

Standards on Internal Audits ('SIA')

Introduction

The Council of the Institute of Chartered Accountants of India at its 240th meeting held on 5th February 2004 had constituted “the Committee for Internal Audit”, later renamed as “the Committee on Internal Audit”. The main function of the Committee on Internal Audit, among other things, was to review the existing internal audit practices in India and to develop Standards on Internal Audit (SIAs).

Internal Audit is defined as “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 risk management and internal control system”

Internal Audit function has moved a long way, from validating the accounting records of the organisation to being a strong indispensable control tool in the hands of the management for effectively and efficiently running the affairs of the company. Following are the various types of Internal Audit carried out in an organisation:

Compliance Audit: Compliance audit is a comprehensive review of an organizations adherence to rules, regulations and laws applicable to the company.

Operational Audit: Operational audit is systematic review of effectiveness, efficiency and economy of operation in an organisation.

Environmental Audit: Environmental audits intends to evaluate an organizations environmental performance and environmental management practices against legal and other requirements.

Performance Audit: Performance audit refers to an independent examination to ensure economic, efficient and effective use of entities available resources.

Forensic Audit: A forensic audit refers to the application of auditing methods for detection and gathering evidence of frauds, embezzlement, or any other such white-collar crime.

Special Assignment: A special assignment audit is a limited-scope examination of a specific has directed and approved by the management of an entity

FRAMEWORK OF SIA

Internal audit is conducted in variant economic, legal, cultural and business environments. Further, the internal audit activity may be performed by an entity's employees or by some external agency. Thus, the Framework for standards on internal audit applies to all the persons performing internal audit activity, irrespective of whether the function is performed in-house or by an external agency.

The objective of the Framework for SIA is:

- To promote professionalism in the internal audit activity
- To provide a yardstick against which the quality of services during an internal audit can be evaluated
- To codify the best practices in internal audit services

The Framework for Standards on Internal Audit comprises of four components viz, the Code of Conduct, the Competence Framework, the Body of Standards and the Technical Guidance.

List of Standards on Internal Audit

- Standard on Internal Audit (SIA) 1, Planning an Internal Audit
- Standard on Internal Audit (SIA) 2, Basic Principles Governing Internal Audit
- Standard on Internal Audit (SIA) 3, Documentation
- Standard on Internal Audit (SIA) 4, Reporting
- Standard on Internal Audit (SIA) 5, Sampling
- Standard on Internal Audit (SIA) 6, Analytical Procedures
- Standard on Internal Audit (SIA) 7, Quality Assurance in Internal Audit
- Standard on Internal Audit (SIA) 8, Terms of Internal Audit Engagement

- Standard on Internal Audit (SIA) 9, Communication with Management
- Standard on Internal Audit (SIA) 10, Internal Audit Evidence
- Standard on Internal Audit (SIA) 11, Consideration of Fraud in an Internal Audit
- Standard on Internal Audit (SIA) 12, Internal Control Evaluation
- Standard on Internal Audit (SIA) 13, Enterprise Risk Management
- Standard on Internal Audit (SIA) 14, Internal Audit in an Information Technology Environment
- Standard on Internal Audit (SIA) 15, Knowledge of the Entity and its Environment
- Standard on Internal Audit (SIA) 16, Using the Work of an Expert
- Standard on Internal Audit (SIA) 17, Consideration of Laws and Regulations in an Internal Audit
- Standard on Internal Audit (SIA) 18, Related Parties

SUMMARY OF STANDARDS ON INTERNAL AUDIT ('SIA') ISSUED BY ICAI

SIA 1: Planning an Internal Audit

- An internal audit plan is a document defining the scope, coverage and resources, including time required for an internal audit over a defined period. The internal auditor, in consultation with those charged with governance, including the audit committee, develop and document a plan for each internal audit engagement, to conduct the engagement in an efficient and timely manner. In case the entire internal audit or the particular internal audit engagement has been outsourced, the internal auditor should ensure that the plan is consistent with the terms of the engagement.
- The internal audit plan should be comprehensive and consistent with the goals and objectives of internal audit function laid down in the internal audit charter and expectation of Management. Internal audit plan should also reflect risk management strategy of the entity
- A plan once prepared should be continuously reviewed by the internal auditor to identify any modifications required to bring the same in line with the changes, if any, in the audit environment. The internal auditor should document the changes to the internal audit plan in consultation with those in charged with governance
- The internal auditor should obtain a level of knowledge of the entity sufficient to enable him to identify events, transactions, policies and practices that may have a significant effect on the financial information

- Audit universe/ audit territory representing the potential range of activities and operations to be audited should also be reviewed periodically.
- Based on the scope of the engagement, deciding the resource allocation, preparation of the audit programme listing the procedures essential to meet the objectives of the internal audit plan should be made.

SIA 2: Basic Principles Governing Internal audit

- The standards explain the basic principles i.e. Integrity, objectivity and independence, confidentiality, due professional care, skills and competence, Work performed by others, documentation, planning, evidence, internal control & risk management systems and reporting, which governs the internal auditor's professional responsibilities.
- The internal auditor should not disclose any information acquired during his course of work, to any outside party including the entity's employees without obtaining permission from the entity.
- The internal auditor is expected to either have such skills and competence or obtain them with the help of technical knowledge obtained through study and formal courses, as are necessary for the purpose of discharging his responsibilities.
- The internal auditor should carefully direct, supervise and review the work delegated to assistants. The internal auditor may also have to rely on the work of other auditors or experts. He should be satisfied that he has no reasons to believe that he should not have relied on the work of the expert.
- The internal auditor should, based on his professional judgment, obtain sufficient appropriate evidence to enable him to draw reasonable conclusions therefrom to support his opinion or findings.

SIA 3: Internal Audit Documentation

- The internal audit documentation must enable an individual (external or internal), having no previous connection with the internal audit, to obtain an understanding of the audit plan, scope, timing of execution, findings and conclusion drawn from the evidences obtained
- All significant matters which require exercise of judgment, together with internal auditor's conclusion thereon should be included in the internal audit documentation.
- It should cover all the important aspects of an engagement viz., engagement acceptance, engagement planning, risk assessment and assessment of internal controls, evidence obtained and examination/evaluation carried out, review of the findings, communication and reporting and follow up.

- The internal audit file should be assembled within sixty days after the signing of the internal audit report.
- When exceptional circumstances arise after the date of the submission of the internal audit report that require the internal auditor to perform new or additional audit procedures or that lead the internal auditor to reach new conclusions, the internal auditor should document the details of circumstances encountered along with the documentary evidence, the new or additional audit procedures performed, audit evidence obtained, and conclusions reached.
- The custody and ownership of the internal audit documents is the responsibility of internal auditor. The internal audit documents is to be retained and stored for such period as per the retention policy of the entity or appropriate regulation.

SIA 4: Reporting

- The Internal audit report should clearly express the significant observations, suggestions /recommendations and management responses based on the comprehensive audit undertaken.
- Report includes basic elements such as title, addressee, report distribution list, period of coverage of the report, opening or introductory paragraph, objectives paragraph, scope paragraph (describing the nature of an internal audit), executive summary (highlighting key material issues, observations, control weaknesses and exceptions), observations, findings and recommendations made by the internal auditor, comments from the local management, action taken report – action taken/not taken pursuant to the observations made in the previous internal audit reports, date of the report, place of signature and Internal auditor’s signature with membership number.
- Exercise due professional care to ensure that the internal audit report, inter alia, is: clear, factual (presents all significant matters with disclosure of material facts), specific, concise, unambiguous, timely, complies with generally accepted audit procedures in India, as applicable.
- To facilitate communication and ensure that recommendations presented in final report are practical from the point of view of implementation, the internal auditor should discuss the draft with the entity’s management prior to issuing the final report. The different stages of communication and discussion should be discussion of draft, Exit meeting, formal draft, submission of final report.
- Any limitation on the scope of internal auditor’s work should be specifically mentioned in the internal auditor’s report.
- To state in the report that the same is to be used for the intended purpose only as agreed upon and the circulation of the report should be limited to the recipients mentioned in the report distribution list.

SIA 5: Sampling

- Audit sampling refers to review of smaller number of items to conclude on the whole. Error in sampling activities would result in erroneous conclusion by the auditor on state of internal controls.
- The internal auditor performs risk assessment procedures to obtain an understanding of the entity, business and its environment, including the mechanism of its internal control. Ordinarily, risk assessment procedures do not involve the use of sampling. However, there are cases, where the internal auditor often plans and performs tests of controls concurrently with obtaining an understanding of the design of controls and examining whether they have been implemented.
- When using either statistical or non-statistical sampling methods, designing an audit sample, internal auditor should consider the audit objective, total audit population, the sample size, sampling risk, tolerable error and the expected error. The lower the risk that the internal auditor is willing to accept, the greater the sample size needs to be.
- Sample size is arrived at based on nature of control – Key & Non Key, type of control – Manual & Automated, Control Frequency – Ongoing, Daily, weekly, monthly, quarterly, half yearly or annual, Management expectations as well as previous audit findings.
- Having carried out, on each sample item, those audit procedures that are appropriate to the particular audit objective, the internal auditor should:
 - project the errors found in the sample to the population;
 - reassess the sampling risk; and
 - Consider their possible effect on the particular internal audit objective and on other areas of internal audit engagement.
- To evaluate the sample results to determine whether the assessment of relevant characteristics of the population is confirmed or whether it needs to be revised.

SIA 6: Analytical Procedure

- Analytical procedures are analysis of significant ratios and trends including resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predicted amounts.
- Analytical procedures works as a good tool for overall risk assessment and assessing effectiveness of internal controls. It facilitates in devising risk based internal audit plan, sample size and criteria, extent of test to be performed on a specific areas.

- In determining the extent to which the analytical procedures should be used, following factors should be considered: significance of the area being examined, adequacy of the system of internal control, availability and reliability of financial and non-financial information, the precision with which results of analytical procedures can be predicted, availability and comparability of information regarding the industry in which the organization operates, the extent to which other auditing procedures provide support for audit results. After evaluating the aforementioned factors, internal auditor should consider and use additional auditing procedures, as necessary, to achieve the audit objective.
- It includes carrying out procedures such as comparable information for prior periods, anticipated results of the entity, such as budgets or forecast or expectations of the internal auditor, predictive estimates, and comparison of the entity's ratio of sales to trade debtors with industry averages.

SIA 7: Quality Assurance in Internal Audit

- A system for assuring quality in internal audit should provide reasonable assurance that the internal auditors comply with professional Standards, regulatory and legal requirements, so that the reports issued by them are appropriate in the circumstance. In order to ensure compliance with the professional standards, regulatory and legal requirements, and to achieve the desired objective of internal audit, a person within the organization should be entrusted with the responsibility for the quality in the internal audit, whether done in-house or by an external agency.
- The person entrusted with the responsibility of internal audit quality should ensure that the quality assurance framework giving details of policies, procedures, roles and responsibilities, documentation requirements, skill set requirements, and performance measurement are embedded in the internal audit. The quality assurance framework should cover all the elements of internal audit activity.
- The internal quality review framework should be designed with a view to provide reasonable assurance that the internal audit is able to efficiently and effectively achieve its objectives of adding value and strengthening the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.
- The internal quality reviews should be undertaken on an ongoing basis. The person entrusted with the responsibility for quality in internal audit should ensure that recommendations resulting from the quality reviews for improvements in the internal audit activity are promptly implemented. The responses received from the users of the internal audit services should also be shared with the appropriate levels of management and those charged with governance.

- External quality review is a critical factor in ensuring and enhancing the quality of internal audit. It should be performed by a professionally qualified person having in depth knowledge and experience of the professional standards applicable to the internal auditors, the processes and procedures involved.

SIA 8: Terms of Internal Audit Engagement

- The terms of engagement should be approved by the Board of Directors or a relevant Committee thereof such as the Audit Committee or such other person(s) as may be authorised by the Board in this regard. The terms should be reviewed by the internal auditor and the audit committee periodically and modified suitably, if required, to meet the changed circumstances.
- It should contain a statement in respect of the scope of internal audit engagement clearly defining the broad areas which will be covered like evaluating internal controls, review of business process cycle controls, risk management and governance.
- It should clearly mention that internal auditor would not be involved in the preparation of auditee's financial statements, defining policy and procedures, expression of opinion on financial statements or any part thereof.
- It should clarify that any additional services that are not encompassed by the engagement letter shall be performed only on mutual agreement with separate engagement letter.
- The terms of engagement should clearly mention the responsibility of the auditee vis-a-vis the internal auditor.
- It should provide the internal auditor with requisite authority, including unrestricted access to all departments, records, property and personnel and authority to call for information from concerned personnel in the organization.
- The internal auditor should have full authority on his technologies and other properties like hardware and audit tools he may use in course of performing internal audit.
- It should be clear that the ownership of working papers rests with internal auditor and not the auditee.
- The engagement letter should contain a condition that the report of internal auditor should not be distributed or circulated by the auditee or the internal auditor to any party other than that mutually agreed between the internal auditor and auditee unless there is a statutory or a regulatory requirement to do so.
- There should be a clear understanding among internal auditor and auditee as to the basis on which the internal auditor would be compensated, including any out of pocket expense, taxes, etc. for the services performed by him.

- The internal auditor in case is unable to agree to any change in the terms of the engagement and/ or is not permitted to continue as per the original terms, he should withdraw from the engagement and should consider whether there is an obligation, contractual or otherwise, to report the circumstances necessitating the withdrawal to other parties.

SIA 9: Communication with Management

- Internal auditor while performing audit should communicate clearly the responsibilities, overview of the planned scope and timing of audit with the management.
- Communication regarding the planned scope and timing of internal audit may assist the management to understand better the objectives of internal auditor's work, to discuss issues of risk and materiality with internal auditor and to identify any areas in which they may request the internal auditor to undertake additional procedures, assist the internal auditor to understand the entity and its environment better.
- To ensure that the audit findings and their recommendations for improvement are practical from the point of view of implementation, the internal auditor should discuss the draft with entity's management prior to issuing the final report. Different stages of communication and discussion should be: discussion of draft; exit meeting; formal draft; and final report.
- Clear communication of internal auditor's responsibilities, planned scope and timing of internal audit and expected general content of communications helps establishing the basis for effective two-way communication.
- Appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include significance and nature of the matter, and the action expected to be taken by management
- Where matters required by this SIA to be communicated, are orally communicated, internal auditor shall document them and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of internal audit documentation

SIA 10: Internal Audit Evidence

- An internal auditor is required to collect sufficient appropriate audit evidence to substantiate his findings. The internal audit evidence should enable internal auditor to form an opinion on the scope of the terms of engagement. This standard deals with the qualitative and quantitative aspects of evidence in internal audit.

- What is called sufficient and appropriate is usually influenced by: materiality of the item, type of information available, degree of risk of misstatement involved.
- Scope of an internal audit is much broader in comparison to that of statutory audit. The depth of coverage of internal audit, being a management function, would also be much wider. An internal audit function normally is spread beyond checking of financial transactions and is expected to cover comments on internal control systems, risk management, propriety aspect of transactions.
- The reliability of internal audit evidence depends on its source – internal or external and on its type.
- When internal audit evidence obtained from one source is inconsistent with that obtained from another, or the internal auditor has doubts over the reliability of information to be used as internal audit evidence, the internal auditor shall determine what modifications to or additional audit procedures are necessary to resolve the matter.
- Various methods for obtaining audit evidence include inspection, observation, inquiry and confirmation, computation and analytical review.

SIA 11: Consideration of Fraud in an Internal Audit

- The internal auditor is not expected to possess skills and knowledge of a person expert in detecting and investigating frauds, however, he should have reasonable knowledge of factors that might increase the risk of frauds in an entity and exercise reasonable care and professional skepticism while carrying out internal audit.
- A system of internal control comprise of following five elements namely control environment, entity's risk assessment process, information system and communication, control activities and monitoring of controls.
- It is essential for internal auditor to gain an understanding of the components of internal control, risk assessment practices implemented by management and test the effectiveness of the controls
- The primary responsibility for prevention and detection of frauds is that of the management of the entity. The internal auditor should, however, help the management fulfill its responsibilities relating to fraud prevention and detection.
- Actual or suspected fraud or any other misappropriation of assets should be immediately communicated to management.
- The internal auditor should document fraud risk factors identified as being present during the internal auditor's assessment process and document the internal auditor's response to any other factors. If during the

performance of the internal audit fraud risk factors are identified that cause the internal auditor to believe that additional internal audit procedures are necessary, the internal auditor should document the same

SIA 12: Internal Control Evaluation

- The system of internal control must be under continuous supervision by management to determine that it is functioning as prescribed and is modified, as appropriate, for changes in environment. Internal control system extends beyond those matters which relate directly to the functions of accounting system and comprises of control environment and control activities.
- The internal auditor should obtain an understanding of the significant processes and internal control systems sufficient to plan the internal audit engagement and develop an effective audit approach. The internal auditor should use professional judgment to assess and evaluate the maturity of the entity's internal control. The auditor should obtain an understanding of the control environment sufficient to assess management's attitudes, awareness and actions regarding internal controls and their importance in the entity.
- The Internal Auditor should continuously evaluate the effectiveness of internal control system and make recommendations, if any, for improving the effectiveness.
- When internal controls are found to contain continuing weaknesses, internal auditor should consider whether management has increased supervision and monitoring, additional or compensating controls have been instituted and/or management accepts the risk inherent with control weakness.
- Report to the management should provide a description of significant deficiency or material weakness in internal control and also the internal auditor's opinion on possible effect of such weakness on entity's control environment.

SIA 13: Enterprise Risk Management

- This standard provides guidance and procedures to be followed by the internal auditors where the management has requested to provide assurance on the effectiveness of its enterprise risk management system.
- Risk is an event which can prevent, hinder, or fail to further or otherwise obstruct the enterprise in achieving its objectives. Risk may be broadly classified into Strategic, Operational, Financial and Knowledge.
- ERM is a structured, consistent and continuous process of measuring or assessing risk and developing strategies to manage risk within the risk appetite. It involves identification, assessment, mitigation, planning

and implementation of risk and developing an appropriate risk response policy. Management is responsible for establishing and operating the risk management framework.

- ERM process consists of risk identification, prioritization and reporting, risk mitigation, risk monitoring and assurance. The corporate risk function establishes the policies and procedures, and the assurance phase is accomplished by internal audit. The role of internal auditor is to provide assurance to management on the effectiveness of risk management.
- Nature of internal auditor's responsibilities should be adequately documented and approved by those charged with governance. The internal auditor should not manage any of the risks on behalf of the management or take risk management decisions. Due consideration should also be given to independence and objectivity while providing this assurance service.
- Internal Auditor to review the maturity of an ERM structure by considering whether the framework so developed, inter alia protects the enterprise against surprises, stabilizes overall performance with less volatile earnings, operates within established risk appetite, protects ability of the enterprise to attend to its core business and creates a system to proactively manage risks.
- To review whether the ERM coordinators in the entity report on the results of assessment of key risks at appropriate levels, which are, inter alia risk Management Committee, Enterprise Business and Unit Heads, Audit Committee.
- The internal audit plan, which should be approved by the audit committee, should be based on this risk assessment as well as on issues highlighted by the audit committee and senior management.
- The internal auditors report on ERM to the Board or its relevant Committee should outline the assurance rating (segregated into High, Medium or Low) as a result of the review, tests conducted, samples covered and observations and recommendations therefrom.

SIA 14: Internal Audit in an Information Technology Environment

- The overall objective and scope of an internal audit does not change in an IT environment. However, the use of a computer changes the processing, storage, retrieval and communication of financial information and the interplay of processes, systems and control procedures. This may affect the internal control systems employed by the entity. Accordingly, an IT environment may affect the procedures followed by the internal auditor in obtaining a sufficient understanding of the processes, systems and internal control system and the auditor's review of the entity's risk management and continuity systems.
- The internal auditor should possess sufficient knowledge of information technology systems to plan, direct, supervise, control and review the work performed. The internal auditor should consider whether any

specialized IT skills are needed in the conduct of audit, for example, the operating knowledge of a specialized ERP system. If the use of such a professional is planned, the internal auditor should in accordance with SIA16 “Using the work of an expert”, obtain sufficient appropriate evidence that the work performed by the expert is adequate for the purposes of the internal audit.

- The nature of risks and internal control characteristics in IT environments include the lack of transaction trails, uniform processing of transactions, lack of segregation of functions, potential for errors and irregularities, initiation or execution of transactions, dependence of other controls over computer processing, potential for increased management supervision, potential for the use of computer–assisted audit techniques.
- To review whether the information technology system in the entity considers the confidentiality, effectiveness, integrity, availability, compliance and validity of data and information processed. To review the effectiveness and safeguarding of IT resources, including – people, applications, facilities and data.
- Assess and review the reliance which the management of the entity places on the outsourced agency, in case where such information processing has been outsourced to an outside party.

SIA 15: Knowledge of the Entity and its Environment

- The internal auditor should obtain the knowledge of the economy, entity’s business and its operating environment, including its regulatory environment and the industry in which it operates, sufficient to enable him to review the key risks and entity–wide processes, systems, procedures and controls, prior to commencement of the audit engagement.
- In case of continuing engagements, internal auditor should update and re–evaluate information gathered previously, including information in the prior year’s working papers. The internal auditor should also perform procedures designed to identify significant changes that have taken place in the operations, control environment, technology and strategic processes since the last internal audit.
- Knowledge of the entity’s business is a frame of reference within which the internal auditor exercises professional judgment in reviewing the processes, controls and risk management procedures of the entity.
- The internal audit engagement team assigned to an internal audit engagement should obtains sufficient knowledge of the business to enable them to carry out internal audit work delegated to them. The internal auditor should also ensure that the audit team appreciates and understands the need to be alert for additional information and the need to share that information with the internal auditor and other members of internal audit team.
- To make effective use of knowledge about the business, internal auditor should consider how this knowledge acquired, affects his review of internal controls and systems taken as a whole and whether his

overall entity-wide assessment of systems, procedures, controls and risk management principles are consistent with his knowledge of the entity's business.

SIA 16: Using the Work of an Expert

- Technical advice and assistance from competent experts to be obtained, if the internal audit team does not possess necessary knowledge, skills, expertise or experience needed to perform all or part of the internal audit engagement.
- When the internal auditor uses the work of an expert, he should satisfy himself about the competence, objectivity and independence of such expert and consider the impact of such assistance or advice on the overall result of internal audit engagement, specially in cases where the outside expert is engaged by senior management or those charged with governance.
- When determining whether to use the work of an expert or not, internal auditor should consider the materiality of the item being examined, the nature and complexity of the item including the risk of error therein, the other internal audit evidence available with respect to the item.
- The internal auditor should seek reasonable assurance that the expert's work constitutes appropriate evidence in support of the overall conclusions formed during the internal audit engagement
- The internal auditor should not, normally, refer to the work of an expert in the internal audit report. However, reference may be made, in case of reporting in respect of cases such as material weaknesses or deficiencies in the internal control system or in such cases where the internal auditor feels so. It is important to note that the identity of the expert cannot be disclosed before his prior consent.

SIA 17: Consideration of Laws and Regulations in an Internal Audit

- This standard applies to both general audit engagements as well as any specific engagement with respect to compliance of any laws and regulation. The internal auditor needs to follow the procedures laid down for considering the effects of noncompliance of laws and regulation while performing the audit engagement.
- It is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations
- The objectives of the internal auditor are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the functioning of the entity.

- The internal auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations which impact the functioning of the entity, including the reporting framework, have been disclosed to the internal auditor.
- If the internal auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the internal auditor shall obtain an understanding of the nature of the act and circumstances in which it has occurred and further information to evaluate the possible effect on the functioning of the entity. The internal auditor may discuss the findings with those charged with governance where they may be able to provide additional audit evidence.
- The internal auditor shall evaluate implications of non-compliance in relation to other aspects of internal audit, including the internal auditor's risk assessment and the reliability of written representations, and take appropriate action.
- If the internal auditor concludes that non-compliance has a significant impact on the functioning of an entity and has not been adequately dealt with by the management, the internal auditor shall report the same in accordance with SIA 4, "Reporting".

SIA 18: Related Parties

- The internal auditor should ensure that the related party activities of the entity are properly captured through the internal controls, and that those activities are consistent with the entity's code of conduct and applicable laws.
- The internal auditor may consider while understanding the entity's related party relationships and transactions:
 1. The nature and extent of the entity's relationships and transactions with related parties.
 2. An emphasis on the importance of maintaining due professional care throughout the internal audit regarding the potential for material misstatement associated with related party relationships and transactions.
 3. The circumstances or conditions of the entity that they indicate the existence of related party relationships or transactions that management has not identified or disclosed to the internal auditor (for example, a complex organizational structure, use of special-purpose entities for off-balance sheet transactions, or an inadequate information system).

4. The records or documents that may indicate the existence of related party relationships or transactions.
 5. The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions, and the related risk of management override of relevant controls.
- The internal auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed:
 1. Bank and legal confirmations obtained as part of the internal auditor's procedures;
 2. Minutes of the meetings of the shareholders and of those charged with governance; and
 3. Such other records or documents as the internal auditor considers necessary in the circumstances of the entity
 - The internal auditor should obtain sufficient appropriate audit evidence about management's assertion that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction.
 - With regard to significant related party transactions outside normal course of business, the internal auditor should inspect underlying contracts or agreements, if any, and evaluate whether:
 1. Rationale suggests possible fraudulent financial reporting or concealment of misappropriated assets;
 2. Terms are consistent with management's explanations; and
 3. Transactions are accounted for and disclosed in accordance with the generally accepted accounting principles;
 4. Ensure transactions have been appropriately authorized and approved.

The internal auditor should consider the impact on the internal audit report if it is not possible to obtain sufficient appropriate audit evidence concerning related parties and transactions, and should suitably disclose it in the internal audit report, based on its materiality.