

# **Exposure Draft**

## **Standard on Internal Audit (SIA) 210**

### **Knowledge of the Entity and Its Environment**

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on the draft Standard on Internal Audit (SIA) 210, Knowledge of the Entity and Its Environment.

Comments are most helpful if they indicate relevant paragraph number, a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted at link:

<https://forms.gle/7BTVVEJpcfYJAGBAA>

Last date for sending comments is October 23, 2025.

# **Standard on Internal Audit (SIA) 210**

## **Knowledge of the Entity and Its Environment**

### **Contents**

	<b>Paragraph</b>
Introduction.....	1
Effective Date .....	2
Objectives .....	3
Requirements .....	4
Application and Other Explanatory Material .....	A1-A4

**This Standard on Internal Audit (SIA) 210, “Knowledge of the Entity and Its Environment,” issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the “Preface to the Standards on Internal Audit” issued by the Institute.**

---

## **1. Introduction**

- 1.1 An internal auditor is required to obtain a comprehensive understanding of the entity's industry, operations, ownership, governance, and regulatory environment, sufficient to identify and assess risks, review processes and controls, and determine the nature, timing, and extent of audit procedures. It further ensures that audit conclusions and recommendations are appropriate, relevant, and add value to the entity.
- 1.2 This Standard on Internal Audit (SIA) establishes principles and provide guidance on the internal auditor's responsibility to obtain knowledge of the entity and its environment. Such knowledge is critical for effective planning, execution, and evaluation of internal audit engagements.
- 1.3 Scope: This Standard applies to all internal audit engagements, irrespective of the size, nature, or sector of the entity.

## **2. Effective Date**

- 2.1 This Standard shall be applicable to all internal audits commencing on or after a date to be notified by the Council of the Institute.

## **3. Objectives**

- 3.1 The objective of this Standard is to:
  - Establish the process for acquiring knowledge of the entity and its environment.
  - Ensure effective application of such knowledge in identifying risks, planning, and performing audit procedures.
  - Mandate continuous updating and refinement of this knowledge throughout the engagement.
  - Require appropriate documentation of the acquired knowledge in the internal audit working papers.

## **4. Requirements**

### **4.1 Preliminary Knowledge Prior to Engagement (Refer Para. A1)**

The internal auditor shall obtain preliminary knowledge of the entity's industry, ownership, governance structure, operations, and regulatory environment before accepting an engagement.

### **4.2 Acquisition of Detailed Knowledge Post-Acceptance (Refer Para. A2)**

Upon acceptance of the engagement, the internal auditor shall acquire comprehensive and updated knowledge of the entity, including, but not limited to:

- (a) The nature of the entity, including its operations, ownership, governance, and financing structure.
- (b) The entity's business objectives, strategies, and associated risks.
- (c) Key internal controls and operational procedures.
- (d) Information systems, Management Information System (MIS) and Information Technology (IT) Controls.
- (e) The industry and external environment, including competition, technological developments, and economic conditions.
- (f) The regulatory framework, including applicable laws and compliance obligations.

### **4.3 Application of Knowledge in Internal Audit Process (Refer Para. A3)**

The internal auditor shall apply the knowledge obtained for:

- (a) Identifying significant risks and determining areas of audit focus.
- (b) Designing the nature, timing, and extent of internal audit procedures.
- (c) Evaluating the adequacy of controls and the reliability of audit evidence, and

- (d) Recognizing unusual circumstances, including indicators of fraud, non-compliance, or misstatements.

#### **4.4 Documentation (Refer Para. A4)**

The internal auditor shall document the knowledge obtained, its sources, and its application in the internal audit process, within the working papers.

\*\*\*\*\*

## **Application and Other Explanatory Material**

### **A1. Preliminary Knowledge Prior to Engagement (Refer Para. 4.1):**

Obtaining preliminary knowledge before engagement acceptance enables the internal auditor to evaluate whether the assignment can be performed with the required competence, independence, and resources.

Such knowledge may be derived from publicly available sources, such as annual reports, industry publications, regulatory filings, previous audit or review reports, and preliminary discussions with management.

### **A2. Acquisition of Detailed Knowledge Post-Acceptance (Refer Para. 4.2):**

- (a) Knowledge of the entity's ownership, governance, and financing structures aids in assessing key areas of risk and determining the focus of internal audit work.
- (b) Awareness of the entity's objectives and strategies helps in identifying strategic, operational, and compliance risks that may impact performance.
- (c) Familiarity with information systems enables the internal auditor to evaluate internal controls and identify opportunities for data-driven audit techniques.
- (d) Industry and environmental factors, such as competition, technological disruption, or macroeconomic conditions, may significantly influence the entity's risk profile.

- (e) Once the engagement is accepted, a deeper understanding of the entity and its environment is necessary to identify and assess risks of material misstatement, fraud, or non-compliance.
- (f) Understanding the applicable regulatory framework assists the internal auditor in evaluating compliance obligations and reporting requirements relevant to the entity.

**A3. Application of Knowledge in Audit Process (Refer Para. 4.3):**

Acquired knowledge guides the internal auditor in tailoring audit procedures to identified risks. For example, heightened risks in inventory management may require expanded testing of stock records and related controls.

The internal auditor uses this knowledge to assess whether internal controls are effectively designed and operating, and whether audit evidence gathered is sufficient and reliable.

Awareness of the entity's environment assists the internal auditor in identifying anomalies or red flags, such as unusual transactions, patterns, or deviations that may suggest fraud or error.

**A4. Documentation of Knowledge Obtained (Refer Para. 4.4):**

Proper documentation demonstrates that the internal auditor has obtained sufficient understanding of the entity and applied it in planning and performing the engagement. It also facilitates supervision, quality reviews, and future reference.

Documentation may include internal memos, industry reports, organizational charts, minutes of meetings, process flowcharts, regulatory references, working papers on risk assessments, etc.