

# FRAMEWORK FOR STANDARDS ON INTERNAL AUDIT\*

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## *Framework*

### **Introduction and Scope**

1. In February 2004, the Institute of Chartered Accountants of India, set-up the Committee on Internal Audit. The main function of the Committee on Internal Audit, as set out in its Terms of Reference and the Preface to the Standards on Internal Audit, is to review the existing internal audit practices in India and to develop Standards on Internal Audit (SIAs).
2. Paragraph 3.1 of the Preface to the Standards on Internal Audit, issued by the Council of the Institute of Chartered Accountants of India in 2004, describes internal audit as follows:

*“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. Every standard setting process requires a framework, hence the need for this Framework for Standards on Internal Audit. The overall objective of the Framework for Standards on Internal Audit is to promote professionalism in the internal audit activity.
4. Internal audit is conducted in variant economic, legal, cultural and business environments. The organisations in which internal audit is performed differ widely in size, structure, nature of business, scale, purpose, objectives and geographical spread. 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.
5. The Framework for Standards on Internal Audit would cover all aspects of an internal audit activity, including, planning, gathering evidence, documentation, using the work of other experts, evaluating controls and risk management systems and reporting.

## *Framework for Standards on Internal Audit*

### **Components of the Framework**

6. The Framework for Standards on Internal Audit comprises four components viz, the Code of Conduct, the Competence Framework, the Body of Standards and the Technical Guidance. Each of these components has been discussed in the following paragraphs.

#### *The Code of Conduct*

7. The Code of Conduct establishes the essential principles of conduct and prescribes ethical behaviour for the professionals in internal audit activity. Every professional must make a commitment to ethical conduct, including integrity, confidentiality, etc.
8. A member of the Institute of Chartered Accountants of India, carrying out an internal audit activity, would additionally be governed by:
  - (i) the requirements of the Chartered Accountants Act, 1949;
  - (ii) the Code of Ethics issued by the Institute of Chartered Accountants of India; and
  - (iii) other relevant pronouncements of the Institute of Chartered Accountants of India.

#### *The Competence Framework*

9. The Competence Framework addresses the key characteristics that are required of persons performing internal audit. This includes aspects, such as, objectivity, technical competence, interpersonal skills, operational efficiency and due professional care. The Competence Framework is a minimum expectation.

#### *The Body of Standards*

10. The Body of Standards ensures commitment to providing quality services and details the expectations required of the individuals engaged in internal audit in discharging their responsibilities. The Standards will specify basic principles and processes, such as defining the scope, planning, communicating, etc. They will further establish the basis for quality and performance evaluation of internal audit. The Body of

### ***Framework***

Standards are mandatory minimum requirements that all the internal auditors must meet.

### ***The Technical Guidance***

11. Technical Guidance can take two forms. It will include explanatory material on the Standards or it may detail the application of Standards in specific industries or situations in the form of Technical Guides. These Technical Guides would, therefore, provide guidance to internal auditors in resolving professional issues arising during the course of an internal audit while discharging their duties as internal auditors.

### **Authority**

12. The first three components of the Framework for Standards on Internal Audit viz., the Code of Conduct, the Competence Framework and the Body of Standards shall be mandatory. Compliance with the mandatory elements of the Framework for Standards on Internal Audit is necessary to meet the responsibilities placed upon the internal auditors in execution of their work since the internal audit activity is carried out at the behest of the governing body and/or the management of an entity and renders service by assessing and reporting upon the effectiveness of issues related to governance, risk and controls and making recommendations for improvements in these areas.