) Developing an audit plan

“The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client's business”.

- a) acquiring knowledge of the client's accounting systems, policies and internal control procedures;
- b) establishing the expected degree of reliance to be placed on internal control;
- c) determining and programming the nature, timing, and extent of the audit procedures to be performed;  
and
- d) coordinating the work to be performed.

An effective planning performed with the scientific approach to identify the critical aspects and transaction to be covered in audit, is the only mechanism to manage these challenges effectively and reduce audit risk.

In the case of Companies under Companies Act, 2013, it is a legal requirement for the Audit Committee or its Board of Directors to formulate the overall internal audit plan of the company. Companies (Accounts) Rule 13(2) of Companies Act, 2013 provides: "The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity, and methodology for conducting the internal audit."

As per standard on Internal Audit (SIA) 220 - Conducting Overall Internal Audit Planning, issued by the Institute of Chartered Accountants of India (ICAI), The Audit Committee or the Board takes the active support of the Chief Internal Auditor, to develop the Overall Internal Audit Plan, in consultation with the Executive Management.

Further, as per the standards of Internal Auditing, 2010 – Planning issued by "International Standards for The Professional Practice of Internal Auditing", "The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals."

A well-structured Risk Based Internal Audit planning allows internal audit to provide reasonable assurance to the Board of Directors and other stakeholders that most critical activities have been audited by the auditor and whether or not underlying controls are designed and working effectively to mitigate major risks of the Company.

### Benefits of Audit Planning

- a) Helping the auditor to devote appropriate attention to important areas of the audit.
- b) Helping the auditor identify and resolve potential problems on a timely basis.
- c) Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
- d) Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.

### INTERNAL AUDIT LIFE CYCLE

A Typical internal audit engagement comprises of following five phases.

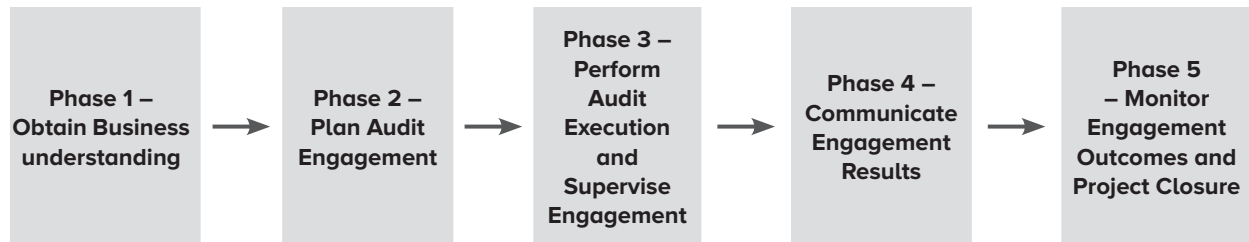
Phase 1 – Obtain Business understanding

Phase 2 – Plan Audit Engagement

Phase 3 – Perform Audit Execution and Supervise Engagement

Phase 4 – Communicate Engagement Results

Phase 5 – Monitor Engagement Outcomes and Project Closure



All of these steps are required to be performed while performing any Internal Audit engagement in the same sequence. Let us see some of the major activities to be performed under each of these steps.

### PHASE 1 – OBTAIN KNOWLEDGE OF THE CLIENT’S BUSINESS AND ITS ENVIRONMENT

Effective planning is the key to success for every project. As discussed earlier, it is essential for every Internal Auditor to prepare an effective audit scope and plan to focus on most essential activities and transactions, which is not possible without obtaining a good understanding of the business strategy, its operations, its organization structure, locations and offices, product and business segments, financial overview of the business, applications statutory compliances and various other internal and external factors impacting the organization.

Internal Auditor must plan and conduct meetings with various stakeholders including Board of Directors, Senior management person, Head of Departments and other business associates and partners to obtain understanding of the organization’s business environment, organization’s vision, mission and top management’s expectations from the audit functions.

Following steps may be followed for obtaining the knowledge of the Business and its environment. The internal auditor should obtain a level of knowledge of the entity sufficient to enable him to identify events, transactions, policies and practices that may have a significant effect on the financial information. Following are some of the sources wherefrom the internal auditor can obtain such knowledge:

- Organization’s policy and procedures manual.
- Its ownership and governance structures.
- The way that the entity is structured and how it is financed.
- Annual financial statements and annual report.
- Minutes of the meetings of the shareholders, board of directors, and important committees of the board such as the audit committee, remuneration committee, shareholders’ grievances committee.
- Legislation and regulations that significantly affect the entity.
- Management reports/ internal audit reports of prior periods.
- Newspaper/ industry journals.
- Discussion with client’s management and staff.
- Visits to entity’s plant facilities etc. to obtain firsthand information regarding the production processes of the entity.
- Visits to the entity’s department where the accounting and other documents are generated, maintained, and the administrative procedures followed..

Internal auditor must also obtain understanding of the underlying Information Technology landscape, various applications and ERP systems of the organization and Management Information System of the organization.

## PHASE 2 – PLAN AUDIT ENGAGEMENTS

As per standard on Internal Audit (SIA) 220 - Conducting Overall Internal Audit Planning, issued by the ICAI, Internal audit planning is conducted at two levels:

- a) An overall internal audit plan for the entire entity is prepared for a given period of time (usually a year) and presented to the highest governing body responsible for internal audits, normally, the Board of Directors, or the Audit Committee.
- b) A number of specific internal audit plans are prepared for individual assignments to be undertaken covering some part of the entity and presented to the Chief Internal Auditor.

Once auditor has obtained the business understanding and managements expectation from the internal audit, next step would be to plan the audit engagements in two stages:

- A. Prepare Risk Based Internal Audit Universe and Audit Plan.
- B. Prepare Audit Work Plan based on overall Internal Audit Plan.

### A. Prepare Risk Based Internal Audit Universe and Audit Plan

As per standard on Internal Audit (SIA) 220 - Conducting Overall Internal Audit Planning, issued by the ICAI, Internal audit plan for the entire entity is prepared for a given period of time (usually a year) and presented to the highest governing body responsible for internal audits, normally, the Board of Directors, or the Audit Committee. Also, the internal auditor shall undertake an independent risk assessment of all the Auditable Units identified in the Audit Universe and align this with the risk assessment conducted by the management and the statutory auditor. This is required to priorities and focus audit work on high-risk areas, with due attention to matters of importance, complexity and sensitivity. The internal auditor may also plan to undertake a dedicated audit of the company's Risk Management Framework and processes, as a separate review or assignment.

Accordingly, internal audit planning should be based on organizational risk assessment wherein the internal auditor identifies the significant risks of the process and the underlying control environment established by the organization to mitigate such risk or bring it down to an acceptable level. Based on the risk assessment and control environment assessment of all the processes that may be audited, Internal Auditor can assess the frequency and level of effort and focus that need to be dedicated for performing detailed audit of the process.

E.g., High Risk areas may be audited more frequently (every quarter / year) and less risky areas may be audited at lesser frequency. Such a process is termed as Risk Based Internal Audit Planning. Such Internal Audit scope and plan must be approved by Audit Committee or Board of Directors. Once approved, Internal Auditor must share detailed Audit Plan with the key managerial personals and plan in advance the detailed schedule of the Internal Audit to be conducted.

Risk Based Internal Audit Planning can be performed in following phases:



## 1. Prepare Audit Universe

Audit universe in simple terms defined as everything. It includes all of space, and all the matter and energy that space contains. Hence, universe may be referred to set of all the components and elements that may be referred. Accordingly, in terms of Internal Audit engagements, Audit Universe would refer to all the process, activities, departments, locations, functions that may be subject to audit by the Internal Audit team, also referred to as auditable entity.

As per standard on Internal Audit (SIA) 220 - Conducting Overall Internal Audit Planning, issued by the Institute of Chartered Accountants of India, Audit Universe and Scope of Coverage: Prior to defining the scope of internal audit, a complete identification of all the Auditable Units (locations, functions, business units, legal entities, including third parties where relevant) of the organization shall be made. This list of all the Auditable Units is, generally, referred to as the "Audit Universe".

On the basis of business understanding obtained, Internal Auditor must list down all the auditable entities for the organization. E.g., Purchase process, Sales Process, Human Resource process, Particular plant location or branch office, Finance process, Research and Development department etc.

Auditor must keep in mind some important factors in mind while developing the internal audit universe:

- Organization vision, mission and objectives
- Expectations from the internal audit function
- Organization structure and setup – E.g., Centralized / Decentralized
- Geographic location of the Organization
- Scalability of the operations
- Organic linkage between the business process/ sub processes
- Sufficiency to justify cost and effort involved for auditing the underlying auditable entity

### Extract of Audit Universe of a typical Manufacturing Company

Sr. No.	Department	Business Locations			
		Corporate Office	Plant	Regional Office	Branch Office
1	Procurement	✓	✓		
2	Sales Process			✓	✓
3	Marketing & Promotions	✓		✓	
4	Vendor Bill Payments	✓	✓		
5	Collections	✓		✓	✓
6	Payroll	✓	✓		
7	Human Resources	✓	✓		
8	Financial and Account	✓	✓		
9	Information Technology	✓	✓		
10	Statutory Compliances	✓	✓	✓	✓

**Illustration 1:**

Mr. ABC is the chief Internal Auditor of M/s XYZ Pharmaceuticals Private Limited. The company has spread its sales operations across 20 countries through Distributors and Dealers network. For the purpose of local connections and compliances, the Company has opened branch offices in each country. Apart from this, the Company has manufacturing facilities in India and China. For the purpose of manufacturing raw material, technology is imported from various countries including USA, France and Japan. The key statistics of the company are mentioned below:

1. Annual Turnover of the Company – Rs. 25,000 crores approx.
2. Total Manpower – 8000 employees
3. Total Branches – 18

Audit Committee has asked Chief Internal Auditor (CIA) to prepare audit plan for 3 years. Please suggest the steps to be followed by the CIA and prepare audit universe of the Company.

**Response:**

Chief Internal Auditor needs to follow the structured step by step approach for identifying all auditable entities as part of audit universe. Following steps need to be followed for preparing the comprehensive audit universe and audit plan for the Company:

- Prepare Audit Universe to identify all auditable entities of the Company.
- Risk Assessment to identify key risks and materiality to audit a particular area as a separate and standalone area with dedicated focus.
- Risk prioritization and rating to assess significance and criticality of identified auditable area.
- Assess control environment to assess the controls in place.
- Derive Residual Risk Rating to assess the criticality of the audit area after factoring the controls in place and identify the areas that need immediate attention.
- Develop Internal Audit plan after considering the resources in hand and criticality of the audit area. This is needed to do justice with any area being audited and pick up more critical area first and at more frequently.

Considering the nature of the Company and after assessing the criticality and locations of various operations of the company, following audit universe may be prepared by CIA.

<b>Sr. No.</b>	<b>Department</b>	<b>Business Locations</b>		
		<b>Corporate Office</b>	<b>Plant Locations</b>	<b>Branch Offices (20)</b>
1	Sales Operations	✓		
2	Schemes and Incentives	✓		✓
3	Dealer and Distributor Management			✓
4	Procurement and Supply Chain		✓	

5	Contract Management		✓	
6	Material Management		✓	
7	Loan Licensing Manufacturing		✓	
8	Plant Operations		✓	
9	Plant Maintenance		✓	
10	Quality Assurance and Quality Control		✓	
11	Information Technology	✓	✓	✓
12	Research and Development	✓	✓	
13	Human Resource	✓	✓	✓
14	Payroll Function	✓	✓	✓
15	Country Operations / Branch Office Review			✓
16	Intangible Assets	✓		
17	CRO - Clinical Research Operations	✓		

Following points are pertinent to note in the highlighted audit universe:

1. Audit areas which are critical either due to large expenditure and quantum of operations or due to critical business risks may be audited separately e.g., schemes and incentive and Loan License Manufacturing in the above illustration.
2. Areas which need to be physically visited by the team to review may be audited as a separate area. E.g., Branch office and overseas operations in above example.
3. Each plant and each branch office may also be defined as auditable entity depending on quantum of operations at particular plant or branch office.

## 2. Risk Assessment

Once the audit universe is formalized and finalized in discussion with management, next step is to identify all major Risks applicable to the respective auditable entities identified under risk universe. This includes evaluation of 'what can go wrong' in the particular process/ function which can have any adverse impact on the organization. Risk and adverse impact on the organization need to be studied under measurable tangible losses or intangible impacts in the form of reputation of inefficiencies. It is vital to assess the all major/key risk in the process being studied for comprehensiveness and completeness of the risk identification exercise.

## 3. Risk Prioritization and rating

The identified risks need to be prioritized based on the pre-defined criteria typically on the scale of 1 to 5 as mentioned below:

- Score 1 - Insignificant
- Score 2 – Low
- Score 3 – Moderate
- Score 4 – Major
- Score 5 – High

Auditor need to assess the risks and provide ratings to the risk basis professional judgement after considering the following factors:

1. Direct / indirect risks associated
2. Risk of statutory non compliance
3. Quantified Financial Loss
4. Threat to Health, Safety & Environment
5. Reputation risk
6. Possibility / History of frauds or major irregularity
7. Complexity (Volume of business, nature of business)
8. Results of earlier audits external/ Internal
9. ESG (Environmental, Social, Governance) impacts of actions.

#### **4. Assess control environment**

The main objective of risk assessment and prioritization is to assess the criticality of the process / auditable entity at inherent level. However, internal auditor should arrive at the residual risk after factoring the controls established by the organization to mitigate such risks. Internal Auditor must assess the controls environment and provide control environment rating to each of the auditable entity.

The International Standards for the Professional Practice of Internal Auditing (Standards) Glossary defines the control environment as “The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides discipline and structure for the achievement of the primary objectives of the system of internal control.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) published the updated Internal Control - Integrated Framework in 2013. The framework states “The control environment is the standards, processes and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. The control environment comprises the integrity and ethical values of the origination; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control.”

Following factors need to be kept in mind while performing the assessment of control environment:

1. Preventive or detective controls in place
2. Strong monitoring of Legal compliance
3. IT enabled controls and IT security initiatives
4. Corporate governance structure
5. Documented Policy and Procedures
6. Organization’s sensitivity towards Health, Safety & Environment
7. Fraud detection mechanism
8. Governance over decentralized operations.

Overall control environment can be rated typically on the scale of 1 to 5 as mentioned below:

- Score 1 – Very Strong
- Score 2 – Strong
- Score 3 – Moderate
- Score 4 – Weak
- Score 5 – Almost missing

## 5. Derive Residual Risk Ratings

There are two elements of a risk:

- Preliminary Risk Assessment Rating.
- Control Environment Rating.

Both these ratings can be multiplied together to give a single measure of the significance of a risk, or a residual risk. For example, high risk of procurement being carried out at higher prices, the control environment rating could be weak or strong depending on system enabled approval process or comparison of quotation hence residual risk could be high or low.

### Residual Risk Rating Score = Preliminary Risk Assessment x Control Environment Rating

The overall process and auditable entity could be classified as High, Medium or Low depending on residual risk rating of the process: Following criteria may be used:

1. High – For Residual rating  $\geq 15$
2. Medium – For Residual rating between 8 and 15
3. Low – For Residual Rating  $\leq 8$

### Extract of Risk Assessment, Control Environment Assessment and Residual Risk rating of a sample procurement process

<i>Sr. No.</i>	<i>Auditable Entity</i>	<i>Sub Process</i>	<i>Initial Risk Rating</i>	<i>Rationale for initial risk rating</i>	<i>Control environment rating</i>	<i>Rationale for control environment rating</i>	<i>Residual Risk Rating</i>
1	Procurement	Planning and Budgeting	4	Vendor favoritism and High risk of financial loss due to purchase at high prices	1	Strong IT system enabled approval process.  Techno commercial assessment and approval by independent committee.	4
		Requisition and Selection					
		Contracting and Ordering					
		Receiving					
		Quality check and Invoicing					
		Payment processing					

**Illustration 2:**

Mr. ABC is the chief Internal Auditor of M/s XYZ Pharmaceuticals Private Limited. The company has spread its sales operations across 20 countries through Distributors and Dealers network. For the purpose of local connections and compliances, the Company has opened branch offices in each country. Apart from this the Company has manufacturing facilities in India and China. For the purpose of manufacturing raw material, technology is imported from various countries including USA, France and Japan. The key statistics of the company are mentioned below:

1. Annual Turnover of the Company – Rs. 25,000 crores approx.
2. Total Manpower – 8000 employees
3. Total Branches – 18

The company has received notice from the regulatory authorities for some non-compliance noted in adhering to the quality standards and one of the competitive companies has also filed a suit on the company for using their patented formulae. Company has increased its sales by 20% in current year and profitability by 35%.

Company has well documented Delegation of Authority, policies and procedures and SAP is implemented to records of transactions and provides MIS on timely basis.

Audit Committee has asked Chief Internal Auditor (CIA) to prepare audit plan for 3 years. Please suggest the key risks to be considered by the CIA against each auditable entity of the audit universe and assess the control environment. Prepare the heat map with the areas falling under High / Medium / Low risk categories.

**Response:**

Given the company has managed to increase sales with higher increase in profitability, the internal control environment of the Company appears to be comfortable. Further the company has well defined policies and Delegation of Authority and SAP is also implemented in the organization which provides reasonable comfort on good governance and control environment at the Company. Although the same needs to be tested during the audit.

With this information the Chief Internal Auditor may prepare the following summary of risk assessment, control environment assessment to finally arrive at the residual risk ratings so that critical and other areas can be categorized under High, Medium and Low.

<b>Sr. No.</b>	<b>Department</b>	<b>Risk Assessment</b>	<b>Risk Rating</b>	<b>Control Assessment</b>	<b>Control Rating</b>	<b>Residual Risk Rating</b>	<b>Residual Risk Rating</b>
1	Sales Operations	Annual sales of company being INR 25,000 Cr. and being sales push organization, it has high risk of incorrect sales reporting.	5	Policies and procedures are documented. SAP is implemented for recording transactions. Finance team monitors sales on weekly basis.	2	10	Medium

<b>Sr. No.</b>	<b>Department</b>	<b>Risk Assessment</b>	<b>Risk Rating</b>	<b>Control Assessment</b>	<b>Control Rating</b>	<b>Residual Risk Rating</b>	<b>Residual Risk Rating</b>
2	Schemes and Incentives	Considering high value of schemes and incentives paid by the Company, this is high risk to be audited separately.	5	Policies and procedures are documented. SAP is implemented for recording transactions. Finance team calculates and reviews on monthly basis.	2	10	Medium
3	Dealer and Distributor Management	Company operated largely on the Distributor and Dealer model who invest in company's stock and support in managing working capital.	3	Dealer onboarding procedure is well documented. Compliance is ensured by finance team.	2	6	Low
4	Procurement and Supply Chain	Company works on a long-term contract with dedicated supplier and imports from other countries. Terms are agreed and adhered.	4	Policies and procedures are documented. SAP is implemented for recording transactions. Finance team independent approval is required for all transactions.	1	4	Low
5	Contract Management	Company works on a long-term contract with dedicated supplier and imports from other countries. Terms are agreed and adhered.	3	Policies and procedures are documented. Process of legal vetting is implemented before signing all contracts.	2	6	Low

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6	Material Management	Material is critical aspect of operations. There are some high risks for quality of material handling and storage norms to followed.	5	Policies and procedures are documented. Regular training is provided to workers for ensuring compliance to policies.	4	20	High
7	Loan Licensing Manufacturing	A LLM agreement is entered by the company that authorize company to market and manufacture the drugs. Ensuring compliance to the terms is critical and high risk for the Company.	5	Policies and procedures are documented. Independent finance checks are implemented for compliance.	4	20	High
8	Plant Operations	Plant is completely automated to follow fixed standards.	3	Policies and procedures are documented. SAP is implemented for recording transactions. Plant head is experienced and regular monitoring of operations is being done.	3	9	Medium

<b>Sr. No.</b>	<b>Department</b>	<b>Risk Assessment</b>	<b>Risk Rating</b>	<b>Control Assessment</b>	<b>Control Rating</b>	<b>Residual Risk Rating</b>	<b>Residual Risk Rating</b>
9	Plant Maintenance	Plant needs to be maintained on regular basis and the operations are done as per fixed schedule of dedicated team.	3	Policies and procedures are documented. SAP is implemented for recording transactions. Plant head is experienced and regular monitoring of maintenance is being done.	3	9	Medium
10	Quality Assurance and Quality Control	Being critical nature of operations and compliance norms to be followed by the company for ensuring good quality, this is high risk area.	5	Policies and procedures are documented. SAP is implemented for recording transactions. Quality checks are ensured as per compliance requirement and ISO standards.	3	15	High
11	Information Technology	Information technology system is outsourced to external company however considering the criticality of confidential information being handled, it is important to regularly monitor the controls on this area.	4	Operations are outsourced and SLAs are monitored on monthly basis.	4	16	High

<b>Sr. No.</b>	<b>Department</b>	<b>Risk Assessment</b>	<b>Risk Rating</b>	<b>Control Assessment</b>	<b>Control Rating</b>	<b>Residual Risk Rating</b>	<b>Residual Risk Rating</b>
12	Research and Development	There are high R&D expenditures incurred by the company.	4	Policies and procedures are documented. SAP is implemented for recording transactions. R&D expenses are closely monitored by management and finance performs independent review.	3	12	Medium
13	Human Resource	Considering low rate of attrition in the company and high satisfaction index. Further, no major surprise noted in last 5 years.	3	HR policies and procedures are documents. Regular TAT and KPIs are monitored by management.	2	6	Low
14	Payroll Function	No major surprise noted in last 5 years. Rate of attrition is low and payroll is processed by outside vendor to ensure all compliance and confidentiality.	3	HR policies and procedures are documents. Regular TAT and KPIs are monitored by management.	2	6	Low
15	Country Operations / Branch Office Review	Branch offices deals with local distributors and support in co-ordination activities only.	3	Policies and procedures are documented. SAP is implemented for recording transactions.	2	6	Low

<i>Sr. No.</i>	<i>Department</i>	<i>Risk Assessment</i>	<i>Risk Rating</i>	<i>Control Assessment</i>	<i>Control Rating</i>	<i>Residual Risk Rating</i>	<i>Residual Risk Rating</i>
16	Intangible Assets	Company has large intangible assets of various patents and copy rights.	4	Policies and procedures are documented. SAP is implemented for recording transactions. Finance monitors all recording and valuation of intangible assets.	2	8	Low
17	CRO - Clinical Research Operations	Company has entered into contract with reputed hospitals and the same is working effectively for last 5 years.	3	Norms are documented and compliance to all requirements is ensured by a dedicated team reporting to COO directly.	2	6	Low

## 6. Develop Internal Audit plan

Depending on management requirement, 3 to 5 year internal audit plan can be developed considering the nature of business, business environment, objective of the management and expectations from the internal audit. Further, with certain calibration of the complete assessment being done annually, and based on inputs from Board of Director and audit committee, low- risk areas could be audited every three years, moderate-risk areas could be audited every other year, and high-risk areas audited every year. The audit plan should be revisited each year for new or changed risk factors.

### Extract of Audit Plan of a typical Manufacturing Company

<i>S. No</i>	<i>Auditable Entity</i>	<i>Residual Risk Rating</i>	<i>Audit Frequency</i>	<i>Audit Plan</i>
1	Procurement	High	Every Year	Y1, Y2, Y3
2	Sales Process	Low	Once in 3 years	Y1
3	Marketing & Promotions	Medium	Once in 2 years	Y1, Y3
4	Vendor Bill Payments	Medium	Once in 2 years	Y2

5	Collections	High	Every Year	Y1, Y2, Y3
6	Payroll	Low	Once in 3 years	Y2
7	Human Resources	Medium	Once in 2 years	Y1, Y3
8	Financial and Account	Low	Once in 3 years	Y3
9	Information Technology	Medium	Once in 2 years	Y2
10	Statutory Compliances	Medium	Once in 2 years	Y1, Y3

**Illustration 3:**

Mr. ABC is the chief Internal Auditor of M/s XYZ Pharmaceuticals Private Limited. The company has spread its sales operations across 20 countries through Distributors and Dealers network. For the purpose of local connections and compliances, the Company has opened branch offices in each country. Apart from this the Company has manufacturing facilities in India and China. For the purpose of manufacturing raw material and technology is imported from various countries including USA, France and Japan. The key statistics of the company are mentioned below:

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The company has received notice from the regulatory authorities for some non-compliances noted in adhering to the quality standards and one of the competitive companies has also filed a suit on the company for using their patented formulae. Company has increased its sales by 20% in current year and profitability by 35%.

Company has well documented Delegation of Authority, policies and procedures and SAP is implemented to records of transactions and provide MIS on timely basis.

Audit Committee has asked Chief Internal Auditor (CIA) to prepare audit plan for 3 years. CIA has prepared the audit universe, identified key risks against each auditable entity of the audit universe and assessed the control environment.

Please suggest the appropriate audit plan on behalf of CIA to be submitted to the audit committee for approval.

**Response:**

Basis these factors and other risk assessment carried out by the Chief Internal Auditor; the following audit plan may be proposed to audit committee for approval. The CIA also need to ensure that the risk assessment and audit plan is reviewed every year and required adjustment is done and re-submitted to audit committee for approval. This is critical to ensure that all recent changes and immediate priorities of the Company are factored in the audit plan and coverage.

Sr. No.	Department	Residual Risk Rating	Audit Frequency	Audit Plan		
				Y1	Y2	Y3
1	Sales Operations	Medium	Once in 2 years	✓		✓
2	Schemes and Incentives	Medium	Once in 2 years		✓	

Sr. No.	Department	Residual Risk Rating	Audit Frequency	Audit Plan		
				Y1	Y2	Y3
3	Dealer and Distributor Management	Low	Once in 3 years	✓		
4	Procurement and Supply Chain	Low	Once in 3 years		✓	
5	Contract Management	Low	Once in 3 years			✓
6	Material Management	High	Every year	✓	✓	✓
7	Loan Licensing Manufacturing	High	Every year	✓	✓	✓
8	Plant Operations	Medium	Once in 2 years	✓		✓
9	Plant Maintenance	Medium	Once in 2 years		✓	
10	Quality Assurance and Quality Control	High	Every year	✓	✓	✓
11	Information Technology	High	Every year	✓	✓	✓
12	Research and Development	Medium	Once in 2 years	✓		✓
13	Human Resource	Low	Once in 3 years		✓	
14	Payroll Function	Low	Once in 3 years	✓		
15	Country Operations / Branch Office Review	Low	Once in 3 years	All Branches to be reviewed in three years on cyclic basis.		
16	Intangible Assets	Low	Once in 3 years		✓	
17	CRO - Clinical Research Operations	Low	Once in 3 years			✓

## B. Prepare Audit Work Plan based on overall Internal Audit Plan

Before starting any particular audit engagement, detailed work plan must be prepared by the audit managers and approved with Head of Internal Audit / Chief Internal Auditor. The work plan must be prepared after performing the evaluation of all major underlying risks in the process being reviewed and the audit checks to be performed to assess the adequacy of the control environment to mitigate such risks.

As per standard on Internal Audit (SIA) 220 - Conducting Overall Internal Audit Planning, issued by the ICAI, a number of specific internal audit plans are prepared for individual assignments to be undertaken covering some part of the entity and presented to the Chief Internal Auditor. Internal Auditor can plan the audit engagement as per the Standard on Internal Audit (SIA) 310 issued by The Institute of Chartered Accountants of India - Planning the Internal Audit Assignment.

The main objective for preparing the detailed audit plan for any process are:

1. Ensure all the requirement and management expectations from the audit are factored. Audit (Engagement) Plan and also in line with stakeholder.
2. Ensure that the scope and coverage of the process is comprehensive for providing reasonable assurance.

3. Allocate adequate time and resources to the engagement.
4. Ensure all identified and major risks are reviewed and tested during the audit and audit procedures are conducted in an efficient and effective manner.
5. Ensure the audit is performed in accordance to the applicable standards, regulatory requirements and available guidance.

A typical audit work plan would consist of following elements:

1. Mega and Sub process being reviewed
2. Key activities involved in underlying process
3. Underlying risk in the activities / sub-processes
4. Audit Checks to be performed
5. Sample criteria and sample to be used
6. Data required for audit.

Identification of underlying risk is the important activity for the purpose the purpose of preparing a comprehensive and qualitative audit plan. Internal Auditor should Identify and priorities risks based on detailed process documentation / process map and after considering following:

- Nature and type of errors and omissions that could occur, i.e., what could go wrong that would prevent the process from achieving its objectives
- For Financial / Reporting Risks - Evaluate whether the financial statement assertions are being met (Timeliness, Completeness, Accuracy, Authorization)
- Review risks / issues identified on other assignments for the same processes, risks common in industry
- Consider IT risks (access, backup, security, data integrity etc.)
- Be aware of common frauds/common methods of cooking books.

#### Extract of audit work plan of a Procurement Process

Activity	Key Risks	Control Description	Questionnaire	Samples	Detailed Testing
Procurement Planning & budgeting	Excess / short procurement due to inadequate procurement planning leading blockage of working capital / delay in production	Annual Purchase Plan for Current Items and Non-Current Items is prepared by Executive – Purchase based on annual sales plan, existing stock, buffer stock, etc. and the	<ul style="list-style-type: none"> <li>● Whether the process of budgeting procurement is defined?</li> <li>● Inquire whether the budget is monitored at regular intervals?</li> <li>● Whether variance analysis is</li> </ul>	Approved budget sheet  Actual expenditure from ERP	<ul style="list-style-type: none"> <li>● Completeness check on budget and actual details captured in ERP</li> <li>● Budget vs actual variance trend analysis.</li> <li>● Review the process of preparing purchase budget and its approval as per Delegation of Authority (DOA)</li> </ul>

Activity	Key Risks	Control Description	Questionnaire	Samples	Detailed Testing
		same is reviewed and approved by designated authority as per DOA.	documented and reviewed along with reason analysis.		<ul style="list-style-type: none"> <li>● Review the process of analyzing budget vs actual process and check whether approval for any variances were obtained.</li> <li>● For sample variances noted during above review perform root cause analysis and document reasons.</li> </ul>

### PHASE 3 – PERFORM AUDIT EXECUTION AND SUPERVISE ENGAGEMENT

Internal Auditor should perform audit engagement as per the documented audit work plan. However, audit plan should be modified and updated on the basis of additional knowledge and information gathered by the auditor during the course of audit to ensure audit activities are more effective and practical. Following steps should be planned and implemented performed while conducting the audit execution:

- a. Prepare detailed audit schedule comprising of all key activities to be performed, meetings to be conducted, interviews to be conducted, data analytics to be done, on field verification and checks to be performed, identification and reporting of preliminary issues, conduct management discussion, obtain management agreed action plan, audit conclusion and reporting.
- b. Internal Auditor must conduct the opening meeting with key stakeholders before start of audit engagement and share details of Information and System Access required to perform the audit.
- c. Internal Auditor must obtain the required information and perform checks to ensure correctness and integrity of information received. To the extent possible, Internal Auditor must obtain the information directly from the source.
- d. Perform data analytics to identify trends, outliers and initial exceptions.
- e. Select sample and perform detailed audit checks for the sample information.
- f. Detailed audit testing must be performed as per the audit work plan. Internal Auditor must ensure adequate evidences must be collected and stores in accordance to Standard on Internal Audit (SIA) 320, Internal Audit Evidence.
- g. Identify gaps and initial exceptions.
- h. Prepare issue sheets and identify root cause, implication and suggest remedial action plan and control to be implemented.
- i. Adequate document of the internal audit work papers needs to be ensured as per Standard on Internal Audit (SIA) 330, Internal Audit Documentation.

### Supervision of Audit Engagements

Continuous supervision of all audit activities should be performed by the person responsible for performing the audit and deputed by the audit committee and Board of Directors for the purpose of submitting internal audit report. Hence, audit supervision and control is required at all stages of audit including the following:

1. Audit Scoping
2. Audit Planning and Scheduling
3. Audit work plan and finalization of audit checks
4. Opening meeting with stakeholders
5. All key audit meetings
6. On-field review of audit checks being performed
7. Review of initial exceptions
8. Detailed review of draft report and final report
9. Concluding meetings with the management.

Internal Auditor must prepare detailed listed of the Identified audit issues and controls gaps. Interim reports may be issued after proper review of the work performed as per the Standard on Internal Audit (SIA) 350, Review and Supervision of Audit Assignments.

### PHASE 4 - COMMUNICATE ENGAGEMENT RESULTS

Communicating audit engagement results effectively is the very crucial aspect of the audit engagement. Internal Auditor must prepare a draft issue, draft report of all the audit issues identified during the audit engagement and the same must be communicated to the relevant management personal and concluded with agreed action plan to be implemented for improving internal controls.

Every Internal Audit Report should include the following:

- Process and Audit Scope reviewed
- Locations Covered
- Audit timelines followed
- Information audited and source of information
- Sample selected and Criteria
- Rating Criteria used
- Audit period covered
- Executive Summary for senior management
- Distribution list
- Summary of all audit issues noted
- Audit Limitations, if any
- Implementation status of previous audit issues
- Notes to carry forward audit.

Detailed issue sheets should include the following:

- Title – What is the issue?
- Detailed Observation – Detailed explanation of the issue or gap?
- Risk Rating – Critical / Major / Moderate
- Root cause - Why did this happen?
- Exposure / Impact - So what? What is the risk? What is Implication of risk?
- Recommendation - What do we do now?
- Management comments with clear action plan
- Responsibility and Due date.

Following key considerations should be made in communicating audit issues:

- Communication with client management should take place throughout the audit process
- Audit issues/reports should be communicated in detail with crystalize risk / exposure and specific business impact.
- In case of any fraud / Red Alert, issue must be reported on timely basis to the highest appropriate level of management keeping in mind confidentiality and sensitivity of the issues.
- Must ensure that all the audit issues noted during the audit are part of the draft and final audit report issued to the management.
- Proper review of the audit report is done by the Chief Audit Executive or Audit In-charge before communicating results with the management.

Internal Auditor should thereafter circulate Final Report and presentation his findings to the Audit Committee. Internal auditor must adhere to Standard on Internal Audit (SIA) 360, Communication with Management and Standard on Internal Audit (SIA) 370, Reporting Results while sharing the result of internal audit with the stakeholders.

**Illustration 4:**

Mr. ABC is the Chief Internal Auditor (CIA) of M/s XYZ Infrastructures Private Limited. The company has 4 projects ongoing being supervised by 4 different project in-charge. Mr. ABC had planned to audit each of the project once in a year sequentially. Accordingly, each project is being audited one in four years.

While performing the audit for one of the projects, the audit team come across some manipulation in the vendor invoices and noted that significant overpayment has been made to certain vendors.

Please suggest the immediate course of action to be taken by the audit team and CIA to handle the matter and key steps to be taken to report such issue to appropriate authority.

**Response:**

In the normal course of audit and reporting, the CIA is supposed to follow the communication and reporting protocols as mentioned in Internal Audit chartered and reporting and communication guidelines of the standards on Internal Audit. In case of any exceptional scenario as highlighted in the above circumstances, the CIA must evaluate the situation in light of following factors:

1. Criticality of the issues that need to be highlighted i.e., the business risk or impact that it may bring to the organization.

2. Need for timely action to address the issue and protect value and reputation for the organization.
3. Level of confidence established to classify the identified gap as fraud or error.
4. Level of confidence and reasonable doubts on the people involved in such manipulations.
5. Evidences collected and recorded as working paper to establish the certainty of the issue noted.
6. Confidentiality to be maintained for any such significant issue to decide mode of communication and management level / audit committee members to be notified for such discrepancies.
7. Additional / subsequent audit procedure that still needs to be performed for concluding the issues and impact of early reporting on such procedures.

CIA must decide the appropriate course of action and reporting of such issues proactively in the interest of the company. Whilst generally timely communication should be made to top management / audit committee, if reasonably certainty of the will-full misconduct and/or major loss to the organization is established.

### PHASE 5 - MONITOR ENGAGEMENT OUTCOMES AND PROJECT CLOSURE

Internal auditor must adhere to Standard on Internal Audit (SIA) 360, Communication with Management and Standard on Internal Audit (SIA) 390, Monitoring and Reporting of Prior Audit Issues. It must be ensured that audit engagement is effective and its benefit is realized by the organization which is possible by timely implementation of audit recommendation and its continuous heal check-up.

The main objectives of the monitoring include:

1. Adequate and timely monitoring of action taken against all open issues from prior audits.
2. Revalidation of the process and sample transaction to assess the effectiveness of the action taken.
3. Timely escalation to the senior management for initiating directions or alternate recourse to mitigate risk.

For the purpose of monitoring the engagement outcomes effective, a detailed action taken report of prior audit findings should be prepared by the internal auditor and reported to the Board of Director or Audit Committee along with the detailed internal audit report of the current period. The following steps must be followed for the purpose of preparing Action Taken Report:

1. Prepare summary of all open issues along with action plan and map responsible person notified for the action.
2. Identify all open issue overdue for action as per the agreed target implementation timelines.
3. Circulate all identified issues to the responsible persons for feedback and update on action taken by them.
4. For all the issues where action is not implemented or partially implemented – Obtain revised action plan and timelines for implementation along with reason of not implementing as per previous target dates.
5. For all issues where action plan is confirmed to be implemented – Perform sample validation of the process and transaction and assess the outcome to decide if the action plan is implemented or not. Revised action plan and timelines for issues found not implemented effectively during sample revalidation.
6. Prepare summary of the action taken with the details of issues not implemented to be reported to the Board of Director or Audit Committee.

Depending on the audit charter and direction from the audit committee, internal auditor may consider to re-assess the audit rating for all not implemented issues in light of the current business environment and open risk for the organization.

**Illustration 5:**

Mr. ABC is the Chief Internal Auditor (CIA) of M/s XYZ Infrastructures Private Limited. Mr. ABC has prepared a detailed Risk Based Internal Audit plan approved by the Audit Committee. During his audit of year 1, Mr. ABC noted 10 High risk rated issues and 25 medium and low risk rated issues. Audit Committee has directed the CIA to monitor the implementation plan for these audit issue and provide periodic report to the audit committee.

While performing the internal audit of subsequent year, Mr. ABC faces following situations. Please provide the course of action to be taken by Mr. ABC and points to be taken care in reporting the outcome of such procedures.

1. 2 High risk rated issues were not implemented by the process owners.
2. 2 medium risk rated issues were not implemented by the process owner, however the quantum of business transactions in these areas have reduced significantly.
3. 2 medium risk rated issues were not implemented by the process owner, however the quantum of business transactions in these areas have increased significantly.
4. Action plan to implement maker checker in 1 high risk issue pertaining to payroll function is not implemented however, the company has outsourced the payroll function to a third-party vendor.

**Response 1: 2 High Risk rated issues were not implemented by the process owners**

CIA must report the status of implementation and highlight such areas as critical risk requiring immediate attention of audit committee towards such areas. It is duty of the internal auditor to evaluate the applicability of such issues and whether the organization continue to be exposed to high business risk due to delay in implementation of such high-risk areas.

**Response 2: 2 medium risk rated issues were not implemented by the process owner, however the quantum of business transactions in these areas has reduced significantly.**

CIA must report the status of implementation to top management and audit committee. It is duty of the internal auditor to evaluate the applicability of such issues and whether the organization continue to be exposed to business risk due to delay in implementation of such medium risk areas. Reduced quantum of business transaction in such areas does not necessarily reduce the open risk for the company on account of past transaction. The auditor needs to evaluate the overall situation and must highlight the issues to audit committee in light of such analysis.

**Response 3: 2 medium risk rated issues were not implemented by the process owner, however the quantum of business transactions in these areas have increased significantly.**

CIA must report the status of implementation to top management and audit committee. It is duty of the internal auditor to evaluate the applicability of such issues and whether the organization continue to be exposed to business risk due to delay in implementation of such medium risk areas. Increase in quantum of business transaction in such areas clearly denotes the increase in risk and exposure of company due to open risk. Further, the auditor may also consider to increase the risk rating of such not implemented issues and evaluate the overall situation and must highlight the issues to audit committee in light of such analysis.

**Response 4: Action plan to implement maker checker in 1 high risk issue pertaining to payroll function is not implemented however, the company has outsourced the payroll function to a third-party vendor.**

It is duty of the internal auditor to evaluate the applicability of such issues in light of the changes process. The re-assessment is required for the risk to which the business is exposed and whether the alternate and compensating control is available to mitigate such risk in the changed process. The auditor must report the status of implementation to audit committee depending on the outcome of the revised assessment. If the risk is either not applicable in changed business process or the same is mitigated due to compensating controls, then the implemented status may be reported to audit committee to provide comfort and assurance; the gravity of open risk and status of not implemented should be reported to audit committee in other scenarios.

**Project Closure**

There are certain points which an Internal Auditor must ensure during project closure. Effective documentation and project closure is equally important to mitigate audit risk and establish good ground for subsequent audits. Some of the points which an internal auditor must keep in mind for effective closure are summarized below:

- **Process maps / narratives** – Internal Auditor must ensure that the process flow charts and narratives depicting the business and process understanding obtained must be prepared and documented. He may consider to mark the places where the significant process risks are observed for subsequent reference purpose.
- **Walkthrough documents** – Audit must perform business process and system walkthrough to see the way process is operated and not rely only on the verbal confirmation from the process owner. Appropriate documentation of such understanding must be maintained in the working paper file in the form of notes or screenshots.
- **Audit Plan** – Detailed audit plan and approach followed along with all consideration made to arrive at the plan must be documented in the working paper file.
- **Detailed Audit work plan including Risk and Controls Matrix** – Detailed audit work plan containing all identified risks, controls, audit checks performed, sample verified and outcome of such audit checks must be documented with evidence of review of audit supervisor and audit lead.
- **Document to support basis of sampling** – Internal Auditor should document the basis of sampling, population used for sampling and filtering criteria if any used for sampling.
- **Testing sheets** – Detailed testing sheet should be prepared and documented along with review notes and evidence. Such testing sheet may include the brief process summary, risk identified, existing controls noted on business understanding and walkthrough, Audit checks performed, population and sample used for each check, outcome of such testing and design and operating gap noted during the audit, management reporting timelines, management response and action plan agreed for each of the audit check performed.
- **Issue Sheets** – Detailed issue sheets should be retained and documented along with evidence of review. Refer section phase 4 for details to be documented in such issue sheets.
- **Evidence / document to support issues** – All audit evidence collected during the audit must be retained along with testing sheet and issue sheets. The same must be linked to audit checks and audit issues noted for easy reference.
- **Management Communication** – Evidence and trail of all important management communication must be retained in the working paper file.
- **Final report** – Internal auditor must ensure that all requirements of final report and circulation of such

reports is met. Copy of final report along with distribution list must be retained in the working paper file.

- **Points for consideration during next audit** – Any important points to be recalled during subsequent audit or notes for the other auditors must be mentioned in this section. E.g., any activity that could not be audited due to audit limitation or matter beyond control. Any new or emerging activity not audited due to low quantum of business transaction but needs to be evaluated in subsequent audit etc.

## DOCUMENTATION

The auditor shall document:

- The overall audit strategy
- The audit plan
- Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reason for changes.

The documentation of overall audit strategy is a record of the key decision considered necessary to plan the audit and to communicate significant matters to the engagement teams.

The following should be a part of auditor's documentations:

- A summary of discussions with the entity's key decision makers.
- Documentation of Audit Committee pre-approval of services, where required.
- Other communication or arrangements with management or those charged with governance regarding the scope or changes in scope, of our services.
- Auditor's report on the entity's financial statements.
- Information gathered about the business and its operations, systems and processes and past or known issues.
- Audit Universe and summary of Auditable Units.
- Risk assessment documentation.
- Summary of available resources, their competencies and the proper matching of their skills with the audit requirements.
- Final overall internal audit plan, duly approved by the competent authorities.

## AUDIT PROGRAMME

The internal auditor should also prepare a formal internal audit programme listing out the procedures essential for meeting the objective of the internal audit plan. Though the form and content of the audit programme would vary with the circumstances of each case, yet the internal audit programme should be so designed as to achieve the objectives of the engagement and also provide assurance that the internal audit is carried out in accordance with the Standards on Internal Audit.

The following points are taken mainly while making detailed planning:

- a) Major observations pointed out in previous internal audit report and action taken by the auditee on these observations.

- b) Checklist of previous audit assignment is also referred to get the insight about the areas to be focused in next assignment.
- c) Any new changes / amendments taken place in commercial laws.
- d) Any special area / investigation as instructed by the top management.
- e) Results of various exception reports as run in ERP at head office before start of internal audit assignment.

The internal audit programme includes:

- the objectives of the internal audit in respect of each area,
- the staff responsible for carrying out the particular activity,
- the time allocated to each activity,
- detailed instructions to the staff as to how to carry out those procedures.

A well prepared, comprehensive audit programme helps proper execution of the work as well as proper supervision, direction and control of the performance of the engagement team.

The goal of an audit programme is to create a framework that is detailed enough for any outside auditor to understand what official examinations have been completed, what conclusions have been reached and what the reasoning is behind each conclusion. The framework should explain the audit's objectives, its scope and its timeline. The audit programme should also describe how working papers -- the documented evidence of the audit -- will be collected, reviewed and reported.

#### LESSON ROUND-UP

- Planning an audit involves:
  - (a) Establishing the overall audit strategy
  - (b) Developing an audit plan
- "The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client's business".
- A Typical internal audit engagement comprises of following five phases.
  - Phase 1 – Obtain Business understanding
  - Phase 2 – Plan Audit Engagement
  - Phase 3 – Perform Audit Execution and Supervise Engagement
  - Phase 4 – Communicate Engagement Results
  - Phase 5 – Monitor Engagement Outcomes and Project Closure
- The auditor shall document:
  - a) The overall audit strategy
  - b) The audit plan
  - c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reason for changes.

- The documentation of overall audit strategy is a record of the key decision considered necessary to plan the audit and to communicate significant matters to the engagement teams.
- Audit Programme: The internal auditor should also prepare a formal internal audit programme listing out the procedures essential for meeting the objective of the internal audit plan. Though the form and content of the audit programme would vary with the circumstances of each case, yet the internal audit programme should be so designed as to achieve the objectives of the engagement and also provide assurance that the internal audit is carried out in accordance with the Standards on Internal Audit.
- The internal audit programme includes:
  - a) the objectives of the internal audit in respect of each area,
  - b) the staff responsible for carrying out the particular activity,
  - c) the time allocated to each activity,
  - d) detailed instructions to the staff as to how to carry out those procedures.

#### TEST YOURSELF

*(These are meant for re-capitulation only. Answers to these questions are not to be submitted for evaluation)*

1. Planning is not a discrete phase of an audit but rather a continual and iterative process? Discuss.
2. The nature, timing and extent of the direction and supervision of the audit team members and review of their work vary depending on many factors? Explain.
3. Is it necessary to document an audit plan? If so, what all activities in the planning phase needs to be documented?
4. List out the sources wherefrom the internal auditor can obtain such knowledge of the client's business.
5. What are the various advantages of Audit Planning?
6. Explain the various phases of Internal Audit Engagement.

#### LIST OF FURTHER READINGS

- **Handbook on Internal Auditing**  
*Author : CA Kamal Garg*  
*Publishers : Bharat's*
- **Compendium of Standards on Internal Audit**  
*Author: ICAI*  
*Year of Publication: 2022*