EXPOSURE DRAFT
STANDARD ON INTERNAL AUDIT (SIA)
COORDINATION WITH EXTERNAL AUDITORS

The Committee on Internal Audit of the Institute of Chartered Accountants of India invites comments on the Exposure Draft of the Standard on Internal Audit (SIA), Communication with External Auditors, are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. Comments should be submitted in writing to the Secretary, Committee on Internal Audit, The Institute of Chartered Accountants of India, C-1, Sector-1, NOIDA-201 301 so as to be received ***on or before November 17, 2008****. Comments can also be sent by e-mail at* ***cia@icai.org****.*

Introduction

1. This Standard on Internal Audit provides a framework for the internal auditor's co- ordination with external auditor and identifies some specific matters which should be communicated to the external auditor with the prior approval of the management.

Need for Coordination Among the External and Internal Auditors

2. Although internal and external audit function have different responsibilities, there are many common objectives which can form a basis for coordination between them. The co-ordination between the internal and the external auditors is also necessary to avoid the overlapping or gaps.

3. While the external auditor has sole responsibility for his report and for the determination of the nature, timing and extent of the auditing procedures, much of the work of the internal audit function may be useful to him in his examination of the financial information.

4. There should be sufficient liaison between the internal and the external auditors. Both should share information regarding scope, audit programme and audit findings.

Matters to be Coordinated

5. **The internal auditor should communicate matters relevant to the external audit.** Such communication may include:

(a) Whether the internal auditor has complied with the ethical requirements that are relevant to the external audit, including independence;

(b) Information on instances of non – compliance with laws or regulations that could give rise to material misstatement in the financial statements;

(c) Description of any identified material weaknesses in internal control over financial reporting;

(d) Any other matters that may be relevant to the external audit, or to which internal auditor wishes to draw to the attention of the external auditors, including exceptions noticed in the written representations that the internal auditor requested from management; and

(e) The internal auditor's overall findings, conclusions or opinion.

The Co – ordination Process

Establishing the Co – ordination Process

6. Clear communication of the internal auditor's responsibilities, the planned scope and timing of the audit, and the expected general content of communications helps establishing the basis for effective two-way communication.

7. Matters that contribute to effective two-way communication include the following:

(a) Clarity on the purpose of communications make the internal auditor and the external auditor better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.

(b) The form in which communications will be made.

(c) The internal auditor's expectation that communication will be two-way, and in order to perform such an activity the internal auditor communicates matters he consider relevant to the audit.

Means of Co – ordination

8. The coordination between the internal and the external auditor also depends on the size and complexity of the entity. Main activities which might be considered as means of coordination are as follows:

(a) *Exchange of Audit Documentation*- The exchange of audit documentation is a very basic type of coordination. Such audit documentation is of two types - working papers and reports. The exchange of working papers and reports might be considered as good means of coordination.

(b) *Sharing of Information*- Exchange of information such as organisational changes, introduction of new technology acquired during the course of internal audit etc.

(c) *Use of Common Methodologies*- Use of common technical and documentation procedures especially for aspects such as audit sampling can ease the co-ordination process.

(d) *Joint Planning*- The internal and external auditors plan the audit in such a way that overlapping or gaps are minimised.

(e) *Work Assistance*- Internal auditor may at a specific request received in this regard from the external auditor, perform work for the latter.

Timing of Co – ordination

9. Coordination with the external auditor is usually more effective when meetings are held at appropriate intervals during the year.

Effective Date

10. This Standard on Internal Audit is applicable to all internal audits commencing on or after ______. Earlier application of the SIA is encouraged.