

STANDARD ON INTERNAL AUDIT (SIA) 3

DOCUMENTATION*

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The following is the text of the Standard on Internal Audit (SIA) 3, *Documentation*, issued by the Council of the Institute of Chartered Accountants of India. These Standards should be read in conjunction with the Preface to the Standards on Internal Audit, issued by the Institute.

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

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Introduction

1. The purpose of this Standard on Internal Audit (SIA) is to establish Standards and provide guidance on the documentation requirements in an internal audit.
2. Paragraph 10 of the Standard on Internal Audit (SIA) 2, Basic Principles Governing Internal Audit, states as follows:

“10. The internal auditor should document matters, which are important in providing evidence that the audit was carried out in accordance with the Standards on Internal Audit and support his findings or the report submitted by him. In addition, the working papers also help in planning and performing the internal audit, review and supervise the work and most importantly, provide evidence of the work performed to support his findings or report(s).”

Definitions

3. (a) “Internal audit documentation” means the record of audit procedures performed, including audit planning as discussed in the Standard on Internal Audit (SIA) 1, Planning an Internal Audit, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used). Thus, documentation refers to the working papers prepared or obtained by the internal auditor and retained by him in connection with the performance of his internal audit.
- (b) “Experienced internal auditor” or “a reviewer” means an individual (whether internal or external to the entity) who has:
 - (i) reasonable knowledge and experience of internal audit processes;
 - (ii) reasonable knowledge of SIAs, other relevant pronouncements of the Institute and applicable legal and regulatory requirements;
 - (iii) reasonable understanding of the business environment in which the entity operates; and

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- (iv) reasonable understanding of internal audit issues relevant to the entity's industry.
4. Internal audit documentation:
- Aid in planning and performing the internal audit.
 - Aid in supervision and review of the internal audit work.
 - Provide evidence of the internal audit work performed to support the internal auditor's findings and opinion.
 - Aid in third party reviews, where so done.
 - Provide evidence of the fact that the internal audit was performed in accordance with the scope of work as mentioned in the engagement letter, SIAs and other relevant pronouncements issued by the Institute of Chartered Accountants of India.

Form and Content

5. Internal audit documentation may be recorded on paper or on electronic or other media. It includes, for example, audit programmes, analyses, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists, and correspondence (including e-mail) concerning significant matters. Abstracts or copies of the entity's records, for example, significant and specific contracts and agreements, may be included as part of internal audit documentation, if considered appropriate. Internal audit documentation, however, is not a substitute for the entity's accounting records. The internal audit documentation for a specific internal audit engagement is assembled in an audit file.
6. Internal audit documentation should record the internal audit charter, the internal audit plan, the nature, timing and extent of audit procedures performed, and the conclusions drawn from the evidence obtained. In case the internal audit is outsourced, the documentation should include a copy of the internal audit engagement letter, containing the terms and conditions of the appointment.

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7. Internal audit documentation should be designed and properly organised to meet the requirements and circumstances of each audit and the internal auditor's needs in respect thereof. The internal auditor should formulate policies that help in standardization of the internal audit documentation. The standardization may be in the form of checklists, specimen letters, questionnaires, etc.
8. Internal audit documentation should be sufficiently complete and detailed for an internal auditor to obtain an overall understanding of the audit. The extent of documentation is a matter of professional judgment since it is neither practical nor possible to document every observation, finding or conclusion in the internal audit documentation. All the significant matters which require exercise of judgment, together with the internal auditor's conclusion thereon should be included in the internal audit documentation. However, the documentation prepared by the internal auditor should be such that enables an experienced internal auditor (or a reviewer), having no previous connection with the internal audit to understand:
 - (a) the nature, timing and extent of the audit procedures performed to comply with SIAs and applicable legal and regulatory requirements;
 - (b) the results of the audit procedures and the audit evidence obtained;
 - (c) significant matters arising during the audit and the conclusions reached thereon; and
 - (d) terms and conditions of an internal audit engagement/requirements of the internal audit charter, scope of work, reporting requirements, any other special conditions, affecting the internal audit.
9. The form, extent and contents of the documentation would also be affected by the nature and terms of the engagement, and any statutory or regulatory requirements in that regard. The form, content and extent of internal audit documentation depend on factors such as:
 - the nature and extent of the audit procedures to be performed;
 - the identified risks of material misstatement;

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- the extent of judgment required in performing the work and evaluating the results;
- the significance of the audit evidence obtained;
- the nature and extent of exceptions identified;
- the need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained; and
- the audit methodology and tools used.

It is, however, neither necessary nor practicable to document every matter the auditor considers during the audit.

10. The internal audit documentation 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 documentation would, therefore, generally, include:

- Engagement letter or the internal audit charter, as the case may be.
- Internal audit plan and programme.
- Papers relating to the staff requirement and allocation.
- Papers relating to requirements for technical experts, if any .
- Time and cost budgets.
- Copies of significant contracts and agreements or management representations on terms and conditions of those contracts.
- Internal review reports.
- Evaluation questionnaires, checklists, flowcharts, etc.
- Papers relating to discussions/ interviews with the various personnel including legal experts, etc.
- Chart of the organizational structure, job profile of the persons listed in the chart and rules of delegation of powers.
- Annual budget and development plan.

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- Progress report, MIS report.
- Reconciliation statements.
- Communication with the client personnel and third parties, if any.
- Certification and representations obtained from management.
- Copies of relevant circulars, extracts of legal provisions.
- Results of risk and internal control assessments.
- Analytical procedures performed and results thereof.
- List of queries and resolution thereof.
- Copy of draft audit report, along with the comments of the auditee thereon and final report issued.
- Records as to the follow up on the recommendations/ findings contained in the report.

Identification of the Preparer and the Reviewer

11. It is also essential that the internal audit documentation identify the following:
 - (i) who performed that task and the date such work was completed;
 - (ii) who reviewed the task performed and the date and extent of such review;
 - (iii) reasons for creating the particular internal audit documentation;
 - (iv) source of the information contained in the internal audit documentation; and
 - (v) any cross referencing to any other internal audit documentation.

The preparers and reviewers of the internal audit documentation should also sign them.

12. The internal audit file should be assembled within sixty days after the signing of the internal audit report. Assembly of the internal audit documentation file is only an administrative process and does not involve performance of any new audit procedures or formulation of new

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conclusions. Changes may be made to the audit documentation file only if such changes are administrative in nature. For example:

- deleting or discarding superseded documentation;
- sorting, collating and cross referencing internal audit documentation;
- signing off on completion checklists relating to file assembly process;
- documenting audit evidence that the internal auditor has obtained, discussed and agreed with the relevant members of the internal audit team before the date of the internal auditor's report.

13. 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:
 - (i) the details of circumstances encountered along with the documentary evidence, if any, thereof;
 - (ii) the new or additional audit procedures performed, audit evidence obtained, and conclusions reached; and
 - (iii) when and by whom the resulting changes to the audit documentation were made, and (where applicable) reviewed.

Document Retention and Access

14. The internal auditor should formulate policies as to the custody and retention of the internal audit documentation within the framework of the overall policy of the entity in relation to the retention of documents. The internal auditor retains the ownership of the internal audit documentation. While formulating the documentation retention policy, any legal or regulatory requirements in this regard also need to be taken into consideration. Management and other designated personnel may seek access to the internal audit documentation of the internal audit

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department subject to the approval of the internal auditor and client or such other third party may seek access if there is any legal or regulatory requirement or as may be permitted by the client.

15. After the assembly of the audit file, the internal auditor should not delete or discard internal audit documentation before the end of the retention period.

Effective Date

16. This Standard on Internal Audit will apply to all internal audits commencing on or after Earlier application of the SIA is encouraged.