

AIRWORTHINESS
ADVISORY CIRCULAR

Subject: - Internal Audit.

Introduction: Audits are the process of assessment of internal control of any organization in its system functioning. The aim of the audit is to ascertain the validity and reliability of information with established standard and compliance of regulation.

Internal Audit: Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

Purpose: The purpose of internal audit in any organization is to review compliance of organization policies, procedures and regulatory requirements. Therefore, to achieve the above goal, every organization should have effective internal audit system responsible to governing bodies or higher management.

Internal Audit Programme: All organizations should have an independent audit department responsible to higher management for carrying out internal audit. Audit department should have its independence for:

- planning annual audit programme
- investigating in detail about non-compliance noticed during audit.
- recording non-compliance/discrepancy in any audit report.

For effective internal audit, all organization should have robust programme for auditing the entire area of organizational activity throughout the year.

Audit manual: For accomplishment of internal audit, all organization should prepare audit manual highlighting the following:-

- (a) Objective of audit.
- (b) Organization audit policy.
- (c) Qualification of auditors.
- (d) Audit periodicity and procedures.
- (e) Audit report to senior management.
- (f) Implementation of audit report by organization.

Internal Auditor's qualifications: As internal auditors are to perform the risk assessment and verification of compliance of organization policies, procedures and regulatory requirements therefore they should:

- be from higher technical and professional background.
- be aware about the organizational functioning.
- have good communication skill
- have ability to see through underlying areas of different activities to be audited.
- have adequate experience about the auditing technique
- be in a position to advise through their report to the senior management regarding shortcomings along with recommendation for improvement of organization functioning.

Organizational independence to internal auditors: To perform their role effectively, internal auditors require organizational independence from management, to enable unrestricted evaluation of organizational activities and personnel. Therefore, management should provide adequate freedom to the auditors to conduct the internal audit activities with an aim to fairly evaluate organizational position with regard to established standard, risk management and regulatory compliance.

Internal Audit Report and management responsibilities: After completion of internal audit, auditors should prepare a report summarizing all findings with recommendations for improvement and present it to the higher management. As the audit report manifest organization position with regard to established standard, risk management and regulatory compliance, therefore, serious attention should be given by the higher management to ensure the rectification of deficiency and implementation of improvement measures recommended in the audit report within reasonable time.

Enforcement Action & Manual: - For effective implementation of internal audit report all organization should have enforcement policy and measures which should be documented in enforcement manual. The enforcement manual should define the management responsibilities with regard to enforcement actions and their implementation measures for improvement of system.

As the activity of internal audit is performed with an aim to improve the organization functioning and to remain compliant with regulatory requirements, therefore, its implementation with sincerity and seriousness should help any organization to present itself in a better preparedness for external audit by regulatory authorities or any other agencies.

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