

# **Exposure Draft**

## **Preface to the Standards on Internal Audit**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Preface to the Standards on Internal Audit.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/dgBLTPBdPWJiC9SaA>

Last date for sending comments is October 23, 2025.

# Preface to the Standards on Internal Audit

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**Preface to the Standards on Internal Audit was, originally, issued in November 2004, and revised in July 2007 and November 2018, respectively, and was recommendatory in nature. The revised Preface to the Standards on Internal Audit shall become mandatory from such date as notified by the Council.**

## **1. Introduction**

- 1.1 This Preface to the Standards on Internal Audit facilitates understanding of the scope and authority of the pronouncements of the Internal Audit Standards Board, issued under the authority of the Council of the Institute of Chartered Accountants of India.
- 1.2 This Preface also lays down the underlying principles and boundaries for the internal audit function and activity. It provides clarity on key components governing Internal Audit to ensure standardisation and quality in discharge of internal auditor's responsibilities.

## **2. Internal Audit Standards Board**

- 2.1 The Institute of Chartered Accountants of India (hereinafter referred as "ICAI" or "the Institute") constituted the "Committee for Internal Audit (CIA)" in February 2004, which in November 2005 was renamed as the "Committee on Internal Audit". In November 2008, the Council renamed this Committee as the "Internal Audit Standards Board (hereinafter referred as the Board)". Committee on Management Accounting was merged in the Board in March 2023, and the Board was renamed as Board of Internal Audit and Management Accounting. The Board was renamed as "Internal Audit Standards Board" (hereinafter referred as "IASB" or "the Board") in March 2025.
- 2.2 The functions of the Board are as follows:
  - (i) To review existing and emerging internal auditing practices worldwide and identify areas in which Standards on Internal Audit (SIAs) need to be developed.
    - To formulate Standards on Internal Audit, which may be issued under the authority of the Council of the Institute.
    - To formulate Guidance Notes on issues relating to internal audit, including those arising from the SIAs, or pertaining to any specific industry, which may be issued under the authority of the Council of the Institute.
    - To continuously review the existing Standards and Guidance on Internal Audit and to undertake their revision, if necessary.

- To formulate and review Implementation Guides, Technical Guides, Practice Manuals, Studies and other papers which may be issued under its own authority for guidance of the members, as felt appropriate by the Board.
- (ii) To undertake research and promote knowledge dissemination in the field of internal audit and management accounting.
- To organize conferences. Seminars, training programs, workshops, webinars, e-learning programs, surveys, etc. on the topics related to internal audit, including risk management and governance and management accounting independently/ jointly with governments/ trade associations.
  - To conduct Certificate Courses/ Diploma Courses, etc. on topics related to internal audit and management accounting.
  - To conduct outreach programmes for officials of the Central Government/ State Governments/ Union Territories & other authorities and / or its committees/ groups on areas relating to internal audit and management accounting.
  - To assist, advise and interact with Government of India, State Government, Union Territories, & other authorities and/ or its committees/ group formed in policy matters and matters relating to internal audit and management accounting.
- (iii) To develop best practice guidance and benchmarking tools in areas of internal audit and management accounting.

### **3. Definition of Internal Audit**

#### **3.1 Internal Audit is defined as follows:**

*Internal audit provides independent reasonable assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives.*

3.2 Brief explanation of the key terms used above is as follows:

- (i) Independence: Internal audit shall be an independent function, achieved through the position, organization structure and reporting of the internal auditor.
- (ii) Internal controls and risk management are integral parts of management function and business operations. An internal auditor is expected to evaluate the design and operating effectiveness of internal controls and risk management processes (including reporting processes) as designed and implemented by the management.
- (iii) Governance is a set of relationships between the company and its various stakeholders and provides the structure through which the company's objectives are achieved. It includes compliance with internal policies and procedures and laws and regulation.
- (iv) Organizational objectives incorporate the interests of all stakeholders and include the short- and medium-term goals that an organisation seeks to accomplish.

3.3 This definition forms the underlying foundation of all the Standards on Internal Audit (SIAs) issued by the Board. Internal audit activities shall be conducted in line with the Definition of Internal Audit.

## **4. Framework Governing Internal Audits**

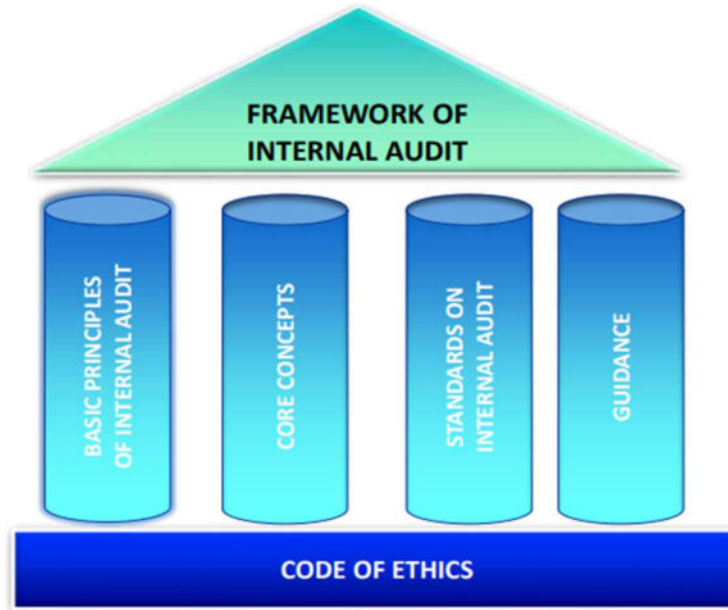
4.1 A standard setting process operates within a pre-defined framework which outlines certain fundamental components inherent to the function or activity of internal audit. This is essential to ensure a consistent application of Basic Principles, Best Practices and Standards to achieve a high level of quality consistent with the objective of internal audit.

4.2 The Framework Governing Internal Audit consists of the following components:

- (a) Basic Principles of Internal Audit
- (b) Core Concepts
- (c) Standards on Internal Audit, and

(d) Guidance

Like any other profession, Code of Ethics provides credence to the internal audit function.



- 4.3 The Framework also provides a common vocabulary and structural coherence across all pronouncements to ensure consistency in interpretation and implementation.

**4.4 Components of the Framework**

**Basic Principles of Internal Audit<sup>1</sup>**

The Basic Principles of Internal Audit are a set of core principles fundamental to the function and activity of internal audit. The Basic Principles form the foundation on which the various components of the Framework stand and key to achieve the desired objectives as set out in the definition of the internal audit.

The principles can be summarised as follows:

1. Independence
2. Integrity and Objectivity
3. Due Professional Care

4. Confidentiality
5. Skills and Competence
6. Risk Based Audit
7. Systems and Process Focus
8. Participation in Decision Making
9. Sensitive to Multiple Stakeholder Interests
10. Quality and Continuous Improvement

Each principle underpins both the planning and execution stages of internal audit assignments and shall be demonstrably adhered to in audit documentation.

### **Core Concepts<sup>21</sup>**

There are certain concepts which form integral part of the internal audit activity and, therefore, apply to most internal audits. In fact, some of the concepts are ingrained in the Definition of Internal Audit. The core concepts are in the nature of:

- Terms of Internal Audit Engagements
- Managing Internal Audit Function
- Internal Controls
- Risk Management
- Compliance with Laws and Regulations
- Value Addition

These concepts also serve as anchor points for developing the internal audit strategy and allocating resources appropriately.

### **Standards on Internal Audit (SIAs)**

The Standards on Internal Audit (SIAs) establish uniform evaluation criteria, methods, processes and practices for internal audit function. The SIAs are pronouncements which form the basis for conducting all internal audit activity. These pronouncements are designed to help the

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<sup>1</sup> Refer Paragraph 3 of *Basic Principles of Internal Audit* issued by the board.

<sup>2</sup> The details of Key Concepts are published in separate documents.

internal auditor to discharge his responsibilities. Internal auditors are expected to document any deviation from the applicable Standard along with justification and approval, if any, for the same. Understanding and observing SIAs by Internal Auditor is necessary in due discharge of responsibilities assumed by them and in realizing predefined objectives.

### **Guidance**

These are a set of guidelines, which include Guidance Notes, Implementation Guides and Technical Guides. These guidelines are important for implementation of the SIAs and provide clarification for their applicability under particular circumstance. Certain industry specific guides focus on peculiar features of the industry required specific attention. In the absence of specific guidance, internal auditors should refer to the intent and substance of the related SIA and apply professional judgement.

## **5. Code of Ethics**

The Code of Ethics issued by ICAI serves as a cornerstone for upholding the highest standards of integrity, objectivity, professional competence, confidentiality, and professional behavior among Chartered Accountants. It provides a comprehensive framework to guide members in discharging their responsibilities with independence and fairness while addressing ethical dilemmas in an increasingly complex business environment. By fostering trust, transparency, and accountability, the Code reinforces the profession's commitment to public interest and strengthens its role as a guardian of good governance.

## **6. Mandatory Nature of Framework and Standards**

- 6.1 The Council of the ICAI has decided that the Standards will be made mandatory in a phased manner.
- 6.2 The mandatory status of a SIA implies that while carrying out an internal audit, it shall be the duty of the members of the Institute to ensure that they comply with the SIAs applicable to the assignment read with the Preface, Framework Governing Internal Audits and Basic Principles of Internal Audit. Compliance with SIAs shall be considered



a mark of professional excellence and ethical responsibility by the internal auditor.

- 6.3 If, for any reason, an internal auditor is unable to comply with any of the SIAs requirements, or if there is a conflict between the SIA and other mandates, such as a regulatory requirement, the internal audit report (or such similar communication) should draw attention to the material departures therefrom along with appropriate explanation.

## **7. Standard Setting Process**

- 7.1 The Board has standardised the process of issuing Standards on Internal Audit (SIAs) and any modifications therein or addition thereto.
- 7.2 The detailed process is explained under Annexure 1.

## **8. Contents of the Standards**

- 8.1 SIAs shall be principle based and will clearly outline the objective of issuing the particular Standard along with the essential requirements for its compliance.
- 8.2 Internal Auditors shall apply their best professional judgement in the implementation of SIAs on a “substance over form” basis. Implementation and Technical guides issued by the Board would help to provide the necessary guidance and clarification in this regard.
- 8.3 The essence of each Standard is captured under the following key sections:
- (i) Introduction: To provide a brief background and scope of the Standard and its applicability.
  - (ii) Effective Date: Date from which the Standard is to be applied and made recommendatory or mandatory as the case may be.
  - (iii) Objective: Reasons for issuing the Standard and why it is required.
  - (iv) Requirements: The desired outcome and what is essential to ensure compliance with the Standard.
  - (v) Application and Other Explanatory Material: Key aspects of the Standard which needs to be elaborated, including defining key words and terms.

In cases of ambiguity or potential conflict, the principles underlying the Objective and Requirements sections prevail over illustrative examples or supplementary material.

- 8.4 The Standards on Internal Audit, as and when issued, will be classified and numbered in a series format, as follows:
- (i) Series 100: Core Concepts and Principles
  - (ii) Series 200: Audit Execution
  - (iii) Series 300: Internal Audit Reporting

## **9. Guidance**

- 9.1 Guidance Notes on Internal Audit are primarily designed to provide non-mandatory guidance on matters of implementation or clarification on their applicability in certain circumstances.
- 9.2 The Board may issue the following guides (as appropriate):
- (i) Implementation Guide: Best practices, methodologies or approach on how best to apply internal audit procedures in order to achieve the objectives of the SIA.
  - (ii) Technical Guide: Clarifications as to what extent the SIA applies in a certain industry or a particular situation, considering the technical or operational uniqueness of the same, and how best to achieve the objectives of the SIA.
- 9.3 The Implementation and Technical Guides are recommendatory in nature. The Internal Auditor should ordinarily follow these recommendations except where, under particular circumstances, it may not be necessary or appropriate to do so.

## **10. Effective Date**

- 10.1 The Preface to the Standards on Internal Audit is applicable for all internal audits beginning on or after a date to be notified by the Council of the Institute.
- 10.2 In case of SIAs issued by the ICAI for which a Guidance Note is already in existence, the Guidance Note shall stand withdrawn from the date on which the Standard comes into effect.

## ANNEXURE 1

### DETAILS OF THE STANDARDS SETTING PROCESS

1. **Selection of Topics and Timelines:** The Internal Audit Standards Board, on a continuous basis, and in consultation with its key stakeholders, keeps identifying the broad areas in which the SIAs need to be formulated (including the review and revision of prevailing SIAs) and prepares a priority list with timelines for the issuance of the SIAs.
2. **Formation of Study Group to Draft Standards:** In the preparation and drafting of the SIAs, the Board is assisted by one or more Study Groups (SGs) of professionals constituted by the Board. In the formation of the SG, provision is made for the participation of a cross section of members of the Institute. In certain situations, the Board may also consider having expert professionals on the SG, who need not necessarily be members of the ICAI. The SG is generally chaired by a member of the Board and convened by the Board. The SG is responsible for preparing and finalising the Exposure Draft of the Standard and make it ready for review and approval of the Board.
3. **Review of Exposure Draft of SIA by the Board:** The Exposure Draft (ED) of the Standard is put up to the Board for their review, deliberation and approval. Stakeholder feedback received during the standard-setting process shall be analyzed and summarized for internal deliberation to enhance the robustness of final standards. On the basis of the deliberations of the Board, changes are made to the draft, and the final ED is made ready for exposure with a wide set of stakeholders.

While formulating the SIAs, the Board takes into consideration the applicable laws, customs, business environment in India. The Board also, where appropriate, takes into consideration the international practices in the area of internal audit, to the extent they are relevant and applicable to the conditions existing in India.

4. **Exposure Draft Open for Comments for 30 days:** The Exposure Draft of the proposed Standard is issued for comments by the members of the Institute. The ED is also open for comments by non-members, including the regulators and other such bodies as well as

general public. The ED is hosted on the website of the Institute wherefrom it is downloadable free of charge for comments by the professional accountants and the public. The ED may also be published in the monthly journal of the Institute. The ED is also circulated to all the members of Council of the ICAI, the Institute's past Presidents, Regional Councils and the branches of the Institute for their comments. The Exposure Draft is also circulated to other external stakeholders as listed in **Annexure 2**.

The Exposure Draft is normally open for comments for a period of at least 30 (thirty) days from the date of issuance, but this time may be extended if considered necessary.

5. **Finalisation and Submission to ICAI Council:** After taking into consideration the comments received on the Exposure Draft, the Board will update the draft of the proposed Standard that it finds appropriate, take inputs of the SG or experts (if appropriate), finalise the Standard for consideration by the Council of the Institute.
6. **ICAI Council Deliberates and Approves SIA:** The Council of the Institute will consider the final draft of the proposed Standard on Internal Audit and if necessary, modify the same in consultation with the Internal Audit Standards Board.
7. **SIA Issued with Final Changes:** The SIA will then be issued under the authority of the Council of the Institute.

**Note:** If any SIA is proposed to be revised a similar procedure is followed.

## **ANNEXURE 2**

### **LIST OF STAKEHOLDERS FOR INPUTS ON EXPOSURE DRAFTS**

1. The Ministry of Corporate Affairs
2. The Reserve Bank of India
3. The Securities and Exchange Board of India
4. The Insurance Regulatory and Development Authority
5. The Comptroller and Auditor General of India
6. The Controller General of Accounts
7. The Central Board of Direct Taxes
8. The Central Board of Indirect Tax and Custom
9. The Institute of Cost Accountants of India
10. The Institute of Company Secretaries of India
11. Recognised Stock Exchanges in India
12. The Indian Banks' Association
13. The Standing Conference of Public Enterprises
14. The National Bank for Agricultural and Rural Development
15. The Indian Institute(s) of Management
16. The Telecom Regulatory Authority of India
17. The Central Registrar of Co-operative Societies
18. Various Industry bodies/associations, such as, The Confederation of Indian Industry, The Associated Chambers of Commerce and Industry, The Federation of Indian Chambers of Commerce and Industry, etc.
19. Any other body considered relevant by the Board, keeping in view the nature and requirements of SIAs.

# **Exposure Draft**

## **Quality Standard on Internal Audit (QSIA) 1 Internal Audit Quality Aspects**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Quality Standard on Internal Audit (QSIA) 1, Internal Audit Quality Aspects.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link: <https://forms.gle/fRX9ehbdN6tVJmiy5>

Last date for sending comments is October 23, 2025.

# **Quality Standard on Internal Audit (QSIA) 1 Internal Audit Quality Aspects**

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**This Quality Standard on Internal Audit (QSIA) 1, “Internal Audit Quality Aspects” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

### 1. Introduction

- 1.1 Internal Audit quality assurance is essential for ensuring that internal audit assignments comply with professional standards, stakeholder expectations, and regulatory requirements. A robust quality assurance framework enhances the Internal Audit Maturity Level by rigorous focus on efficiency, effectiveness, credibility, consistency, and reliability in audit execution. Quality is a combined measure of conformance with applicable Standards on Internal Audit (SIA) and the achievement of the internal audit function's performance objectives.
- 1.2 This Standard prescribes quality assurance measures for internal audit engagements to ensure their efficiency, effectiveness, and conformity with applicable internal audit frameworks.
- 1.3 Scope: This Standard applies to all internal audit engagements and requires that internal auditors establish and maintain a system of quality assurance covering audit processes, reporting, engagement performance measurement and follow-up actions.

### 2. Effective Date

- 2.1 This Standard is applicable for internal audits beginning on or after a date notified by the Council of the Institute.

### 3. Objectives

- 3.1 The objectives of this QSIA are to ensure that internal auditor:
  - Implement a structured quality assurance process to improve audit effectiveness.
  - Maintain objectivity, consistency, and accuracy in audit planning, execution, and reporting.
  - Establish and adhere to review mechanisms for audit work at different levels and identify the area for improvements.
  - Conduct periodic evaluations of internal audit team performance.
  - Receive feedback about internal audit team's performance and identify opportunities for improvement.



- Ensure that the internal audit activity is continuously improving and conforming to the highest professional standards.

## **4. Requirements**

### **4.1 Establishing a Quality Assurance Framework (Refer Para. A1)**

Internal auditors shall develop and implement a Quality Assurance and Improvement Program (QAIP) that includes:

- Internal reviews – Monitoring of internal audit team performance and periodic self-assessment or evaluation of work done by another team of internal auditor.
- External assessments – Independent reviews by external professionals in a defined time frame. Quality Standard on Internal Audit (QSIA) 2, Peer Review and Third- Party Assessment covers this aspect.
- Stakeholder feedback – Inputs or discussion on the observations from auditees, senior management and the Audit Committee.

The QAIP shall align with internal audit charters, regulatory requirements, and best practices.

### **4.2 Quality Assurance and Continuous Improvement (Refer Para. A2)**

- Quality Assurance Improvement Programs (QAIP) must evaluate compliance with Standards on Internal Audit, identify performance gaps and drive ongoing enhancements to audit methodologies and outcomes.
- A formal quality assessment should be done once in every three years.
- Professional education and training and development programmes shall be conducted to maintain the competency of the team.
- QAIP evaluates that internal audit team applies robust methodology, approach and templates coping with the continuous change in both external and internal environment.

## **Internal Audit Quality Aspects**

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- QAIP evaluates that internal audit team is using the right audit software, Artificial Intelligence (AI) tools and data analytics in applicable areas.
- QAIP evaluates that sufficient work is performed in accordance with the audit plan to reach a well justified conclusion.
- QAIP evaluated that the internal audit team has sufficient knowledge and Technical / subject matter expertise to understand the industry trends and technicalities involved.

In case external experts like Valuers, Engineers, Legal Experts, IT and Cyber-Security Experts, Data Scientists) are consulted, evaluate the process of selection and expertise evaluation.

### **4.3 Post-Audit Quality Assessments & Continuous Improvement (Refer Para. A3)**

Internal audit team must conduct periodic quality assessments, including:

- Self-assessments – Internal reviews of audit effectiveness.
- External assessments – Independent quality evaluations where required, at appropriate intervals.

Continuous improvement initiatives should focus on:

- Identifying trends and recurring audit challenges.
- Enhancing audit methodologies through training, capacity building and best practices.

### **4.4 Quality Assurance in Audit Documentation (Refer Para. A4)**

- Quality Assessment must be there to ensure that internal audit team has sufficient expertise in maintaining complete and standardised documentation of all planning, execution and reporting activity required for transparent regulatory review.
- Internal Audit Team shall be capable to assemble the file within 60 days after the signing of internal audit report.

#### **4.5 Retention of Audit Documentation (Refer Para. A5)**

Internal audit documentation shall be retained for:

- A minimum of seven 7 years from the date of the audit report, or
- Until the conclusion of any related regulatory or legal proceedings (whichever is later).

Retention policies must ensure:

- Protection against unauthorized alterations or loss.
- Secure access control and confidentiality.
- Compliance with ICAI's professional and legal requirements.

#### **Secure Destruction of Documents:**

Upon expiry of the retention period, documents must be securely destroyed using appropriate methods (e.g., shredding for physical records, permanent deletion for electronic records) to prevent unauthorized access, tampering etc.

#### **4.6 Compliance with Ethical Standards (Refer Para. A6)**

Internal auditors shall adhere to ethical principles, including:

- Objectivity and Independence – Avoiding conflicts of interest.
- Professional Competence and Due Care – Staying updated with regulatory changes, entity's business environment and audit techniques.
- Confidentiality – Protecting sensitive audit information from unauthorized disclosure.

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### **Application and Other Explanatory Material**

- A1. Establishing a Quality Assurance Framework (Refer Para. 4.1):**  
QAIP helps ensure consistency, credibility, and reliability of audit outcomes. It supports continuous enhancement of audit quality and reinforces stakeholder confidence. Alignment with the audit charter ensures QAIP is integrated into governance structures.

## Internal Audit Quality Aspects

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- A2. Quality Assurance and Continuous Improvement (Refer Para. 4.2):** Continuous improvement requires monitoring compliance with SIAs and updating audit practices in response to changes in technology, regulations, and organizational risks. Periodic external assessments provide independent validation of the internal audit function's quality.
- A3. Post-Audit Quality Assessments & Continuous Improvement (Refer Para. 4.3):** Self-assessments allow the audit team to reflect on effectiveness and efficiency, while external assessments provide unbiased benchmarking against industry and regulatory expectations. Continuous improvement helps in adopting innovative tools and global best practices.
- A4. Quality Assurance in Audit Documentation (Refer Para. 4.4):** Proper documentation provides evidence of compliance with SIAs and supports transparency during peer reviews or regulatory scrutiny. Timely file assembly ensures information is consolidated and accessible when needed.
- A5. Retention of Audit Documentation (Refer Para. 4.5):** Retention periods are designed to align with legal, regulatory, and professional requirements. Secure retention protects the integrity of records, while secure destruction ensures confidentiality once retention is no longer required.
- A6. Compliance with Ethical Standards (Refer Para. 4.6):** Ethical conduct underpins trust in the internal audit profession. Adherence to the ICAI Code of Ethics and global standards safeguards independence, protects sensitive information, and ensures quality audit delivery.

# **Exposure Draft**

## **Quality Standard on Internal Audit (QSIA) 2 Peer Review and Third-Party Assessment**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Quality Standard on Internal Audit (QSIA) 2, Peer Review and Third-Party Assessment.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/WvyGNBoCGvnooMF27>

Last date for sending comments is October 23, 2025.

# **Quality Standard on Internal Audit (QSIA) 2 Peer Review and Third-Party Assessment**

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**This Quality Standard on Internal Audit (QSIA) 2, “Peer Review and Third-Party Assessment” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

## **1. Introduction**

- 1.1 Peer review and third-party assessments are independent mechanisms to ensure the quality, credibility, objectivity, and effectiveness of internal audit functions. These reviews provide independent evaluations of whether internal audit processes comply with ICAI's Standards on Internal Audit (SIAs), best professional & ethical practices, and regulatory requirements.

"Peer Review" is a regulatory requirement conducted under the supervision of the Peer Review Board constituted by ICAI, as per the 'Statement on Peer Review'. Third-party assessments, however, are voluntary initiatives by audit entities."

- 1.2 This Standard provides guidelines on conducting peer reviews and third-party assessments to enhance the quality of internal audits, strengthen internal controls, and improve risk management processes.
- 1.3 Scope: This Standard shall apply to both internal audit functions conducting self-assessment or external assessments under quality assurance and improvement program (QAIP), and to Chartered Accountant firms subject to Peer Review as per ICAI's Peer Review Guidelines or getting third party assessment done.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objectives of this QSIA are to ensure that:
- Internal audit functions undergo independent and objective quality assessments through peer review or third-party evaluations.
  - Peer Review aims to confirm that the internal audit firm has complied with Technical Standards, maintained quality control systems, and properly documented audit work, in line with ICAI requirements.

- Internal audit methodologies, processes, and reporting align with ICAI SIAs, ethical standards, and industry best practices.
  - Audit stakeholders receive assurance on the effectiveness and reliability of internal audit functions.
  - Identified gaps or weaknesses in audit quality are addressed through corrective actions and continuous improvements.
- 3.2 Peer reviews and third-party assessments shall be conducted periodically, based on regulatory requirements, organizational policies, or best professional practices.

## **4. Requirements**

### **4.1 Planning for Peer Review and Third-Party Assessment (Refer Para. A1)**

Internal audit functions shall develop a formalized quality assurance and improvement program (QAIP), incorporating:

- Periodic peer reviews by internal audit professionals from similar organizations.
- Independent third-party assessments conducted by external reviewers or audit firms.
- Compliance checks with ICAI's SIAs, corporate governance frameworks, and legal requirements.
- Before the peer review commences, the Practice Unit must submit Preliminary Information in the prescribed format approved by the peer review Board to the Reviewer.

The frequency of reviews shall be determined on the basis of:

- Regulatory or Peer Review Board requirements.
- Size, complexity, and risk profile of the organization.
- Material changes in internal audit processes, structure, or leadership.
- The Peer Review Board mandates peer review of firms falling under prescribed criteria once every three years or as notified.



#### **4.2 Selection of Reviewers (Refer Para. A2)**

The selection of peer reviewers and third-party assessors shall ensure independence, objectivity, and competence.

Reviewers shall have:

- Expertise in internal auditing, risk management, and governance practices.
- A strong understanding of ICAI's Standards on Internal Audit (SIAs) and ethical principles.
- No conflicts of interest with the internal audit function under review.
- Reviewers must not have had any professional relationship with the Practice Unit for a minimum of two years, or preceding the external review.

#### **4.3 Scope of Peer Review and Third-Party Assessment (Refer Para. A3)**

The review shall cover the following key areas:

- Governance and independence of the internal audit function.
- Compliance with ICAI's SIAs and other applicable professional standards.
- Audit planning, execution, documentation, and reporting processes.
- Use of audit tools, data analytics, and risk assessment techniques.
- Stakeholder engagement and communication effectiveness.
- Quality control mechanisms, including supervision and review processes.

#### **4.4 Execution of Peer Review and Third-Party Assessment (Refer Para. A4)**

Reviewers shall obtain sufficient, reliable, and relevant evidence to support their evaluation.

Review techniques may include:

- Interviews with key audit stakeholders (Audit Committee, management, internal auditors).
- Review of audit reports, working papers, and quality assurance procedures.
- Assessment of compliance with ethical and professional standards.
- Testing of selected audit engagements for conformance to SIAs.
- Execution shall include evaluation of audit engagements, review of policies and procedures, sample verification of audit documentation, using ICAI prescribed checklists by the peer review board.
- Reviewers must prepare and maintain a Review Summary Report and working papers.

#### **4.5 Reporting the Results of Peer Review and Third-Party Assessments (Refer Para. A5)**

The review report shall include:

- Executive summary of key findings, observations, and best practices.
- Evaluation of the internal audit function's adherence to SIAs.
- Identification of strengths, improvement areas, and potential risks.
- Recommendations for enhancing audit quality and governance.

The final report shall be shared with:

- Chief Internal Auditor (CIA)/ Head of Internal Audit or Head of the internal audit firm.
- Audit Committee and Board of Directors (if applicable).
- Senior management and other relevant stakeholders.

The Reviewer is required to maintain strict confidentiality of all information, records, documents, and discussions accessed during the course of the review. No part of the information obtained shall be

disclosed to any third party, except as required by the Peer Review Board or under legal obligation.

#### **4.6 Follow-Up and Continuous Improvement (Refer Para. A6)**

Internal audit functions / Auditor firm shall:

- Develop an action plan with timelines to address findings from the review.
- Track implementation of recommendations and corrective actions.
- Conduct follow-up assessments to ensure continuous improvement.
- Provide regular updates to the Board and senior management.
- In case of peer review- If deficiencies are observed, the Peer Review Board may require the Practice Unit to submit an Action Taken Report within the prescribed timeframe or may mandate a follow-up review.

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### **Application and Other Explanatory Material**

#### **A1. Planning for Peer Review and Third-Party Assessment (Refer Para. 4.1)**

- A structured review program enhances audit credibility and governance.
- Frequency of reviews shall align with risk exposure and regulatory expectations.
- Every entity getting internal audit done or engaged in providing internal audit service should get such external review done at least once in three years.

#### **A2. Selection of Reviewers (Refer Para. 4.2)**

- Independent reviewers ensure unbiased evaluations.

- Competency in Standards on Internal Audit and industry practices is essential.
- A3. Scope of Peer Review and Third-Party Assessment (Refer Para. 4.3):** Comprehensive reviews improve internal audit effectiveness and stakeholder trust.
- A4. Execution of Peer Review and Third-Party Assessment (Refer Para. 4.4)**
- Evidence collection shall be systematic and well-documented.
  - Interviews and case study reviews provide insights into audit effectiveness.
- A5. Reporting the Results of Peer Review and Third-Party Assessments (Refer Para. 4.5)**
- Findings shall be categorized into strengths, weaknesses, and improvement areas.
  - Audit Committees/ Partners shall review reports to drive governance improvements.
- A6. Follow-Up and Continuous Improvement (Refer Para. 4.6):** Action plans shall be monitored, ensuring audit quality enhancement.

#### Sample Checklist for

#### Internal Audit Peer Review Checklist (aligned to ICAI Peer Review Guidelines)

Check Points	Yes/No
<b>1. Pre-Review Preparation</b>	
• Is a formal Quality Assurance and Improvement Program (QAIP) in place?	
• Has the internal audit function documented policies, procedures, and audit methodology?	
• Are the internal audit engagements planned, executed, documented, and reported in accordance with Standards on Internal Audit (SIA)?	

<ul style="list-style-type: none"> <li>Are there documented Internal Audit Charter and defined scope and authority approved by management/Board?</li> </ul>	
<ul style="list-style-type: none"> <li>Have ethical requirements (independence, confidentiality, integrity) been communicated and complied with?</li> </ul>	
<b>2. Reviewer Selection</b>	
<ul style="list-style-type: none"> <li>Are peer reviewers independent of the internal audit team under review?</li> </ul>	
<ul style="list-style-type: none"> <li>Do reviewers have adequate experience, competence, and knowledge of SIAs?</li> </ul>	
<ul style="list-style-type: none"> <li>Is there a declaration of no conflict of interest obtained from reviewers?</li> </ul>	
<b>3. Planning the Review</b>	
<ul style="list-style-type: none"> <li>Has a Peer Review Plan been prepared, including scope, timeline, and methodology?</li> </ul>	
<ul style="list-style-type: none"> <li>Are key stakeholders (e.g., Chief Internal Auditor, Audit Committee) informed about the review?</li> </ul>	
<ul style="list-style-type: none"> <li>Is there clarity on sampling criteria for selecting audit assignments for review?</li> </ul>	
<b>4. Scope and Execution of Review</b>	
<ul style="list-style-type: none"> <li>Governance of Internal Audit: <ul style="list-style-type: none"> <li>Is the internal audit function organizationally independent?</li> <li>Is there regular reporting to the Audit Committee/Board?</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>Conformance to Standards: <ul style="list-style-type: none"> <li>Is there compliance with Standards on Internal Audit (SIAs)?</li> <li>Are professional ethics (as per ICAI Code of Ethics) maintained?</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>Audit Methodology:</li> </ul>	

○ Are risk-based audit plans prepared and approved?	
○ Are audit engagements properly documented, with working papers?	
○ Is there evidence of supervision and review by senior auditors?	
• Reporting and Communication:	
○ Are audit reports clear, accurate, objective, and timely?	
○ Is there a process for tracking management action on audit findings?	
<b>5. Review Reporting</b>	
• Is there a draft report shared with auditees for factual accuracy?	
• Does the report clearly categorize:	
○ Strengths	
○ Areas for improvement	
○ Non-conformities with standards	
• Are recommendations for improvement clearly provided?	
<b>6. Post-Review Actions</b>	
• Has an Action Plan been prepared to address gaps identified during review?	
• Is there a mechanism for tracking corrective actions?	
• Are progress updates shared periodically with management/Audit Committee?	
<b>7. Documentation and Confidentiality</b>	
• Are all working papers and peer review documents properly archived?	
• Is confidentiality of all internal information maintained?	

# **Exposure Draft**

## **Standard on Internal Audit (SIA) 110 Basic Principles of Internal Audit**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 110, Basic Principles of Internal Audit.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/kfThw7H92RBEET369>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 110 Basic Principles of Internal Audit\*\***

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**This Standard on Internal Audit (SIA) 110, “Basic Principles of Internal Audit” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

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**\*\* Note:** This Standard on Internal Audit (SIA) supersedes Basic Principles of Internal Audit was, originally, issued by the Board in November 2018 which was recommendatory in nature.



## **1. Introduction**

- 1.1 These are a set of core principles fundamental to the internal audit function and activities. These basic principles of internal audit are critical to achieve the desired objectives as set out in the Definition of Internal Audit.
- 1.2 Scope: All internal audits shall be performed based on these basic principles, and departures from these principles shall be appropriately disclosed in internal audit report or other similar communication.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The main objective of the basic principles is to ensure that:
- (i) Internal audits are conducted with certain fundamental features designed to:
    - establish the credibility of the Internal Auditor (principles mentioned under para. 4.1 to 4.5), and
    - outline the elements essential for performance of internal audit function (principles mentioned under para. 4.6 to 4.10).
  - (ii) Outcome of internal audits is of quality and is in line with the set objectives.
  - (iii) To serve as a guide for evaluation of internal audit effectiveness, both by internal and external reviewers.
- 3.2 Basic principles of Internal audit are set out with the purpose of realising objectives of internal audit designed or expected by the appointing authority. The basic principles aim at ensuring:
- (a) Competence of internal audit team.
  - (b) Objective of internal audit.

- (c) Results are based on intelligent appreciation of facts noticed during audit.

## **4. Basic Principles**

The core principles of internal audit are foundational guidelines that every internal auditor should follow to ensure the audit is effective, ethical, and reliable. These principles help in maintaining credibility, independence, and value of the internal audit function. Below are the key principles:

### **4.1 Independence (Refer Para. A1)**

The Internal Auditor shall remain independent and objective, both in mind and in appearance, and shall be free from any influence direct or indirect that could impair professional judgment. Independence must be maintained throughout the planning, execution, and reporting phases of an internal audit assignment. The Internal Auditor shall firmly resist any undue influence or pressure that may alter the scope, methodology, or conclusions of the audit engagement in a manner inconsistent with approved objectives and professional standards.

### **4.2 Integrity and Objectivity (Refer Para. A2)**

The Internal Auditor shall be honest, truthful and be a person of high integrity. He shall operate in a highly professional manner and seen to be fair in all his dealings. He shall avoid all conflicts of interest and not seek to derive any undue personal benefit or advantage from his position.

The Internal Auditor shall conduct his work in a highly objective manner, especially in gathering and evaluation of facts and evidence. He shall not allow prejudice or bias to override his objectivity, especially in arriving at conclusions or reporting his opinion. Any threats to objectivity, whether arising from personal, professional, or organizational relationships, shall be identified, assessed, and appropriately mitigated.

### **4.3 Due Professional Care**

The Internal Auditor shall exercise due professional care and diligence while carrying out the internal audit. "Due professional

care” signifies that the Internal Auditor exercises reasonable care in carrying out the work to ensure the achievement of planned objectives.

The Internal Auditor shall pay particular attention to key audit activities, such as establishing the scope of the engagement to prevent the omission of important aspects, recognizing the risks and materiality of the areas, having required skills to review complex matters, establishing the extent of testing required to achieve the objectives within specified deadlines, etc. Professional judgement shall be exercised in evaluating materiality and determining the extent of reliance to be placed on internal controls and other assurance providers.

“Due Professional Care”, however, neither implies nor guarantees infallibility, nor does it require the Internal Auditor to go beyond the established scope of the engagement.

#### **4.4 Confidentiality**

The Internal Auditor shall at all times, maintain utmost confidentiality of all information acquired during the course of the audit work. He shall not disclose any such information to a party outside the internal audit function and any disclosure shall be on a “need to know basis”.

The Internal Auditor shall keep confidential information secure from others. Under no circumstance any confidential information shall be shared with third parties outside the company, without the specific approval of the Management or Client or unless there is a legal or a professional responsibility to do so (e.g., to share information with Statutory Auditors). Internal audit reports shall be addressed to specified internal auditees and distributed to only those who appointed or engaged the Internal Auditor and as per their directions. The Internal Auditor shall also safeguard proprietary or sensitive information even after the termination of the engagement, unless legally obligated otherwise.

#### **4.5 Skills and Competence (Refer Para. A3)**

The Internal Auditor shall have sound knowledge, strong interpersonal skills, practical experience and professional expertise in

areas covered under internal audit and other competence required to conduct a quality audit. He shall undertake only those assignments for which he has the requisite competence.

#### **4.6 Risk Based Audit (Refer Para. A4)**

The Internal Auditor shall either have, or shall obtain, such skills and competencies, as necessary for the purpose of discharging his responsibilities.

The Internal Auditor shall identify the important audit areas through a risk assessment exercise and tailor the audit activities such that the detailed audit procedures are prioritised and conducted over high-risk areas and issues, while less time is devoted to low-risk areas through curtailed audit procedures. Additionally, this approach shall ensure that risks under consideration are more aligned to the overall strategic and company objectives rather than narrowly focused on process objectives. Also, the risks should be reviewed periodically to reflect changing internal and external risk landscapes, and the audit plan shall be updated accordingly.

#### **4.7 System and Process Focus**

An Internal Auditor shall adopt a system and process focused methodology in conducting audit procedures. It requires a root cause analysis to be conducted on deviations to identify opportunities for system improvement or automation, to strengthen the process and prevent a repetition of such errors.

The Internal Auditor shall assess the adequacy of system-generated controls and interfaces, including system configuration and access controls.

#### **4.8 Participation in Decision Making (Refer Para. A5)**

The focus of the Internal Auditor shall remain with the quality and operating effectiveness of the decision-making process and how best to strengthen it, such that the chance of flawed or erroneous decisions is minimised. However, the Internal Auditor is at full liberty to present the lessons which can be learnt from such past decisions. Where the Internal Auditor is consulted for input in strategic or operational matters, a formal record shall be

maintained to clarify advisory versus decision-making roles.

#### **4.9 Sensitive to Multiple Stakeholder Interests**

The Internal Auditor shall evaluate the implications of his observations and recommendations on multiple stakeholders, especially where diverse interests may be conflicting in nature. In such situations, the Internal Auditor shall remain objective and present a balanced view. This would permit senior management to make a decision using all the information and balance the strategy and objectives of the company with the expectations and interests of its multiple stakeholders.

#### **4.10 Quality and Continuous Improvement**

The quality of the internal audit work shall be paramount for the Internal Auditor since the credibility of the audit reports depends on the reliability of reported findings. The Internal Auditor shall have in place a process of quality control to:

- (a) ensure factual accuracy of the observations.
- (b) to validate the accuracy of all findings; and
- (c) continuously improve the quality of the internal audit processes and the internal audit reports.

The Internal Auditor shall ensure that a self-assessment mechanism is in place to monitor his own performance and also that of his subordinates and external experts on whom he is relying on to complete some part of the audit work.

### **5. Continuous Assessment**

- 5.1 Internal Audit team should consciously observe the basic principles. Adherence to the basic principles go a long way in ensuring quality and in turn, utility of internal audit. There should be a process of review gaps in observing basic principles and overcoming the gaps observed through systematic procedures. Such an assessment is a continuous ongoing process.

### **6. Documentation**

- 6.1 Internal Auditor should formulate a systematic procedure to document

adherence to basic principles. Documentation should also cover procedures followed in continuous assessment of adherence to basic principles.

Documentation serves as an objective evidence to establish compliance of basic principles. It also serves as a guide to decision making in future.

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## **Application and Other Explanatory Material**

- A1. Independence (Refer Para. 4.1):** Organizational independence of the internal audit function is critical. This is supported through an appropriate governance structure, wherein the Chief Internal Auditor (CIA) functionally reports directly to the Audit Committee of the Board and administratively may report to the Managing Director (MD)/ Chief Executive Officer (CEO). This dual reporting structure functional and administrative is a globally accepted norm and aligns with Rule 8 of the Companies (Meetings of Board and its Powers) Rules, 2014, which emphasizes the Audit Committee's role in appointing and overseeing the Internal Auditor.

The internal audit function shall be positioned outside any function or business unit it audits, such as Finance, Operations, or Compliance. Where organizational structures limit the CIA's independence, such constraints must be transparently disclosed in the Internal Audit Charter and Annual Audit Plan and appropriately escalated to the Audit Committee for resolution.

In some situations, the Internal Auditor may be called upon to provide consulting or advisory support (e.g., in risk management, compliance, or process improvement). While short-term, non-recurring advisory roles may be accepted with prior approval of Audit Committee, these must not impair the auditor's objectivity. In such cases, the Internal Auditor must:

- a) Clearly communicate the boundaries of involvement and refrain from assuming ownership or accountability of

business processes, and

- b) Avoid decision-making authority over any operational area that may subsequently be subject to audit.

All such instances must be documented and disclosed in the Audit Plan, with safeguards implemented to preserve independence and objectivity of their future audit engagements.

- A2. Integrity and Objectivity (Refer Para. 4.2):** This may involve disclosure to appropriate authorities (e.g., the Audit Committee), recusal from specific engagements, or application of safeguards to mitigate the threat. The Internal Auditor shall take responsibility to ensure that such risks do not compromise audit quality or stakeholder confidence.
- A3. Skills and Competence (Refer Para. 4.5):** Continuing Professional Education is a key part of this exercise. Emerging technologies, data analytics, ESG and regulatory developments should necessarily form part of the Internal Auditor's learning and upskilling agenda. In addition to the basic technical skills, the Internal Auditor shall have the softer skills (such as interpersonal and communication skills) required to engage with a multitude of stakeholders.

Where the Internal Auditor lacks certain expertise, he shall procure the required skills either through in-house experts or through the services of an outside expert, provided independence is not compromised. The objective is to ensure that the audit team as a whole has all the expertise and knowledge required for the area under review.

Further, in the case of external/internal audit teams constituted from a third-party professional firm, it is essential that the engagement team is composed of members with the requisite technical expertise, industry knowledge, and professional competence relevant to the audit scope. The constitution of the audit team must ensure that the required skill sets such as financial audit expertise, process and controls understanding, forensic skills, data analytics capability, and IT audit knowledge are adequately represented.

Audit firms must ensure that:

- Team members are assigned based on qualifications, relevant experience, and capability to handle the specific complexities of the engagement.
- There is appropriate senior-level supervision and review mechanisms to ensure quality and independence throughout the engagement lifecycle.
- The team complies with ethical standards, including independence, confidentiality, and due professional care.
- Where specialized knowledge is required (e.g., valuation, taxation, systems audit), subject matter experts (SMEs) are included or consulted, and their inputs are documented as part of the audit file.

The engagement partner or signing auditor must take overall responsibility for the quality of the audit and ensure that the final report reflects accurate, fair, and evidence-based findings, free from conflict of interest or undue influence.

**A4 Risk Based Audit (Refer Para. 4.6):** A risk-based audit shall ensure the following three-fold objectives:

- (a) Audit procedures need not cover the whole process and can be limited only to the important controls in the process.
- (b) Establish linkage to the aspects relevant and connected with company and functional objectives; and
- (c) Findings and issues highlighted are significant and important and time is not devoted to areas with low probability of significant observations.

**A5. Participation in Decision Making (Refer Para. 4.8):** In conducting internal audit assignments, the Internal Auditor shall avoid passing any judgement or render an opinion on past management decisions. As part of his advisory role, the Internal Auditor shall avoid participation in operational decision making which may be subject of a subsequent audit.



# Exposure Draft

## Standard on Internal Audit (SIA) 120 Terms of Internal Audit Engagement

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 120, Terms of Internal Audit Engagement.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/USuvA7XpXi87PmHr8>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 120**

## **Terms of Internal Audit**

### **Engagement\*\***

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**This Standard on Internal Audit (SIA) 120, “Terms of Internal Audit Engagement” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

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\*\* Note: This Standard on Internal Audit (SIA) supersedes Standard on Internal Audit (SIA) 230, *Objectives of Internal Audit* and Standard on Internal Audit (SIA) 110, *Nature of Assurance* issued in May 2019.

## 1. Introduction

1.1 The terms of internal audit engagement vary widely and depend on the size, structure, and complexity of the entity subject to internal audit. These terms of internal audit engagement are also influenced by laws and regulations and specific requirements of management and, in most cases, defined by those charged with governance.

1.2 In the case of Companies required to appoint an Internal Auditor as per Section 138 of the Companies Act, 2013, Rule 13(2) of Companies (Accounts) Rules 2014, states:

*“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.”*

Hence, in this class of companies, the Audit Committee or the Board, in conjunction with management and the Chief of Internal Audit/ External Service Provider, is expected to exercise the responsibility to formulate the terms of internal audit engagement.

1.3 In the case of other organisations not covered under Para 1.2 above, those who appoint the Internal Auditor (e.g., the owners, the promoters, the Board of Trustees, etc.) would generally define the terms of internal audit.

1.4 While the specific terms of any internal audit may vary from company to company, they should be consistent with the overall definition of “Internal Audit”, which as defined under Para 3 of “Preface to the Standards on Internal Audit”, issued by the ICAI, states as follows:

*“Internal audit provides independent reasonable assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives.”*

**Annexure 1** to this Standard provides an indicative list of the terms of Internal Audit Engagement as mentioned in Standard on Auditing (SA) 610, “Using the Work of an Internal Auditor”, issued by Auditing & Assurance Standards Board, ICAI. Companies may choose some or all of these terms of internal audit engagement or even add something new as per their requirements or legal/ regulatory mandates.

- 1.5 Scope: The current law in India permits internal audit to be performed either by an entity's own employee (i.e., personnel on the payroll of the organization or its group company) or by a professional who is part of an external agency (e.g., a firm of practicing Chartered Accountants undertaking internal audit engagements). Hence, the manner in which the terms of internal audit is defined in each situation may vary. This Standard applies to all ICAI members in both situations, irrespective of whether the internal audit is conducted by them in the capacity of an employee or as a representative of an external audit firm.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objective of defining the terms of Internal Audit engagement are to:
- (a) Document the scope of the Internal Audit activity and the terms of the out-sourced internal audit engagement.
  - (b) Provide clarity to the Internal Auditor and its stakeholders regarding the nature of the internal audit set-up and its working.
  - (c) Ensure linkage between what is expected of the Internal Auditor and how that expectation can be met within the Framework governing Internal Audits.
  - (d) Promote better understanding on key operational areas, such as, accountability and authority, roles and responsibility, and such other functional matters.
  - (e) To outline conditions under which assurance can be expressed
  - (f) Timelines for submission of internal audit report.
  - (g) Limitation on scope of internal audit considering aspects like confidentiality.
- 3.2 Once the terms of internal audit engagement are defined, they help to establish the operating parameters within the overall internal audit

agenda. These objectives terms and operating parameters are formally recorded in one of these two documents:

- (a) An Internal Audit Charter, primarily designed for the in-house team of internal auditors and its stakeholders; and
- (b) An Engagement Letter is a formal agreement signed with the out-sourced internal audit service provider.

In some cases, both the documents may exist, although, where the complete internal audit function is out-sourced, the Engagement Letter covering the whole Internal Audit activity may be the only document in place.

- 3.3 This Standard applies to all internal audit engagement where an assurance is to be provided either as:

Reasonable assurance: An overall opinion over the whole subject matter.

Limited assurance: An opinion on part or a limited aspect of the subject matter.

Assignments not covered under this Standard include advisory roles, agreed-upon procedures, compliance reviews with opinion and consulting engagements.

## **4. Requirements**

### **4.1 Internal Audit Charter (Refer Para. A1)**

Every Internal Auditor shall be guided by a document that defines the terms of Internal Audit engagement. It is the duty of the Chief of Internal Audit to have in place a written Internal Audit Charter (refer Annexure 2) documenting the formation and functioning of the internal audit activity.

### **4.2 Engagement Letter (Refer Para. A2)**

Where part of the internal audit activity is out-sourced, the Chief of Internal Audit shall have a formal Engagement Letter defining the terms of engagement and documenting the nature of the arrangement with the external internal audit service provider. If the internal audit activity is completely out-sourced, the Engagement Partner shall

ensure a formal Engagement Letter documenting the terms of engagement.

- 4.3** The Chief of Internal Audit shall ensure that the Internal Audit Charter is reviewed and approved by those charged with governance (the Board of Directors, or the Audit Committee of the Board). In the case of the Engagement Letter, the Engagement Partner shall ensure that the formal agreement with the terms of engagement shall have the approval of the competent authority, as per the company's Delegation of Powers. Where the complete internal audit activity is out-sourced, then this approval shall come from those charged with governance (the Board of Directors, or the Audit Committee of the Board).

It is important that the governing body members and other stakeholders are aware of, and in agreement with, the terms of internal audit engagements and other relevant portions of the Internal Audit Charter and Engagement Letter. This information shall be communicated to all stakeholders through formal channels of communication.

The Internal Audit Charter and the Engagement Letter shall be reviewed periodically by the Chief of Internal Auditor and the Engagement Partner to ensure its relevance to the changing times or circumstances (e.g. change in scope). If found necessary, the proposed amendments to these documents shall be put up to the approving authority for their review and approval. A signed Engagement Letter shall be obtained prior to commencement of any audit work.

**4.4 Deliverables of Internal Audit Engagement (Refer Para. A3)**

The Internal Audit Charter and/or Engagement Letter shall clearly specify the list of deliverables to be provided by the Internal Auditor.

**4.5 Assurance in Engagement Context (Refer Para. A4)**

Before an Internal audit engagement begins, the following conditions must be met:

- There must be rational purpose for the engagement.
- The subject matter must be clearly defined and appropriate.

- Pre-defined criteria must be established to evaluate the subject matter.
- Sufficient and appropriate audit evidence must be available.
- The internal auditor must have access to relevant document and personnel.

It assurance has to be provided, the internal Auditor must obtain written agreement from the Assurance User on the type and scope of assurance, criteria to be used and form of report.

#### **4.6 Time Limits for Reporting (Refer Para A5)**

Internal audit reports must be submitted to management or those charged with governance within 30 days from the completion of fieldwork, unless otherwise agreed in writing.

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### **Application and Other Explanatory Material**

**A1. Internal Audit Charter (Refer Para. 4.1):** The formation and functioning of the internal audit activity within the organization is noted in a formal document called the Internal Audit Charter. It defines the objectives of internal audit (in line with the definition of Internal Audit) and other important aspects of the functioning of the Internal Audit activity. It also provides clarity to the Internal Auditor regarding the manner in which the internal audit work is undertaken and how the auditor's responsibility is to be discharged.

An indicative list of areas covered in the Internal Audit Charter is as follows:

- (a) Vision and Mission of the Internal Audit function
- (b) Purpose and Objectives of Internal Audit
- (c) Reporting Structure and Independence
- (d) Scope and Approach
- (e) Accountability and Authority
- (f) Roles and Responsibility

- (g) Quality Assurance and Conformance with SIAs.

Further explanation of each of the above-mentioned areas is given as **Annexure 2**.

- A2. Engagement Letter (Refer Para. 4.2):** The Objectives of Internal Audit and other terms of engagement of the external service provider are documented in a formal agreement referred to as the Engagement Letter. The Engagement Letter is signed by the Engagement Partner along with the appointing authority of the Company.

An indicative list of terms of engagement, covered in an Engagement Letter, is as follows:

- (a) Purpose and Objectives of Internal Audit
- (b) Independence and Objectivity
- (c) Scope and Approach
- (d) Accountability and Authority
- (e) Roles and Responsibility
- (f) Limitations and Confidentiality
- (g) Quality Assurance and Conformance with SIAs
- (h) Reporting and Compensation
- (i) Ownership of Working Papers
- (j) Termination of Arrangement

Further explanation of above-mentioned areas is given as **Annexure 3**.

- A3. Deliverables of Internal Audit Engagement (Refer Para. 4.4):**

Typical deliverables would normally include but are not limited to:

- Internal Audit Plan and Risk Assessment.
- Draft and Final Audit Reports.
- Executive Summaries and Management Presentations.
- Issue Logs and Remediation Trackers.
- Periodic Progress Reports to Management/Audit Committee.



- Final Assurance Report specifying nature (reasonable or limited) of assurance.

These deliverables must be submitted in the format and timeline agreed upon in the Engagement Letter or Audit Charter.

#### **A4. Assurance in Engagement Context (Refer Para. 4.5)**

##### **Three-Party Relationship**

1. **Internal Auditor:** Independent party conducting the audit.
2. **Auditee:** Entity or personnel responsible for the subject matter.
3. **Assurance User:** Stakeholders relying on the assurance report (e.g., Audit Committee, Board).

##### **Subject Matter**

Subject matters may be financial, non-financial, operational, compliance, or physical attributes. It must be:

- Clearly identifiable.
- Measurable against criteria.
- Capable of generating sufficient evidence.

##### **Pre-defined Criteria**

Pre-defined criteria for evaluation of the subject matter shall be:

- Relevant, complete, reliable, understandable, and measurable.
- Based on frameworks, policies, laws, SOPs, or mutually agreed benchmarks.

##### **Conclusive Outcome**

The opinion must reflect the **audit findings**, the **inference drawn**, and comparison with **pre-defined criteria**.

- **Reasonable Assurance:** Requires extensive procedures and evidence.
- **Limited Assurance:** Involves limited procedures; expressed with appropriate disclosure of limitations.

#### **A5. Time Limits for Reporting (Refer Para. 4.6):** According to SIA 310, Reporting and Conformance with Standards on Internal Audit, internal

audit reports should be submitted within 30 days from the completion of fieldwork, unless a different timeframe is agreed upon in writing.

This ensures timely communication of audit observations and findings to the management or those charged with governance, enabling prompt corrective actions.

## Annexure 1

**Indicative List of terms of Internal Audit Engagement\* (as per Standard on Auditing (SA) 610, “Using the Work of an Internal Auditor” issued by Auditing & Assurance Standards Board, ICAI).**

### **Scope and Objectives of the Internal Audit Function (Refer Para. 3)**

**A3.** The objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance. The activities of the internal audit function may include one or more of the following:

- **Evaluation of internal control.** The internal audit function may be assigned specific responsibility for reviewing controls, evaluation their operation and recommending improvements thereto.
- **Examination of financial and operating information.** The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
- **Review of operating activities.** The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non- financial activities of an entity.
- **Review of compliance with laws and regulations.** The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
- **Risk management.** The internal audit function may assist the organization by identifying and evaluating significant exposures

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\* The above is not a complete and exhaustive list and is presented only as an example of the nature of terms of Internal Audit engagement.

to risk and contributing to the improvement of risk management and control systems.

- **Governance.** The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

## Annexure 2

### Components of a Typical Internal Audit Charter

- **Vision and Mission of the Internal Audit (IA) Function**

This indicates the long-term view of the Internal Audit function, in line with its reason for existence.

- **Purpose and Objectives of Internal Audit**

Explain what the Internal Audit function has to achieve in a certain period of time. These objectives cover the internal audit definition and are usually in line with the Objectives of the Organisation in a similar period of time. (refer Annexure 1)

- **Reporting Structure and Independence**

This section explains where the Internal Audit function is placed within the overall Organisation Structure of the Company and whom it reports to (both functionally as well as administratively). It also clarifies how the independence of the function is assured in case of both in house and outsourced internal audit. (Refer Para. 3.1. of “Basic Principles of Internal Audit”).

- **Scope and Approach**

The scope of the internal audits shall be consistent with the goals and objectives of the internal audit function and also in line with the nature and extent of assurance to be provided by the Internal Auditor. Any entities/units excluded from the scope shall be clearly noted. The approach is generally a risk-based audit approach, with a system and process focus. (Refer Para. 3.6 and 3.7 of “Basic Principles of Internal Audit”)

- **Accountability and Authority**

The Internal Auditor may be held accountable for certain deliverables beyond providing basic assurance, such as, improving the control environment, reducing risk ratings or improving compliances level, etc. These should be clearly spelt out. Along with accountability, comes the authority and the powers required to conduct audits without any undue hindrances, engaging external experts and receiving all information and system access on time.

- **Roles and Responsibility**

All the key job functions and activities are spelt out in this section, which are usually in line with the objectives of the Internal Audit function.

- **Quality Assurance and Conformance with SIAs**

This section indicates the importance of ensuring high quality audit work and procedures, including how the audit procedures will be conducted in conformance with ICAI pronouncements applicable at the time. It also notes the checks put in place to ensure reliability and credibility of the output.

## **Annexure 3**

### **Components of A Typical Engagement Letter**

- **Purpose and Objectives of Internal Audit**

This section indicates what the Internal Audit engagement has to achieve in the set period of time. These objectives are mostly defined by those charged with governance and appointing the Internal Auditor. (refer Annexure 1)

- **Independence**

As independence of internal audit engagement is critical. This section defines the reporting structure and reporting protocol of the Internal Auditor. The internal auditor reports directly to audit committee and administratively May report to managing director/ chief executive officer. (Refer Para. 3.1 of “Basic Principles of Internal Audit”)

- **Scope and Approach**

The scope of the internal audits shall be consistent with the goals and objectives of the internal audit and in line with the nature and extent of assurance to be provided. Any entities/units excluded from the scope shall be clearly noted. The approach is generally a risk-based audit approach, with a system and process focus. (Refer Para. 3.6 and 3.7 in “Basic Principles of Internal Audit”)

- **Accountability and Authority**

The Internal Auditor is accountable to deliver the outcome of his work to the appointing authority or those charged with governance. Where the laws and regulations require, the internal auditor may also be required to report directly to external authorities. Along with accountability, comes the authority and the powers required to conduct audits without any undue hindrances and to receive all information and system access on time.

- **Roles and Responsibility**

All key job functions and activities get clearly spelt out in this section, which are usually in line with the objectives of the Internal Audit function.

- **Limitations and Confidentiality**

Limitations on liabilities which the auditor is exposed to and the manner of determination of the same should be included in this

section. Obligations on part of the Internal Auditor to maintain confidentiality of information collected and on part of the Company to keep the audit report confidential are also covered here.

- **Quality Assurance and Conformance with SIAs**

This section indicates the importance of ensuring high quality audit work and procedures, including how the audit procedures will be conducted in conformance with ICAI pronouncements applicable at the time. It also notes the checks put in place to ensure reliability and credibility of the output.

- **Reporting**

All requirements with regard to the nature of reports to be issued, the type of assurance to be provided, the timing, or periodicity of reports and the recipients is clearly noted here.

- **Compensation**

The basis upon which the compensation is established, the manner of its review, the ancillary charges (cost reimbursements, taxes, etc.) and the time limit within which the compensation is to be paid should be mentioned here.

- **Ownership of Working Papers**

This section clarifies the understanding regarding the ownership of working papers. Where a formal internal audit report is issued (with or without assurance), the ownership of the working papers should be retained by the Internal Auditor. (refer SIA 250, "Internal Audit Documentation")

- **Termination of Arrangement**

The time period of appointment, the timelines for completion of all assignments and the cessation of the arrangements should be covered in this section.



# **Exposure Draft**

## **Standard on Internal Audit (SIA) 130 Managing the Internal Audit Function**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 130, Managing the Internal Audit Function.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/KpcNc8cinJNyAEf16>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 130 Managing the Internal Audit Function\*\***

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**This Standard on Internal Audit (SIA) 130, “Managing the Internal Audit Function” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

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**\*\* Note:** This Standard on Internal Audit (SIA) supersedes Standard on Internal Audit (SIA) 210, Managing the Internal Audit Function was, originally, issued by the Board in November 2018 which was recommendatory in nature.

## **1. Introduction**

- 1.1 The Internal Audit Function, generally, comprises of a Head (generally termed as Chief Internal Auditor, Head of Internal Audit, Team Lead, Engagement Partner, etc.) and a team of individuals performing internal audits for the organization.
- 1.2 The Internal Audit Function performs a number of activities to achieve its objectives as outlined in its Charter (or Terms of Engagement/ Scope of Internal Audit). A few of the critical activities are as follows:
  - (a) Define the overall objective and scope and accordingly devise the strategy of the Internal Audit Function. Redefine in case of any changes to the earlier defined objective and scope.
  - (b) A decision on outsourcing and co-sourcing, either partly or fully, to be made by the Chief Internal Auditor once the objective and scope are defined. The same shall be approved by the Board or Audit Committee.
  - (c) Thereafter, devise a plan and methodology inter-alia covering proposed timelines, resources, location(s) on a periodic basis.
  - (d) Monitor and supervise various audit assignments, with respect to:
    - their adherence to planning along with deviations, if any
    - execution and updation wherever required
    - enquiry and engaging with the auditee to seek clarifications, responses and views
    - assessing and evaluating the implications and impact of observations
    - any scope limitations
    - final conclusions
    - reporting of findings/observations and
    - subsequent closure of reported observations

- (e) Review the performance, training and development of professional staff, talent and other resources to achieve its objectives.
- (f) Identify, source, engage and manage external experts and technical solutions, if required.
- (g) Communicate and engage with all key stakeholders regarding progress and achievement of objectives.
- (h) Develop and maintain a quality assessment and improvement program (QAIP).

1.3 Completion of the above activities is part of the responsibility of the Chief Internal Auditor or the person who has been designated to coordinate and manage the overall performance of above-mentioned activities.

1.4 Scope: Where the internal audit activity is outsourced, the external engagement partner may not be able to assume the overall responsibility of managing the internal audit activity for the whole Company. The role of engagement partner, in such cases, is limited to managing the Internal Audit Function documented in terms of engagement with the Company. In such situations, this SIA will apply to members only to the extent of the outsourced part of the internal audit activity.

## **2. Effective Date**

2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

3.1 The objectives of this Standard on Managing the Internal Audit Function are to ensure the following:

- (a) The achievement of overall objectives of internal audit (as outlined in the Internal Audit Charter, Scope or Engagement Letter).
- (b) Adequate skilled resources and expertise are in place and adequately deployed to conduct the Internal Audit assignment.

- (c) Internal audit assignments are undertaken and conducted in a systematic, disciplined, timely and professional manner.
- (d) Quality of the work performed forms a sound basis for reporting and is supported by requisite evidence and documentation.
- (e) Internal audit is conducted in conformance with the Standards on Internal Audit and other related pronouncements issued by the ICAI.

## **4. Requirements**

### **4.1 Internal Audit Process (Refer Para. A1)**

The Chief Internal Auditor has the overall responsibility to ensure the achievement of the objectives of the internal audit function through a well-defined and documented internal audit process.

### **4.2 Resource Planning (Refer Para. A2)**

A resource planning shall be prepared to ensure that the internal audit function has the required professional skills either internally or acquired externally and assigned to conduct internal audit assignment and effectively fulfil the objective as defined in the Internal Audit Charter, Scope or Engagement Letter.

### **4.3 Monitoring Progress and Achievement of Objectives (Refer Para. A3)**

The internal audit process shall be adequately monitored, supervised and reviewed to achieve the planned objectives.

### **4.4 Quality Evaluation and Improvement Program (Refer Para. A4)**

The internal audit function shall have in place a formal quality evaluation and improvement program with the objective of continual improvement and designed to ensure that all the internal audit activities undertaken by the function are conducted in conformance with the pronouncements and Standards on Internal Audit.

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## **Application and Other Explanatory Material**

**A1. Internal Audit Process (Refer Para. 4.1):** An internal audit process helps to execute internal audit activities and assignments in an effective and efficient manner. It documents the policies and procedures for conducting internal audit in a disciplined, time-bound and professional manner. It provides guidance on:

- manner in which audit assignment is to be conducted,
- the key inputs required,
- assess data document, etc. to be mandatorily covered as per the scope of engagement,
- significant steps to be completed,
- milestones to be achieved, and
- essential output and deliverables to be generated for desired quality of outcome.

Various elements of an internal audit process shall be collated in a comprehensive internal audit manual used as reference material by the internal audit staff performing the assignments.

**A2. Resource Planning (Refer Para. 4.2):** The resource planning shall map the skill requirements of the planned internal audits with the capabilities of the available resources of the internal audit function. These resources shall be organised and structured into audit teams such that they have the necessary knowledge, experience, expertise and skills required to conduct the planned audit assignment(s). If such expertise or skills are not available in-house, it can be outsourced with due approval from the competent authority.

The resource planning shall ensure proper deployment of the requisite resources as well as the manner in which they are periodically evaluated for performance and skill development through education and training programs.

**A3. Monitoring Progress and Achievement of Objectives (Refer Para. 4.3):** The Internal Auditor shall deploy a set process for monitoring and reviewing the progress by continuously tracking the assignment(s) underway. Planned timelines and constant monitoring help the Chief Internal Auditor to ensure that progress is on track. A continuous review of the nature of findings and emerging issues helps to ensure

that the audit work remains focused on the objectives. This also helps in updation during the course of conducting the internal audit, if required in order to achieve the objective(s) of the internal audit assignment(s).

Monitoring includes conducting periodic meetings for sharing of progress dashboards, evaluation of deviations, etc. The Chief Internal Auditor shall engage in periodic meetings with the resources, managers, process owners, those charged with governance.

Executive management and key stakeholders shall ensure that the progress is on track and concerns, if any, in this regard, are addressed promptly.

- A4. Quality Evaluation and Improvement Program (Refer Para. 4.4):** A documented quality evaluation and improvement program shall be designed and implemented to confirm the reliability of the audit work performed by internal audit staff. This program shall be drafted in line with the pronouncements and Standards on Internal Audit issued by the ICAI.

The quality evaluation and improvement program shall be implemented and monitored by a person having the requisite knowledge, domain expertise and skills as well as the authority to intervene in areas of non-compliance. It shall be supported with a system of identifying and reporting key quality parameters periodically, and corrective actions taken in case of deviations from Standards.

- A5. Documentation:** To confirm compliance with the Standard, all key activities which form part of the internal audit process shall be documented to expeditiously achieve the defined objective(s) of the assignment(s) while also focusing on the timelines.

Key elements of documentation are as follows:

- (a) The Internal Audit Process, in the form of an Internal Audit Manual.
- (b) Resourcing Plan, showing staff competencies, assignments conducted, performance evaluation and skill development needs.

- (c) Progress Monitoring Reports showing the various assignments underway, their progress against budgets and anticipated time for completion.
- (d) Quality Evaluation and Improvement Program appropriately cross referenced to the SIAs, where applicable.



# **Exposure Draft**

## **Standard on Internal Audit (SIA) 140**

### **Internal Controls**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 140, Internal Controls.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/zsSwycSBQu4QwFkm7>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 140 Internal Controls\*\***

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**This Standard on Internal Audit (SIA) 140, “Internal Controls,” issued by the Council of the Institute of Chartered Accountants of India (ICAI) should be read in conjunction with the “Preface to the Standards on Internal Audit” issued by the Institute.**

## **1. Introduction**

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**\*\* Note:** This Standard on Internal Audit (SIA) supersedes Standard on Internal Audit (SIA) 120, *Internal Control*, issued in January 2020.

- 1.1 Internal Controls are systemic and procedural steps adopted by an organisation to mitigate risks, primarily in the areas of financial accounting and reporting, operational processing and compliance with laws and regulations.
- 1.2 This Standard seeks to clarify the concept of internal controls and the responsibility of the Internal Auditor, Management and other stakeholders, with respect to Internal Controls, keeping in mind their legal, regulatory and professional obligations.
- 1.3 The definition of Internal Audit (Refer Para. 3.1 in the “Preface to Standards on Internal Audit”) and SIA 120, “Terms of Internal Audit Engagement” indicate providing independent assurance on the effectiveness of Internal Controls as a basic expectation from Internal Audit. The definition on Internal Audit elaborates on the term “Internal Controls” by clarifying how these are integral to the management function and business operations.
- 1.4 Scope: This Standard applies to all internal audits conducted where internal controls are subject of audit review and are being assessed, evaluated and reported upon.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The purpose of this Standard is to:
  - (a) Provide a common terminology on Internal Controls to prevent ambiguity or confusion on the subject matter.
  - (b) Define Internal Controls, how they mitigate risks, and also how they are viewed from a legal perspective.
  - (c) Explain the responsibilities of management and auditors with regard to Internal Controls, as mandated by law and regulations, and
  - (d) Specify certain requirements which need to be met to be able to provide an independent assurance on Internal Controls in the organisation under review.

- 3.2 The overall objective of this Standard is to clarify the responsibilities of management and auditors over Internal Controls and how certain requirements need to be met to assess, evaluate, report and provide an independent assurance over Internal Controls.

## 4. Definition of Internal Controls

- 4.1 Internal Controls (ICs) are key risk mitigation measures undertaken to strengthen the organisation's systems and processes. They help to prevent and detect errors and irregularities, thereby providing reasonable assurance that the organisational goals will be achieved.
- 4.2 Some key terminologies in Internal Controls are:
- **Internal Controls Framework** refers to a structured set of standards, guidelines, and practices designed to help organizations design, implement, monitor, and improve their internal control systems which can be used by management or auditors to assess the design, adequacy and operating effectiveness of the overall internal control system.
  - **Control Activities:** specific policies, procedures, and practices that are put in place to help in mitigate risks and ensure that management directives are carried out effectively the actual steps of risk mitigation are part of control activities. (e.g., review, approval, physical count, segregation of duty, etc.)
  - **Internal Financial Controls (IFCs):** Internal Controls designed to mitigate the risk of financial exposure are Internal Financial Controls.
  - **Operational Controls (OCs):** Internal Controls that mitigate operational risks are referred to as Operational Controls.
  - **Application Controls:** Internal Controls that check transaction processing at an application level (e.g., sequential numbering of invoices, etc) are Application Controls.
  - **IT General Controls:** IT General Controls (ITGCs) are the foundational policies, procedures, and activities that govern the overall IT environment and ensure the confidentiality, reliability, integrity, and security of information systems. These controls support the effectiveness of application controls and protect

data and systems from unauthorized access or changes. (e.g., access controls)

- **Manual Controls:** Internal Controls operating with human intervention are manual Controls.

4.3 Internal Controls can be broad-based covering the whole entity i.e. pervasive (e.g., Code of Conduct) or focused to a specific process or area (e.g., Order processing or Payroll, etc.). In the former case they are generally referred to as “Entity Level Controls (ELCs)” as part of the “Control Environment”. In the case of latter, they are also referred to as “Process Level Controls (PLCs)”.

4.4 In the Standard on Auditing (SA) 315, “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment” issued by the ICAI, Internal Control is defined as follows:

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

4.5 ICAI has issued a “Guidance Note on Audit of Internal Financial Controls over Financial Reporting” which defines internal financial controls over Financial Reporting as follows:

“A process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles. A company's internal financial control over financial reporting includes those policies and procedures that

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company,
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Generally Accepted Accounting Principles, and

that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company, and

- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.”

- 4.6 Section 134 (5) of Companies Act, 2013, (applicable to listed companies) concerning Directors' Responsibility Statement vide clause (e) thereof, defines the term “Internal Financial Controls” as follows:

“The policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information”.

- 4.7 Internal Controls is a broader term of the legal definition of Internal Financial Controls (Refer Para. 4.5 and 4.6) and goes beyond the financial areas and also covers a wide range of operational areas of an entity. It includes all the policies and procedures, systems and processes adopted by the company to assist in achieving its objective of ensuring an orderly and efficient conduct of its business and operations, the safeguarding of assets, the prevention and detection of frauds and errors, but also covers the accuracy and completeness of the company records and the timely preparation of reliable financial and management information.

- 4.8 The term “Internal Controls System” is an all-encompassing term generally used to refer all types of controls put together, covering ELCs, IFCs and OCs. The Control Environment (ELCs) includes the overall culture, attitude, awareness and actions of Board of Directors and management regarding the internal controls and their importance to the organisation. The control environment has an influence on the effectiveness of the overall Internal Control System since it provides the basis for establishing and operating process level controls (such as IFC and OCs) in the organisation.

## **5. Responsibility of the Board and Management**

- 5.1 The overall responsibility for designing, assessing the adequacy, implementing and maintaining the operating effectiveness of Internal Controls rests with the Board of Directors and the Management.

## **6. Responsibility of the Internal Auditor**

- 6.1 As indicated in SIA 120, "Terms of Internal Audit Engagement", the Internal Auditor derives the audit mandate from those charged with governance, which in the case of listed entities, is generally the Audit Committee. In line with the definition of internal audit and as per the objectives defined for internal audit, the Internal Auditor is required to review Internal Controls.
- 6.2 The Internal Auditor shall ensure that the entity has designed, implemented and maintains effective and efficient Internal Controls. The audit procedures shall be sufficient to allow the Internal Auditor to assess the design, proper implementation and operating effectiveness of the Internal Controls. Any shortcoming identified shall be reported with recommendations for improvement and suggestions to enhance the Internal Controls to meet organization's objectives.
- 6.3 The Internal Auditor shall review the risk assessment exercise undertaken at the time of planning the audit assignment to establish a basis for evaluating whether adequate and appropriate Internal Controls are in place to address the identified risks. Audit procedures to be conducted would primarily be focused on high and medium risk Internal Controls and adequate documentation (e.g., a Risk Control Matrix) should be in place to confirm the linkage of the audit procedure with the respective risks.
- 6.4 Where the Internal Auditor is required to provide an independent opinion over the presence, design, implementation and/or operating effectiveness over Internal Controls, this shall be consistent with the requirements of SIA 120, Terms of Internal Audit Engagement especially with regard to the need to have a clear understanding of the Internal Controls Framework which shall form the basis of the assurance. Also, in such situations where a written assurance report is being issued, the Internal Auditor may consider the following to form his opinion:

- (a) An evaluation of the system of Control Self-Assessment by owners of Internal Controls to support the CEO/CFO certification process.
  - (b) Availability of Compliance Certificates from owners of Key Controls to support a continuous system of compliance.
- 6.5 In situations where the Statutory Auditor is expected to rely on the work of the Internal Auditor as per Standard on Auditing (SA) 610, "Using the Work of Internal Auditors", issued by ICAI, regarding their audit of Internal Financial Controls over Financial Reporting, the Internal Auditor shall document the objectives and agreed scope and approach of the internal audit, over which the reliance is to be placed by the Statutory Auditor.
- 6.6 The Internal Auditor shall evaluate the robustness of the process through which internal controls are periodically reviewed and updated by management, including the responsiveness of management to control failures or emerging risks.
- 6.7 Where the Internal Auditor identifies systemic control weaknesses that span multiple functions or locations, the reporting shall include a clear articulation of cross-functional impact and recommendations for governance-level remediation.

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# **Exposure Draft**

## **Standard on Internal Audit (SIA) 150**

### **Risk Management**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 150, Risk Management.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/pVdUuaXZazbuLoWJ7>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 150 Risk Management\*\***

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**This Standard on Internal Audit (SIA) 150, “Risk Management,” issued by the Council of the Institute of Chartered Accountants of India (ICAI) should be read in conjunction with the “Preface to Standards on Internal Audit” issued by the Institute.**

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**\*\* Note:** This Standard on Internal Audit (SIA) supersedes Standard on Internal Audit (SIA) 130 “Risk Management” issued in September 2022.

## **1. Introduction**

- 1.1 Risk management is a critical component in ensuring that an organization identifies, assesses, mitigates, monitors and reports risks that could impact its objectives, including Strategic, financial, operational, compliance, and safeguarding of assets.
- 1.2 This Standard seeks to clarify the concept of Risk Management and also the responsibility of the Internal Auditor, Management and other Stakeholders with respect to risk management, keeping in mind, the legal, regulatory and professional obligations.
- 1.3 Definition of Internal Audit (Refer Para. 3.1 in the “Preface to the Standards on Internal Audit”) and SIA 120, Terms of Internal Audit Engagement indicate providing independent assurance on the effectiveness of risk management processes as a basic expectation from internal audit. The definition on Internal Audit elaborates on the term “Risk Management” by clarifying how this is an integral part of management function and business operations.
- 1.4 Scope: This Standard applies to all internal audits and where risk management is subject of audit review and are being assessed, evaluated and reported upon.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objectives of this Standard are to:
  - (a) Provide a common terminology on risk, risk management and its framework to prevent ambiguity and provide clarity on the subject matter.
  - (b) To evaluate whether the organization has risk management framework & strategy in place that identifies and mitigates key risks (internal and external risks) on a continuous basis.
  - (c) To assess whether governance structures, including the Board of Directors and relevant Committees (such as Risk Committee

or audit Committee) are actively overseeing the risk management process to assess if risk management has been integrated into various organizational processes.

- (d) Specify the requirements which need to be met to be able to provide an independent assurance of risk management framework in the organization under review.

## **4. Definition**

- 4.1 Risk can be defined as a threat exploiting vulnerability of business assets or processes or controls by occurrence of an event which could prevent the organization from achieving its goals and objectives or which can significantly impact the business operations, internal controls and business continuity of the organization. Areas which can be impacted by risk are broadly classified into strategic, reputational, operational, financial, legal, environmental, etc.
- 4.2 Risk Management is a process with a series of steps, taken on a continuous basis to identify the threats and vulnerabilities, assess them for severity and likelihood, monitor risks, prioritize them for action and minimize their possible negative impact through mitigation actions.
- 4.3 Risk Management Framework is the combination of structure, systems and processes put in place to organise the various risk management activities and to integrate them seamlessly into the organisation. Risk management activities, forming part of the framework, are designed to enhance the organisation's ability to, amongst others:
  - (a) Provide strategy, leadership and direction on risk management.
  - (b) Establish a culture of risk awareness and management throughout the organisation.
  - (c) Provide an organisation structure for assigning risk management resources and defining their roles and responsibilities.
  - (d) Capture and maintain a comprehensive database of all risks with periodic updation of risk inventory.
  - (e) Ensure expertise and competence in the area of risk management.

- (f) Exercise continuous monitoring and oversight on risk management.
- (g) Identifying areas where Internal Control are weak or impaired, which leads high risk to the business.
- (h) Categorise risk based on organisation's risk policy.
- (i) Periodic communication of risk management matters and formal reporting of risk status to management and those charged with governance.

4.4 Enterprise Risk Management is a term used to refer to various risk management frameworks uniformly applied on an entity-wide basis towards a comprehensive approach to manage organisational risks. It usually involves a separate and dedicated risk management function or department, led by a (Chief) Risk Officer to support those charged with governance in achieving organisation objectives through risk management.

4.5 In the Standard on Auditing (SA) 315," Identifying and Assessing the Risks of Material Misstatements Through Undertaking the entity and Its Environment) issued by the ICAI, Business Risk is defined as follows:

"A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies."

## **5. Responsibility of the Board and Management<sup>4</sup>**

5.1 The overall responsibility for developing, implementing and monitoring of risk management rests with the Board of Directors, risk management committee and Management and should be appropriately covered in the internal audit scope.

## **6. Responsibility of the Internal Auditor**

### **6.1 Adoption of Risk-Based Internal Audit Approach (Refer Para. A1)**

Unless specially excluded from the audit approach, the Internal Auditor shall plan and conduct risk based internal audits. This requires the application of risk management concepts to ensure that the audits are

prioritised in areas of urgency and importance, appropriate resources are allocated effectively where needed most, audit procedures are designed to give due attention to important matters and issues identified and reported are significant in nature.

**6.2 Audit Procedures Based on Risk Management Maturity (Refer Para. A2)**

The nature and extent of audit procedures to be conducted in risk management is dependent on the maturity of the risk management processes and the framework in place. Where management has implemented a risk management framework, the Internal Auditor shall plan and perform audit procedures to evaluate the design, implementation and operating effectiveness of the organisation's risk management framework to provide independent assurance to management and those charged with governance.

**6.3 Audit Role in Absence of Formal Risk Management Framework (Refer Para. A3)**

Where no formal risk management framework exists, the Internal Auditor shall design and conduct audit procedures with a view to highlight any exposures arising from weak or absent risk management activities, make recommendations to implement and strengthen related processes and thereby improve risk management and mitigation.

**6.4 Assurance Engagements on Risk Management Framework (Refer Para. A4)**

Where the independent assurance requires the issuance of an audit opinion over the design, implementation and operating effectiveness of risk management, this shall be undertaken in line with the requirements of SIA 120, "Terms of Internal Audit Engagement", especially with regard to the need to have a formal Risk Management Framework in place, which shall form the basis of such an assurance.

**6.5 Limitation of Auditor's Role in Risk Management (Refer Para. A5)**

The Internal Auditor shall not assume any responsibility to manage the risks or to execute risk management decisions. It is not the responsibility of the Internal Auditor to mitigate or resolve the risks.

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## **Application and Other Explanatory Material**

- A1. Adoption of Risk-Based Internal Audit Approach (Refer Para. 6.1):** The requirement to conduct audits on a risk-based approach underscores the principle that internal audit must focus its attention on areas of greatest importance to the achievement of organizational objectives. Unless specifically excluded, the internal auditor is expected to apply risk management concepts to prioritize internal audit activities, ensuring that urgent and high-risk areas receive greater coverage. This also facilitates efficient allocation of resources and ensures that audit findings are relevant, material, and add tangible value to governance and oversight processes. Standard on Internal Audit (SIA) 220, Internal Audit Planning emphasizes that internal audit planning may be in line with organizational risk.
- A2. Audit Procedures Based on Risk Management Maturity (Refer Para. 6.2):** The nature, depth, and extent of internal audit procedures are directly influenced by the maturity of the entity's risk management framework. Where a formal risk management system exists, the internal auditor must evaluate its design, implementation, and operating effectiveness to provide independent assurance to management and those charged with governance. This evaluation strengthens stakeholder confidence in the reliability of the organization's risk management processes. Standard on Internal Audit (SIA) 310, Reporting and Conformance with Standards on Internal Audit states that internal auditor must evaluate the effectiveness of the organization's risk management processes.
- A3. Audit Role in Absence of Formal Risk Management Framework (Refer Para. 6.3):** Where no formalized risk management structure exists, the internal auditor should adopt a proactive role by identifying potential exposures resulting from weak or absent processes. The auditor is expected to highlight such deficiencies, recommend appropriate measures for instituting a risk management framework, and assist management in enhancing overall risk culture through constructive recommendations. This approach not only mitigates immediate risks but also contributes to long-term organizational resilience.

- A4 Assurance Engagements on Risk Management Framework (Refer Para. 6.4):** Where management or the Board requires independent assurance in the form of an opinion over the adequacy and effectiveness of risk management practices, the internal auditor must conduct such an engagement strictly in accordance with SIA 120, *Terms of Internal Audit Engagement*. A formal risk management framework is a prerequisite for expressing such an opinion, as it provides the basis on which the auditor can evaluate design, implementation, and operating effectiveness. This ensures the opinion is both credible and defensible.
- A5. Limitation of Auditor's Role in Risk Management (Refer Para. 6.5)**  
It is essential to clearly delineate the responsibilities of the internal auditor vis-à-vis management. While the auditor may evaluate, recommend, and provide assurance on risk-related processes, the responsibility for risk ownership, management, and mitigation lies exclusively with management and the Board. The internal auditor must not assume operational responsibility for managing risks, as doing so would impair independence, objectivity, and assurance credibility.



# **Exposure Draft**

## **Standard on Internal Audit (SIA) 160**

### **Compliance with Laws and Regulations**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 160, Compliance With Laws and Regulations.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/T7ekVvrRCucJJfPE8>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 160**

## **Compliance with Laws and Regulations\*\***

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**This Standard on Internal Audit (SIA) 160, “Compliance with Laws and Regulations” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

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**\*\* Note:** This Standard on Internal Audit (SIA) supersedes Standard on Internal Audit (SIA) 150, Compliance with Laws and Regulations was, originally, issued by the Board in September 2022 which was recommendatory in nature.

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## **1. Introduction**

- 1.1 Compliance with applicable laws and regulations is a fundamental pillar of sound governance and sustainable business operations.
- 1.2 This Standard seeks to clarify both the concept of compliance with laws and regulations and the responsibility of the Internal Auditor, Management and other Stakeholders, with respect to Compliance with Laws and Regulations (CLR), in line with their professional obligations.
- 1.3 Definition of Internal Audit in the “Preface to the Standards on Internal Audit” (Refer Para. 3.2) and SIA 120, Terms of Internal Audit Engagement indicate providing independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives as a key expectation from internal audit. This definition elaborates on the term Governance by clarifying how it includes “compliance with laws and regulations”.
- 1.4 Scope: This Standard applies to all internal audits conducted where compliance activities and framework is subject matter of an audit, and is being assessed, evaluated and reported on by the Internal Auditor.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objective of this Standard is to:
  - (a) Provide a common terminology by defining compliance to prevent ambiguity or confusion on the subject matter.
  - (b) Explain the responsibilities of the Board of Directors and management with regard to compliance, as mandated by law and regulations, and
  - (c) Specify responsibilities of the Internal Auditor, especially, when providing independent assurance on the compliance framework.

## **4. Definition**

- 4.1 Compliance is a term used to describe the process of following, in letter and spirit, the applicable laws and regulations, Standards and Guidelines, Policies and Procedures. Any act contrary to the laid down laws and regulations, either through omission or commission and performed intentionally or unintentionally, is a Non-Compliance (or violation) and may result in fines, penalties, litigation, reputational damage or other such consequences.
- 4.2 Compliance framework refers to the whole structure, systems and processes put in place to organize, implement and execute the various compliance activities and to integrate them seamlessly into the organization to provide strategy, leadership and direction on compliance.
- 4.3 Compliance activities forming part of the framework, that are designed to enhance the organisation's ability, includes to:
  - (a) Establish a culture of compliance throughout the organisation.
  - (b) Appointing Team and Leadership to effectively handle and monitor litigations and assessment issues arising out of compliances done and/or non-compliance in the organization.
  - (c) Provide an organisation structure for assigning compliance resources and defining their responsibilities.
  - (d) Capture and maintain a comprehensive database updated status of all compliance requirements.
  - (e) Encourage risk-based time prioritisation and effective completion of all compliance requirements.
  - (f) Ensure expertise and competence in the area of compliance.
  - (g) Initiate compliance programs and exercise continuous monitoring and oversight on compliance completion; including fixing responsibility for issues arising out of non-compliance and
  - (h) Periodic communication of compliance matters and formal reporting of compliance status and litigation status to management and those charged with governance.

## **5. Responsibility of the Board and Management**

- 5.1 The responsibility of the Board of Directors in the area of compliance is generally established by the prevailing laws of the nation. The responsibility of the management is established by both the prevailing laws and the oversight of the Board of Directors.
- 5.2 Hence, compliance is seen as an essential element of business functioning, with severe consequences and penalties for non-compliance. Therefore, the overall responsibility for developing, implementing and monitoring the compliance framework rests with the Board of Directors and Management.

## **6. Responsibility of the Internal Auditor**

### **6.1 Auditing the Compliance Framework (Refer Para. A1)**

The nature and extent of internal audit procedures to be conducted in the area of compliance is dependent on the framework in place and the maturity of the processes. Where management has implemented a formal compliance framework, and unless specifically excluded from the audit scope (or technically not feasible), the Internal Auditor shall plan and perform internal audit procedures to evaluate the design, implementation and operating effectiveness of such framework to provide independent assurance to management and to those charged with governance.

### **6.2 Auditing Compliance Activities and Processes (Refer Para. A2)**

Where no formal compliance framework exists, the Internal Auditor shall design and conduct audit procedures with a view to highlight any exposures arising from weak or absent compliance activities and processes, make recommendations to implement and strengthen those processes and thereby, improve compliance.

### **6.3 Independent Assurance over Compliance Framework (Refer Para. A3)**

Where the independent assurance requires the issuance of an audit opinion over the design, implementation and operating effectiveness over compliance, this shall be undertaken in line with the requirements

of SIA 120, Terms of Internal Audit Engagement, especially with regard to the need to have a formal compliance framework in place, which shall form the basis of such an assurance.

**6.4 Compliance Audit in the Absence of a Formal Compliance Framework (Refer Para. A4)**

While the primary objective of an internal audit is to enhance and strengthen the systems and processes of compliance. However, there may be instances where the Internal Auditor is specifically requested to undertake compliance audit assignments with the primary objective of identifying any instances of non-compliances. In such situations, and where no formal compliance framework exists, the Internal Auditor may not be able to provide a written opinion in line with requirements of SIA 120, Terms of Internal Audit Engagement. Never-the-less, the Internal Auditor may present a Summary of Findings highlighting any instances of non-compliance identified during the internal audit procedures.

These findings shall be reported along with the following:

- the scope, listing all the specific laws and regulations tested.
- audit procedures performed, sample selected, and population covered.
- summary of the work performed, and
- limitations, if any, on the responsibilities assumed by the internal Auditor, such as inherent limitations in sample selection, or that a court of law is the ultimate authority in establishing legal interpretation of non-compliance etc.

**6.5 Compliance related to Related Party Transactions (RPTs) (Refer Para. A5)**

Related Party transactions (RPTs) is a critical aspect of the overall governance structure. Internal auditors must ensure that RPTs are disclosed, reviewed, and approved in accordance with applicable laws such as the Companies Act, 2013 and SEBI (LODR) Regulations. RPTs compliance helps prevent conflicts of interest, ensures transparency in financial reporting, and protects shareholder value.

**6.6 Boundaries of the Internal Auditor's Role in Compliance (Refer**

**Para. A6)**

The Internal Auditor shall not assume any responsibility to manage or operate the compliance framework or to take compliance-related decisions. It is not the responsibility of the Internal Auditor to execute or resolve compliance-related risks.

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## **Application and Other Explanatory Material**

**A1. Auditing the Compliance Framework (Refer Para. 6.1):** Where there is a formal compliance framework in place, the work of the Internal Auditor shall be directed to ensure that, amongst others:

- (a) The organisation has designed the framework consistent with best-in-class and globally recognised frameworks.
- (b) The organisation has established and implemented various enabling mechanisms, including:
  - (i) Issuing compliance policies and implementing supporting procedures.
  - (ii) Setting the right “tone at the top” through constant leadership communication and supporting activities.
  - (iii) Designing a structured compliance framework, appointing designated compliance officers and assigning specific responsibilities to identified compliance owners.
  - (iv) Identifying all laws and regulations applicable to the entity, creating and maintaining compliance database, assessing associated significant risks and embedding them into the relevant business processes.
  - (v) Conducting training programs regularly for compliance officers and owners, covering knowledge and competency for effective compliance.
  - (vi) Implementing robust compliance systems, deploying technology (where possible), monitoring their progress



and tracking their status, documenting timely completion with relevant proofs and artefacts and supporting timely escalations in case of slippages.

- (vii) Tracking performance continuously against compliance targets and goals with sufficient reviews and oversight mechanisms.
  - (viii) Establishing timely communication and periodic reporting systems and protocols, including self- assessment and compliance certificates.
- (c) The compliance system and processes in place operate in an effective and efficient manner and help to ensure full compliance.

Any shortcoming shall result in recommendations for improvement and suggestions on how to make the compliance framework more efficient and effective in line with stated objectives.

**A2. Auditing Compliance Activities and Processes (Refer Para. 6.2):**

Where management has not implemented any formal compliance framework, the Internal Auditor will conduct audit procedures over various compliance related activities which may be present (similar to those indicated under Para. 6.2). These activities may be supported by certain enabling systems and processes (similar to those indicated under Para. 6.1) and which may be recommended as desirable actions to be undertaken to establish a formal framework.

**A3. Independent Assurance over Compliance Framework (Refer Para. 6.3):** In situation where a written assurance report is being issued, the Internal Auditor may consider the following to form his opinion:

- (a) The linkage of the compliance framework with other frameworks like the Risk, Governance, Fraud, or Information Technology frameworks which may exist.
- (b) The process in place of self-assessment and certification from compliance owners is part of a continuous system of compliance.

**A4. Compliance Audit in the Absence of a Formal Compliance Framework (Refer Para. 6.4):** In several organizations, a formal

compliance framework may not be in place. In such circumstances, management may request the Internal Auditor to undertake a compliance-focused assignment with the primary objectives of identifying instances of non-compliance. Since such an engagement does not involve the design or operation of a structured compliance system, the Internal Auditor is not in a position to provide a written assurance opinion as per SIA 110 “Terms of Internal Audit Engagement”. In such cases, reports should be limited to a fact-based Summary of Findings. This report should clearly set out the scope of work, the specific laws and regulations tested, the audit procedures performed, the sample and population covered, and a summary of work carried out. It should also explicitly highlight the limitations of the exercise, such as inherent restrictions in sample testing and the principle that the final legal interpretation of compliance matters rests with the courts or regulators. The emphasis is on communicating factual observations rather than forming a legal or assurance opinion, thereby safeguarding the Internal Auditor from unintended liability or misinterpretation of the nature of the engagement.

- A5. Compliance related to Related Party Transactions (RPTs) (Refer Para. 6.5):** Related Party Transactions (RPTs) form an integral component of the corporate governance framework, as they directly impact transparency, accountability, and stakeholder confidence. It is the responsibility of internal auditors to verify that all RPTs are appropriately identified, disclosed, reviewed, and approved in strict compliance with applicable statutory provisions, including the Companies Act, 2013, and the SEBI (Listing Obligations and Disclosure Requirements) Regulations. Effective oversight of RPTs not only mitigates the risk of conflicts of interest but also enhances the credibility of financial reporting and safeguards the interests of shareholders by ensuring fairness in business dealings.
- A6. Boundaries of the Internal Auditor’s Role in Compliance (Refer Para. 6.6):** The responsibilities of the Internal Auditor in the area of compliance are primarily independent assessment-oriented and must not extend into management or operational functions. Specifically, the Internal Auditor is not expected to act as a compliance officer, maintain or operate compliance monitoring systems, or take responsibility for compliance-related decisions. The Internal Auditor

may also avoid direct interaction with regulators or involvement in implementing or resolution of compliance risks. The role remains restricted to examining the adequacy and effectiveness of compliance framework, identifying gaps or deviations, and reporting them to those charged with governance. Any involvement beyond this scope and risks compromising the independence. Any involvement beyond this scope may impair the internal auditor's independence and objective. The responsibility for establishing and maintaining compliance ultimately rests with management, while the Internal Auditor's contribution is limited to providing an independent evaluation and highlighting areas requiring corrective action.

# **Exposure Draft**

## **Standard on Internal Audit (SIA) 210**

### **Knowledge of the Entity and Its Environment**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 210, Knowledge of the Entity and Its Environment.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/7BTVVEJpcfYJAGBAA>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 210**

## **Knowledge of the Entity and Its Environment**

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**This Standard on Internal Audit (SIA) 210, “Knowledge of the Entity and Its Environment,” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit” issued by the Institute.**

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## **1. Introduction**

- 1.1 An internal auditor is required to obtain a comprehensive understanding of the entity's industry, operations, ownership, governance, and regulatory environment, sufficient to identify and assess risks, review processes and controls, and determine the nature, timing, and extent of audit procedures. It further ensures that audit conclusions and recommendations are appropriate, relevant, and add value to the entity.
- 1.2 This Standard on Internal Audit (SIA) establishes principles and provide guidance on the internal auditor's responsibility to obtain knowledge of the entity and its environment. Such knowledge is critical for effective planning, execution, and evaluation of internal audit engagements.
- 1.3 Scope: This Standard applies to all internal audit engagements, irrespective of the size, nature, or sector of the entity.

## **2. Effective Date**

- 2.1 This Standard shall be applicable to all internal audits commencing on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objective of this Standard is to:
  - Establish the process for acquiring knowledge of the entity and its environment.
  - Ensure effective application of such knowledge in identifying risks, planning, and performing audit procedures.
  - Mandate continuous updating and refinement of this knowledge throughout the engagement.
  - Require appropriate documentation of the acquired knowledge in the internal audit working papers.

## **4. Requirements**

### **4.1 Preliminary Knowledge Prior to Engagement (Refer Para. A1)**

The internal auditor shall obtain preliminary knowledge of the entity's industry, ownership, governance structure, operations, and regulatory environment before accepting an engagement.

### **4.2 Acquisition of Detailed Knowledge Post-Acceptance (Refer Para. A2)**

Upon acceptance of the engagement, the internal auditor shall acquire comprehensive and updated knowledge of the entity, including, but not limited to:

- (a) The nature of the entity, including its operations, ownership, governance, and financing structure.
- (b) The entity's business objectives, strategies, and associated risks.
- (c) Key internal controls and operational procedures.
- (d) Information systems, Management Information System (MIS) and Information Technology (IT) Controls.
- (e) The industry and external environment, including competition, technological developments, and economic conditions.
- (f) The regulatory framework, including applicable laws and compliance obligations.

### **4.3 Application of Knowledge in Internal Audit Process (Refer Para. A3)**

The internal auditor shall apply the knowledge obtained for:

- (a) Identifying significant risks and determining areas of audit focus.
- (b) Designing the nature, timing, and extent of internal audit procedures.
- (c) Evaluating the adequacy of controls and the reliability of audit evidence, and



- (d) Recognizing unusual circumstances, including indicators of fraud, non-compliance, or misstatements.

#### **4.4 Documentation (Refer Para. A4)**

The internal auditor shall document the knowledge obtained, its sources, and its application in the internal audit process, within the working papers.

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## **Application and Other Explanatory Material**

### **A1. Preliminary Knowledge Prior to Engagement (Refer Para. 4.1):**

Obtaining preliminary knowledge before engagement acceptance enables the internal auditor to evaluate whether the assignment can be performed with the required competence, independence, and resources.

Such knowledge may be derived from publicly available sources, such as annual reports, industry publications, regulatory filings, previous audit or review reports, and preliminary discussions with management.

### **A2. Acquisition of Detailed Knowledge Post-Acceptance (Refer Para. 4.2):**

- (a) Knowledge of the entity's ownership, governance, and financing structures aids in assessing key areas of risk and determining the focus of internal audit work.
- (b) Awareness of the entity's objectives and strategies helps in identifying strategic, operational, and compliance risks that may impact performance.
- (c) Familiarity with information systems enables the internal auditor to evaluate internal controls and identify opportunities for data-driven audit techniques.
- (d) Industry and environmental factors, such as competition, technological disruption, or macroeconomic conditions, may significantly influence the entity's risk profile.

- (e) Once the engagement is accepted, a deeper understanding of the entity and its environment is necessary to identify and assess risks of material misstatement, fraud, or non-compliance.
- (f) Understanding the applicable regulatory framework assists the internal auditor in evaluating compliance obligations and reporting requirements relevant to the entity.

**A3. Application of Knowledge in Audit Process (Refer Para. 4.3):** Acquired knowledge guides the internal auditor in tailoring audit procedures to identified risks. For example, heightened risks in inventory management may require expanded testing of stock records and related controls.

The internal auditor uses this knowledge to assess whether internal controls are effectively designed and operating, and whether audit evidence gathered is sufficient and reliable.

Awareness of the entity's environment assists the internal auditor in identifying anomalies or red flags, such as unusual transactions, patterns, or deviations that may suggest fraud or error.

**A4. Documentation of Knowledge Obtained (Refer Para. 4.4):** Proper documentation demonstrates that the internal auditor has obtained sufficient understanding of the entity and applied it in planning and performing the engagement. It also facilitates supervision, quality reviews, and future reference.

Documentation may include internal memos, industry reports, organizational charts, minutes of meetings, process flowcharts, regulatory references, working papers on risk assessments, etc.

# **Exposure Draft**

## **Standard on Internal Audit (SIA) 220**

### **Internal Audit Planning**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 220, Internal Audit Planning.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/HWGsG7qugFkxP1Ji8>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 220 Internal Audit Planning\***

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**This Standard on Internal Audit (SIA) 220, “Internal Audit Planning,” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit” issued by the Institute.**

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\* Note: This Standard on Internal Audit (SIA) supersedes Standard on Internal Audit (SIA) 220, Conducting Overall Internal Audit Planning, and SIA 310, Planning the Internal Audit Assignment was, originally, issued by the Board in November 2018 which was recommendatory in nature.

## 1. Introduction

- 1.1 Effective internal audit planning ensures that audit activities are strategically aligned with the organization's objectives, risk profile, and governance priorities. In an increasingly complex and dynamic business environment, internal audit planning must evolve beyond a traditional checklist approach to become a continuous, risk-based, and stakeholder-focused exercise.
- 1.2 Internal audit planning is conducted at two levels:
  - (a) An internal audit plan for the entire entity is prepared for a given period of time (usually a year) and presented for approval 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 may be prepared for individual assignments to be undertaken covering some part of the entity and presented to the Chief Internal Auditor. Such plan should be prepared in line with the internal audit plan to the entity as a whole.
- 1.3 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 internal audit plan of the company. Companies (Accounts) Rule 13(2) of Companies Act, 2013 provides as under:

*“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.”*

The Audit Committee or the Board takes the active support of the Chief Internal Auditor/External Service Provider, to develop the Audit Plan, in consultation with the Executive Management.
- 1.4 Internal audit planning has the following features:
  - (a) It understands the business model, organisational structure, regulatory environment and compliance obligations.
  - (b) It aligns the audit goals with the organisations risk appetite.
  - (c) It identifies potential risks from internal and external sources.

- (d) It is undertaken prior to the beginning of the plan period (generally, the financial year).
- (e) It is directional in nature and considers all the Auditable Units (i.e., locations, functions, business units and legal entities including third parties, where relevant), along with the periodicity of the assignments to be undertaken during the plan period.
- (f) It is normally prepared by the Chief Internal Auditor (or the Engagement Partner, where an external service provider is appointed to conduct internal audits).
- (g) The outcome of this exercise is an “Internal Audit Plan” (or the “Audit Engagement Plan,” if outsourced).
- (h) The audit programme shall be developed as an integral component of the internal audit planning process. The audit programme shall include documentation identifying potential risk scenarios (‘what could go wrong’) along with the corresponding controls required to mitigate or prevent such risks. It shall also outline the audit procedures and activities to be performed.

1.5 Scope: This Standard deals with the internal auditor’s responsibility to prepare the Internal Audit Plan.

## **2. Effective Date**

2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

3.1 The objectives of an Internal Audit (Engagement) Plan are to:

- (a) Ensure that the Internal Audit plan is in line with the objectives of the internal audit function, as per the internal audit charter of the entity (and terms of engagement, where it is an outsourced engagement) and also in line with the overall objectives of the organisation.
- (b) Align the organisation’s risk assessment with the effectiveness of the risk mitigation steps implemented through internal controls.

- (c) Confirm and agree with those charged with governance the broad scope, methodology and depth of coverage of the internal audit work to be undertaken in the defined time-period.
- (d) Ensure that overall resources are adequate, skilled and deployed with focus in areas of importance, complexity and sensitivity.
- (e) Ensure compliance with laws and regulations.
- (f) Ensure timely detection of irregularities.
- (g) Ensure that the audits undertaken conform at all times with the applicable pronouncements of the Institute of Chartered Accountants of India.
- (h) Ensures that the audit is being conducted systematically in accordance with Internal audit plan.

## **4. Requirements**

- 4.1** There needs to be a formal audit charter approved by the Board and Audit Committee which clearly defines the scope, authority and responsibility.

**4.2 The Planning Process (Refer Para. A1, A7- A8)**

The planning exercise shall follow a laid down process, the outcome of which shall be a written document containing all the essential elements required to help achieve the objectives of the plan as outlined under Paragraph 3 above. Technology deployment shall form essential elements of the internal audit plan.

The internal audit plan shall be reviewed and approved by the highest governing body responsible for internal audits, normally, the Board of Directors, or the Audit Committee. Internal audit plans shall be updated due to regulatory changes or organizational developments.

**4.3 Knowledge of the Business and its Environment (Refer Para. A2)**

Knowledge of the entity, its business and operating environment shall be undertaken to determine the types of internal audit assignment which could be conducted.

**4.4 Discussion with Management and Stakeholders (Refer Para. A3)**

As part of the planning process, a discussion with management and other stakeholders shall be undertaken to understand the intricacies of

each auditable unit subject to internal audit. In instances where management expectations conflict with the professional judgment of the internal auditor, such matters shall be resolved through dialogue, and where necessary, escalated to the Audit Committee or the appropriate governance body for resolution in accordance with the internal audit charter.

#### **4.5 Risk Assessment (Refer Para. A4)**

A risk-based planning exercise shall form the basis of the internal audit plan. The internal auditor shall undertake an independent risk assessment exercise to prioritise and focus the internal audit work on high-risk areas, with due attention to matters of importance, complexity and sensitivity.

#### **4.6 Audit Universe and Scope of Coverage (Refer Para. A5)**

An audit universe shall be prepared prior to establishing the scope of the internal audit plan. The scope shall be consistent with the goals and objectives of the internal audit function (and terms of engagement, where it is an outsourced engagement) as listed in the internal audit charter. The scope shall also be in line with the nature and extent of the assurance to be provided.

The Audit Universe and the Internal Audit Plan shall be continuously monitored during the execution phase for achievement of the objective and to identify any deviations. Certain deviations may require to be notified to the stakeholders or even require a formal modification to the plan. However, any significant modification to the plan shall be done only after consultation with those who approved the original plan. Such changes shall be formally documented including reasons for the change and communicated to all impacted stakeholders.

#### **4.7 Resource Allocation (Refer Para. A6)**

The available internal audit team shall be evaluated for strength and capabilities and skill gaps, if identified, shall be filled with required training or co-sourcing. The requirements for specialised audit such as IT, forensic, cybersecurity shall be identified and addressed in proper manner.

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## **Application and Other Explanatory Material**

**A1. The Planning Process (Refer Para. 4.2):** The internal auditor formulating the internal audit plan shall use professional judgement for the process to be followed in completing all essential planning activities. A documented planning process shall be in place which stipulates the essential inputs, steps to complete the planning and the nature of output required to conduct a comprehensive planning exercise.

**A2. Knowledge of the Business and its Environment (Refer Para. 4.3):** The internal auditor shall gather all the information required to fully understand the entity's business environment, the risks it faces and its operational challenges.

The extent of information required shall be sufficient to enable the internal auditor to identify matters which have a significant effect on the organisation's financials. Hence, there is a need to connect the financial aspects of the business with other business elements, such as industry dynamics, company's business model, operational intricacies, legal and regulatory environment, and the system and processes in place to run its operations.

**A3. Discussion with Management and Stakeholders (Refer Para. 4.4):** A key element of planning involves extensive discussion and deliberation with all stakeholders, including executive management, risk owners, process owners, statutory auditors etc. Their inputs are critical in understanding the intricacies of each assignment under consideration, in identification of important matters of relevance and to align stakeholder expectations with audit objectives.

**A4. Risk Assessment (Refer Para. 4.5):** 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 prioritise and focus internal 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.

**A5. Audit Universe and Scope of Coverage (Refer Para. 4.6):** 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, etc.) of the organisation shall be made. This list of all the Auditable Units is, generally, referred to as the “Audit Universe”. It covers every conceivable audit assignment which could be taken up for review during the plan period. The audit universe helps to ensure that the audit scope does not overlook any auditable unit. It forms the basis from which the internal audit plan is derived by consciously excluding certain units or areas from the scope, for justifiable reasons, such as low risk.

The internal audit objectives and the nature of assurance to be provided will also help to establish the scope of internal audit. On certain occasions, especially in the case of outsourced engagements, the management may define or mandate the scope and may even restrict the coverage of certain areas or transactions. When finalising the scope, it is important to clearly highlight any scope limitations included in the internal audit plan as part of the communication to approving body, such as, the Audit Committee.

**A6. Resource Allocation (Refer Para. 4.7):** The Internal Auditor shall prepare a detailed work schedule to estimate the time required for each audit assignment depending on the audit attention it deserves (on the basis of risk assessment) and maps this with the competencies (knowledge, experience, expertise etc.) of the resources available. The requirements are then matched with the limited resources available to:

- (a) finalise the scope and depth of coverage of internal audit assignments.
- (b) identify any critical skills/expertise gaps in internal audit team; and/or.
- (c) seek other means of acquiring additional resources required. (internal or external sourcing)

**A7. Technology Deployment (Refer Para. 4.2):** A key element of the internal audit planning exercise involves understanding the extent to which:

- (a) the entity has deployed information technology (IT) in its business, operations and transaction processing, and
- (b) the internal auditor needs to deploy IT tools, data mining and analytic procedures, and the expertise required for its audit activities and testing purposes.

This helps to design and plan the internal audit more efficiently and effectively.

**A8. Documentation (Refer Para. 4.2):** To confirm compliance of internal audit procedures with the SIA, all key steps undertaken in the planning process shall be adequately documented to confirm their proper completion.

Essential documentation shall be as follows:

- (a) Information gathered about the business and its operations, systems and processes and past or known issues.
- (b) Audit universe and summary of auditable units.
- (c) Summary of meetings and communication with key stakeholders, with a summary of their inputs.
- (d) Risk assessment documentation.
- (e) Summary of available resources, their competencies and the proper matching of their skills with the audit requirements.
- (f) Final internal audit plan, duly approved by the competent authorities.

# Exposure Draft

## Standard on Internal Audit (SIA) 230 Internal Audit Evidence

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 230, Internal Audit Evidence.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/b7sNKZN9XFhPy9TY6>

Last date for sending comments is October 23, 2025.

# Standard on Internal Audit (SIA) 230 Internal Audit Evidence\*\*

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**This Standard on Internal Audit (SIA) 230, Internal Audit Evidence has been issued by the Council of the Institute of Chartered Accountants of India (ICAI). It should be read in conjunction with the *Preface to the Standards on Internal Audit*, issued by the ICAI.**

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\*\* Note: This Standard on Internal Audit (SIA) supersedes some part or all of the Standard on Internal Audit (SIA) 320, Internal Audit Evidence issued in November 2018, Standard on Internal Audit (SIA) 5, Sampling, issued in October 2008 and Standard on Internal Audit (SIA) 6, Analytical Procedures, issued in October 2008, which are recommendatory in nature.



## 1. Introduction

- 1.1 “Internal Audit Evidence” refers to all the information used by the Internal Auditor in arriving at the conclusions on which the auditor’s report is based. It includes both information collected from underlying entity records and processes, as well as information from the performance of various audit activities and testing procedures.
- 1.2 Internal audit assignments require performing procedures to achieve the engagement objectives. This involves gathering relevant information, performing analysis and evaluations to produce sufficient and appropriate audit evidence which enables internal auditors to:
  - provide reasonable assurance, and identify potential weaknesses in governance, risk management, and internal controls.
  - determine the root cause, effects and significance of the findings.
  - Formulate corrective and preventive recommendations to develop action to be taken by Management.
  - Determine conclusion based on audit evidence obtained.
- 1.3 This Standard provides a structured approach for executing internal audit assignments, ensuring relevance, consistency, effectiveness, and compliance with professional Standards on Internal Audit.
- 1.4 This Standard explains certain key requirements in the process of collection, retention and subsequent review of internal audit evidence.
- 1.5 Scope: This Standard applies to all internal audit assignments and covers the execution of audit procedures, including testing, sampling, and analytical techniques. Further, the manner in which the audit evidence is to be gathered from the performance of audit activities and testing procedures (e.g., sampling techniques, data analytics, etc.) are subject matter of this Standard. Types of audit evidence and its possible sources are therefore covered in this Standard.

The Forensic Accounting and Investigation Standards (FAIS) issued by ICAI are specifically applicable to fraud investigations, where evidence is collected and presented to support legal or judicial proceedings. In such cases, Standard on Internal Audit (SIA) 230, Internal Audit Evidence, are not applicable, as the nature, purpose, and evidentiary requirements differ significantly from those of an internal audit.

## **2. Effective Date**

- 2.1 This Standard shall be applicable for internal audits commencing on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objective of this Standard is to establish a structured and consistent approach to the execution of internal audit procedures that ensures consistency, comprehensiveness, efficiency, effectiveness, and adherence to professional standards. This Standard aims to ensure that internal audit procedures are conducted in accordance with the overall internal audit engagement plan, stakeholder expectations, and the principles laid down by the Institute of Chartered Accountants of India (ICAI).
- 3.2 The overall objective of conducting fieldwork and obtaining appropriate and reliable evidence is to allow the Internal Auditor to form an opinion on the outcome of the audit procedures completed. The audit evidence must be sufficient, reliable, relevant, and timely collected from credible sources, directly related to the audit objectives and adequate to support the audit opinion. The evidence must stand on its own and does not require further clarification or additional information to reach the same conclusion.
- 3.3 The objectives of gathering appropriate and reliable audit evidence is to:
- (a) Confirm the nature, timing and sufficiency of the audit procedures undertaken as per the internal audit plan and terms of engagement.
  - (b) Obtain and document sufficient, relevant, and reliable evidence to support audit findings and conclusions.
  - (c) Exercise sound professional judgment and maintain appropriate professional skepticism throughout the field work.
  - (d) Engage constructively with auditee personnel to facilitate the accurate understanding of processes and validation of audit observations.



- (e) Maintain a high standard of documentation to support supervision, review, and subsequent reference.
- (f) establish that the work performed is in conformance with the applicable pronouncements of the Institute of Chartered Accountants of India.

## **4. Requirements**

### **4.1 Performing Audit Procedures (Refer Para. A1)**

#### **Types of Audit Procedures**

To achieve audit objectives, the internal auditor shall perform a combination of audit procedures, including:

**Inquiry:** Obtaining information i.e. data, documents, reports, registration, Policies, etc., from process owners and management.

**Observation:** Physically observing internal controls and operational procedures as they are being observed or observing a control attribute while it is being executed by the management.

**Inspection:** Involves the examination of documentation (physical or electronic), system records, and tangible assets to obtain reliable audit evidence regarding their authenticity, condition, and compliance with internal controls or regulatory requirements.

**Confirmation:** The process of obtaining direct verification from external parties (e.g. banks, customers, vendors etc.) to substantiate balances and transactions.

**Recalculation:** It involves independently verifying the accuracy of computations performed by the process or system under audit. It may be applied to both financial and operational data and serves to validate input-output logic, detect control failures, and assess the reliability of automated or manual systems.

**Reperformance:** The auditor independently re-executes a control or procedure to assess its existence and effectiveness.

**Analytical Procedures:** Identifying relationships, trends, variances, and anomalies in financial and operational data. These procedures are instrumental in highlighting unusual patterns or fluctuations, which can guide risk-based auditing. They are especially useful in identifying periods

or segments for stratified sampling, thereby enhancing audit efficiency and directing attention to areas with significant or unexpected movements.

**Data Analytics / Computer-Assisted Audit Techniques (CAATs):**

Using data analytics tools to perform procedures such as pattern recognition, large-scale recalculations, sampling, and exception testing. Enhances coverage and improves audit efficiency and accuracy, especially with large datasets.

**Execution of Audit Procedures**

Internal auditors shall ensure that:

- Audit procedures align with risk assessments and engagement objectives.
- Select and apply appropriate Audit Procedures. The procedures shall be clearly documented, detailing the approach, execution, and findings.
- Gather sufficient and appropriate evidence.
- Document work performed.
- Test Controls and Processes.
- Evaluate audit results and identify exceptions. Any exceptions or variances identified during testing shall be further investigated.
- Engage with process owners and Management.
- Ensure compliance with professional standards.
- Incorporate real-time status tracking and checkpoint reviews to monitor fieldwork progress, re-align priorities, and address blockers without waiting until final reporting.
- Where testing relies on auditee-generated extracts or system reports, internal auditors shall validate system logic and assess data extraction controls for integrity. Preferably obtain access to relevant systems for direct data extracts.
- Conduct opening and closing meeting with relevant stakeholders.

**Internal Controls Testing**

- Testing shall cover both design effectiveness (whether the control is well-designed) and operational effectiveness. (whether the control is functioning as intended)

- Control deficiencies and weaknesses shall be documented and discussed with relevant stakeholders.

#### **Transaction and Process Testing**

- Internal auditors shall use appropriate sampling techniques to test transactions for compliance and accuracy.
- Key business processes shall be reviewed to identify inefficiencies and risks.

### **4.2 Sampling and Analytical Procedures (Refer Para. A2)**

#### **Sampling Procedures**

- Sampling techniques shall be used where it is impractical to audit the entire population.
- Sample sizes may be sufficient and appropriate to draw reasonable conclusions.
- Sample selection may be based on:

**Risk-based sampling:** Prioritizing high-risk areas.

**Statistical sampling:** Using probabilistic techniques for objectivity.

**Judgmental sampling:** Selecting based on auditor expertise.

**Stratified sampling:** Ensuring the sample represents key subgroups.

**Monetary Unit Sampling (MUS):** Used for auditing transactions with high monetary value, ensuring larger transactions are prioritized in sampling.

**Random Sampling:** Each element has an equal and independent chance of selection.

#### **Analytical Procedures**

Analytical procedures are a critical component of audit procedure and serve as an effective means of identifying anomalies, assessing trends, and evaluating the reasonableness of data. These procedures support risk assessment, enhance audit efficiency, and contribute to the development of informed audit conclusions. Internal auditors shall apply analytical procedures throughout the audit cycle—specifically during planning and execution stage, and reporting—to support professional judgment assess the risks of material misstatement and detect potential red flags.

The following analytical procedures may be employed, depending on the nature and scope of the audit assignment:

- **Ratio Analysis:** Comparing key financial and operational ratios over time or against benchmarks to identify deviations from expected norms. (e.g., gross margin ratio, current ratio, inventory turnover)
- **Trend Analysis:** Reviewing historical data across periods to detect unusual patterns, fluctuations, or emerging risks that may indicate control failures or process inefficiencies.
- **Data Analytics:** Utilizing computer-assisted audit techniques (CAATs), business intelligence tools, or other specialized software to analyse large or complex datasets for outliers, duplication, fraud indicators, predictive estimates, consideration of relationships between financial & non-financial information or transactional anomalies.
- **Benchmarking:** Comparing company performance indicators or process efficiency metrics against industry standards, peer organizations, or internally established benchmarks to identify performance gaps.

Sampling and analytics outcomes that materially affect conclusions shall be independently reviewed, especially where automated tools or scripts are deployed. Internal auditors shall retain script logic or algorithm assumptions for re-performance purposes.

Data analytics used for testing shall be clearly mapped to audit objectives and procedures; standalone exploratory analysis shall not substitute formal audit testing unless justified and approved. The outcome of such an analysis inevitably should be verified with the underlying documents, other evidence to confirm conclusions, at least on a sample basis. This methodology should be appropriately disclosed in the reports.

Where analytical procedures indicate unusual variances, trends, or inconsistencies, the internal auditor shall investigate the underlying causes and consider the need for additional audit procedures to achieve the audit objective. The findings from such analyses shall be documented and incorporated into audit conclusions and recommendations.

#### **4.3 Audit Evidence and Documentation (Refer Para. A3)**

- Audit evidence shall be sufficient, appropriate, reliable, relevant, and useful to support conclusions.
- Evidence collected through various audit procedures shall be complementary and relevant to the objectives of the audit procedure conducted.
- The evidence shall be obtained from reliable sources ensuring consistency between various evidence collected.
- Digital and electronic audit evidence, i.e. system logs, automated reports should be considered equivalent to physical records when they meet reliability standards.
- Working papers shall completely and accurately document:
  - Objectives and scope of the Audit.
  - Risk Assessment: Evaluation of relevant information to identify and prioritize risks that may impact Strategic, Operations, Compliance, and Reporting objectives.
  - Sampling Approach and Selection.
  - Audit procedures performed and risks addressed.
  - Observations and findings.
  - Root cause (when possible) and risk or potential exposure.
  - Analytical procedures employed, Test results and supporting evidence.
  - Criteria used to evaluate the findings.
  - Evidence of communication to appropriate parties including management's responses to potential observations.
  - Written management representations, where necessary.
  - Internal audit rejoinders, where appropriate, are documented to clearly articulate the internal auditor's position or response to an observation.
- All evidence must be retained in accordance with professional Standards on Internal Audit and organizational policies. Any audit evidence obtained through interviews or oral responses shall be documented and, where materially relied upon, validated through follow-up documentation or formal confirmation. System-generated audit trails (e.g., logs of user actions, workflow approvals) shall be leveraged, where relevant, as reliable forms of evidence and embedded in work papers for control walkthroughs.

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## **Application and Other Explanatory Material**

### **A1. Performing Audit Procedures (Refer Para. 4.1):**

- Audit procedures should focus on specific risks and objectives.
- Control testing should include both design effectiveness and operational effectiveness.
- A crucial part of audit fieldwork is careful observation. Paying close attention to ongoing activities helps determine whether internal controls are properly followed.
- Obtain confirmation from the entity's field personnel responsible for the observations to avoid any contradictions when reporting findings to management.
- Internal auditors should understand and use technologies that improve the efficiency and effectiveness of analyses, such as software applications that enable testing of an entire population rather than just a sample.
- Internal Audit professionals shall enhance their skills and continue training in new/ emerging technologies like RPA, AI, Process mining, Blockchain OCR recognition etc. and leverage them to enhance efficiency & effectiveness of audit tests carried out with an aim to audit at population level instead of auditing at a sample level.

### **A2. Sampling and Analytical Procedures (Refer Para. 4.2):**

- Analytical procedures provide deeper insights into trends, enabling early risk identification.
- Internal auditors shall evaluate the reliability and consistency of audit evidence obtained from different sources.
- If initial analysis do not provide sufficient evidence to support a potential engagement finding, internal auditors must exercise due professional care when determining whether additional analysis are required.
- The extent of reliance on the results on sampling and analytical procedures will depend upon materiality of items involved, other internal audit procedures directed towards same internal audit objectives, accuracy with which the expected results of analytical

procedures can be predicted and assessment of inherent and control risks.

- Internal auditors shall pre-define thresholds for exceptions (e.g., monetary or frequency-based triggers) and ensure consistency in escalation and reporting of such exceptions across auditable units.
- Where automated tools are used, internal auditors must test the completeness and accuracy of data imported into those tools and document reconciliations performed, if any.

**A3. Audit Evidence and Documentation (Refer Para. 4.3):** Evidence is collected either from the underlying company's books, records, systems and processes or through the performance of audit activities and testing procedures. Documents supporting transactions (e.g., bills/invoices) or business arrangements (e.g., contracts/ agreements) are examples of evidence from company's underlying records. Evidence gathered through audit procedures may include one or more of the techniques, like: inspection, observation, inquiry, external confirmation, recalculation, re-performance, analytical procedures and the use of expert opinion, where necessary.

To enhance clarity and rigor, audit evidence is explicitly classified into the following categories:

- **Physical** (e.g., assets observed during inventory count)  
*Source:* Direct observation or physical inspection by the internal auditor.
- **Documentary** (e.g., invoices, contracts)  
*Source:* Company records, files, third-party documentation, or official correspondence.
- **Analytical** (e.g., ratio or trend analyses)  
*Source:* Internal auditor's own calculations or data analytics using financial and operational data extracted from the company's systems.
- **Testimonial** (e.g., management representations)  
*Source:* Interviews, questionnaires, formal written statements, or minutes of meetings.

- **Electronic** (e.g., logs, digital records, or electronic communications)

*Source:* IT systems, enterprise software, audit trails, emails, and digital databases.

Internal auditors are encouraged to apply automated tools and techniques—such as Computer-Assisted Audit Techniques (CAATs), data mining, and analytics—especially where large volumes of data are involved, to improve the coverage, efficiency, and reliability of the evidence obtained.

Sufficiency and appropriateness are inter-related and apply to evidence obtained. Sufficiency refers to the quantity or quantum of evidence gathered while appropriateness relates to its quality or relevance and reliability. Normally, the internal audit evidence is persuasive on its own and a number of evidential matters in aggregate, help make it conclusive in nature. The internal auditor must use professional judgement in evaluating whether the aggregate evidence collected is adequate to support findings. The rationale for accepting or rejecting any contradictory or inconsistent or unrelated evidence should be considered and appropriately documented.

The reliability of the audit evidence depends on its source - internal or external, its type and thoroughness and, may also depend on the timing of the audit procedures conducted.

Audit evidence shall be sufficient (factual and adequate), competent (reliable and relevant), and corroborated across independent sources. Where inconsistencies arise, or doubts exist regarding the reliability of information obtained, the internal auditor shall reassess and, where necessary, modify or extend audit procedures. In doing so, the internal auditor should consider factors such as source credibility, independence, and objectivity to evaluate the strength and reliability of the evidence before drawing conclusions.

1. Workpapers that contain automated summaries (e.g., pivot tables, BI dashboards) shall be locked or archived in non-editable formats to preserve the original audit evidence.
2. Documentation is important to provide evidence that the audit was carried out in accordance with the Standards on Internal Audit.



3. Documentation is essential to support audit findings and facilitate peer review.

# **Exposure Draft**

## **Standard on Internal Audit (SIA) 240**

### **Use of Tools**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 240, Use of Tools.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/t9kXu3jHZjGFtQDC8>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 240**

## **Use of Tools**

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**This Standard on Internal Audit (SIA) 240, “Use of Tools,” issued by the Council of the Institute of Chartered Accountants of India (ICAI) should be read in conjunction with the “Preface to Standards on Internal Audit” issued by the Institute.**

## **1. Introduction**

- 1.1 The growing complexity of business operations, coupled with rapid digital transformation and increased regulatory oversight has significantly enhanced the role of technological tools in internal audit engagements. Technological tools—including data analytics platforms, computer-assisted audit techniques (CAATs), visualization tools, and audit management software as well as emerging technologies such as Artificial Intelligence (AI) and Machine Learning (ML)—enable internal auditors to enhance the efficiency, accuracy, and relevance of their work.
- 1.2 This Standard provides a structured framework for:
- selection, application, evaluation, and documentation of tools used in internal audit assignment.
  - ensuring audit quality and professional judgement remain paramount.
- 1.3 Scope: This Standard applies to all internal audit assignments.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objectives of this Standard are to:
- Establish a structured and risk-responsive framework for the appropriate use of tools in internal audit.
  - Enhance the quality of audit outcomes through the effective deployment of relevant technologies.
  - Safeguard data integrity, confidentiality, and compliance with applicable laws while using tools.
  - Encourage periodic review and improvement of tools to ensure relevance in dynamic organizational and technological environments.

## **4. Requirements**

### **4.1 Planning for Use of Tools (Refer Para. A1)**

- The internal auditor shall evaluate and record the proposed use of tools at the planning stage, ensuring their alignment with the risk assessment and defined audit objectives.
- Tool selection must consider engagement objectives, complexity of operations, system architecture, and data availability.

### **4.2 Validation of Tools (Refer Para. A2)**

- Tools selected for use in internal audits must be evaluated for relevance, reliability, and security.
- The internal auditor shall validate that the outputs of such tools are complete, accurate, and aligned with audit objectives.

### **4.3 Competency and Training (Refer Para. A3)**

- The audit team must possess the necessary competencies to effectively use selected tools.
- The Chief Internal Auditor shall ensure periodic training and upskilling of team to match evolving tool capabilities.

### **4.4 Data Security and Confidentiality (Refer Para. A4)**

- The internal auditor shall ensure that tools comply with applicable data privacy and cybersecurity regulations.
- Where third-party tools are used, the internal auditor shall verify the existence of adequate confidentiality, ownership, and access controls.

### **4.5 Documentation and Audit Evidence (Refer Para. A5)**

- The use of tools must be thoroughly documented, including rationale, configurations, testing parameters, and outcomes.
- Any limitations or constraints in tool application that affect the internal audit conclusion shall be disclosed.

### **4.6 Use of Professional Judgement (Refer Para. A6)**

- The internal auditor shall not rely solely on automated outputs; professional skepticism and contextual evaluation must be applied to all tool-based findings.

### **4.7 Monitoring and Continuous Improvement (Refer Para. A7)**

- The Chief Internal Auditor shall institute procedures for the periodic assessment of tools to evaluate their effectiveness and continued relevance to the audit function.
- Insights and lessons derived from each internal audit engagement shall be utilized to refine and enhance strategies for tool deployment.

\*\*\*\*\*

## **Application and Other Explanatory Material**

### **A1. Planning for Use of Tools (Refer Para. 4.1):**

- The decision to use tools should be aligned with risk-based audit planning.
- Tools may be most relevant where large volumes of transactions exist or where automation can detect trends, anomalies, or exceptions.

### **A2. Validation of Tools (Refer Para. 4.2):**

- Analytical platforms such as IDEA, ACL, Power BI, Python scripts, and AI-based applications shall be subject to validation to ensure reliability and integrity in data processing.
- Trial runs, benchmarking against known outcomes, and cross-validation with manual procedures help to ensure reliability.

### **A3. Competency and Training (Refer Para. 4.3):**

- Internal audit teams should be trained on using audit-specific features such as filter logic, power BI, pattern detection, pivot analysis, and scripting for automation.
- Continuing education plans should include refresher modules on tool updates and integration techniques.

### **A4. Data Security and Confidentiality (Refer Para. 4.4):**

- Internal auditors shall ensure that the use of tools complies with applicable regulatory, security, and data protection frameworks such as ISO 27001, General Data Protection Regulation (GDPR), Digital Personal Data Protection (DPDP) Act 2023, NIST Cybersecurity Framework, and any other relevant national or international standards.

- Confidentiality agreements with vendors and internal access controls are essential when using cloud-based or third-party tools.

**A5. Documentation and Audit Evidence (Refer Para. 4.5):**

- Audit workpapers should include:
  - Purpose and scope of tool usage.
  - Inputs and configuration parameters.
  - Screenshots of queries, dashboards or reports.
  - Commentary on interpretations and audit conclusions.
- Exceptions, limitations, and assumptions must be clearly noted.

**A6. Use of Professional Judgement (Refer Para. 4.6):**

- Anomalies identified by tools must be investigated further through sampling, walkthroughs, or corroborative procedures.
- Internal auditors should avoid over-reliance on tools and remain alert to limitations such as missing data, outdated algorithms, or contextual misinterpretation.

**A7. Monitoring and Continuous Improvement (Refer Para. 4.7):**

- Post-audit reviews should assess:
  - Whether the tools met their intended objectives.
  - Feedback from internal audit team on ease of use and challenges.
  - Opportunities for upgrades or replacement of outdated systems.
- A centralized tool registry, version control, and usage logs can enhance governance.

# Exposure Draft

## Standard on Internal Audit (SIA) 250

### Internal Audit Documentation

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 250, Internal Audit Documentation.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/uMMuG9aBu2dN1vsd8>

Last date for sending comments is October 23, 2025.



# Standard on Internal Audit (SIA) 250

## Internal Audit Documentation\*\*

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**This Standard on Internal Audit (SIA) 250, “Internal Audit Documentation,” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit” issued by the Institute.**

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**\*\* Note:** This Standard on Internal Audit (SIA) supersedes Standard on Internal Audit (SIA) 330, Documentation, issued in November 2018.

## **1. Introduction**

- 1.1 “Internal Audit Documentation” refers to the written record (electronic or otherwise) of the internal audit procedures performed, the relevant audit evidence obtained, and conclusions reached by the Internal Auditor on the basis of such procedures and evidence (Terms such as “work papers” or “working papers” are also used to refer documentation).
- 1.2 The Internal Auditor is expected to record and collate all the evidence obtained in the form of complete and sufficient audit documentation. This Standard explains certain key requirements in the process of collection, preparation, retention and subsequent review of internal audit documentation.
- 1.3 Scope: This Standard applies to all internal audit assignments.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objectives of preparing complete and sufficient audit documentation are to:
  - (a) validate the audit findings and support the basis on which audit observations are made and conclusions are reached from those findings.
  - (b) aid in the supervision and review of the internal audit work, and
  - (c) establish that work performed is in conformance with the applicable pronouncements of the Institute of Chartered Accountants of India.
- 3.2 The overall objective of preparing audit documentation is to enable the internal auditor to demonstrate the basis for forming an opinion on the results of the audit assignment. The documentation should be sufficiently comprehensive and self-explanatory, eliminating the need for further clarifications or supplementary information to reach the same conclusions.

- 3.3 To strengthen the credibility of audit conclusions during regulatory inspections, peer reviews, or external evaluations, the internal auditor should maintain comprehensive, systematically organized, and time-stamped documentation that clearly evidences the procedures performed and the basis for key conclusions drawn.

## **4. Requirements**

### **4.1 Nature of Documentation (Refer Para. A1)**

The internal auditor shall document the nature, timing and extent of completion of all internal audit activities and testing procedures in the form of reproducible documents.

### **4.2 Content and Sufficiency of Documentation (Refer Para. A2)**

Documentation shall be complete, relevant and sufficient to support the analysis conducted on the audit evidence, the identification of findings, justify the formulation of audit observations and facilitate the drafting of the internal audit reports based on those findings. Documentation shall clearly state the purpose of the procedure, the source of evidence, the outcome of the audit work. It shall also identify the audit activity, the date of performance, the reviewer and the date of review.

The documentation shall clearly reflect the version history, date of completion, and any post-report updates or clarifications. All such revisions shall be justified, time-stamped, and formally approved. All significant oral discussions or explanations that influenced audit conclusions shall be contemporaneously documented and, where appropriate, acknowledged by the auditee.

### **4.3 Documentation Process (Refer Para. A3)**

The Internal Audit function shall maintain a documented process that outlines the procedures for the preparation, review, storage and final disposal of audit documentation to ensure quality and conformance to Standards on Internal Audit.

#### **4.4 Timely Completion and Retention of Documentation File (Refer Para. A4)**

The internal audit work paper file shall be completed within sixty days of the release of the final report.

The internal auditor shall not make changes in the documentation file after its final compilation.

In circumstances where the internal auditor finds it necessary to modify the existing documentation or add new document after the assembly of final audit file has been completed, the internal auditor shall, regardless of the modifications, or additions document:

- (a) The specific reasons for making them and
- (b) when and by whom they were made and reviewed.

The documentation file must be retained by the internal auditor for at least seven years from the date of issuance of internal audit report.

#### **4.5 Ownership of Audit Documentation (Refer Para. A5)**

The ownership and custody of the internal audit work papers shall remain with the Internal Auditor. In cases, where reliance is placed on work performed by an expert, the Internal Auditor shall assume ownership of the relevant working papers from the third party. However, where reliance is placed only on the report of the third party who insists on retaining ownership to their work papers, adequate provisions shall be made to have access to the work papers, when required (e.g., for quality review purposes).

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### **Application and Other Explanatory Material**

- A1. Nature of Documentation (Refer Para. 4.1):** Documentation includes written records (electronic or otherwise) of various audit activities and procedures conducted, including evidence gathered, information collected, notes taken and meetings held. It includes, for example, internal memoranda, letters of confirmation and representation, checklists, external reports and correspondence (including e-mail)

concerning significant matters. Abstracts or copies of the entity's records, significant and specific contracts and agreements, may be included as part of internal audit documentation, when appropriate.

These documents need not necessarily be printed on paper and soft/ electronic/ digital version may be used and filed. However, where alternate method of recording and storage is used, it must be reproducible in print form if required, similar in nature to the original documents.

Compliance with relevant data protection regulations such as the Digital Personal Data Protection (DPDP) Act, 2023 is essential, ensuring personal data is processed lawfully, stored securely, and retained only as long as necessary. Digital working papers—ranging from memos and annotated documents to voice notes and structured digital logs—offer flexibility and real-time collaboration. However, such documentation must be properly version-controlled, securely stored, and backed up to maintain confidentiality, reliability, and regulatory compliance.

- A2. Content and Sufficiency of Documentation (Refer Para. 4.2):** The content and extent of documentation is a matter of professional judgment since it is neither practical nor necessary to document every matter or observation. However, all significant matters which require exercise of judgment, together with the Internal Auditor's conclusion thereon, shall be included in the internal audit documentation.

Documents shall be:

- (a) sufficient and complete to avoid the need for follow-up inquiry.
- (b) useful and relevant to the objectives of the audit procedure.
- (c) undergo at least one level of review or approval.
- (d) dependable and reliable such that another experienced auditor with no prior connection to the engagement can clearly understand:
  - The nature, timing, and extent of audit procedures performed,
  - The evidence obtained

- The basis for the auditor's conclusions and judgments and
- (e) the documentation should capture deviations from the planned audit procedures along with justifications for such deviations. Such deviation should be done only after consultation with those who approved the original plan.
  - (f) where checklists or templates are utilized for documenting audit procedures, they shall be appropriately tailored to reflect the nature and extent of the actual work performed. The use of standardized formats without necessary customization shall be avoided to ensure documentation remains relevant and representative of the engagement conducted.
  - (g) the adoption of structured documentation formats—such as standardized workpaper indices and digital tagging encouraged to enhance the traceability of audit evidence and to support efficient future reviews or assessments.

**A3. Documentation Process (Refer Para. 4.3):** Internal audit documentation shall be collated and arranged systematically in files as audit work papers and retained in accordance with a documented process to support the performance of the internal audits as per the process. It shall include various quality checks, e.g., completeness check (list of contents of all work papers), relevance check (cross reference to findings and reports), conformance with Standards of Internal Audit. (reference to relevant SIAs)

All audit work papers shall be retained in accordance with the legal and company's retention policy and only be shared with the authorised personnel. Internal audit documentation systems should be designed to enforce access controls based on the audit team's hierarchy and the sensitivity of information. Where technically feasible, the system shall maintain audit trails recording user access and modifications to documentation. Advice of legal counsel and/or approval of senior management or engaging authority (for outsourced engagements) shall be obtained (if required) prior to releasing any audit documentation to external parties.

**A4. Timely Completion and Retention of Documentation (Refer Para. 4.4):** QSIA 1 requires internal audit to establish policies and

procedures for the timely completion of the assembly of internal audit files.

Assembly of the final internal audit documentation file should be completed within 60 days of the internal auditor's report.

The completion of the assembly of the final internal audit file after the date of the internal auditor's report is an administrative process that does not involve the performance of new internal audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature.

Examples of such changes include:

- ◆ Deleting or discarding superseded documentation.
- ◆ Sorting, collating and cross-referencing working papers.
- ◆ Signing off on completion checklists relating to the file assembly process.
- ◆ Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report.

QSIA 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements cannot be shorter than seven years from the date of the auditor's report.

- A5. Ownership of Audit Documentation (Refer Para. 4.5):** Audit work papers can only shared with those who are authorised to access them. Internal audit documentation systems should be designed to enforce access controls based on the audit team's hierarchy and the sensitivity of information. Where technically feasible, the system shall maintain audit trails recording user access and modifications to documentation. Advice of legal counsel and/or approval of senior management or engaging authority (for outsourced engagements) shall be obtained (if required) prior to releasing any audit documentation to external parties.

**A6. Confirmation of Compliance:** To confirm compliance of audit procedures with this SIA, a list of the documents required is, as follows:

- (a) Written documentation policy and process on audit work papers, as part of the Internal Audit Manual.
- (b) Work paper files for each audit assignment, reviewed and approved with cross reference to the Internal Audit Program, where appropriate.



# Exposure Draft

## Standard on Internal Audit (SIA) 260

### Review and Supervision of Audit Assignments

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 260, Review and Supervision of Audit Assignments.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/XFnu4KSKfpCnHhzPA>

Last date for sending comments is October 23, 2025.

# Standard on Internal Audit (SIA) 260

## Review and Supervision of Audit Assignments\*\*

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**This Standard on Internal Audit (SIA) 260, “Review and Supervision of Audit Assignments” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

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\*\* Note: This Standard on Internal Audit (SIA) supersedes Standards on Internal Audit (SIA) 350, Review and Supervision of Audit Assignment, originally issued by the Board in January 2020 which was recommendatory in nature.

## **1. Introduction**

- 1.1 This Standard deals with the responsibility of the Internal Auditor to conduct the review and supervision of the internal audit assignment to ensure its effective performance and completion.
- 1.2 In this Standard, the term “Review” refers to the examination of audit plan and procedures, audit evidence collected, conclusions drawn therefrom and audit workpapers.

The term “Supervision” refers to the oversight of the audit activities and guidance to the team for the achievement of audit objectives.

Review is an exercise generally undertaken post completion of the audit, whereas supervision is an on-going and concurrent exercise.

The extent of supervision varies based on the complexity and risk of the assignment and the experience level of the team.

- 1.3 Scope: This Standard applies to all internal audit assignments, conducted either by an in-house auditor and/ or an out-sourced auditor and also to any advisory assignments undertaken by the Internal Auditor.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objectives of review and supervision of audit assignments are to:
  - (a) Ensure audit coverage is as per the agreed scope with management (in concurrence with SIA 120, Terms of Internal Audit Engagement).
  - (b) Assess planned audit procedures, techniques, risk assessment and resource allocated and update the same.
  - (c) Evaluate the audit procedures undertaken, sufficiency and appropriateness of the evidence collected, proper documentation of audit workpaper and conclusions drawn.
  - (d) Review the audit observations and draft the internal audit report.

- (e) Ensure that work performed is in conformance with applicable pronouncements of the Institute of Chartered Accountants of India (ICAI).
- (f) Resolve any conflicts in a timely manner with respect to scope, access to information, or audit observations through escalation protocols wherever necessary.

## **4. Requirements**

### **4.1 Nature of Review and Supervision (Refer Para. A1)**

The Internal Auditor (or the Engagement Partner) has the overall responsibility of review and supervision of the internal audit assignment covering all the audit procedures.

### **4.2 Reviewing and Supervising the Audit Procedures (Refer Para. A2)**

The periodicity and extent of the review and supervision shall be planned and documented at the audit planning stage considering the overall audit objectives, scope, and budget as per the professional judgement of the Internal Auditor or Engagement Partner.

### **4.3 Review and Supervision of Audit Workpaper (Refer Para. A3)**

A review of the audit workpapers shall be carried out to ensure that these are sufficient and appropriate to allow the reviewer/ supervisor to arrive at the same conclusions and formulate similar observations, as included in the draft internal audit report.

The audit workpapers shall record the details of the supervision and review conducted, including updated audit procedures, if any, undertaken by the team as suggested by supervisor and reviewer.

### **4.4 Documentation (Refer Para. A4)**

The Internal Auditor shall maintain a written process explaining the manner of review and supervision to be performed to ensure conformance to the quality as per Standards on Internal Audit.

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## **Application and Other Explanatory Material**

- A1. Nature of Review and Supervision (Refer Para. 4.1):** The extent of review and supervision is based on professional judgment and varies for each assignment depending upon various factors such as the nature, objectives and scope.

The review and supervision can include assessment of all audit activities such as, audit planning, sampling, audit testing procedures, collecting evidence, sufficiency and adequacy of documentation, using the work of an expert and concluding audit observations in accordance with the Standards on Internal Audit issued by the ICAI.

Audit Work papers prepared by the internal audit team shall be reviewed at least one level up to ensure the completion of audit procedures in accordance with the audit plan and objectives.

The review and supervision duties may be delegated by the Internal Auditor (or the Engagement Partner) to a subordinate who is a person with requisite experience and proficiency in conducting internal audits or preferably a Chartered Accountant. However, as indicated in Para 4.1 above, the overall responsibility remains with the Internal Auditor (or the Engagement Partner). Engagements involving high-risk processes or key organizational risks shall have enhanced supervision and more frequent interim reviews.

- A2. Reviewing and Supervising the Audit Procedures (Refer Para. 4.2):** The reviewer and supervisor ensure that the audit work is executed in accordance with the Internal Audit Programme and Audit Procedures are completed effectively and timely to achieve overall objectives of the audit assignment.

The supervisor shall ensure risk assessments are continuously updated based on the emerging audit evidence or operational changes during the audit engagement and if additional or alternate audit procedures is required to be performed, then it may be duly documented and communicated to the appropriate authority and team.

An indicative list of review and supervision activities is set out as Annexure 1.

- A3. Review and Supervision of Audit Workpaper (Refer Para. 4.3):** The extent of the review of audit workpaper is based on the professional judgement of the reviewer/ Supervisor. It may include checking the

name of preparer, date of preparation, relevance, sufficiency and reliability of audit evidence, conclusions drawn and audit observations. The audit workpaper shall be maintained as per requirements of the Standard on Internal Audit 250, Internal Audit Documentation.

**A4 Documentation (Refer Para. 4.4):** To conform with requirements of this Standard, following documents required to be maintained:

- A written process explaining the manner of review and supervision to be performed to ensure conformance to the quality as per Standards on Internal Audit.
- Details of digital log or signature and date of review undertaken on the audit workpapers, follow-up points raised, and minutes of any review meetings held with the audit team.

## Annexure 1

### Indicative List of Review and Supervision Activities

Activity Phase	Review	Supervision
<ul style="list-style-type: none"> <li>Planning</li> </ul>	<ul style="list-style-type: none"> <li>Audit Objectives as per the Engagement Letter (SIA 120)</li> <li>Risk Assessment (SIA 150)</li> <li>Audit Plan (SIA 220)</li> <li>Audit Program</li> <li>Work allocation</li> </ul>	<ul style="list-style-type: none"> <li>Audit Objectives (SIA 120)</li> <li>Audit Plan (SIA 220)</li> <li>Risk Assessment (SIA 150)</li> <li>Priority and Sequence of planned audit procedures</li> </ul>
<ul style="list-style-type: none"> <li>Fieldwork</li> </ul>	<ul style="list-style-type: none"> <li>Sampling procedures and meeting of sampling objectives</li> <li>Documentation evidencing performance of audit procedures with the identification of the performer (SIA 250)</li> <li>Consideration of expert's work in the audit (SIA 270)</li> <li>Sufficiency of quality and extent of samples and audit procedures</li> <li>Audit Observations are supported by sufficient and appropriate audit evidence in reproducible form</li> </ul>	<ul style="list-style-type: none"> <li>Documentation (SIA 250)</li> <li>Real-time concurrent guidance to the audit staff for complex and technical issues.</li> <li>Review of Audit observations of team</li> <li>Reviewer's feedback on work of the audit team</li> </ul>

	<ul style="list-style-type: none"> <li>• Complex and technical audit issues</li> </ul>	
<ul style="list-style-type: none"> <li>• Reporting/ Follow up</li> </ul>	<ul style="list-style-type: none"> <li>• Complex and technical audit issues</li> <li>• Drafts of audit observations with root cause analysis, management comments, action plan and timelines</li> <li>• Audit report drafts and final audit report (SIA 310)</li> <li>• Follow up plan, procedures, timeline with concurrence of the management</li> </ul>	<ul style="list-style-type: none"> <li>• Complex and technical audit issues requiring supervisor's guidance</li> <li>• Rationale for excluding draft observations from audit reports</li> <li>• Final Audit report with follow-up plan (SIA 310)</li> </ul>



# Exposure Draft

## Standard on Internal Audit (SIA) 270

### Experts and Third-Party Engagement

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 270, Experts and Third-Party Engagement.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/s4mhHSo5iPuzFHqF9>

Last date for sending comments is October 23, 2025.

# Standard on Internal Audit (SIA) 270

## Experts and Third-Party Engagement

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**This Standard on Internal Audit (SIA) 270, “Experts and Third-Party Engagement”, issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit” issued by the Institute.**

## **1. Introduction**

- 1.1 An Expert is a person or an entity (such as an association of persons or a firm or a company) which possesses certain special skills or unique knowledge, along with some years of experience and expertise in a particular area, field or discipline.
- 1.2 In conducting internal audit assignments, the Chief of Internal Audit may seek the assistance and place reliance on the work of an Expert. This may be in the form of specific audit procedures covering a complex area or field (such as, Information Technology, Civil/ Electrical/ Mechanical Engineering etc., Banking, Oil and Gas Industry etc.) or a unique and specialised discipline (such as Actuarial Services, Forensic Audit, Taxation, Treasury operations, financial products, Risk Modelling, Intellectual Property or Business Valuations etc.).
- 1.3 An Expert is generally appointed to help complete part of an internal audit assignment in situations where the required skills are not available within the internal audit team or function. The Expert can be an employee of the company, much like an Internal Auditor provided all criteria concerning his independence and objectivity with respect the internal audit assignment is fulfilled.
- 1.4 Scope: This Standard applies to all internal audit assignments where part of the internal audit work is completed by an Expert or third-party and relied upon by the Internal Auditor to provide an independent assurance.

However, an external service provider with expertise in accounting and auditing and engaged by the organisation to provide regular internal audit services is not treated as an Expert for this Standard. For such appointments, the Internal Auditor shall refer to another SIA 120 “Terms of Internal Audit Engagement” to fulfil the requirements of engaging External Service Providers, such as ensuring an Engagement Letter to cover the terms and conditions of appointment.

This Standard may also be read in conjunction with broader guidance when internal audit activities are outsourced to third-party service providers. In such cases, while the third party may not qualify as an Expert under this Standard, similar principles apply with regard to

ensuring professional competence, objectivity, independence, and oversight. The Internal Auditor must ensure that outsourced service providers operate under formal engagement terms, follow a consistent internal audit methodology, and are supervised adequately. The Internal Auditor retains responsibility for the conclusions and opinions expressed in any internal audit report that incorporates work performed by such service providers.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objectives of using the work of an Expert or third-party engagement are to ensure that:
- (a) Technical assistance and support from competent experts are obtained where the internal audit team does not possess the necessary knowledge and expertise.
  - (b) Internal audit procedures conducted in complex and specialised areas meet expected quality standards.
  - (c) Outcome of the internal audit work is credible and reliable.
  - (d) Work performed is in conformance with the applicable pronouncements of the ICAI.
  - (e) Where internal audit activities are outsourced to experts or third-party, the engagement is conducted with due regard to independence, professional competence, and adequate supervision, such that the Internal Auditor can rely on the outsourced work and integrate it meaningfully within the internal audit function.

## **4. Requirements**

- 4.1 The Internal Auditor shall make an independent determination of using the work of an Expert or third-party engagement based on:
- (a) The technicality and complexity of the subject matter of internal audit.

- (b) The risk assessment, materiality and importance of the subject matter, and
- (c) A comparison of the expertise available within the internal audit team to conduct a quality audit with the expertise required to execute the technical procedures.

**4.2 Independence and Objectivity of the Expert or Third- Party (Refer Para. A1)**

The Internal Auditor shall have the authority to select, appoint and engage the Expert or third-party. Where this authority rests with management, then the Internal Auditor shall conduct procedures to validate the independence and objectivity of the Expert or third-party and share any concerns highlighted with management and those charged with governance.

**4.3 Qualification and Credentials of the Expert or Third- Party (Refer Para. A2)**

The Internal Auditor shall conduct an independent evaluation of the qualifications and credentials of the expert or third-party.

**4.4 Defining the Scope, Approach and Work of the Expert or Third-Party (Refer Para. A3)**

Where the findings of the Expert or third party will form part of the assurance report to be issued by the Internal Auditor, the Internal Auditor shall participate in defining the scope, approach and work to be conducted by the Expert or third-party including evaluation of work done by the Expert or third-party (Refer Para. A3 and para A4). Otherwise, the Internal Auditor shall not incorporate the finding of the Expert or third-party in his Internal Audit report. (Refer Para. 4.6)

**4.5 Evaluating the Work of an Expert or Third- Party (Refer Para. A4)**

The Internal Auditor shall perform an evaluation of the work completed by the Expert or third-party to ensure that the work completed constitutes appropriate and reliable evidence to support the overall conclusions to be reported.

**4.6 The Internal Auditor shall retain ultimate responsibility for internal audit conclusions and opinions which are incorporated in his internal audit report, unless specifically mandated otherwise by the Assurance User**

(the recipient of the Internal Audit Report). Hence, the Internal Auditor shall not refer to the work of an Expert or third-party in his Internal Audit Report, unless required by the Assurance User.

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## **Application and Other Explanatory Material**

- A1. Independence and Objectivity of the Expert or Third-Party (Refer Para. 4.2):** The Internal Auditor should conduct procedures to assess the ability of the Expert or Third-party to function in an independent and objective manner such as the following:
- (a) **The Appointing and Supervisory Authority:** Where the authority to appoint and supervise the Expert or third-party rests with someone other than the Internal Auditor, the outcome of the work of expert or third-party may be influenced by such authority.
  - (b) **Employee of the Company or External Service provider:** An external professional would not be influenced by company management in comparison to an Expert or third-party who is an employee of the company and reporting to management.
  - (c) **Relationship of Expert:** Where there is any relationship of the Expert or third-party with Company Management, especially with those who have some role in the internal audit assignment, the objectivity of the Expert or third-party may get compromised.
  - (d) **Personal Interests:** Where the Expert or third-party has any personal, financial or organisational interests (such as significant portion of his income is derived from the company), it may prevent the rendering of an unbiased and impartial report.
- A2. Qualifications and Credentials of the Expert or third-party (Refer Para. 4.3):** The Internal Auditor shall independently validate the qualification and credentials of the Expert or third-party, with procedures, such as the following:
- (a) Confirmation of educational and professional qualifications and membership of professional bodies.

- (b) Background and reference checks of the experience and/or reputation of the Expert or third-party.
- (c) Details of instances and nature of similar past assignments undertaken; and
- (d) Self-Certification by the Expert or third-party regarding his qualifications, expertise, any conflict of interest or any pending disciplinary actions.

**A3. Defining the Scope, Approach and Work of the Expert or third-party (Refer Para. 4.4):** Where the Internal Auditor plans to incorporate the findings of the work of the Expert or third-party as part of his Internal Audit Report, the Internal Auditor shall participate in defining the Plan and Procedures of the Expert or third-party, as follows (indicative list):

- (a) Define the audit objective of the technical procedures planned.
- (b) Identify the Subject matter to be reviewed and evaluated, especially what is included or excluded.
- (c) Define any specific requirements or limitations of the work to be undertaken.
- (d) The information required by the Expert or third-party and the source of that information, the nature and reliability of the original data to be used.
- (e) Define any assumptions which need to be incorporated as part of the exercise.
- (f) Extent of access to required systems, locations, records and company personnel, and
- (g) Clarify the confidentiality of information requirements and ownership of workpapers.

**A4. Evaluating the Work of an Expert or third-party (Refer Para. 4.5):** During and after completion of the work by the Expert or third-party, the Internal Auditor shall conduct an evaluation of the outcome of the findings of the Expert or third-party to determine the quality of the work performed and to validate the reliability of the findings as follows:

- (a) A detailed review of the report and findings.

- (b) Extent and thoroughness of the audit procedures completed.
- (c) Any scope limitations or other hurdles faced in completing the assignment, such as missing information or access limitations.
- (d) If appropriate, a review of certain workpapers and evidence collected to understand the basis of significant observations, and
- (e) The harmony and congruence of the findings of experts or third-party with the rest of the Internal Audit report.

In exceptional cases, where the findings of the Expert or third-party are not consistent with other aspects of the entity, the Internal Auditor should attempt to resolve the inconsistency through discussions with the Auditee and the Expert or third-party. In extreme situations, conducting additional procedures or engaging another Expert or third-party may be required to resolve the inconsistency.

**A5. Documentation:** To confirm compliance of audit procedures with this SIA, a list of the documents required is as follows:

- (a) Details of procedures conducted to validate the requirements of an Expert or third-party. (Refer Para. 3.1)
- (b) Details of procedures conducted to validate the Independence and Objectivity of the Expert or third-party. (Refer Para. A1)
- (c) Details of procedures conducted to verify the Qualifications and Credentials of the Expert or third-party. (Refer Para. A2)
- (d) Details of procedures conducted to define the Scope, approach and work plan of the Expert or third-party. (Refer Para. A3)
- (e) A summary of the review completed to evaluate the quality and reliability of the work completed. (Refer Para. A4)

This documentation should be retained as part of the internal audit working papers and shall be made available for quality review, peer review, or oversight by those charged with governance, as applicable.



# Exposure Draft

## Standard on Internal Audit (SIA) 280 Fraud and Irregularities

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 280, Fraud and Irregularities .

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/LdMwAYCzk8fPdzsFA>

Last date for sending comments is October 23, 2025.

# Standard on Internal Audit (SIA) 280 Fraud and Irregularities\*\*

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**This Standard on Internal Audit (SIA) 280, “Fraud and Irregularities” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

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\*\* Note: This Standard on Internal Audit (SIA) supersedes SIA 11, Consideration of Fraud in an Internal Audit, originally, issued by the Board in January 2009 which was recommendatory in nature.

## 1. Introduction

- 1.1 Fraud and irregularities can significantly impact an organization's financial stability, reputation, and operational effectiveness. Internal auditors play a key role in assessing fraud risks and evaluating the adequacy of controls designed to prevent and detect fraud. However, the primary responsibility for fraud prevention and detection rests with management and those charged with governance.
- 1.2 This Standard provides guidance on the role of internal auditor in identifying, assessing, and reporting fraud and irregularities to ensure that such risks are effectively managed and mitigated.
- 1.3 This standard should be read with
  1. Applicable legal and regulatory requirements and guidance.
  2. ICAI's Code of Ethics, ensuring that internal auditors uphold integrity, objectivity, and confidentiality.
  3. Forensic Accounting and Investigation Standards (FAIS) issued by ICAI which provides comprehensive overview of the domains of Forensic Accounting and Investigations.
- 1.4 Scope: This Standard applies to all internal audit engagements and requires internal auditors to evaluate fraud risks, assess internal controls, and report fraud-related observations in compliance with professional standards.

When an internal auditor identifies a red flag indicative of potential fraud, non-compliance, or control weaknesses, the internal auditor is required to promptly report the matter to the appropriate level of management and, where applicable, to those charged with governance, in accordance with the internal audit charter and professional standards.

Whether further investigation is to be undertaken by the internal audit function depends on the nature and materiality of the red flag, as well as the scope of authority delegated to the internal audit function by the audit committee or the board. If the red flag warrants a detailed inquiry and the internal auditor is mandated to proceed, the investigation must be conducted in accordance with the Forensic Accounting and

Investigation Standards (FAIS) issued by the Institute of Chartered Accountants of India (ICAI).

## **2. Effective Date**

- 2.1 This Standard shall be applicable for internal audits commencing on or after a date to be notified by the Council of ICAI.

## **3. Objectives**

- 3.1 The objectives of this Standard are to ensure that internal auditors:
- Understand the nature, characteristics and implications of fraud and irregularities.
  - Identify fraud risk indicators and assess the effectiveness of fraud prevention and detection controls.
  - Assess entity's systems and processes through walkthroughs to identify control gaps, inefficiencies and potential fraud risks.
  - Apply appropriate audit procedures to identify and detect fraud-related red flags-patterns of irregularities.
  - Evaluate the robustness of the entity's Anti-fraud Policy and make recommendations, therein.
  - Understand the specific techniques and schemes used to commit fraud.
  - Communicate and report fraud-related findings to the appropriate levels of management and the Audit Committee.
  - Determine fraud Response plan and whether further corrective action or investigation is necessary.

## **4. Requirements**

### **4.1 Understanding Fraud and Irregularities (Refer Para. A1)**

- Fraud involves intentional acts of deception, concealment or violation of trust to gain an unfair or unlawful advantage. It includes, but is not limited to, financial misstatements, asset misappropriation, insider trading, supply chain irregularities, fund diversion, corruption and cyber fraud.

- Irregularities refer to unintentional errors or non-compliance with policies and procedures that may indicate weak internal controls.
- Internal auditor shall identify the reason for fraud or concealment of facts i.e. Pressure or Opportunity or Rationalization or capability.
- Internal auditors shall develop an understanding of fraud risks relevant to the organization's industry, operations, financial reporting processes.

#### **4.2 Fraud Risk Assessment (Refer Para. A2)**

- Internal auditors shall evaluate the organization's fraud risk management framework, including fraud detection and prevention controls.
- Internal auditors shall evaluate fraud risks across business cycles (e.g., Procure-to-Pay, Order-to-Cash) and functional areas (e.g., procurement, HR, IT, finance). Use of a fraud risk register, regular fraud risk brainstorming workshops, and external intelligence sources (e.g., regulatory watchlists, whistleblower complaints) is encouraged.
- Fraud risk assessments shall, inter alia, consider the following factors:
  - Organizational structure, control and governance environment.
  - Past instances of fraud and identified control weaknesses.
  - Regulatory and legal compliance requirements.
  - Fraud vulnerability in key financial and operational processes. (including data and technology)
  - Analysis of whistleblower complaints.
  - Evaluation of issues raised in Ethics hotline/ Committee.
  - Adverse reporting by auditors, fraud-reporting under applicable legal framework.

- Factor in significant findings from statutory, internal, and forensic audits—especially instances flagged under SA 240 (The Auditor's Responsibilities Relating to Fraud in an audit of financial statement). Also consider reports mandated under Section 143(12) of the Indian Companies Act.
- Assessment and testing of prevention and detection controls.
- Internal auditors shall conduct fraud risk brainstorming sessions to identify potential fraud schemes and control gaps at regular intervals. They shall utilize their skills in data analysis to identify trends and patterns that suggest fraudulent activity.

#### 4.3 Audit Procedures for Detecting Fraud (Refer Para. A3)

- Internal auditors shall incorporate fraud detection techniques into their audit approach, including:
  - **Analytical procedures:** Identifying unusual financial trends, duplicate or ghost accounts and anomalies and data analytics throughout the audit process.
  - **Data mining and Data analysis:** Detecting patterns indicative of fraudulent activities through review and continuous monitoring of reports from business applications, digital forensics capabilities, and use of AI (predictive modelling), machine learning, digital capabilities and ERPs (both financial and non-financial), , external documents like invoices, agreements, scanning of employee emails (where applicable) etc.
  - **Interviews and inquiries:** Engaging with employees, management, whistleblowers, and using social engineering techniques to uncover potential fraud or behavioral red flag analysis.
  - **Review of high-risk transactions:** Examining journal entries, vendor payments, and related-party transactions for inconsistencies.

- **Review of Delegation of Authority:** Identifying Segregation of Duties conflict e.g. Purchase department is responsible for Receipt of Material / GRN and entry in ERP.
- **Review of Audit Trail:** Identifying anomalies which may lead to some corruption or misstatements in financial data.
- Provide recommendations for mitigating fraud risks.
- If fraud is suspected, internal auditors shall gather sufficient and appropriate evidence before forming conclusions.
- Internal Auditor shall also:
  - Assess the effectiveness of whistleblower mechanisms.
  - Review investigation processes for whistleblower reports and significant red flags.

#### **4.4 Reporting Fraud and Irregularities (Refer Para. A4)**

- Internal auditors shall promptly highlight suspected fraud cases to appropriate senior management and wherever needed, the Audit Committee/ Board.
- Wherever there is a legal requirement of reporting of fraud to any appropriate regulatory or other authority, same should be complied with.
- Fraud-related reports shall be factual, objective, quantified and supported by evidence.
- If fraud is confirmed, internal auditors may assist in evaluating corrective measures and recommending improvements to fraud risk controls.

#### **4.5 Professional Skepticism and Ethical Considerations (Refer Para. A5)**

- Internal auditors shall maintain professional skepticism and be alert to potential fraud indicators.
- They shall adhere to ICAI's *Code of Ethics* and ensure confidentiality when handling fraud-related matters.

- If management does not take appropriate action on reported fraud risks, internal auditors shall escalate concerns to the Board or Audit Committee.

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## **Application and Other Explanatory Material**

### **A1. Understanding Fraud and Irregularities (Refer Para. 4.1):**

- Fraud may be internal (employee fraud) or external (vendor, customer, or cyber fraud). Internal auditors must stay updated on emerging fraud risks relevant to their industry.
- Not all irregularities are fraudulent; however, recurring control violations may indicate potential fraud risks.

### **A2. Fraud Risk Assessment (Refer Para. 4.2):**

- A robust fraud risk assessment helps to identify vulnerabilities and strengthen fraud prevention mechanisms.
- High-risk areas include, inter alia, procurement, materials management and inventory, payroll, revenue recognition and IT systems.
- Brainstorming sessions can assist internal auditors in anticipating fraud schemes and scenarios within different business processes.

### **A3. Audit Procedures for Detecting Fraud (Refer Para. 4.3):**

- Data analytics, predictive modelling and continuous monitoring enhance fraud detection capabilities.
- Employee interviews must be conducted professionally with due care to protect identity, ensure confidentiality and objectively to encourage truthful disclosures.

### **A4. Reporting Fraud and Irregularities (Refer Para. 4.4):**

- Fraud reporting must follow an objective and structured approach, ensuring timeliness, confidentiality and regulatory compliance.



- If fraud is confirmed, a comprehensive report must be prepared, detailing evidence, impact, and recommended corrective actions. This report must be brought to the notice of the senior management immediately and it must be presented to the Audit Committee.
- Internal auditors shall track management's response to fraud findings to ensure timely implementation of corrective measures.
- Internal auditors shall involve all levels of management and process owners of the entity.

**A5. Professional Skepticism and Ethical Considerations (Refer Para. 4.5):**

- Internal auditors must maintain independence and impartiality while investigating fraud cases or suspicion red flag.
- If management disregards fraud risks, auditors shall escalate concerns to appropriate higher authorities.

# **Exposure Draft**

## **Standard on Internal Audit (SIA) 290**

### **Communication with Management and Those Charged with Governance**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 290, Communication with Management and Those Charged with Governance.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/wC6HtTqveBEYeAdTA>

Last date for sending comments is October 23, 2025.



# **Standard on Internal Audit (SIA) 290**

## **Communication with Management and Those Charged with Governance\*\***

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**This Standard on Internal Audit (SIA) 290, “Communication with Management and Those Charged with Governance” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

1

\*\* Note: This Standard on Internal Audit (SIA) 290, “Communication with Management and Those Charged with Governance” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.

## **1. Introduction**

- 1.1 The Internal Auditor is required to have an effective two-way communication with the management and Those Charged with Governance (TCWG), both while managing the internal audit function, and while conducting an internal audit assignment. A continuous dialogue with management and TCWG, at various stages of the internal audit process, is essential to the achievement of internal audit objectives.
- 1.2 “Management” refers to persons(s) with executive responsibility to run the company’s operations.
- 1.3 The term “Those Charged with Governance (TCWG)” refers to either an individual, or a body of individuals, or a separate legal entity with the responsibility for overseeing the strategic direction and accountability of the organization.
- 1.4 “Communication” refers to any information exchange between the Internal Auditor and management, either through written or verbal means.
- 1.5 Scope: This standard applies to all the Internal Audit activities. The communication required for the Internal Auditor to report the findings in the formal presentation or written report, which is subject matter of SIA 310, Reporting and Conformance with Standards on Internal Audit.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objective of this Standard is to:
  - Ensure that there exists a continuous dialogue and free flow of information between the internal auditor and management or those charged with governance.
  - Ensure clear and mutual agreement between the Internal Auditor and the management or those charged with governance

about the scope, approach, objectives and timing of internal audit.

- Establish certain essential matters which shall be communicated to management or those charged with governance.
- Establish a process to inform, persuade and act on matters important to the conduct of an internal audit.
- Resolve any conflicts in a timely manner with respect to scope, access to information, or audit observations through escalation protocols wherever necessary.
- Establishing a structured feedback process for management or those charged with governance to improve audit communication effectiveness and audit quality as a process of continuous improvement.
- Ensure that this communication is independent, definite, effective and timely.

## **4. Requirements**

### **4.1 Communication Process and Protocol (Refer Para. A1)**

The Internal Auditor shall establish and agree a written communication process and protocol with management or those charge with governance. All communication shall be clear, appropriate, professionally structured, objective and independent. The protocol may additionally include the mechanism of risk-based communication.

### **4.2 Modes and Channels of Communication (Refer Para. A2)**

The process documentation shall outline the various modes and channels of communication (Refer Para. A2), the periodicity and timelines for communication (Refer Para. A3), and also cover certain essential information required to be communicated (Refer Para. A5). Where essential matters (Refer Para. A7) are concerned, any verbal communication shall subsequently be confirmed in writing and maintained as audit documentation.

#### **4.3 Feedback Mechanisms (Refer Para. A4)**

The Internal Auditor (or the Engagement Partner, in case of external service provider) shall play an active role in resolving conflicts through timely communication with management or those charged with governance and securing feedback.

#### **4.4 Essential Information for Communication (Refer Para. A5)**

Certain information considered important for communication is mandated by other Standards on Internal Audit, which shall be included in the list of essential matters for communication. In addition, certain information for communication may be mandated by laws and regulations which shall also be adhered to and included in the list of essential matters for communication.

#### **4.5 Nature of Communication (Refer Para. A6)**

A formal communication process pre-agreed with Management or TCWG shall be put in place to facilitate effective and timely communication. The nature of communication is left to the professional judgements of the Internal Auditor and management or TCWG.

\*\*\*\*\*

### **Application and other Explanatory Material**

**A1. Communication Process and Protocol (Refer Para. 4.1):** The communication process will require all the key elements (e.g. protocol, mode, channel, timelines, content, etc.) required for accurate, complete and timely communication. The nature and frequency of communication are influenced by the level of risk involved.

The communication process shall allow flexibility to provide interim updates or revisions due to changes in audit scope, emerging risks, critical findings, management, independence, objectivity etc.

A communication protocol will clarify who will communicate with whom during assignment, including escalations required for timely intervention.

The matrix shall be in accordance with the organization's governance structure to identify appropriate point of contact to include audit committee, board committee, etc. during the respective stage of internal audit i.e., initiation, conduct or finalisation.

Any significant deviations from the mutually agreed communication process/protocol shall be formally documented along with reasons.

The internal auditor shall keep himself updated regarding any changes in the Management or TCWG during the audit period if any, unless it is beyond his reasonable control to know the changes.

- A2. Modes and Channels of Communication (Refer Para. 4.2):** The manner in which information is exchanged (e.g., verbal, written, picture, video, etc.) is the mode of communication. The medium used to exchange information (e.g., through phone, hard copy (paper), email, file exchange, etc.) is the channel of communication. Where sensitive or confidential information is involved, secure channels (in compliance with data protection and confidentiality norms) shall be used. Further, encrypted modes of communication shall be promoted to enhance audit communication and traceability.
- A3. Periodicity and Timeline of Communication (Refer Para. 4.2):** The Internal Auditor, jointly in consultation with management or those charged with governance, shall determine the nature and timing of communication.
- A4. Feedback Mechanisms (Refer Para. 4.3):** There shall be structured process to capture and respond to management feedback on audit communications, execution and deliverables. This feedback shall be evaluated to enhance the internal audit process and communication protocols.
- A5. Essential Information for Communication (Refer Para. 4.4):** Various Standards on Internal Audit (SIA) provide guidance on communication to management or Those Charged with Governance (TCWG) to which is considered essential for conduct of the internal audit.

Certain matters which the Internal Auditor shall consider as essential matters for communication to management and Those Charged with Governance may include the following:



- Annual Internal Audit plan, covering the scope, timing, methodology of audit assignments to be undertaken, along with resources and budgets of the internal audit department.
- Outcome of the risk assessment exercise conducted to develop the Internal Audit Plan.
- Periodic update on significant observations, with corrective action plans, as agreed with the auditee.
- Details of the functioning of the internal audit department and a continuous update on their progress, status of performance and any resource or budget constraints.
- Status update of prior audit issues, their timely closure with an Action Taken Report, and
- Any other matters as per Standards on Internal Audit, laws and regulations and professional judgement of the Internal Auditor.

Also, in para A3 of SIA 220, “Internal Audit Planning” requires a *“Discussion with Management”* as part of the planning process. This exchange of information is considered important and essential for conduct of internal audits.

At times, the Internal Auditor may come across sensitive information/observations with governance issues (such as management override of controls, possible fraud indicators, etc.). Also, sometimes the Internal Auditor may face sensitive situations where the audit scope is being limited by circumstances such as:

- (a) Significant delays by auditee, either due to unavailability of key personnel or required information.
- (b) Unreasonably short time given to complete the audit.
- (c) Extensive effort required to obtain sufficient and appropriate audit evidence.
- (d) Restrictions or hurdles imposed on the internal auditor.
- (e) Challenging the necessity of the information asked for.
- (f) Restricting the auditor to venture in areas not covered in the scope but are required to do so for establishing certain facts found within the given scope.

In such circumstances, the internal auditor shall communicate the concerned sensitive matter(s) with TCWG as per the pre-agreed laid down process and may even choose to issue a disclaimer on the scope of audit as per his professional judgment.

**A6. Nature of Communication (Refer Para. 4.5):** The matters to be communicated, the form and manner, and periodicity of communication are best established between the Internal Auditor and Management or TCWG. In this regard, a formal communication process shall be pre-agreed with Management or TCWG, which must be documented in the Engagement Letter or during Initial Audit Meetings to decide the scope of audit, and include the following (indicative list):

- (a) form and content of communication (the “what”).
- (b) manner and protocol of communication (the “who” and “how”), and
- (c) timelines and periodicity of communication (the “when”).

**A7. Documentation (Refer Para. 4.2):** The Internal Auditor shall maintain all the documents as required by the Standard on Internal Audit (SIA) 250, Internal Audit Documentation. Oral communications with TCWG may be documented for records through written communication or as the minutes of meetings. All communications with TCWG must be well documented along with other reports issued by the auditor. To confirm compliance of audit procedures with this SIA, the list of documents required is as follows:

- (a) Written Communication process and protocol, as part of the Internal Audit Manual.
- (b) Written details of essential exchange of information, as required by other SIAs, cross reference to the Internal Audit Program, where appropriate.

# Exposure Draft

## Standard on Internal Audit (SIA) 310

### Reporting and Conformance with Standards on Internal Audit

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 310, Reporting and Conformance with Standards on Internal Audit.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/BUGu9SuwNEiyQQb19>

Last date for sending comments is October 23, 2025.



# Standard on Internal Audit (SIA) 310

## Reporting and Conformance with Standards on Internal Audit\*\*

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**This Standard on Internal Audit (SIA) 310, “Reporting and Conformance with Standards on Internal Audit” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit” issued by the Institute.**

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\*\*Note: This Standard on Internal Audit (SIA) supersedes SIA 370, Reporting Results was, originally, issued by the Board in May 2019 which was recommendatory in nature.



## 1. Introduction

- 1.1 Reporting the results of internal audit activities is a core responsibility of the internal audit function and a key driver of its value to stakeholders. Effective communication of internal audit outcomes enhances transparency, accountability, and informed decision-making. It facilitates oversight by management and those charged with governance, and supports continuous improvement in governance, risk management, and control processes.

Internal audit results are typically reported in two primary forms:

- **Assignment-Level Reporting:** Following the completion of internal audit, an Internal Audit Report is issued, detailing the objectives, scope, key observations, and management responses. These reports are shared with the auditee and other relevant stakeholders as per terms of engagement.
  - **Periodic Reporting:** At the end of a planned period, a comprehensive report covering all the internal audit activities and reporting the key results to the highest oversight body is prepared by the Chief Internal Auditor (or the Engagement Partner, in the case of external service provider). These reports may include summaries of engagement-level findings, status of corrective actions, risk themes, and internal audit performance metrics.
- 1.2 Conformance to Standards on Internal Audit (SIAs) ensures that internal audits are conducted in a structured, consistent, and professional manner, aligning with best practices, ethical principles, and regulatory expectations. Compliance with SIAs enhances the credibility, effectiveness, and reliability of the internal audit function.
- 1.3 This Standard provides guidance on how internal auditors ensure conformance with applicable SIAs and integrate them into their audit methodologies, documentation, reporting, and professional conduct.
- 1.4 Scope: This Standard covers the principles, essential elements and reporting requirements relating to the engagement-level internal audit reports. It also provides the foundation for entity-wide periodic reporting or to reports providing formal assurance opinions which are

addressed in Standard on Internal Audit (SIA) 330, "Issuing Assurance Reports" and Standard on Internal Audit (SIA) 340, "Special Purpose Reports".

## **2. Effective Date**

- 2.1 This Standard is applicable to internal audit engagements commencing on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objective of this standard is to ensure that the engagement-level internal audit reports are consistently drafted with the aim to :

- Promote understanding of risks, root causes, controls, and governance issues.
- Clearly communicate significant findings arising from audit procedures to the auditee.
- Provide actionable recommendations and devise agreed-upon action plans in concurrence with management to enable timely and effective remediation.

Provide a foundation for formal assurance, where applicable, in accordance with the Internal Audit Charter and stakeholder expectations.

- Establish a framework for ensuring conformance with Standards on Internal Audit (SIAs).

## **4. Requirements**

### **4.1 Basis of the Report (Refer Para. A1)**

The Internal Auditor shall ensure that Internal Audit Report:

- Clearly articulates the audit scope, objectives, methodology, and period covered.
- Summarizes significant observations, supported by analysis, evidence, and root cause assessments, focusing on material risks and control weaknesses. (Refer Para. A1)
- Confirms conformance with applicable professional standards, including the Standards on Internal Audit issued by ICAI. (Refer



Para. A2)

- Details agreed-upon corrective actions, responsible persons for the same, implementation timelines, as part of a constructive and collaborative resolution process of the audit findings.
- Indicates the nature and level of assurance, if applicable, in line with the engagement objectives and as pre-agreed with stakeholders.
- Reflects balanced reporting, recognizing effective controls and positive practices alongside areas for improvement.
- Documents instances where the internal auditor and management disagree on recommendations and/or action plans and notes such unresolved matters in the final report for escalation to the appropriate level of governance.

4.2 The Internal Auditor shall circulate a draft report for management review and feedback before final issuance to ensure factual accuracy and agreement on action plans. If internal auditors and management disagree about the recommendations and/or action plans and a resolution cannot be reached, the final observation must state both positions and the reasons for the disagreement.

4.3 The final report shall be issued within a reasonable timeframe of post-engagement and shall include the date of issuance.

4.4 **Report Format and Content (Refer Para. A3)**

The format and tone of the report should be fit for purpose and tailored to the audience, using professional judgment, while maintaining clarity and objectivity.

4.5 The Internal Auditor shall maintain Professional skepticism, and ethical judgement in line with the code of ethics issued by ICAI is exercised throughout the reporting process.

4.6 A Unique Identification Number (UDIN) may be generated and included as per ICAI guidelines.

\*\*\*\*\*

## **Application and Other Explanatory Material**

- A1. Basis of the Report (Refer Para. 4.1):** Internal Audit Reports must be evidence-based, reflecting the audit procedures performed and findings supported by verifiable documentation. Observations may be prioritized based on risk significance and business impact.

The effective controls and practices followed may be acknowledged to promote a balanced perspective. Such inclusion should be based on relevance, materiality and agreement with management, in line with stakeholders' expectations.

- A2. Conformance with Standards on Internal Audit (Refer Para. 4.1):** Internal auditors must ensure all engagements comply with Standards on Internal Audit as issued by the ICAI. Audit plans, execution, and reporting shall align with SIA requirements.

Internal Audit, report may explicitly state:

"The Internal Audit was conducted in accordance with Standards on Internal Audit issued by the Institute of Chartered Accountants of India."

- A3. Report Format and Content (Refer Para. 4.4):** No standardized internal audit report format is mandated. The structure may vary depending on engagement complexity, stakeholder expectations, and reporting protocols. However, key elements such as executive summary, observations, risk materiality, impact, root cause, recommendations, and management response should typically be included.

### **I. Executive Summary**

- Purpose of the Audit: High-level objective of the audit assignment.
- Scope & Coverage: Brief description of areas/functions audited.
- Key Findings: Summary of significant issues or control gaps.
- Overall Conclusion: Auditor's assessment (e.g., Satisfactory, Needs Improvement).
- Audit Opinion/Rating (if applicable): Risk rating of the control environment.

## **II. Detailed Observations**

Each observation may include:

- Observation Title/Number: For easy referencing.
- Condition (What is): Description of the issue observed.
- Criteria (What should be): Relevant standards, policies, procedures, or expectations.
- Cause (Why it happened): Root cause analysis.
- Effect/Impact (So what?): Risk or consequence of the control gap.
- Risk Rating/Materiality: Classification (High, Medium, Low) based on severity, likelihood, and impact.

## **III. Recommendations**

- Actionable Suggestions: Specific, practical, and risk-based actions to mitigate the identified issue.
- Priority Level: Based on urgency or risk rating.

## **IV. Management Response**

- Agreed Action Plan: Management's proposed corrective action.
- Responsible Person(s): Designated official(s) accountable for implementation.
- Timeline: Target date for implementation of the recommendation.
- Status (for follow-up reports): Implementation progress or closure status.

## **V. Appendices (if needed)**

- Audit Criteria: Referenced laws, regulations, or policies.
- Methodology: Summary of procedures followed.
- Documents Reviewed / Interviews Conducted.
- Glossary of Terms or Abbreviations.

**A4. Documentation:** Internal audit documentation shall include:

- Draft and final versions of the report, cross-referenced to working papers.
- Any formal communication or dispute resolution correspondence related to findings or recommendations.
- Management action plans with responsible persons and timelines.
- Evidence of report circulation, discussions, and approvals.

# Exposure Draft

## Standard on Internal Audit (SIA) 320

### Presentation of Internal Audit Reports

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 320, Presentation of Internal Audit Reports.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/HP7U4PwAye1v1SB96>

Last date for sending comments is October 23, 2025.

# Standard on Internal Audit (SIA) 320

## Presentation of Internal Audit Reports

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**This Standard on Internal Audit (SIA) 320, “Presentation of Internal Audit Reports”, issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit” issued by the Institute.**

## **1. Introduction**

- 1.1 Internal audit reports constitute the principal means for communicating the results of audit engagements to stakeholders. The presentation of such reports plays a critical role in ensuring that audit findings, conclusions, and recommendations are conveyed effectively, enabling appropriate action by those charged with governance.
- 1.2 This Standard prescribes the minimum requirements and recommended practices for the structure, content, communication, and presentation of internal audit reports. It also provides guidance on reporting in special circumstances, such as in response to allegation of fraud etc.
- 1.3 Internal audit reporting must maintain a high standard of clarity, objectivity, and relevance, ensuring that key risks, control deficiencies, and improvement opportunities are communicated in a timely and actionable manner.
- 1.4 Scope: This Standard applies to all internal audit functions, including in-house departments, co-sourced models, and engagements outsourced to third-party service providers.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.

## **3. Objective**

- 3.1 The primary objectives of this Standard are to:
  - (a) Prescribe a uniform structure and format for internal audit reports that promotes clarity, transparency, and consistency.
  - (b) Ensure that internal audit reports provide relevant, reliable, and timely information to support informed decision-making by management and those charged with governance.
  - (c) Establish protocols for presenting internal audit reports to appropriate stakeholders, including in scenarios where internal audits are conducted in special circumstances or under special instructions from oversight bodies.

- (d) Reinforce the internal auditor's responsibility to uphold confidentiality, independence, and professional judgment in the preparation and presentation of reports.

## **4. Requirements**

### **4.1 Report Structure and Minimum Content (Refer Para. A1)**

The internal auditor may ensure that every internal audit report contains, at a minimum, the following components:

- **Executive Summary:** Highlighting key findings, critical risks, and high-priority recommendations.
- **Audit Objectives and Scope:** Including the period covered, business areas reviewed, and specific focus areas.
- **Methodology and Criteria:** Brief description of the audit approach and benchmarks or standards used.
- **Detailed Observations and Recommendations:** Including categorization of issues by significance (e.g., high/medium/low), root cause analysis, and risk implications.
- **Management Responses and Action Plans:** Reflecting agreed corrective actions, responsible owners, and implementation timelines.
- **Conclusion or Overall Opinion:** If required by the engagement terms, an audit conclusion summarizing the overall control environment or risk posture.

### **4.2 Mode of Report Communication (Refer Para. A2)**

The internal audit report may be:

- Prepared and issued in a written format, using a standardized template as defined in the internal audit manual or engagement agreement.
- Accompanied by a formal presentation to relevant stakeholders, if required by the Audit Committee, Board, or as per the internal audit charter.
- Delivered in a timely manner in accordance with the internal audit plan, engagement terms, or regulatory timelines, as applicable.



**4.3 Presentation in Special Circumstances (Refer Para. A3)**

In certain situations, such as internal audits undertaken:

- In response to allegations of fraud, misconduct, whistleblower complaints, or regulatory inquiries.
- As part of strategic transactions, mergers, or other special reviews.

The internal auditor may be required to present the internal audit report directly to the Audit Committee, Board, regulators, or any other designated authority. In such cases, the internal auditor may:

- Obtain prior written approval or direction from appropriate governance authorities.
- Prepare a presentation version of the report, maintaining accuracy, objectivity, and confidentiality.
- Limit circulation of the report to authorized individuals, in accordance with applicable laws, policies, and confidentiality agreements.

**4.4 Confidentiality and Communication Protocols (Refer Para. A4)**

The internal auditor may:

- Adhere to confidentiality requirements while disclosing audit results.
- Follow established reporting lines as per the internal audit charter, unless directed otherwise in writing.
- Ensure appropriate documentation of report circulation, meetings held for presentation, and stakeholder responses, where applicable.

\*\*\*\*\*

**Application and Other Explanatory Material**

**A1. Report Structure and Minimum Content (Refer Para. 4.1)**

- The Executive Summary should be concise yet comprehensive, enabling senior stakeholders to grasp key messages without reviewing the full report.

- Root cause analysis enhances the value of the audit by identifying systematic issues and helping prevent re-occurrence.
- Issues should be prioritized based on risk and impact, using clear rating criteria. (e.g., critical, major, moderate)

**A2. Mode of Report Communication (Refer Para. 4.2)**

- While written reports remain the principal means, presentations (e.g., via PowerPoint or dashboards) may be used to facilitate stakeholder discussion.
- Oral presentations should be documented, with records of attendees, discussion points, and action items arising from the meeting.

**A3. Presentation in Special Circumstances (Refer Para. 4.3)**

- In internal audit on special circumstances, the internal auditor may clarify the engagement scope and intended recipients at the outset.
- Reports prepared for regulators or external stakeholders may require modification to comply with legal disclosure requirements.
- Special reports may include a disclaimer if they are not part of the annual audit plan and do not follow standard risk-rating models.

**A4. Confidentiality and Communication Protocols (Refer Para. 4.4)**

- Mark reports with appropriate classification labels such as “Confidential,” “Restricted Circulation,” or “Board Use Only.”
- Use secure channels (e.g., encrypted emails, controlled-access portals) for report transmission.
- Maintain an audit trail of all communications, especially where deviations from normal reporting lines are involved.

**A5. Documentation:** The internal auditor may maintain appropriate documentation to support compliance with this Standard, including:

- The final issued version of the internal audit report and associated presentation materials.

- Approval for report presentation to non-routine stakeholders. (e.g., Board, regulators)
- Records of meetings or presentations conducted, including minutes, discussion points, and stakeholder feedback.
- Evidence of adherence to confidentiality protocols and circulation controls.

## **Exposure Draft**

### **Standard on Internal Audit (SIA) 330 Issuing Assurance Reports**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 330, Issuing Assurance Reports.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/yMFwA9LYmmLyiW9J7>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 330**

## **Issuing Assurance Reports**

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**This Standard on Internal Audit (SIA) 330, “Issuing Assurance Reports” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

## **1. Introduction**

- 1.1 This Standard on Internal Audit (SIA) provides guidance on principles, and responsibilities relating to the issuance of assurance reports by internal auditors. An assurance report represents the formal communication of the internal auditor's independent and objective opinion on the subject matter under review, based on the evidence obtained during the audit.
- 1.2 This Standard is intended to inform and support those charged with governance—such as the Audit Committee, Board of Directors, and Senior Management—in evaluating the design and operating effectiveness of the organization's risk management, control, and governance processes.
- 1.3 This Standard is applicable to all assurance-based internal audit engagements, including but not limited to audits of compliance, operational performance, financial controls, and risk management frameworks, regardless of the size, sector, or ownership structure of the entity.
- 1.4 Scope: This Standard applies to all internal audit assignments.

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of ICAI.

## **3. Objective**

- 3.1 The objective of this Standard is to establish minimum requirements and provide guidance for the preparation and issuance of internal audit assurance reports that:
  - Accurately reflect the scope, criteria, findings, conclusions, and recommendations of the engagement.
  - Clearly articulate the level and nature of assurance provided by the internal auditor.
  - Facilitate informed decision-making by stakeholders through transparent, consistent, and reliable communication.

- Uphold the principles of independence, objectivity, and professional judgment in audit reporting.

## 4. Requirements

Internal auditors shall comply with the following requirements when issuing assurance reports:

### 4.1 Structure and Content of the Assurance Report (Refer Para. A1)

The assurance report shall, at a minimum, contain the following key components:

- **Title and Report Reference:** Clearly identifying the report as an internal audit assurance report.
- **Addressee(s):** Indicating the intended recipient(s), typically those charged with governance.
- **Executive Summary:** Summarising key findings, conclusions, and overall assurance opinion.
- **Engagement Objective and Scope:** Describing what was audited, the time frame covered, and any exclusions or limitations.
- **Audit Criteria:** Outlining the benchmarks or standards against which the subject matter was evaluated.
- **Methodology:** Describing audit techniques, sampling methods, and sources of evidence.
- **Observations and Findings:** Presenting significant audit issues, categorized by risk or priority.
- **Root Cause Analysis:** Highlighting underlying causes of deficiencies, where appropriate.
- **Overall Conclusion and Assurance Opinion:** Clearly stating the level of assurance provided.
- **Recommendations:** Providing actionable, risk-ranked recommendations for improvement.
- **Management Response:** Documenting the response and action plans of the audited entity.

- **Limitations:** Disclosing any restrictions encountered that may affect the audit outcome.
- **Date of the Report and Signature:** Duly dated and signed by the Chief Internal Auditor.

#### **4.2 Quality and Objectivity of Reporting (Refer Para. A2)**

- Reports shall be written in a clear, concise, objective, and unambiguous manner, free from technical jargon unless such terms are explained adequately.
- Conclusions shall be supported by sufficient and appropriate audit evidence in accordance with SIA 250, Internal Audit Documentation.

#### **4.3 Expression of Assurance (Refer Para. A3)**

- The report shall explicitly communicate the level of assurance provided—namely, reasonable assurance, limited assurance, or no assurance along with a clear explanation of its basis and scope.

#### **4.4 Timeliness and Communication (Refer Para. A4)**

- Reports shall be issued promptly upon the completion of fieldwork and quality assurance reviews, to ensure relevance and facilitate timely action.
- The report shall be communicated to all intended stakeholders, in accordance with the audit charter or internal protocols.

#### **4.5 Documentation (Refer Para. A5)**

The internal auditor shall retain adequate documentation to support the findings, conclusions, assurance opinion, and the rationale for judgments made.

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### **Application and Other Explanatory Material**

#### **A1. Report Components (Refer Para. 4.1)**



- The **Executive Summary** should highlight critical issues, systemic risks, and any significant control failures that warrant the attention of senior management or the Audit Committee.
- **Audit Criteria** may include applicable laws, regulatory frameworks, internal policies, best practices, or management-defined benchmarks.
- The **Observations and Findings** section should prioritize issues based on their risk level (e.g., high, medium, low) and materiality.
- Including the **Root Cause Analysis** strengthens the credibility and relevance of recommendations by addressing underlying systemic weaknesses.

#### **A2. Quality and Objectivity of Reporting (Refer Para. 4.2)**

- **Clarity and Readability:** The assurance report should be designed to communicate effectively with stakeholders who may not have technical expertise in internal auditing. Use of plain language, clear formatting, summarised key points, and logical structure enhances readability.
- **Avoiding Ambiguity:** Internal auditors must avoid vague or overly generalized statements. Each observation should be linked to specific criteria, risks, and evidence, eliminating room for misinterpretation.
- **Balanced Presentation:** While it is important to highlight deficiencies, reporting should also acknowledge strengths and areas of effective performance, where applicable, to maintain a balanced perspective.
- **Independence in Reporting:** The internal auditor must resist any attempts by management to unduly influence the wording or tone of the report. Any disagreements with management responses should be documented, and significant unresolved issues should be escalated to the Audit Committee or those charged with governance.
- **Audit Evidence and Documentation:** Each conclusion and recommendation must be traceable to documented evidence, in

accordance with SIA 230 "Internal Audit Evidence". Unsupported or anecdotal commentary undermines the reliability of the report and should be strictly avoided.

- **Professional Tone and Responsibility:** The language of the report must reflect professional decorum, especially when reporting sensitive or high-risk findings. Terms like "significant control breakdown" or "material risk exposure" should be used only when substantiated and justified by evidence and risk assessment.

**A3. Levels of Assurance (Refer Para. 4.3)**

- **Reasonable Assurance:** A high, but not absolute, level of assurance indicating that the subject matter is free from material misstatement or deficiency based on available evidence.
- **Limited Assurance:** A moderate level of assurance, generally provided when procedures are limited in scope or depth, often used in review engagements.
- **No Assurance:** Provided when the auditor is unable to obtain sufficient and appropriate evidence or where significant limitations or uncertainties preclude forming an opinion.

**A4. Timeliness and Communication (Refer Para. 4.4)**

- Delay in issuing reports can dilute the relevance of findings. Best practices recommend issuance within a pre-defined number of working days following the closure meeting.
- Circulation protocols should clearly define who receives full reports versus summary versions, in line with confidentiality and escalation requirements.

**A5. Documentation (Refer Para. 4.5)**

- Working papers should demonstrate how evidence supports the findings and conclusions. Templates and checklists may be used to ensure consistency but must be supplemented with professional judgment.
- Documentation should be maintained in accordance with SIA 250, Internal Audit Documentation.

# Exposure Draft

## Standard on Internal Audit (SIA) 340

### Special Purpose Reports

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 340, Special Purpose Reports.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/P4AJcQ9rRnfowx8J6>

Last date for sending comments is October 23, 2025.

# Standard on Internal Audit (SIA) 340 Special Purpose Reports

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**This Standard on Internal Audit (SIA) 340, “Special Purpose Reports” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit,” issued by the Institute.**

## **1. Introduction**

- 1.1 Special Purpose Reports are non-standard internal audit reports focusing on a specific area, event, or compliance requirement requested by management, regulators, customers, sponsors, donors or other stakeholders.
- 1.2 This Standard provides guidance on the principles, procedures, and responsibilities related to the preparation and issuance of Special Purpose Reports in internal audit.
- 1.3 Unlike general internal audit reports, Special Purpose Reports require tailored reporting formats, specific disclosures, and focused conclusions based on the intended purpose. Internal auditor must ensure that these reports are objective, fact-based, and clearly define the scope and limitations of the review.
- 1.4 Scope: This standard applies to all internal auditors and internal audit functions (IAF) responsible for preparing Special Purpose Reports in response to management requests, regulatory requirements, or other specific needs not covered under any other statutory framework.

This standard applies whether the report is intended for internal use or external stakeholders (e.g., regulators, government authorities, or lenders).

## **2. Effective Date**

- 2.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of ICAI.

## **3. Objectives**

- 3.1 The objective of this Standard is to establish a structured approach for internal auditors when preparing reports that serve a specific user, objective, or regulatory requirement, ensuring clarity, reliability, and adherence to professional standards and the Code of Ethics issued by ICAI.

## **4. Requirements**

The internal auditor shall comply with the following requirements while issuing Special Purpose Reports:

#### 4.1 Structure and Content of Special Purpose Reports (Refer Para. A1)

The Special Purpose Report shall include the following components:

- **Title and Addressee:** Clearly state that it is a Special Purpose Report and identify the intended users.
- **Executive Summary:** Summarize key findings, probable root causes, conclusions, and recommendations.
- **Scope and Methodology:** Define the coverage, audit period, limitations, exclusions and methodologies applied.
- **Findings, Observations & Conclusions / Opinion:** Present data-supported findings, risks identified, and impact analysis, the probable root causes in further detail. Annexures may be given to include further full details and audit evidence, as required to substantiate and/ or better understand the observations.
- **Conclusion and Recommendations:** Provide conclusion and actionable suggestions based on findings.
- **Management Response** (if applicable): Include comments from management on findings and proposed corrective actions, people responsible for implementation and due dates, if relevant.
- **Limitations and Disclaimers:** Disclose any scope limitations, data access limitations, methodology limitations or inherent constraints impacting conclusions.
- **Date of the Report and Signature:** Clearly mention date of signing the report and it must be duly signed by the Internal Auditor.

The format must align with stakeholder expectations while maintaining objectivity and professional standards.

Sometimes a flash report may be required in case of fraud, or any important finding is to be immediately reported / escalated. This may be in format and manner as specified in the engagement letter or in the relevant law or regulation.

#### **4.2 Reporting Clarity, Objectivity, and Compliance (Refer Para. A2)**

- The report must be clearly titled as “Special Purpose Internal Audit Report” to distinguish it from other regular audits.
- The Special Purpose Report must be clear, unbiased, and objective, ensuring findings are based on verifiable evidence and professional judgment.
- If the report is prepared for regulatory or legal compliance, internal auditors must ensure it meets the specific regulatory reporting requirements.

#### **4.3 Issuance, Distribution, and Confidentiality (Refer Para. A3)**

- Internal auditors shall define the distribution and circulation policy of the Special Purpose Report, ensuring that it is shared only with authorized recipients.
- If the report contains sensitive or confidential information, appropriate security measures and disclaimers must be included.
- Proper documentation and working papers related to the Special Purpose Report shall be maintained for future reference and legal compliance.

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### **Application and Other Explanatory Material**

#### **A1. Structure and Content of Special Purpose Reports (Refer Para. 4.1)**

- The report should be well structured, reader-friendly, clear & concise and action-oriented. Including a management response section improves the usefulness of the report by providing clarity on the corrective actions planned.
- A draft report should be issued, discussed thoroughly with the stakeholders and then a final report should be issued unless the circumstances warrant otherwise.

**A2. Reporting Clarity, Objectivity, and Compliance (Refer Para. 4.2)**

- If compliance with regulatory requirements is involved, internal auditors must ensure the report meets statutory formats and legal disclosures.
- Using data visualization techniques (e.g., charts, tables, etc.) enhances clarity and impact.
- The reporting language should be concise, i.e. to the point and without jargons; abbreviations should be elaborated at the start of the report and the report should be uncluttered.

**A3. Issuance, Distribution, and Confidentiality (Refer Para. 4.3)**

- Special Purpose Reports often contain sensitive business information; therefore, restricted distribution policies and confidentiality clauses should be considered.
- The internal auditor must ensure report copies are securely stored and unauthorized access is prevented.
- If within the report, there are parts which the entire distribution list should not be made aware of; the report may be appropriately split and then distributed.
- A report distribution list should be agreed upon and included in the engagement letter.