

Global Best Practices and Changing Role of Internal Auditor

WIRC

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There is nothing new about the Internal Audit

Internal Auditor in Chanakya times (Catch and fire)

Internal Audits in Kingdoms (Taking clue from Chanakya)

Spy (Almost like Investigative Audits, CMM. Equivalent of RCU Function in Banking & Financial Services)

Makers & Checkers (A typical in Promoter driven Company especially in negotiations)

Gaddi (Manages Fraud prone areas very efficiently. Good Inwarding, Scrap, Cash handling, Insurance claims, Cash Discounts, Penalties etc.

Change in Role of Internal Audit

Bloody Hound

Policeman

Business Auditor

Business Partner

Now an equal Stakeholder in “Corporate Governance”

Formation of Audit Committee

A vital & solid bridge between Board and Chief Internal Auditor.

Before BC and After BC (Can anybody guess what is BC)

Before BC- Voluntary (but lot of good companies implemented before it became mandatory)

After BC- Mandatory (1998 onwards)

Now with new Companies Act....job opportunities for Internal Auditors

Role of Internal Auditor

Second Line of Defense ???

Third Line of Defense???

Chairman of the Audit Committee takes the final call. There is no “one size fits all” solution.

Reporting & Independence

CEO?

CFO?

Chair of Audit Committee?

Audit Committee?

Solid line & Dotted Line responsibility.

What is Independence?

Is Internal Audit truly Independent?

How does “Administrative Reporting” works? Tight Rope Walking.
(Form v/s Substance)

Performance Evaluation of Internal Audit

Who decides Internal Audit Performance?

How it is decided? Quality v/s numbers?

Should Internal Auditors be part of Bonuses based on profits?

Should they be getting ESOPs?

Does Audit Committee discuss Appointment/ Promotions/
Increments/Exits?

Interaction with Audit Committee

How many times in a year you meet Audit Committee? The delta Factor

Do you meet one on one with Chair Audit Committee and/or other Audit Committee Members?

What kind of agenda you carry for the meeting?

Do you attend all Audit Committee Meetings?

Do you discuss Staff/Skill Sets?

Do you invite Business Managers to seek feedback on Internal Audit Reports.

Interaction with Audit Committee (Cond.)

Does your Audit Committee discuss Internal Audit Framework of subsidiaries?

Does your Audit Committee discuss critical Internal Audit observations of subsidiaries?

One great Best Practice: Once a year to invite CEO & CFO of subsidiary to the “Audit Committee” of the parent company.

Audit Plan

Is it Risk Based?

Is it Risk Centric?

Do you shuffle Audit Plan? Function wise/Business wise/Geography Wise. (recommended to bring in vitality and newness in the IA Dept)

Is your Audit Plan dynamic & flexible ?

Mid Year Course Correction? How many times this has happened in the past?

Do you have Surprise Audits/ Spot Audits ?

Do you have Three Year Rolling Plan?

Types of Audits

Internal Audit

Concurrent Audit

Pre Audits

Continuous Monitoring Mechanism (CMM) especially for Revenue Assurance.

Software based Auto Audits (Maker & Checkers etc.)

Do you leverage on other audits such as Vendor Audits/ Customer Complaints/ Dealers Audits/ Inventory Audits/ Stock Audits?

Do you monitor & track “unresolved Internal audit” issues?

Flavors of 2015

ICFR v/s ICR- Role of Internal Auditor. Diverse views.

Fraud Reporting (Responsibility with Statutory Auditors? What is the role of Internal Auditors?). What are the best practices?

Fraud Risk Assessment under Article 8 of COSO Guidelines.(Who should do it?)

Whistle Blowing

Code of Conduct.

Related Party Transactions (Role of Internal Auditor?)

Thefts MIS...

Other Technical Skills required

Forensic Audits (Disc Imaging and Data Extraction & review)

Investigative Skills (Interviewing skills)

IT Audit Skills: Infra/ Access Controls/IS Security Policy/ Application Controls/ Change Controls/ Outsourcing Monitoring Mechanism/ DRP-BCP/ Cloud/ Social Media.

Role in ERM (Owner/ Facilitator/Accountability). Could be a different game in Banking where ERM has to be separate from IA.

Outsourcing Methodology (In-house v/s Outsource). Also the difference between Outsourcing and Co Sourcing. Concept of Guest Auditor could be used effectively.

Learning & Development (L&D)

How many man-days an Internal Auditor should spend on L&D?

Technical Knowledge (ICAI Standards/ Report Writing/ Data Extraction and Monitoring Skill sets)

Business Knowledge (Critical skill sets)

Soft Skills (Dress Code/ Negotiations/ How to conduct Meetings)

Report Writing

I don't want to take thunder away from Mr. Swaminathan from his session.

People, in general, have less attention span. Audit Committee Members are very busy and consistently traveling.

People have little patience to read unless the matter is correct, readable and not complex. If you write too much, it will be ignored.

However, go by what Chairman Audit Committee wants. It could vary between Detailed to Brief...(Diverse practices possible)

Make Executive Summary catchy yet comprehensive. Never know you may not get time to go through the detailed reports.

Report Writing (Cond.)

Rehearse the Presentation. Do not look zombie.

Keep your examples (samples) ready.

See the body language of Audit Committee Members whilst making presentation to see if they are paying attention.

Interaction with other stakeholders

Who are other stakeholders?

Statutory Auditors (See that there is no overlap in Audit Plan)

Regulators (in case you are regulated business)

You must interact with them proactively.

Buy them into your process at all points.

Take on issues raised by Regulators and bring it to the closure.

Data Extraction and Sampling

A need to move to the use of Data Extraction Tools. Keep the trail of what you have checked. May come in handy to defend.

Need to bring in clarity on the sample selection. Put a reference of the same in “Internal Audit” Report.

Legal Compliance

Please ensure that the Organization adheres the Legal Compliance.

Raise the matter at once (& don't wait for Audit Report to get completed) where you are not comfortable on Legal Compliance.

Ensure that the organization does the “Risk Based” classification of Laws & regulations with a view to ensure that High Risk “Rules & Regulations” are given priority.

Attributes of a successful Internal Auditor

Understands the business and the pressures.

Believes in getting the work done (Process improvement and increasing efficiency) rather than winning accolades. Closes the reports as soon as it is ready. This ensures that reports are current and not very old!

Knows which Audit Points are important for communication.

Manages the pressure tactfully.

Manages the “Balancing Act” all the time. The winner should be the “Internal Audit point” rather than the Internal Auditor!

Willing to give time to Business to correct the situation. This way he will gain the respect of the Business as well as Internal Auditors.

Attributes of a successful Internal Auditor(Cond)

Inculcates “Audit Culture” in the organization. (Walk the talk)

He needs to be in the “marketing mode” in his mental settings all the time.

He should have “Business Sense” first.

Needs to be soft yet firm & effective in communicating right messages. (Jor ka Dhakka pyar se)

He should be willing to lose few battles for winning the War!

Excellent listening skills and the reader of the Body Language.

Attributes of a successful Internal Auditor(Cond)

Last but not the least he should

COMMUNICATE (With Business)

COMMUNICATE (With his own team)

&

COMMUNICATE (with Audit Committee)

Time for Questions

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