Risk Based Internal Audit-Indian Perspective

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Introduction:

In recent Years Risk Management, Enterprise wide Risk management(ERM) have become a catch word both amongst the management professionals in the Corporate world as well as Public Finance Management experts in the public sector and acquired high prominence in strategic management arena. Risk is broadly defined as a set or sets of Circumstances, events, process failures which hinders the achievement of the Goals, objectives of the organisation. The international Standards Organisation (ISO/IEC Guide 73) defines the Risk as "*the combination of the probability of an event and its consequences*" Identifying all such potential risks in a process and the probability of its occurrence is thus the core of Risk Assessment of an organisation. Accordingly the Enterprise Risk management(ERM) is defined as "*A structured and continuous process across the whole organisation for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives"*. Though technically the Risks can be both opportunities and threats, for the present in this article we focus on the circumstances that threaten, hinder the achievement of the goals as Risks.

The corporate world have now been focusing on management of Risk as the key to making organisations successful in delivering their objectives. Over the past few years there have been major company failures due to financial irregularities. This has inevitably led to several countries introducing regulations to tighten internal controls within companies. While the recent regulations of the New York Stock Exchange, Sarbanes-Oxley Act of 2002, supported by standards form the Public Company Accounting Oversight Board (PCAOB), London Stock Exchange 'Combined code', Turnbull Committee guidance, have made it almost mandatory in USA and UK for the listed companies to have a Risk management system in place to protect the interests of the stakeholders, in view of the substantial benefits that can be leveraged through the Risk management, many of the developed countries like U.K, U.S.A, Canada, Australia, New Zealand have embedded risk management functions in Government organisations also, through appropriate legislations and executive orders.

However the Risk management as a management tool and discipline is still at its infancy. There are many and varied views and descriptions of what risk management involves, how it should be conducted and what it is for. The publications of Institute of Internal Auditors "*An approach to implementing Risk Based Internal Audit*", the Committee of Sponsoring Organizations of the Tread way Commission (COSO) 2004 publication "*Enterprise Risk Management—Integrated Framework*, the U.K Treasury publication the 'The Orange Book' "*Management of Risk-Principles and Concepts*" provide valuable guidance on the subject. There are professional Risk Management Institutes established to train professionals and provide a platform for guidance and standardisation. The Institute of Risk management(IRM) UK has published a '*Risk Management Standard*' which outlines the best practices in Risk management, its terminology, objectives, organisation structure and process by which risk management can be carried out. While the available literature provide valuable guidance on the process formats and contents of Risk management, there is not a specific single "standard" set for risk management as a whole for both Corporate sector as well as for government organisations. Organisations may choose to adopt particular standards (for example, the "Risk Management Standard" produced jointly by IRM, ALARM and AIRMIC in the UK, or the Australian standard, COSO, or the Canadian government sector standard). More important than compliance with any particular Standard is ability to demonstrate that risk is managed in the particular organisation, in its particular

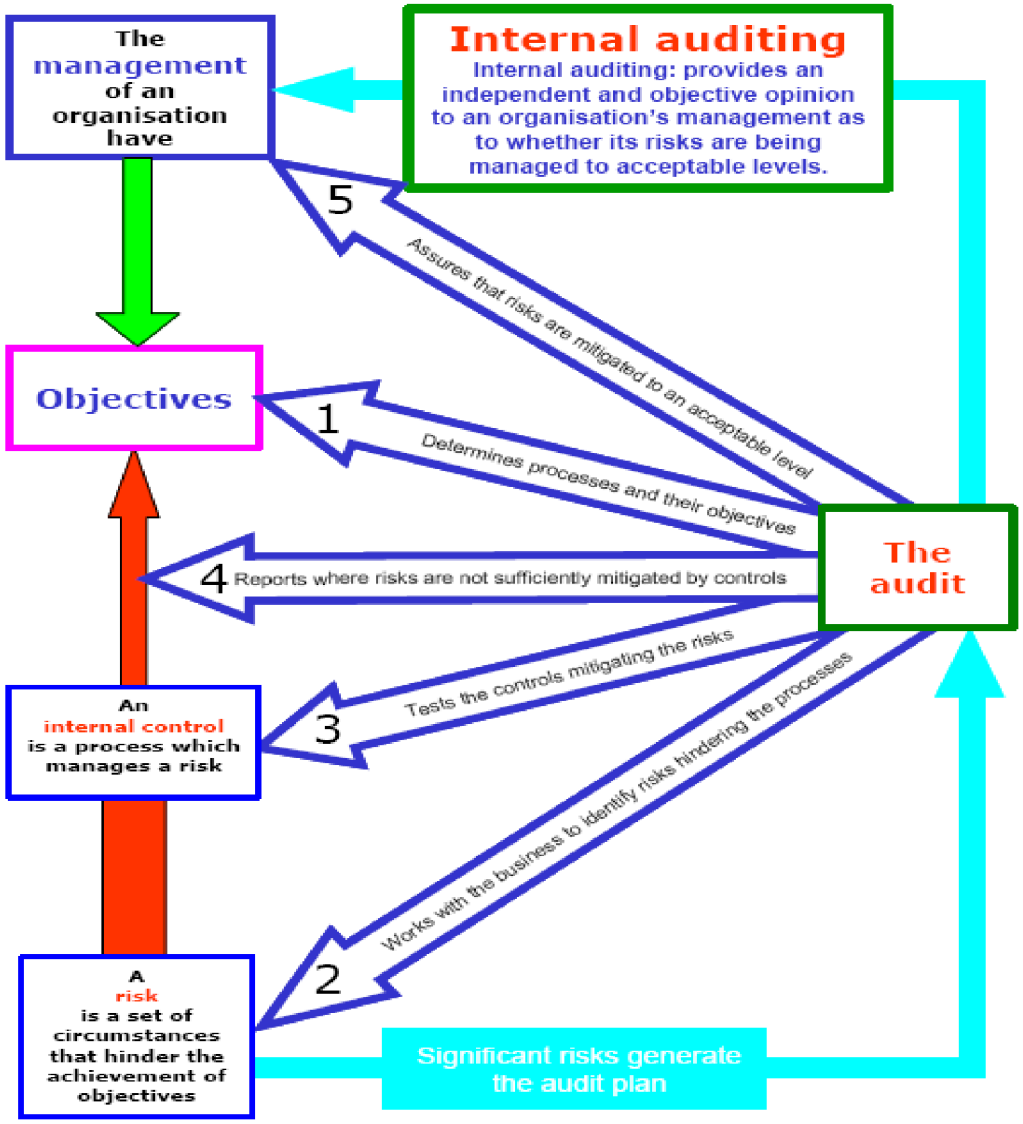
circumstances, in a way which effectively supports the delivery of its objectives. The Risk management professionals may take guidance from the available best practices and standards and contribute to manage the Risks of the organisation effectively and efficiently. The end should justify the means.

In the Risk management arena the internal audit has been playing a pivotal role and demonstrated major achievements especially in the corporate sector. The main aim of any activity in an organisation should be to achieve the objectives of the organisation and the internal audit assist the organisation to achieve its objectives. There is a growing recognition of the strong link between effective Risk assessment and effective audit coverage. The IIA's International Standards for the Professional Practice of Internal Auditing (known as the Standards) provide a solid foundation for internal audit in the area of risk management. In terms of broad direction, the IIA Standards state that the primary goal of internal audit is to evaluate and improve the effectiveness of an entity's risk management, control, and governance processes (Standard 1220.A1). In 2004, the IIA issued a position paper titled *The Role of Internal Audit in Enterprise-wide Risk Management,* which provides clear guidance for the internal audit profession in the ERM arena. The recent survey conducted by the PricewaterhouseCoopers, noticed that near about 83% of the internal auditors in the corporate world in USA are actively associated with the Enterprise Risk management process within their organisations. The experience/expertise needed to understand, identify, evaluate, catalogue, and monitor risk in many organisations now rests with internal audit.

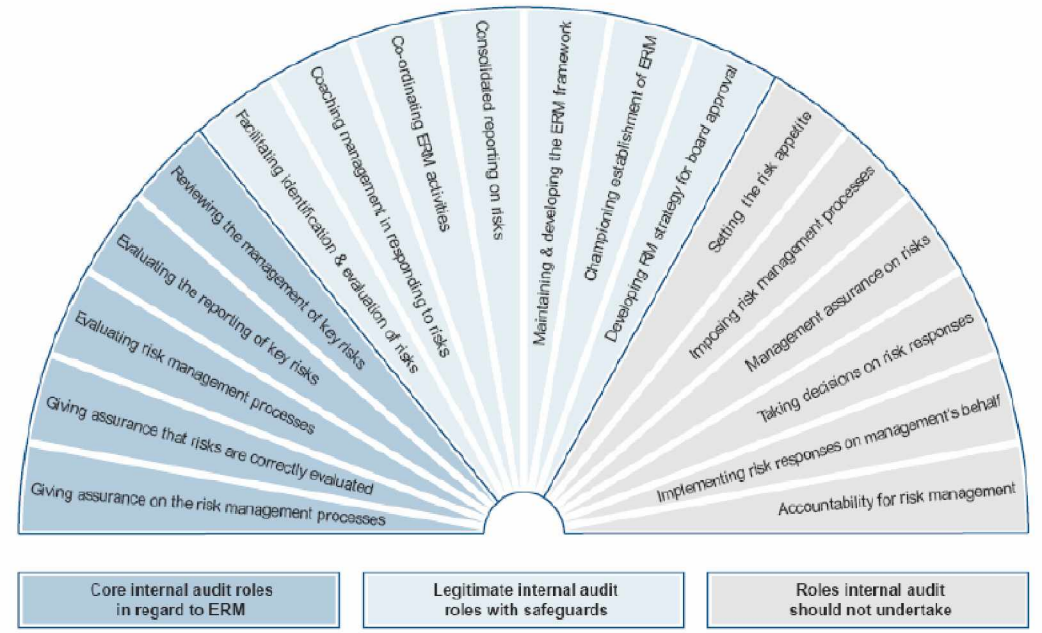
The present article focuses on the role of Internal audit in the process of Risk management especially in the Government organisations. In the real world situation no business process activity takes place in vacuum. There are several internal external, political, economic, behavioural factors that can effect the out come of any activity. No two economic situations can be absolutely similar and thus there can be no single management, or socio economic model applicable universally in all circumstances in all places with equal success rate. Further as it is considered that the Indian experience will be unique by itself in many ways due to its diversity in work, business cultures, attitudes, Risk response and management especially in Government organisations, in the following besides broad frame work and core contents of Risk based Internal audit the challenges in implementation of Risk based internal audit in India is discussed separately.

Risk based Internal Audit Frame work:

Every business process, Programme with distinct goals and objects has corresponding Risks both external and internal. There are a number of ways the organisation can manage risks to bring them to a level which the management, board consider acceptable: 1. Avoid the risks. This may mean giving up significant opportunities. This process is also known as 'termination'. 2. Transfer them, the best example being insurance. 3.Tolerate them, without planning any contingencies. These are the kind of risks which are very rare to occur. 4. Tolerate them, and plan contingencies in case of its occurrence. 5. And finally Introduce some processes, measures to reduce the consequence or likelihood of a risk. These processes, measures are usually referred to as Risk response or Key Controls. The role of Internal audit is prominent in those organisations which desire to plan contingencies, introduce suitable controls for treating the risks and manage the risks at tolerable levels. The primary objective of the internal audit is to provide an "*independent and objective opinion to an organisation's management as to whether its risks are being managed to acceptable levels*". The accepted level of Risk is called Risk appetite of the organisation. The role of Internal audit in the Risk management of the organisation can be summarised in the following diagram.



As illustrated above the Internal audit has a major role in Risk management of the organisation with distinct objectives. The Internal audit assists in identifying the potential Risks, assessing the risk intensity and risk exposure of the organisation, and also provides an objective and independent opinion on the effect of risk response measures, key controls and weather the risks of the Organisation are managed at tolerable levels or not. It is a continuous process. In this continuous process of Risk management, the Institute of Internal auditors has issued a guidelines to the Internal audit, regarding its functions, role and that of management. The functions and roles of Internal audit according to the Institute of Internal auditors is summarised in the following diagram.



The role and responsibility of Risk based Internal audit in the Risk management of an organisation however depends on the Risk Maturity of the organisation. The risk maturity of an organisation is broadly categorised in five ways depending on its preparedness to deal with the inherent Risks. 1.**Risk enabled:** Wherein the Risk management and internal control fully embedded into the operations. 2. **Risk Managed:** Where Enterprise-wide approach to risk management developed and communicated. 3.**Risk defined:** where Strategies and policies in place and communicated. Risk appetitedefined.4. **Risk Aware:** These are organisations with Scattered silo approach to risk management. Where the Internal auditors work as a consultant to undertake a risk assessment. 5. **Risk naïve:** Are the organisations with No formal approach developed for risk management**.** In all organisations other than the Risk enabled organisation the Internal audit has to undertake the task of Risk assessment which includes identification and cataloguing of all potential risk which may hinder the achievement of objective of each process and overall goals, Risk analysis, Risk description, risk estimation, Risk evaluation and Reporting.

Given the fact that the Risk based internal audit has a major role to perform in Risk assessment, Risk estimation, Risk evaluation and risk reporting in the risk management arena, following 5 core essential contents of Risk Based internal audit are elaborated little further. This will facilitate developing a suitable internal audit model and organise internal audit work more systematically and methodically for achieving best results. However there is no single standard model available for Risk based internal audit. Any model thus has to make necessary modifications as per the circumstances, organisation structure,needs and various other functional factors. The end justifies the means and not otherwise.

1. ***Risk Assessment***: The first and foremost requirement in the Risk management is to identify the potential Risks and assess the risk exposure of the Organisation. The Institute of Internal Auditors and other Audit professionals strongly feel that it's the managements duty to asses and identify the potential risks of the organisation, take suitable measures to treat these risks through appropriate controls, decide the risk appetite level of the organisation. While in Risk enabled, mature organisations these tasks are duly carried out by the management, in most of the other organisations Risk based internal audit is entrusted the task to I identify the potential risks and asses the Risk exposure of the organisation.

The Risks of the organisation are identified in many ways. The Risk identification however should be approached in a methodical way to ensure that all significant activities within the organisation have been identified and all the risks flowing from these activities defined. The process based approach to identify the Risks is considered to be more efficient and relatively easy. Under this approach since the objective of the organisation are delivered through various processes, all process involved to achieve the organisation primary objective are identified. Since each process in turn will have a sub-objective, the Process and primary objective of the entity is bifurcated into sub-objectives and sub-processes. Under each process, the sub objective of that process and the corresponding risks both internal and external which may effect that sub objective are identified and catalogued. A detailed process map will be useful in this exercise. The process of bifurcating the activity into process and sub process can be done up to the level the audit identifies a reasonable size of audit entity for through audit engagement . Each risk so identified has to be aligned with the corresponding process and the objective to facilitate formulation of audit units and audit plans subsequently. Processes are only used to help categorise a large number of risks, and these processes should be 'logical' and not necessarily actual. By identifying the Risks at every level of the process and linking them to the main objective and process, the audit can be reasonably sure of identifying nearly all the significant risks of the organisation. This method of looking at risks which hinder all those processes which deliver objectives has the advantage of establishing a structure for the risks. Such a structured Risk assessment will in turn be useful for the management to ensure that the risks identified are complete and initiate appropriate response and entrust Risk management responsibilities.

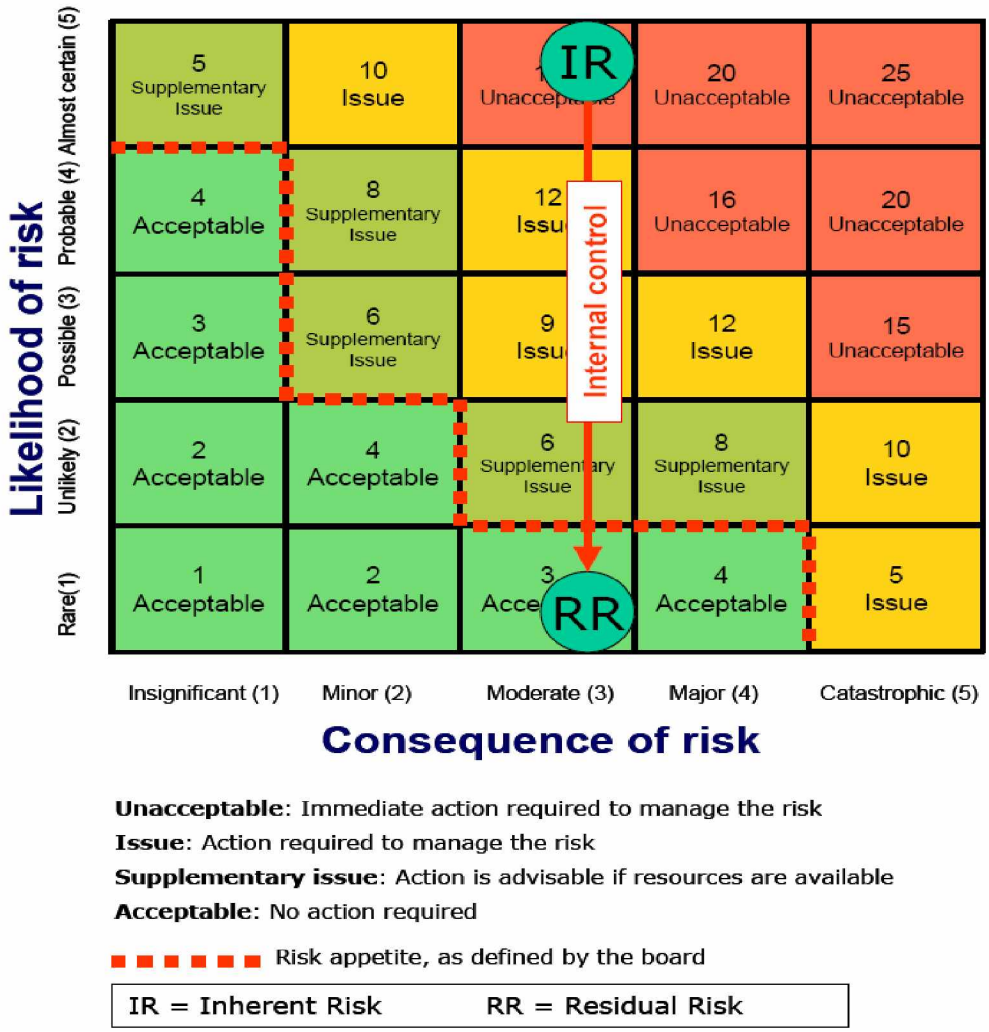
There are different ways the internal auditors can identify and assess the potential risks of the organisation. Two of the most commonly used approaches are: *Commissioning a risk review*: A designated team is established (either in-house or contracted in) to consider all the operations and activities of the organisation in relation to its objectives and to identify the associated risks. *Risk self-assessment*: An approach by which each level and part of the organisation is invited to review its activities and to contribute its diagnosis of the risks it faces. *Risk identification workshops:* Is done through holding workshops, meetings and discussions with senior management. *Accounts and Record analysis*: done by examining and analysing the accounts, primary and secondary data, on the objectives, strategy and process. Questi*onnaires:* Collecting relevant information through suitably drafted questionnaires. These approaches are not mutually exclusive, and a combination of approaches to the risk identification process is desirable. However for conducting such a comprehensive exercise of identifying and assessing the risk exposure of all the activities and processes of the organisation and cataloguing them, the internal auditors must have through domain knowledge, and understand organisation objectives, strategy, business process and all other factors both internal and external that may influence the process or activity and its outcomes. In the process of actual identification of the Risk at each level of process it is suggested that the Internal audit should adopt a top down approach and associate all the top management at every level in the process. Once all possible potential threats , risks of each process in the organisation, have been identified and linked to the sub-objectives, Primary objective, the next logical step would be to catalogue these risk and prepare a Risk register for the organisation.

2. Risk Register: In order to manage risk, an organisation needs to know what risks it faces, and to evaluate them. Identifying risks is the first step in building the organisation's risk profile. There is no single right way to document an organisation's risk profile, but documentation is critical to effective management of risk. Though there is no standard format for the risk register it should contain all the potential Risks of an organisation with reference to each process, its perceived impact on the achievement of the objectives and its probability of occurrence. A model format for Risk register is illustrated below.

The risk register (part only) – inherent scores								
Level 1 process	Level 2 process	Process Description	Risk	Consequence of risk	Risk source	Inherent risks		
						Cons.	Like.	Sig.
Establish a strategy	Agree a strategy	The trustee's of the charity define the future aims and plans	Management team do not unanimously support it	Strategy not actioned with the result that it does not achieve its aims	Risk workshop with directors 15-Dec-2005	5	5	25
Establish a strategy	Agree a strategy	The trustee's of the charity define the future aims and plans	Strategy might not be the best to achieve our objectives	Charities aims not achieved effectively and efficiently. Possible loss of funds	Risk workshop with directors 15-Dec-2006	5	5	25
Establish a strategy	Communicate strategy	Tell all staff about the strategy and its importance to them	People in the organisation are unaware of the strategy	Charities aims not achieved effectively and efficiently. Possible loss of funds	Risk workshop with directors 15-Dec-2005	5	5	25
Establish a strategy	Deliver strategy	The strategy is converted into targets and action for all staff	Strategy not converted into action	Charity does not achieve its objectives	Risk workshop with directors 15-Dec-2005	5	5	25
Establish a strategy	Deliver strategy	The strategy is converted into targets and action for all staff	People in the organisation do not have personal targets linked delivering the strategy	Charity does not achieve its objectives. Loss of morale, staff leave	Risk workshop with directors 15-Dec-2005	5	5	25
Establish a strategy	Deliver strategy	The strategy is converted into targets and action for all staff	New projects do not add value	Loss of funds	Risk workshop with directors 15-Dec-2005	5	5	25
Establish a strategy	Update strategy	Aims and plans regularly updated	Strategy not updated to take account of changing circumstances	Charity does not achieve its objectives	Risk workshop with directors 15-Dec-2005	5	5	25
Locate famine areas	Monitor rainfall	Receive weather reports and assess their long term impact	Reliable rainfall figures for Central Africa are unavailable	Do not foresee the effects of drought	Risk workshop with Aid directors and her staff 10-Jan-2006	4	2	8
Locate famine areas	Monitor planting	Understand how much planting has been carried out	Information on successful planting for next year's harvest is not available	Do not anticipate food shortage	Risk workshop with Aid director and her staff 10-Jan-2006	3	3	9
Locate famine areas	Monitor crop forecasts	Understand what harvest is likely to be, using weather and planting	Information predicting next year's harvest is not available	Do not anticipate food shortage	Risk workshop with Aid director and her staff 10-	3	3	9

The Risk register will be useful for the auditors to prioritise the potential risk with reference to its consequence, impact and the probability of its occurrence and prepare their audit plans accordingly. It helps the managers to take suitable actions to treat those potential risks through controls/key controls and decide the risk appetite of the organisation. For prioritising risk and sorting of potential Risks, it will be convenient to assign numeric values to each risk with reference to its impact and probability of occurrence and map them on a Risk intensity Matrix as illustrated below. We may use 3x3 or 5x5 matrix and also use standard traffic light colours with two more additional shades of green and amber to high light the potential threat of risks in the following formats. A risk with catastrophic consequences which all most certain to occur will be scored top with 5x5=25 score, and the risk with least or insignificant impact which may occur very rarely is scored lowest with 1x1=1 score on the matrix.

If the consequence when the risk occurs is:	OR the likelihood of the risk occurring is:	Then the measure is defined to be:
To close down the organisation, or a significant part, for a very long period	Almost certain	Very high (5)
To prevent the organisation achieving a major part of its objectives for a long time	Probable	High (4)
To stop the organisation achieving its some of its objectives for a limited period	Possible	Medium (3)
To cause inconvenience but not affecting the achievement of significant objectives	Unlikely	Low (2)
To cause very minor inconvenience, not affecting the achievement of objectives	Rare	Very Low (1)

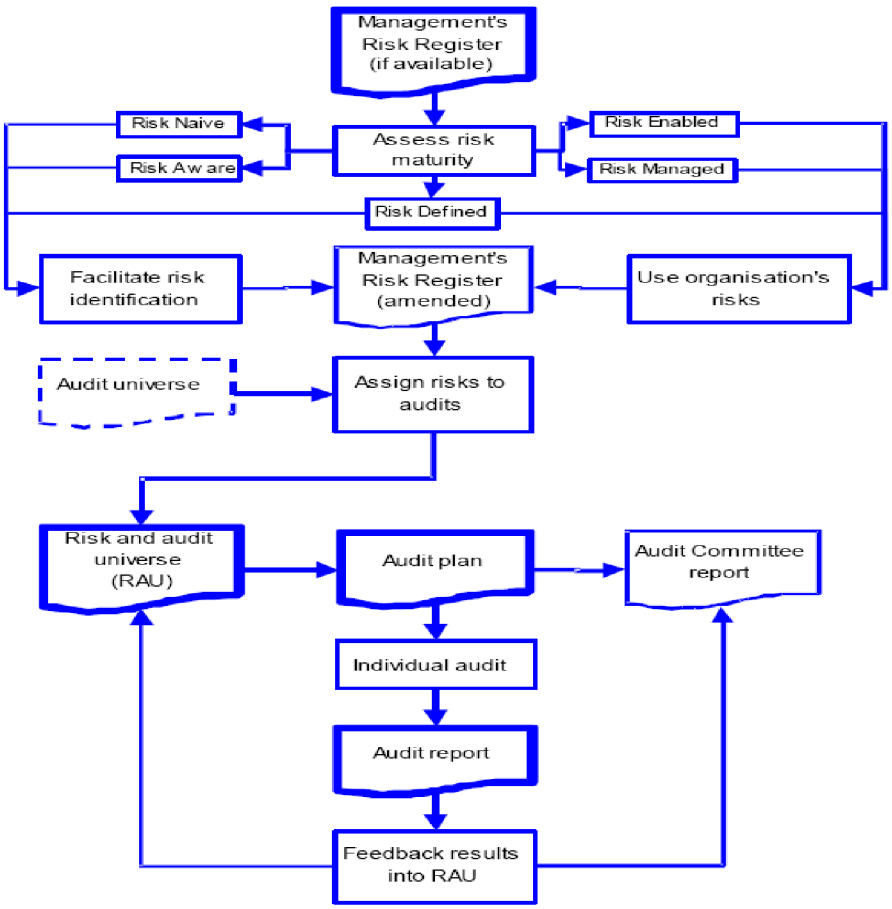


3. ***Risk & Audit Universe(RAU):*** Grouping the risks and corresponding process into audit units is called the Risk Audit Universe(RAU). The RAU contains the risks that management, Internal audit has identified, their score, the audit entities with reference to the Risk and process, the owner of the risk, the audit that is entrusted to provide an opinion on the management of each risk, details of the last and next audits, details of controls managing the risk etc. The RAU provides a macro picture of the issues and activities involved and will help prioritising the audit plans.

4. ***Audit Plan:*** It provides a broad outline of the objectives of audit, its scope, detailed activity plan, consisting constitution of the audit teams, its composition, period and time of audit, allocation of resource and also decides on which risks should be included in the audit. As the active cooperation of the management would be necessary at every stage it would advisable to prepare the annual audit plans in consultation with the audit committees, senior management. As regards the priority and periodicity of audit we may use our risk intensity matrix and RAU to choose. The management of 'red' risks could be audited on priority in the first year, 'yellow' risks next within two years, 'light green' next within three years and 'green' risks never. We can only use this methodology if we are confident in the scoring of the risks.

5. ***Individual Unit Audit engagements & Audit Reporting***: As per the audit plan the individual audits are carried out to evaluate Risks at each process and impact of available

key controls and residual risks. Compilation and alignment of these individual unit audit reports with reference to the organisation main objectives and Risks, the efficiency and effectiveness of the controls will provide the comprehensive audit assurance to the management on effectiveness of the key controls in managing the risks at tolerable levels, residual risks and the final risk exposure of the organisation. The reports are submitted to the audit committee for appropriate action. Depending on the feed back and further controls to treat the identified risks the Risk register and Risk & Audit Universe is updated from time to time and it becomes a continuous process. The core contents and the process of Risk based internal audit can be summarised in the following flow chart.



The above five stages or core components of Risk abased internal audit are not mutually exclusive nor exhaustive. Never the less these five stages are interdependent, mutually supportive and facilitate organising Risk based internal audit work more systematically and methodically. Assessment of risks and Identification of substantial risks of the organisation is necessary to make a beginning - the identification of risks would facilitate cataloguing the risks of the organisation more systematically in a Risk register- systematically catalogued Risks will provide an opportunity to assign them numerical values and colour coding to score and sort the potential Risks - sorting and scoring of potential Risk and linking them to audit entities will provide broad picture of Risk Audit Universe – A RAU with a macro-picture on the sorted potential Risks duly linked to the processes and audit units will facilitate drawing up annual and periodical Audit plans- and a well planed audits will be more successful in carrying out successful audit engagements and providing due, diligent and independent assurance to the management on the issues audited. Basing on the assurance and revised treatment of risks the risk exposure of the organisation changes from time to time. Auditing of Risks after implementation of Risk response or controls is called the

residual risk audit. The Risk register, Risk Audit Universe updated from time to time and the process becomes a continues one.

The Risk based internal audit is an art. It requires special skills. In the real world context, the Audit in charge needs to adopt suitable approach and format to achieve the end objective. The audit strategy may contain the above five stages or even some additional stages depending on the actual context and requirement. The ultimate objective of the Risk based internal audit is to provide the management of the organisation an independent and objective opinion as to weather its risks are being managed to acceptable levels. The end should justify the means.

Risk Based internal Audit-Indian Perspective:

India is one of the fast developing countries in the world. The union Government shoulders a huge responsibility in socio-economic development of the country. It undertakes various Plan schemes for the development of Education, Public health, Defence and other social welfare, financial and economic infrastructure development schemes at an annual cost of about Rs. 3,75,485 crores. There is a huge potential for leveraging the benefits of Risk Management in the implementation of various schemes, projects in government organisations in India. Risk management can help departments improve their performance in a number of ways. It can lead to better service delivery, more efficient use of resources, better project management, help minimise waste, fraud and poor value for money and promote innovation.

However no generic socio-economic, business or management model will be universally applicable nor the principles of 'Ceteris paribus' are tenable in real world dynamic socio economic context. Hence there is no standard Risk Management Model or Risk based internal Audit model available for adopting straight away in Indian context. Indian context can be considered unique by itself in many ways in view of its diversity and complexity in work culture, ethics, ethos and business process environment. In the past India had a dubious distinction of adopting international best practices without much delay and failing in achieving expected results. Its adoption of Zero-based budgeting, Performance budgeting, Out come budgeting are only few recent examples. The problem lies not in the concepts but in the customisation and implementation. Thus it is imperative to make suitable modifications and moderations in any international best practices, including Risk based internal audit model, before the same is adopted and implemented in India. Further modifications and customisation is also essential when the generic corporate management techniques are adopted in Government organisations as the work culture, objectives of corporate sector and Public sector are not comparable.

In an ideal risk management system, both in Corporate sector as well as in Public sector, the organisation should have a risk management strategy, designed to achieve the objectives of the organisation and manage the Risks. The role and responsibilities of Risk based internal audit in the organisation Risk management should be enshrined in the organisation strategy. The application of that strategy should be embedded into the organisation's business processes systems and policy setting, to ensure that risk management is an intrinsic part of the way business is conducted. The management of risk at strategic, programme and operational levels needs to be integrated so that all the levels of activity support each other. In this way the risk management strategy of the organisation will be led from the top and embedded in the normal working routines and activities of the organisation. It is important to ensure that everybody understands, in a way appropriate to their role, what the organisation's risk strategy is, what the risk priorities are, and how their particular responsibilities in the organisation fit into that framework. If this is not achieved, appropriate and consistent embedding of risk management will not be achieved and risk priorities may not be consistently addressed. The senior management should lead from front and demonstrate

ownership and leadership in risk management. The primary objective of the Internal audit is to assist the management in achieving its objectives. Unless the senior management has the strong desire to achieve its objectives and recognises the importance of Risk management and assigns due role to the Internal audit the Risk based internal audit in any organisation will be a non starter.

In India though as per the existing instructions, every Ministry, Department is required to have a Internal audit organisation, the Internal audit is mostly confined to compliance audit. The Risk based Internal audit especially in Government organisations is yet to be formally adopted. To leverage full benefits of Risk based internal audit, it is essential to widen the scope and mandate of Internal audit organisation and strengthen it with sufficient powers, independence and resources through suitable legislations on the lines of the system existing in advanced countries like UK, USA , Canada, Australia and New Zealand. Very recently in India an attempt has been made to introduce the concept of Risk based Internal audit in the Government organisations on pilot basis. Successful implementation of Risk based internal audit in the government organisation in India is a challenging task and fraught with certain organisational, functional and cultural impediments. Some of the Risks which may impact the successful implementation of Risk based internal audit in government department of India are briefly discussed below.

1. ***Role of Internal Audit:*** As explained above in an ideal risk management system, the organisation should have a risk management strategy, designed to achieve the objectives of the organisation and manage the Risks. The role and responsibilities of Risk based internal audit in the organisation Risk management should be enshrined in the organisation strategy. However in India, even after 30 years of Departmentalisation of accounts and setting up internal audit units in every Ministry, the Role and responsibility of the Internal audit is still hazy and yet to gain its due importance in the Financial management in Government organisations. The audit is still viewed with contempt, suspicion and considered at all levels as an unavoidable evil. While the highest title, the statutory audit with all its constitutional powers got was "watch Dog of Government", without any inherent powers and subservient to the Secretary of the Ministry, the status of Internal audit organisation at best could be described as Dog at the command of the senior management. Unless the mindset of the senior management and staff at all levels changes, and the Internal audit is given its due status as a supportive management tool, its findings, contributions are regarded and supported by senior management, it will be difficult for the Internal audit to make any substantive contribution in the financial management or Risk management of any organisation. In India the internal audit is yet to gain its due importance.

2. ***Lack of defined quantifiable Objectives***: In India, near about $.84, 000 Million are spent on various developmental schemes with various objectives and goals. At the time of formulating schemes the elements of Risk management are neither formally taken into consideration nor any specific controls put in place. Many of the schemes do not have clear, distinct and quantifiable objects to be achieved in a time frame. The formulation and evaluation of the schemes is mostly input oriented than out put based. Some of the schemes and programs are formulated based on political and populist considerations and continued from time to time due to external compulsions rather than intrinsic strengths. In the existing system, the internal audit is not associated in the formulation of the schemes and its implementation strategy. Though recently the introduction of Fiscal responsibility and Budget management Act made it obligatory to convert the Government expenses, inputs into realisable outputs and report to the parliament, the e exercise is yet to be implemented with all its due diligence and sincerity. Thus vague objectives and unclear goals in many of the schemes implemented by the Government is a major impediment in implementing a risk based audit or for that matter risk management in government departments. If there are no clear objectives there are no potential risks and hence no need for risk management.

3. ***Lack of ownership and accountability***: In government organisations the major problem is lack of accountability. While there will be several claimants to share the achievements of the department, it will be almost impossible to fix responsibility for failures of the Government departments. The senior management is neither assigned any fixed defined responsibilities, goals, objectives nor is their performance assessed basing on the accomplishment or failures in achieving any of the goals of the department. The public servant is in general averse to taking any risks and does not own the responsibility of objectives or Risks of the organisation. There are no threats for non performance or any major incentives for high performance. The concept of 'Pink Slips' doesn't exist in Government organisations, even in advanced countries. It is not uncommon that at times the non performers are more rewarded basing on exterior considerations than the performers. Unless the senior management and all staff are made responsible, accountable for achieving the objectives, own the corresponding risks and also understand the benefits of risk management, there cannot be effective Risk management system nor Risk based Internal audit system in Government organisations.

4. ***Management structure***: In various departments different divisions, units including Internal Audit are assigned different responsibilities. Ideally, all divisions should perform their functions, support each other and adopt a coherent approach in managing risks. Such approach can only lead to sustainable improvements in public services. In Government organisations of India, formulation and implementation of the programs, schemes are the responsibility of the administrative management division. Most of the senior management and administrative positions are occupied by officers from an elite service, India administrative service and the internal audit is entrusted to officers from Indian Civil Accounts Service. The statuary audit is conducted by the officers from the Indian Audit &Account service. The audit in general in many departments is still viewed with contempt and considered as an unnecessary evil. Very often there are ego conflicts amongst different divisions though working towards achieve the same objectives of the department. Officers in charge of implementation of various schemes programmes often tend to becomes possessive of their schemes and consider any Risks, deficiencies, pointed out by other divisions, Internal auditors as slur on their performance. Attending to internal audit reports, observations, and recommendations is low in the management priorities. Unless the management takes suitable risk response measures on the risk evaluation conducted by the Risk based internal audit, the efforts of internal audit will go waste and add up to negative costs rather than adding any value.

5. ***Dependency on implementing agencies***: In general no organisation is entirely self-contained – it will have a number of inter-dependencies with other organisations. These inter-dependencies are sometimes called the "extended enterprise" and will impact on the organisation's risk management, giving rise to certain additional risks which need to be managed. In India since the union government does not have wherewithal to implement all the schemes initiated by it, in many cases it depends on state Governments or other agencies for implementing its schemes. Many government organisations thus have a relationship with bodies which they either "parent" or which have a "parent" role over them. In particular many policy departments are dependent on Executive Agencies or Non-Departmental Public Bodies (NDPBs) for delivery of their policy. In these circumstances the risk priorities of a parent department will impact on the priorities of the organisations which they sponsor, and the sponsored organisations' experience of managing risk in delivery of the policy needs to be considered by the parent organisation in the further development of policy and risk management startegy. In view of dependency on machinery of state governments and other implementing agencies, the Risk management strategy and Risk based internal audit needs to be developed by taking in to account all the Risk factors at the extended enterprise level.

6. ***Lack of trained manpower***: In corporate sector risk management and risk based internal audit is considered as a highly skilled art or craft. There are even specialised institutes to train personal in Risk based internal audit. The Risk management and Risk based Internal audit is a

emerging discipline and auditors in government organisations in India need sufficient training to hone their skills in the subject. As the auditors need to have sufficient domain knowledge, exposure to prevalent business environment, business ethos and special skills to identify the potential Risks of the organisation it is essential to retain auditors in each organisation for a reasonable period to gain sufficient knowledge of the organisation. In India in internal organisations of the government on one hand there is a huge scarcity of trained manpower and on the other there is no fixed tenure for internal audit staff.

7. ***Corruption in public Places***: India does not fare very well in corruption perception index of Transparency International. Corruption is a social evil and it is widely prevalent in Indian Government organisation. The corrupt system and bureaucracy invariably effects the programme implementation and achievement of the desired objectives adversely. The corrupt officials and practices perpetuate inefficiency in service delivery and thrives on leakages and poor management of valuable public resources. This is a major evil and impediment in the progress of any country and requires a major solution. Unless this evil is dealt effectively and sincerely, the public sector system and service delivery cannot be improved even by introducing Risk based internal audit.

Many of the above points are neither new nor shockingly revealing to many of the top management that matters in India. What is required is the courage to accept the deficiencies and will to tackle them effectively and systematically. Initiative should come from the top management and it should be a top down approach. If the Government sincerely desires to manage all the Risks in implementation of Government policies, achieve all desired goals of the government and add sustainable value to public sector service delivery, given an opportunity and encouragement, Internal Audit organisations in India can make substantial contribution in the effective risk management in the implementation of various Government schemes and add value. "Where there is a will there is a way".

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Reference Books:

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6. Managing Risk and Achieving Turnbull Compliance, By Sarah Blackburn,.
7. "Internal Audit Service", Caroline Bell, Sarah Blackburn and Andrew Chambers,
8. 'Risk Management Standard' by IRM, UK.

Glossary:

Audit Plan: *A list of audits to be carried out in a specified time frame.*
Board: *An organisation's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a non-profit organisation.*
Control*: a process which manages a risk.*
Control Score (gap): *The difference between the inherent and residual risk scores. The higher the value, the more important the control.*

Enterprise-wide Risk Management (ERM): *A structured, consistent and continuous process across the whole organisation for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.*
Inherent (gross) Risk*: a risk evaluated without any responses being taken into consideration.*
Risk based Internal auditing: *provides an independent and objective opinion to an organisation's management as to whether its risks are being managed to acceptable levels.*
Internal audit activity: *the function (department) which delivers internal auditing to the organisation. It may also be responsible for other activities such as providing accounting staff to cover vacancies and facilitating risk management. It will usually consist of internal audit staff, managed by a Head of Audit (HIA), governed by a charter established by the organisation's audit committee.*
Internal control: *a term usually used to indicate the response to a risk, the options being; terminate; transfer; tolerate; treat.*
Management of Risks: *The implementation of responses to risks, which reduce their threat to below the level of the risk appetite or, where this is not possible, reports the risk to the board.*
Monitoring*: Processes which report to management, at appropriate intervals, the success, or otherwise, of the responses to risks.*
Process: *a task which assists in delivering an organisation's objectives (for example, despatch of goods), or controls risks (authorisation of invoices), or provides a risk framework (identifies risks).*
Residual (net) Risk: *a risk evaluated with any responses being taken into consideration.* ***Risk:*** *a set of circumstances that hinder the achievement of objectives.*
Risk Appetite*: The level of risk that is acceptable to the board or management. This may be set in relation to the organisation as a whole, for different groups of risks or at an individual risk level. Risks above the risk appetite are considered a threat to the reasonable assurance that an organisation will achieve its objectives.*
Risk and Audit Universe: *The risk register showing the audits which are intended to provide assurance that each risk is properly managed.*
Risk Management Framework: *all the processes which aim to identify, assess and manage risks.*
Risk Maturity: *An assessment of how well an organisation understands its risks and is managing them.*
Risk Register: *A complete list of risks, identified by management or audit, which threaten the objectives of the organisation.*
Significant Risk: *A risk, inherent or residual, above the risk appetite.*