

STANDARD ON INTERNAL AUDIT (SIA) 10

INTERNAL AUDIT EVIDENCE

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The following is the text of the Standard on Internal Audit (SIA) 10, *Internal Audit Evidence*, issued by the Institute of Chartered Accountants of India. The Standard should be read in the conjunction with the *Preface to the Standards on Internal Audit*, issued by the Institute.

In terms of the decision taken by the Council of the Institute at its 260th meeting held in June 2006, the following Standard on Internal Audit shall be recommendatory in nature in the initial period. The Standard shall become mandatory from such date as may be notified by the Council in this regard.

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Introduction

1. Paragraph 14 of the SIA 2, "Basic Principles Governing - Internal Audit", states:

"14. The internal auditor should, based on his professional judgment, obtain sufficient appropriate evidence to enable him to draw reasonable conclusions therefrom on which to base his opinion or findings. Factors affecting the professional judgment include the activity under audit, possible errors and their materiality and the risk of occurrence of such errors."

The purpose of this Standard on Internal Audit is to amplify the basic principle outlined above and to provide guidance in respect of applicability of this standard during an internal audit.

Objective

2. The 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. Accordingly, an internal auditor is required to collect appropriate evidence out of his audit process to substantiate his checking and findings. This Standard deals with the qualitative and quantitative aspects of evidence in internal audit.
3. Internal audit evidence is used by the internal auditor to support the facts and opinion contained in his report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the internal audit.

Sufficient Appropriate Internal Audit Evidence

4. Sufficiency and appropriateness are interrelated and apply to evidence obtained from audit procedures. Sufficiency refers to the quantum of internal audit evidence obtained; appropriateness relates to its relevance and reliability. Normally, internal audit evidence is persuasive rather than conclusive in nature. The internal auditor may often seek evidence from different sources or of different nature to support the same finding.

5. **The internal auditor should evaluate whether he has obtained sufficient appropriate audit evidence before he draws his conclusions therefrom. The internal audit evidence should enable the internal auditor to form an opinion on the scope of the terms of the engagement.** In forming such an opinion, the internal auditor may obtain internal audit evidence on a selective basis by way of judgmental or statistical sampling procedures, in accordance with the principle laid on Standard on Internal Audit (SIA) 5, *Sampling*, issued by the Institute of Chartered Accountants of India.

6. The internal auditor's judgement as to what is sufficient and appropriate internal audit evidence is usually influenced by:

- The materiality of the item.
- The type of information available.
- Degree of risk of misstatement which may be affected by factors such as :
 - i. The nature of the item.
 - ii. The nature or size of the business carried on by the entity.
 - iii. Situation which may exert an unusual influence on management.

7. The reliability of the internal audit evidence depends on its source – internal or external and on its type. Four major categories of documentary

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evidence, which provide different degrees of reliability to the internal auditor, are:

- Documentary evidence originating from and held by third parties;
- Documentary evidence originating from third parties and held by the entity;
- Documentary evidence originating from the entity and held by third parties;
and
- Documentary evidence originating from and held by entity.

Inconsistency in, or Doubts Over Reliability of, Internal Audit Evidence

8. 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.

Obtaining Internal Audit Evidence

9 The internal auditor obtains evidence by performing one or more of the following procedures:

- Inspection
- Observation
- Inquiry and confirmation
- Computation
- Analytical review

The timing of such procedures will be dependent, in part, upon the periods of time during which the internal audit evidence sought is available.

Internal Audit Evidence

Inspection

10. Inspection consists of examining records, documents, or tangible assets. Inspection of records and documents provides evidence of varying degrees of reliability, depending on their nature and source and the effectiveness of internal controls over their processing.

Observation

11. Observation consists of witnessing a process or procedure being performed by others. For example, the internal auditor may observe the counting of inventories by client personnel.

Inquiry and Confirmation

12. Inquiry consists of seeking appropriate information from knowledgeable persons inside or outside the entity. Inquiries may range from formal written inquiries addressed to third parties to informal oral inquiries addressed to persons inside the entity. Responses to inquiries may provide the internal auditor with information which he did not previously possess or may provide him with corroborative evidence.

13. Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records. For example, the internal auditor requests confirmation of receivables by direct communication with debtors.

Computation

14. Computation consists of checking the arithmetical accuracy of source documents and accounting records or performing independent calculations.

Analytical Review

15. Analytical review consists of studying significant ratios and trends and investigating unusual fluctuations and items.

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Effective Date

16. This Standard on Internal Audit is effective for all internal audits beginning on or after _____. Earlier application of the Standard is encouraged.