Borivali (Central) CPE Study Circle of WIRC of ICAI

Changing Role of Internal Auditors (IA) & Expectations of Audit Committee from IA Function

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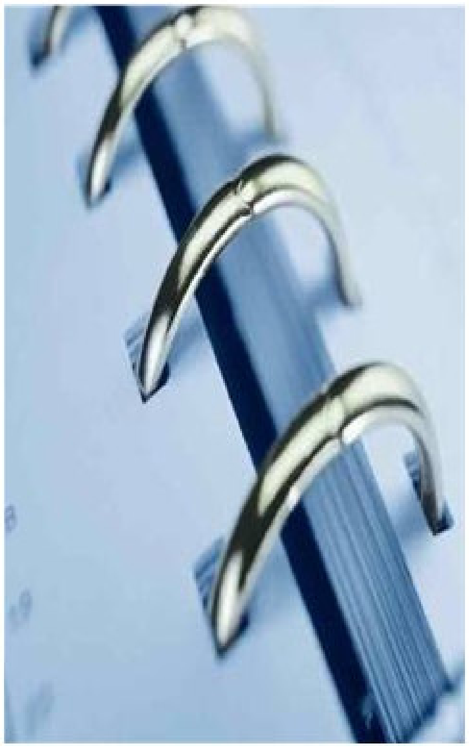
Our discussion today…



Section - I

Changing Role of
Internal Audit Function (IAF)

Broad Expectations from Internal Audit…!

Spirit & Mindset of IA Function must be as Entrepreneurial, as it is in any Corporation; it also has Customers, Products, Resources & Competitors, just as any other business...

Senior Vice President & General Auditor, State Street Corporation, Boston

Internal Audit Function shall adopt Modern Approach, Guidelines & Best Practices, as a mean to strengthen their operations & add value to overall Organizations they serve...

Cass Business School, City University, London

Internal Audit Functions shall Proactively assist Management in Compliance as well as Effective Risk Identification, Quantification and its Management…

Evolved Role of Internal Audit

Oversight

③ Assurance over the internal control environment

③ Facilitate Risk Management and monitoring process

③ Provide Key inputs to Strategic initiatives

④ Drive the Awareness of business controls with Company Policy and procedures

Compliance

③ Regulatory and Statutory Compliance

③ Test design and Operating Effectiveness of Controls

③ Reporting of Irregularities or Fraud instances

Value addition

③ Capture and implement Best-in-Class Practices

③ Highlight Opportunities for Improvement

③ Education Hub on Internal controls i.e. training

③ Knowledge Sharing of key business issues

Assurance

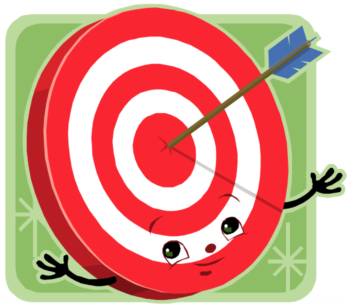
Advice

Expectation of Internal Audit to Contribute more towards Organizational Goals and Strategy

A New Focus for Internal Audit

Mission of an Internal Audit in an Organization:

To provide the Board and Senior Management and Other Key Customers, with a High Quality, Cost Effective and Value added services, with focus on assisting Management in Achievement of the Goals and Objectives of the Organization in the Corporate plan.



Internal Audit function's role has moved beyond traditional internal audit practices

Functions linked with Organization Objectives…

"What gets measured gets controlled"

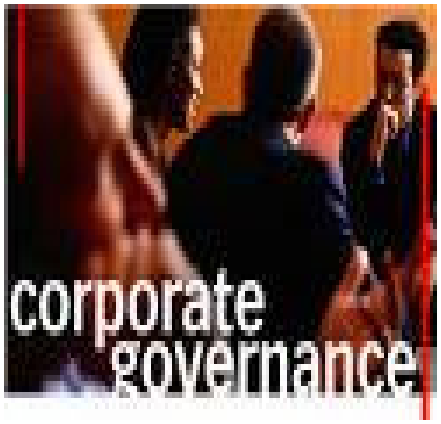
Functions	Parameters	Corporate Objective
Sales	Sales Growth	Sales Growth
Procurement	Cost reduction	Better Margins
Human Resource	Attrition & Cost Reduction	Retain Best Industry Talent
Production	Efficiency & scrap/ defective %	Better Margins & Efficiency
Logistics	Cost reduction; Service availability	Efficiency & Better Margins

Illustrative purpose only…..

If various functions have objective for its existence, are aligned to corporate objectives & also evaluated on specific parameters…

Why not Internal Audit?

Good Governance Practices - Creates Greater Responsibility for Internal Audit



- Independent Audit Committee
- Internal Audit Charter approved by Audit Committe
- Introduction of Code Conduct/ Ethics
- Whistle Blower Policy
- Independent Grievances Cell/ Call Centre
- ERM & Clause 49 requirements
- Formation of Core Committee of Senior Mgmt.
- Direct Reporting by CIA to Audit Committee

Changing Expectations from Internal Auditor

- Support & Assist Board & Management in discharging Governance Responsibility
- Facilitator of Strategic Inputs to Sr. Mgmt.
- Understand & Analyze Key Business Risks
- Align with Enterprise Risk Mgmt. (ERM)
- Build & Enhance IT linked risks within Functions
- Engage with Process Owners & get ‘Buy In’ for Enhanced Controls
- Offer Practical Solutions
- Be a Change Agent
- Act as a Champion of Fraud Risk Management

Changing Expectations from Internal Auditor

- Continuous Controls Monitoring
- Provide Greater Control Assurance for all Key Risks
- Independent Evaluation of Compliances with key polices, procedures & applicable laws.
- Business supportive practical solutions
- Assist in enhancing Operational Efficiency involving
- Suggest Cost Reduction/ Revenue Maximization measures
- More effective utilization of Assets/ Investments
- Recommendation of Leading Practices - Best in Industry
- Elimination of Non Value Adding Activities

Section - II

Expectations of Audit Committee of Board (ACB) from Internal Audit Function (IAF)

Audit Committee - Expectations

- Internal Audit function should be a **Reliable**, **Independent, and Objective** source of information on entity's operations.

  Independent – Non influencing & un-biased

  Objective - Expressing things as perceived without distortion of personal bias or interpretation

- Provide **Assurance** that **Internal Controls** in place are adequate to mitigate key business risks and operate effectively throughout the year.

Audit Committee - Expectations

- Regular reporting of significant risk exposures and control issues, corporate governance issues and other requested information.
- Provide objective opinions, information, support, and education to Audit Committee.
- Review adequacy and effectiveness of entity - wide ERM processes (including processes to identify, analyze, manage, and report risks) and provide recommendations for improvement.
- Providing guidance in the design and improvement of controls and risk mitigation strategies.
- Implementing a risk-based approach while planning and executing the internal audit process.
- Provide assurance on the completeness, accuracy, and appropriateness of management's classification and reporting of risks.

Audit Committee - Expectations

- High degree of co-ordination and integration between internal audit function and external auditor – engage in open, candid dialogue.
- Internal audit plans have been discussed and agreed with external auditors.
- Internal audit plans and budgets are discussed and agreed with management.
- Internal audit should have open access to the audit committee.
- Internal audit can add value by identifying risks related to subsidiary locations, JV, affiliates, off balance sheet transactions and related entities
- Increasing emphasis should be given on compliance activities.
- Internal audit should report all controversial issues to the audit committee, including those involving senior management.

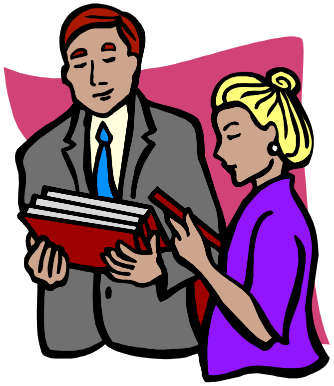
Audit Committee - Expectations

- Communicate with the committee with candor and complete openness.
- Is internal audit the “conscience” of the organization?
- Internal audit should be a value-added activity
- Ability to recognize and report internal control issues
- Ability to follow up on, resolve, and close internal control issues
- Participation in improving the business performance of the company
- Provide information to the audit committee on major frauds or irregularities as well as irregularities in compliance with laws and regulations
- Overall professionalism and conduct of the internal audit function
- Depth of industry knowledge

Section - III

Expectations of Internal Audit Function (IAF) from Audit Committee of Board (ACB)

Internal Audit Functions - Expectations

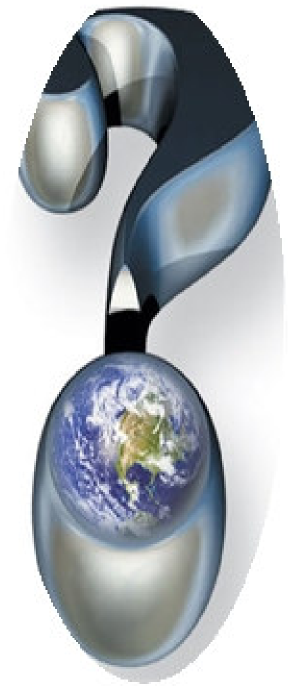


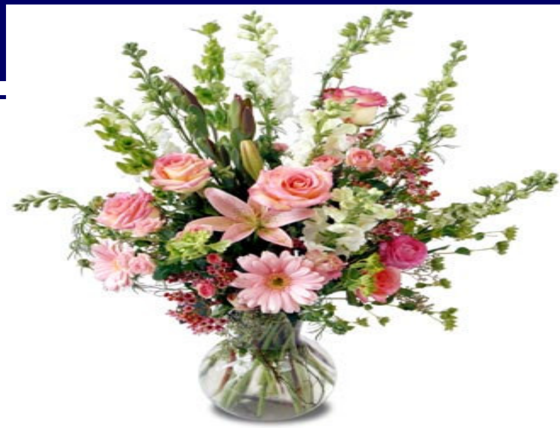
- Review audit plan and give inputs
- Increase involvement in discussing internal audit budget
- Review follow up of issues raised
- Meet ‘in camera’ more often
- Understand financial complexities better
- IT understanding on internal audit issues/ reports/ findings
- Provide sufficient time at each meeting for a full discussion (time commitment).

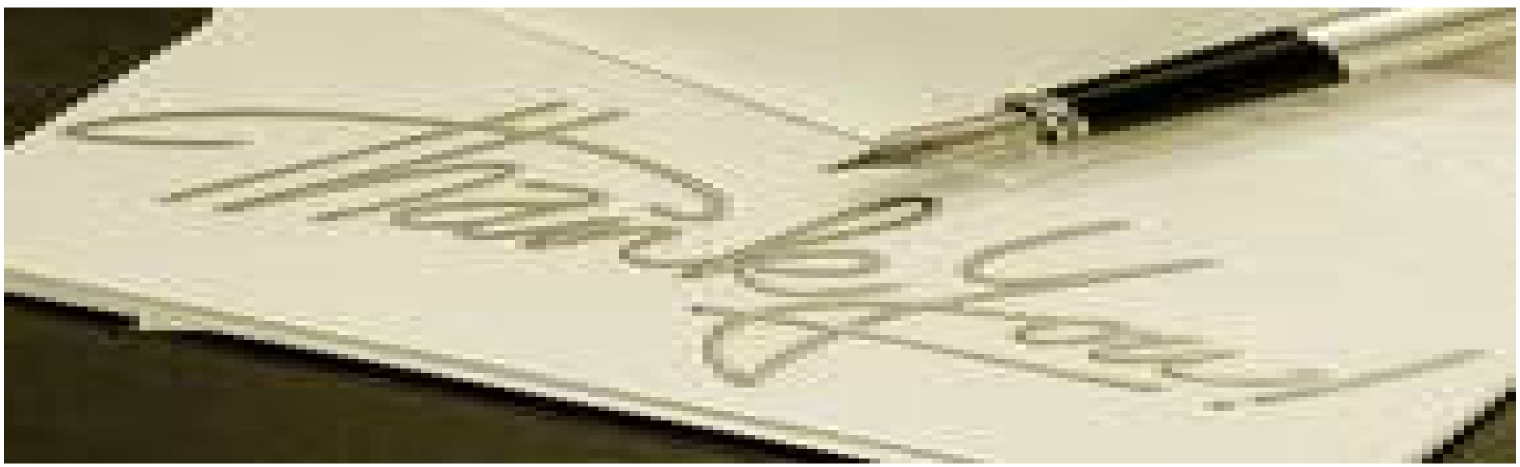
Internal Audit Functions - Expectations

- Sharing of experiences and good practices
- Ask probing questions to :
  - Management
  - External auditors
- Ability and willingness to challenge and probe
- Constructive guidance/feedback
- SUPPORT the internal audit function
- Setting the appropriate “tone at the top”.

Sharing of Experience by Participants/ Questions & Answers Session







Presented By -

CA. Chetan Thakkar