

# Preface to the Standards and Guidance Notes on Internal Audit

## **1. Formation of the Committee on Internal Audit**

The Institute of Chartered Accountants of India constituted the Committee on Internal Audit (CIA) on 5<sup>th</sup> February 2004.

## **2. Scope and Functions of the Committee on Internal Audit**

2.1 A large number of Institute members are involved in carrying out internal audit engagements. The Institute has, from time to time, issued general and industry specific guidelines on internal audit practices for the guidance of the members. However, till date, no formal standards on internal audit under the authority of the Council have been issued. The main function of the Committee on Internal Audit would be to review the existing internal audit practices in India and to develop Standards on Internal Audit (SIAs). The SIAs would aim to codify the best practices in the area of internal audit and would also serve to provide a benchmark of the performance of internal audit services. The SIAs would be issued under the authority of the Council.

2.2 While formulating the SIAs, the Committee will take into consideration the applicable laws, customs, usages and business environment and auditing practices in India. The Committee may also, where it considers appropriate, take into consideration the international practices in the area of internal audit, to the extent they are relevant to the conditions existing in India

2.3 The Committee on Internal Audit will develop Guidance Notes on internal audit, including those on issues arising from SIA. These Guidance Notes will be issued under the authority of the Council of the Institute.

2.4 The Committee on Internal Audit will also formulate clarifications on issues arising from SIAs. These clarifications will also be issued under the authority of the Council.

## **3. Scope of Standards on Internal Audit**

3.1 The SIA will apply whenever an internal audit

is carried out. Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.

3.2 Any limitation in the applicability of a specific SIA will be made clear in the introductory paragraph of the Standard.

## **4. Procedure for Issuing Standards on Internal Audit**

Broadly, the following procedure will be adopted for issuing SIA:

4.1 The Committee on Internal Audit will identify the broad areas in which SIAs need to be formulated and the priority in regard to selection thereof.

4.2 In the preparation of SIAs, Committee will be assisted by study groups constituted to consider specific subjects. In the formation of study groups, provision will be made for participation of a cross section of members of the Institute. In situations considered necessary, the Committee may also consider having an expert on such study groups, subject to such terms and conditions as may be finalised by the Committee. The expert need not necessarily be a member of the Institute of Chartered Accountants of India. The study group will be responsible for preparing the draft Standard.

4.3 The above mentioned draft Standard would be considered by the Committee. On the basis of the deliberations of the Committee on the draft Standard, an Exposure Draft of the proposed Standard will be prepared by the Committee and issued for comments by the members of the Institute. The Exposure Draft will also be open for comments by non-members.

4.4 The abovementioned Exposure Draft will be published in the Journal of the Institute and

will also be hosted on the website of the Institute under appropriate head.

- 4.5 The Exposure Draft will normally remain open for comments for a period of at least 45 days from the date of issuance.
- 4.6 The above mentioned Exposure Draft will be circulated to all the Council members, Regional Councils, Branches, Outside Chapters and Past Presidents of the Institute for their comments. The Exposure Draft will also be circulated to the following bodies, as may be necessary on a case to case basis, for their comments:
- (i) The Reserve Bank of India
  - (ii) The Securities and Exchange Board of India
  - (iii) The Insurance Regulatory and Development Authority
  - (iv) The Comptroller & Auditor General of India
  - (v) The Department of Company Affairs
  - (vi) The Central Board of Direct Taxes
  - (vii) The Institute of Cost and Works Accountants of India
  - (viii) The Institute of Company Secretaries of India
  - (ix) The Associated Chambers of Commerce & Industry
  - (x) The Federation of Indian Chambers of Commerce & Industry
  - (xi) The Confederation of Indian Industry
  - (xii) The Indian Banks' Association
  - (xiii) The Foreign Exchange Dealers' Association of India
  - (xiv) The Standing Conference of Public Enterprises
  - (xv) All recognised Stock Exchanges in India
  - (xvi) The Competition Commission of India
  - (xvii) The National Bank for Agricultural and Rural Development
  - (xviii) The Controller General of Accounts
  - (xix) The Ministry of Finance – Insurance and Banking Divisions
  - (xx) The Indian Institute of Management, Ahmedabad, Bangalore, Kolkata, Indore, Kochi and Lucknow
  - (xxi) The Central Registrar of Cooperative Societies, Ministry of Agriculture, Government of India
  - (xxii) The Bombay Mercantile Association

The Committee may, however, in addition to the bodies listed above, circulate the Exposure Draft for comments

to such other bodies also, as considered appropriate by it.

- 4.7 After taking into consideration the comments received on the Exposure Draft, the draft of the proposed Standard will be finalised by the Committee and submitted for the consideration of the Council of the Institute.
- 4.8 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 Committee on Internal Audit. The SIA will then be issued under the authority of the Council.
- 4.9 For a substantive revision of the Standard on Internal Audit, the procedure followed for formulation of a new Standard on Internal Audit, as detailed in paragraphs 4.1 through 4.8 will be followed.
- 4.10 Subsequent to the issuance of the Standard on Internal Audit, some aspect(s) may require revision which are not substantive in nature. For this purpose, the Institute of Chartered Accountants of India may make limited revision to the Standard on Internal Audit. The procedure followed for the limited revision will substantially be the same as that to be followed for formulation of the Standards on Internal Audit, ensuring that sufficient opportunity is given to various interest groups and general public to react to the proposal for limited revision.

### 5. Procedure for Issuing the Guidance Notes on Internal Audit

Broadly, the following procedure will be adopted for issuing Guidance Notes on internal audit:

- 5.1 The Committee will identify the issues on which Guidance Notes need to be formulated and the priority in regard to selection thereof.
- 5.2 In the preparation of the Guidance Notes, the Committee will be assisted by Study Groups constituted to consider specific subjects. In the formation of the study groups, provision will be made for participation of a cross section of members of the Institute. In situations considered necessary, the Committee may also consider having an expert on such Study Groups, subject to such terms and conditions as may be finalised by the Committee. Such an expert need not necessarily be a member of the Institute of Chartered Accountants of India. The study group will be responsible for preparing the draft of the Guidance Note.
- 5.3 The above mentioned draft Guidance Note would be considered by the Committee. On basis of the delib-

## FOR YOUR INFORMATION

erations of the Committee on the draft Guidance Note, the draft of the proposed Guidance Note will be finalised by the Committee and submitted for the consideration of the Council of the Institute.

Unlike Standards on Internal Audit, ordinarily, no proposed Guidance Note will be required to be exposed for comments of the members and others. However, in situations considered necessary by the Committee, an Exposure Draft of a Guidance Note may as well be issued for comments. In case an Exposure Draft of a Guidance Note is issued, the same procedures as required for an Exposure Draft of the SIA (listed in paragraphs 4.3 through 4.8 above) will be required to be followed.

5.4 The Council of the Institute will consider the final draft of the proposed Guidance Note and, if necessary, modify the same in consultation with the Committee on Internal Audit. The Guidance Note will then be issued under the authority of the Council.

### 6. Compliance with the Standards and Guidance Notes on Internal Audit

6.1 The Standards on Internal Audit shall apply when-

ever an internal audit is carried out. While carrying out an internal audit, it will be the duty of the members of the Institute to ensure that the SIAs are followed. If, for any reason, a member has not been able to perform all or any of such activities, as mentioned before, in accordance with the SIAs, his report should draw attention to the material departures therefrom.

6.2 Guidance Notes on internal audit are primarily designed to provide guidance to the members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. The Guidance Notes on to internal audit will be recommendatory in nature. A member should, ordinarily, follow recommendations in a Guidance Note on internal audit except where he is satisfied that in the circumstances of the case, it may not be necessary to do so.

### 7. Effective Date

The Standards on Internal Audit shall be effective in respect of the internal audits commencing on or after the date specified in the respective Standards.

## For the Attention of Members

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## Restoration of Membership and Certificate of Practice

Attention of members was drawn to Regulation 6 of the Chartered Accountants, Regulations, 1988, which provides, inter alia, for payment of annual membership fee and certificate of practice fee on 1<sup>st</sup> April each year. Individual notices to members requesting them to pay their annual membership and certificate of practice fee for the year 2004-05 were also sent. Announcements drawing attention of members to the requirement of payment of said annual fees for the current year were also published in the past issues of our Journal.

The names of members who had not paid their fees within the stipulated period are in the process of being removed and/or their certificates of practice being cancelled. The notifications for removal of name and cancellation of certificate of practice w.e.f. 1.10.2004 are under issue.

In the event of removal of member's name or cancellation of his certificate of practice on account of non-payment of fees, the member concerned ceases to have the right to practise the profession of Chartered Accountancy and also the right to train articled clerks under him.

Regulation 19 and Regulation 11 of the Chartered Accountants Regulations, 1988, provide for restoration of membership and restoration of certificate of practice, respectively, with retrospective effect, provided the application, complete in all respects, together with the necessary fees is received from the member concerned by the Secretary of the Institute before the expiry of the relevant financial year. Members may note that Restoration Fee of Rs. 100/- is a part of the fees payable by the members before the expiry of the relevant financial year, as prescribed in Regulation 19. Members whose names are removed or certificate of practice cancelled may, be requested to apply in the appropriate form (Form No 9/101)\* along with necessary fees in accordance with these Regulations for restoration of membership and/or certificate of practice.

\* Form 109/101 are available on the website of the Institute at [www.icai.org](http://www.icai.org)