The role of internal auditors is crucial in formulating sustainability policies and managing the implementation and operation of these policies. Internal auditors should focus on testing the adequacy and effectiveness of relevant practices in the field of sustainability.

Knowledge of widely accepted standards and best practices is essential to ensure the recognition of internal auditor’s proficiency by stakeholders. Whilst the objectives of external and internal audit activities are different, there may be some potential areas of overlap, particularly in the area of financial reporting. Adequate and effective co-ordination between internal and external audit activities can avoid duplication and optimize the use of each other’s work. Both contribute to the continual improvement of the quality and reliability of financial reporting, which will add value to the entire organization.

The Internal Audit Standards Board is one of the important Boards/Committees of the Institute, which has been constituted with the primary objective to reinforce the primacy of the Institute as a promoter, source and purveyor of accounting, auditing and ethical standards. ICAI is the second-largest accounting body in the world, globally, for its contribution in the fields of education, professional development, and maintenance of high standards of the profession.

Sustainable value creation is a growing concern. Stakeholders, boards, and senior management recognize the importance of maintaining a sustainability management system. It is also necessary to ensure that sustainability aspects are included in the organization’s risk management. The Securities and Exchange Board of India (SEBI) has mandated the inclusion of sustainability and the Securities and Exchange Commission of the United States in the business responsibility reports of listed entities.

Implementing and systematizing risk management for the entire organization helps in identifying gaps and overlaps in coverage and reconciling conflicting views where there are multiple assurance providers. Internal auditors can help to build a more integrated approach to sustainability and the risks that it poses.

The Board of India (SEBI) has mandated the inclusion of sustainability and the Securities and Exchange Commission of the United States in the business responsibility reports of listed entities. Internal auditors can play a meaningful role by assisting the board, audit committee, and management to add value through auditing sustainability efforts and also in GRI and CSR initiatives.

Internal audit should drive a risk assurance mapping process for the entire organization to identify gaps and overlaps in coverage and reconcile conflicting views where there are multiple assurance providers. The Board and the Audit Committee have a role to play in ensuring adequate and effective co-ordination between internal and external audit activities and other assurance functions.

The Board is working relentlessly to bring out high-quality technical literature in the form of Standards on Internal Audit and Technical Guides/Studies/Manuals, which constitute an important tool in helping internal auditors to provide effective and efficient internal audit services to the clients and/or employers. The basic idea was to enable the members of the Institute to systematize and strengthen their governance process by systematizing and strengthening their control and risk management process.

The Internal Audit Standards Board is working to provide assurance to the organization’s financial performance and shareholders. The Board and the Audit Committee have a role to play in ensuring an adequate and effective co-ordination between internal and external audit activities.

To know more about the Internal Audit Standards Board, visit our website at www.icai.org or write to us at cia@icai.in.
This Knowledge Booklet highlights important areas and ways where internal audit can assume responsibility:

1. The Central Government may, by rules, prescribe the manner and the intervals in which the internal auditor or a firm of internal auditors shall be required to appoint an internal auditor or a firm of internal auditors:
   - (a) every listed company
   - (b) every public company having paid up share capital of rupees ten crores or more
   - (c) every other public company which has any outstanding loans or borrowings from banks or public financial institutions exceeding twenty five crore rupees or which has accepted deposits of twenty five crore rupees or more at any point of time during the last financial year.

Recently enacted The Companies Act, 2013, also recognizes the importance of internal audit in organizational governance.

Committee, and exhibiting high quality of professionalism and quality in it’s work. The ultimate purpose of internal audit is to improve organizational performance.

EFFECTIVE RISK MANAGEMENT

Organizations are enormously concerned about risk and compliance management. The probability and impact of the risks that may affect an organization's risk management processes mature, internal audit can serve in more of an assurance capacity. The probability and impact of the risks that may affect an organization's risk management processes mature, internal audit can serve in more of an assurance capacity.

This Knowledge Booklet highlights important areas and ways where internal audit can assume responsibility with regard to mapping out and performing, most of all managing, various governance related activities in the organization.
This Knowledge Booklet highlights important areas and ways where internal audit can assume responsibility and is one of the main pillars of the governance system. The Audit Committee's role is to ensure the Board on the effective management of risks and transparency of external reporting. It also monitors and ensures the effectiveness of internal audit function in the organization. The Companies Act, 2013, places a stronger emphasis than before on the role of the Audit Committee on internal financial controls and risk management. Given the importance of these areas, internal audit's assurance role is very important in helping audit committee direction fulfill their oversight responsibility and legal duties. Reports by internal audit provide the Audit Committee with key sources of information on the organization's performance, and assurance on risk-management, governance and internal control systems. Internal audit is a key component of governance and when properly resourced, positioned and targeted, it acts as invaluable eyes and ears for boards and audit committee. It should be ensured that the internal auditor has the necessary skills, expertise and, in particular, essential to succeed as a valuable source for the Audit Committee. Internal auditor should develop a vision of governance that is in line with the nature, industry, size and complexity of the organization, and should determine the extent to which governance is compliant with, and then should initiate discussions with the Audit Committee in this respect.

EFFECTIVE RISK MANAGEMENT

Organizations are facing a wide range of risks like, strategy, culture and ethics, IT and data security etc., in addition to their traditional focus on financial risks and controls. Risk management is a central part of any organization's strategic management, successful organizations seek to integrate risk management and internal control into all activities, through a framework of risk identification, risk assessment and risk response. The “Three Lines of Defence” model lays down a logical framework for understanding the role of internal audit in the overall risk management framework of an organization.

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**The Three Lines of Defence**

Adapted from ECIIA/ FERMA Guidance on the 8th EU Company Law Directive, article 41
The first line of defence consists of operational management which has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks. The second line of defence monitors and facilitates the implementation of effective risk management practices and consists of several components of internal governance, compliance, risk management, quality, inspection, security, etc.

Internal audit is third line of defence which through its risk based approach provides reasonable independent assurance to the organization’s board of directors and senior management. Internal audit is uniquely positioned within an organization to provide assurance to the board and senior management on the effectiveness of risk management processes. This will also include assurance on the effectiveness of the first and second lines of defence. The primary focus of internal audit should be on risk, both opportunities and threats, with more time spent on preventive risk identification than the detection of control problems.

In organizations where risk management implementation is in initial stages, the role of internal audit is often that of a catalyst or facilitator to help foster development of the organization’s risk management process. As the organization’s risk management processes mature, internal audit can serve in more of an assurance capacity. Further, the more risk mature the organization is the more internal audit can give the board a realistic picture of how well risks to their strategic objectives are being managed. The top risks where internal audit can play a vital role:

- Data privacy and security
- Business continuity
- Fraud
- Regulation and Brand
- Regulatory compliance
- Outsourcing
- Ethics and culture
- Mergers and acquisitions
- Product innovation
- Employee relations
- Access to finance
- Economic uncertainty

ENSURING COMPLIANCE

Organizations are enormously concerned about regulatory oversight and expectations around effective compliance. The probability and impact of the risks that the legislation represents depends on the robustness of risk and compliance management within the organization. This requires integrated role of management assurance, legal and compliance department and the internal audit and other independent assurance service providers. Internal audit is responsible for reviewing the adequacy and effectiveness of the functioning of controls implemented by management to ensure compliance with applicable laws and regulations. In broader terms, it should develop a vision regarding auditing compliance and the compliance function. Areas for particular consideration could include policies where non-compliance is considered high risk such as anti-trust, anti-bribery, health and safety, etc. A very important role for internal auditor is to map the legislations to the existence of a policy and develop a risk map. Thus, it can also provide inputs on additional controls required which are arising from amendments to, or new legislation.
INCREASED CO-ORDINATION WITH EXTERNAL AUDITORS AND OTHER ASSURANCE PROVIDERS

There is a distinct relationship between internal auditor and external auditors. Internal auditor provides assurance that the internal control and risk management framework is operating effectively. External auditor provides assurance to the organization's shareholders, boards and senior management that the organization's financial statements provide a ‘true and fair’ view of the organization's financial performance and current financial position. Whilst the objectives of external and internal audit activities are different, there may be some potential areas of overlap, particularly in the area of financial reporting. Adequate and effective co-ordination between internal and external audit activities avoids duplication and optimizes the use of each other's work. Both contribute to the continuous improvement of the quality and reliability of financial reporting, which will benefit issuer's shareholders and other investors.

Internal auditor can also play an important role in evaluating the effectiveness of other internal assurance providers, such as risk or IT department, who may report separately to the Board. The Board and the Audit Committee have a role to play in ensuring an adequate and effective co-ordination between internal and external audit activities and other assurance functions. Moving forward, internal audit should drive a risk assurance mapping process for the entire organization to identify gaps and overlaps in coverage and to reconcile conflicting views where there are multiple assurance providers.

SUSTAINABLE VALUE CREATION

Governance should focus on longer term sustainable value creation. A growing number of organizations are choosing to report on sustainability and the Securities and Exchange Board of India (SEBI) has mandated inclusion of business responsibility reports within annual reports for listed entities. Implementing and maintaining a sustainability management system in an organization is a continuous process. Internal auditors can play an important role in formulating the sustainability policy and strategy, planning and risk management phase, and also in the implementation and operation phase. Knowledge of widely accepted standards and best practices in the field of sustainability are essential to compel recognition of internal auditor's proficiency by the management. Internal auditors should concentrate on testing the adequacy and effectiveness of relevant processes, and review the consistency of actions taken in various phases of the sustainability management system. It is also necessary to ensure that sustainability aspects are included in the organization's risk
Internal auditors can play a meaningful role by assisting the board, audit committee and management to add value through auditing sustainability efforts and also through GRI and CSR initiatives. Internal auditors can help to ensure that the management has adopted a sustainability policy and strategy, and also make an assessment of its adequacy and effectiveness. Reviews by internal audit will encourage transparency and accountability and would thereby provide to the shareholders the necessary reassurance on the sustainable value creation.

ABOUT ICAI AND INTERNAL AUDIT STANDARDS BOARD

The Institute of Chartered Accountants of India (ICAI) is a statutory body established under the Chartered Accountants Act, 1949 to regulate the profession of Chartered Accountants in India. During its more than six decades of existence, ICAI has achieved recognition as a premier accounting body not only in the country but also globally, for its contribution in the fields of education, professional development, maintenance of high accounting, auditing and ethical standards. ICAI is the second largest accounting body in the whole world.

The Internal Audit Standards Board is one of the important Boards/ Committees of the Institute, which has been constituted with the prime objective to enforce the policy of the Institute as a promoter, stimulator and purveyor of the knowledge of internal audit in the country. The basic idea was to enable the members of the Institute to provide more effective and efficient value added services to the clients and/ or employers.

Internal Audit Standards Board

The Internal Audit Standards Board is an independent body established under the Chartered Accountants Act, 1949 to maintain high standards of internal auditing. The Board is working relentlessly to bring out high quality technical literature in the form of standards on Internal Audit and Technical Guides/ Study/ Manuals, which constitutes an important tool in helping internal auditors to provide effective and efficient internal audit services to the clients and/ or employers.

COMPOSITION OF THE INTERNAL AUDIT STANDARDS BOARD 2013-14:

CA. Shribhuj Bhakta Zawar, Chairman IASB
CA. Babu Abraham Kalivayal, Vice-Chairman IASB
CA. Subodh Kumar Agrawal, President (Ex-Officio)
CA. K. Raghu, Vice-President (Ex-Officio)
CA. Rajkumar S. Adikia
CA. Jay Agi Chakravart
CA. Tanveer Janmadasa Gha
CA. Parkashinder R. Jain
CA. M. Mohan, Joint Secretary
CA. Divya Advani
CA. S. Santhana Krishnan
CA. J. Venkataramn

CA. Abhijit Bandopadhyay
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CA. Saurabh Mukund Chitale
CA. Sanjib Kumar Agarwal
CA. Sanjay Arora

To know more about Internal Audit Standards Board: visit our website at www.icai.org or write to us at cia@icai.in.