

Exposure Draft

Preface to the Standards and Guidance Note on Internal Audit

*(The following is the text of the Exposure Draft of the Proposed Preface to the Standards and Guidance Notes on Internal Audit, issued by the Committee for Internal Audit of the Institute of Chartered Accountants of India. Members and others are requested to send their comments on the Exposure Draft to the Secretary, Committee for Internal Audit, The Institute of Chartered Accountants of India, P O Box 7100, Indraprastha Marg, New Delhi – 110 002 or email at cia@icai.org so as to reach her not later than **JULY 12, 2004**.)*

1. Formation of the Committee for Internal Audit

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

2. Scope and Functions of the Committee for Internal Audit

2.1 A large number of the members of the Institute 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 practices under the authority of the Council have been issued. The main function of the Committee for 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 the 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 in India. The Committee may also, where it considers appropriate, take into consideration the international practices in the area of internal audit prevalent abroad, to the extent they are relevant to the conditions existing in India.

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

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

3. Scope of the Standards on Internal Audit

3.1 The Standards on Internal Audit will apply whenever an internal audit is carried out. Internal audit is an independent, objective assurance and consulting activity aimed at

adding value and improving the organisation's operations by evaluating and improving the effectiveness of risk management, control and governance process of the organisation.

- 3.2 Any limitation in the applicability of a specific Standard on Internal Audit will be made clear in the introductory paragraph of the Standard.

4. Procedure for Issuing the Standards on Internal Audit

Broadly, the following procedure will be adopted for the issuing Standards on Internal Audit:

- 4.1 The Committee for Internal Audit will identify the broad areas in which the SIAs need to be formulated and the priority in regard to selection thereof.
- 4.2 In the preparation of the SIAs, 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 outside expert (being a non member of the Institute) on such Study Groups, subject to such terms and conditions, as may be finalised by the Committee. The Study Group will be responsible for preparing the draft of the 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 forty five days from the date of issuance.
- 4.6 The above mentioned Exposure Draft will be sent to all the Council members, Regional Councils, Branches, Outside Chapters and Past Presidents of the Institute for their comments. Two copies of the said Exposure Draft will also be sent to the following bodies for their comments:
- (i) The Reserve Bank of India
 - (ii) Securities and Exchange Board of India
 - (iii) Insurance Regulatory and Development Authority
 - (iv) The Comptroller & Auditor General of India
 - (v) The Department of Company Affairs
 - (iv) 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 Industries
 - (xii) The Indian Banks' Association
 - (xiii) Foreign Exchange Dealers' Association of India
 - (xiv) The Standing Conference of Public Enterprises
 - (xv) All recognised Stock Exchanges in India
- 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 for Internal Audit. The SIA will then be issued under the authority of the Council.

5. Procedure for Issuing the Guidance Notes on Issues Relating to Internal Audit

Broadly, the following procedure will be adopted for issuing Guidance Notes on issues relating to 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 outside expert (being a non member of the Institute) on such Study Groups, subject to such terms and conditions, as may be finalised by the Committee. 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 the basis of the deliberations 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 an 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 CIA. The Guidance Note will then be issued under the authority of the Council.

6. Compliance with the Standards on Internal Audit and Guidance Notes on Issues Relating to Internal Audit

- 6.1 The Standards on Internal Audit shall apply whenever an internal audit or any such activities, which fall or may reasonably be construed as falling within the definition of the term “internal audit”, is carried out. While carrying out an internal audit or any such activity(ies), which fall(s) or may reasonably be construed as falling within the definition of the term “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 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 issues relating to internal audit will be recommendatory in nature. A member should, ordinarily, follow recommendations in a Guidance Note on issues relating to 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. ■