Getting started-Intuition Capsule on Internal Audit Programme

Internal Audit

Internal audit can be simply explained as a most preferred management tool targeted to ensure proper and systematic functioning of an organization

Internal audit provides inputs to the management to assess the working efficiency and effectiveness of the organization as a whole and improve the working capabilities of the organization

The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organizations internal control, risk management, and governance processes.

Similarly an effective internal audit activity provides critical assurance to other stakeholders, such as regulators, employees, providers of finance and shareholders.

Essentially, Internal Audit is a control and functions by reviewing and assessing the adequacy and effectiveness of all other controls.

Ideally, internal audit serves as the eyes and ears of the board and audit committee, being an essential component in the system of checks and balances.

Internal Audit is neither an internal checker of financial transactions nor an extension of the external audit function. It is different and focuses on all business risks.

In summary, an internal audit can help to identify risks, which may lead an entity to fail in achieving its performance and profitability targets.

Internal audits also aid in preventing a loss of assets and resources, in ensuring reliable financial reporting, and in complying with laws and regulations.

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

- Institute of Internal Auditors

Cost Benefit analysis

Internal Audit:

- Identifies controls and control deficiencies;
- Identifies regulatory requirements and compliance therewith;
- Provides recommendations on internal control and governance improvements;
- Determines adherence with company policy and procedures; and
- Assists with channeling effective solutions for controls improvement

Internal audit function is designed and worked out to trace the discrepancies in operations of the organization.

Although internal audit comes with a cost, the benefits derived from the results of internal audit are more than the cost spent, making it the most cost effective management tool to restore the defaults designed by the organization for enforcing and ensuing efficacy of the entity.

As a cornerstone of strong governance, internal audit bridges the gap between management and the board assess the ethical climate and effectiveness and efficiency of operations , and serves as an organization's safety net for compliance rules, regulations and over all best practices.

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Internal audit is construed as a cost center, on keen examination without any doubt we can conclude it as a profit center, which always scrutinizes the organization as a whole and provide valuable inputs to the management and stands as an supportive measure for efficient management. Hence it can be construed as a perfect move for effective management and achievement of business objectives.

Statutory compliance

Companies Act 2013 specifies for

Companies falling under a specified class shall appoint any of the following person,

1. Chartered accountant

   Or

2. Cost Accountant,

   Or

Such other professional decided by the Board of directors

As an internal auditor to conduct the internal audit functions and activities of the company

Class specified by the Companies Act, 2013

(a) Every **listed company**;

(b) Every **unlisted public company** having-

1. Paid up share capital of F**ifty crore(50)** rupees or more during the preceding financial year; or
2. Turnover of **Two Hundred Crores(200)** rupees or more during the preceding financial year; or
3. Outstanding loans or borrowings from banks or public financial institutions exceeding O**ne Hundred Crores (100)** rupees or more at any point of time during the preceding financial year; or
4. Outstanding deposits of Twenty Five(25) Crore rupees or more at any point of time during the preceding financial year; and

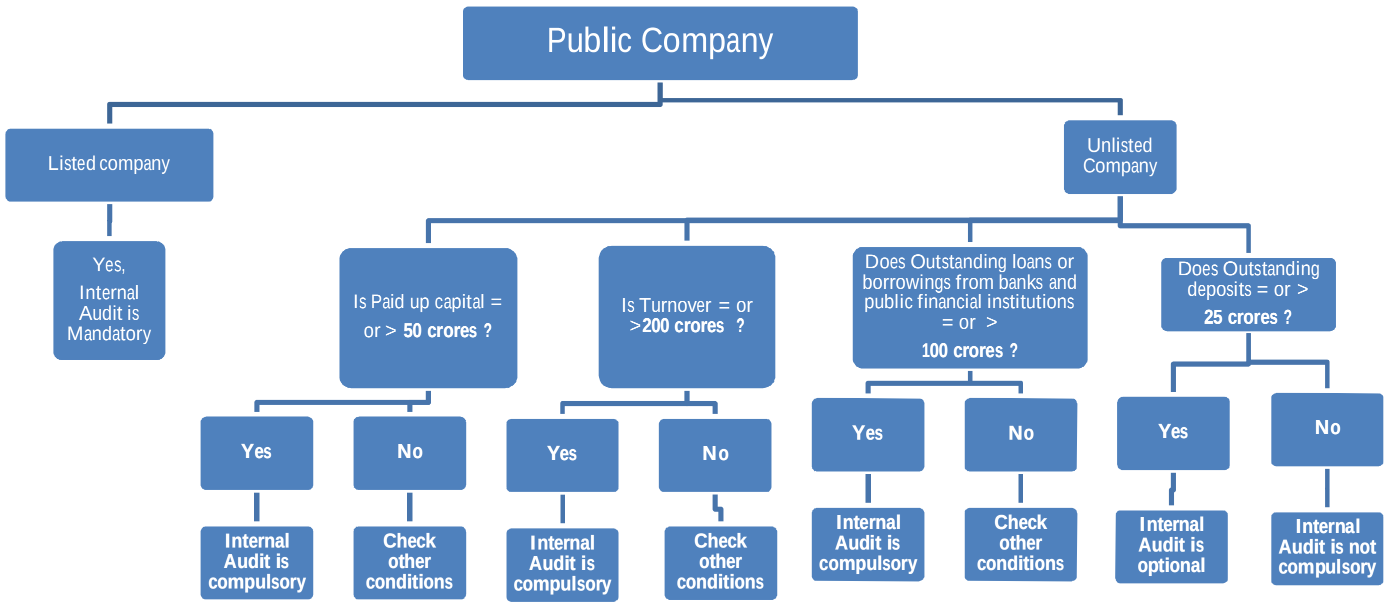
(c) Every **Private company** having-

1. Turnover of **Two Hundred Crore(200)** rupees or more during the preceding financial year; or
2. Outstanding loans or borrowings from banks or public financial institutions exceeding O**ne Hundred Crore** (100) rupees or more at any point of time during the preceding financial year:

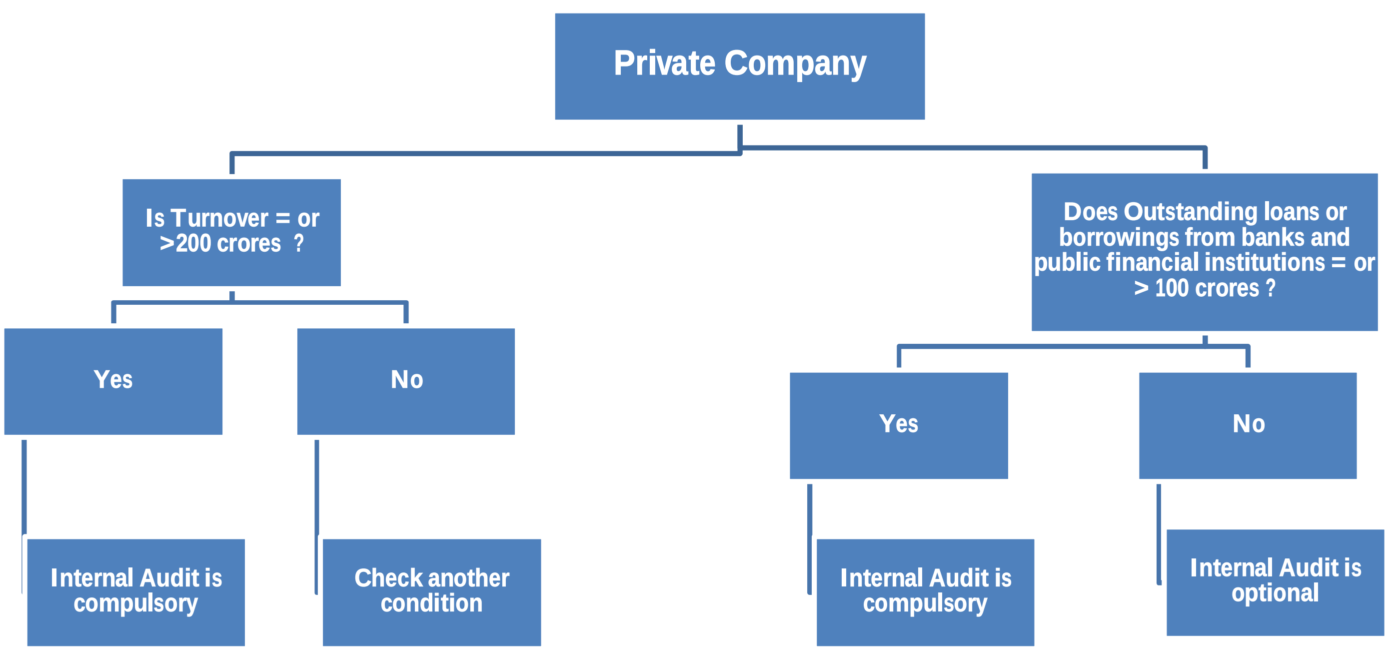
All the companies covered under above criteria shall comply with the requirements within 6 months.

Applicability of Internal audit

In case of Public Companies



In case of Private Companies



Advantages of an Internal Audit system

a) Internal audit helps companies identify the risks and barriers they might face in the path to achieving their business objectives. Internal audit also assesses the likelihood of the risk materializing and its possible consequences.

b) Internal audit can help companies be better prepared to prevent certain adverse events from occurring and also to provide an adequate response should such events occur.

c) Evaluating Controls **of** companies is the vital points to be covered in the internal audit.Internal audit can assess the effectiveness of controls and procedures and evaluates their adequacy in mitigating the risks. Evaluation of controls through experts in this field can help remedy gaps in internal controls and may even lead to prevention and/or detection of fraudulent activities.

d) Ensuring **c**ompliance with regulations as well as internal policies and procedures. A constant focus on this area through the internal audit function can help management promote a culture of "compliance consciousness".

e) If management extends the internal audit scope to include evaluation of enterprise risks, this can enhance the effectiveness and efficiency of processes by identifying duplication and redundant activities.

f) One of the most important benefits of internal audit is to provide assurance to management and a level of comfort to the Audit Committee, Boards of Directors and external stakeholders that the company has a strong control environment that sufficiently mitigates the risks that a company might be exposed to and contributes towards meeting business objectives.

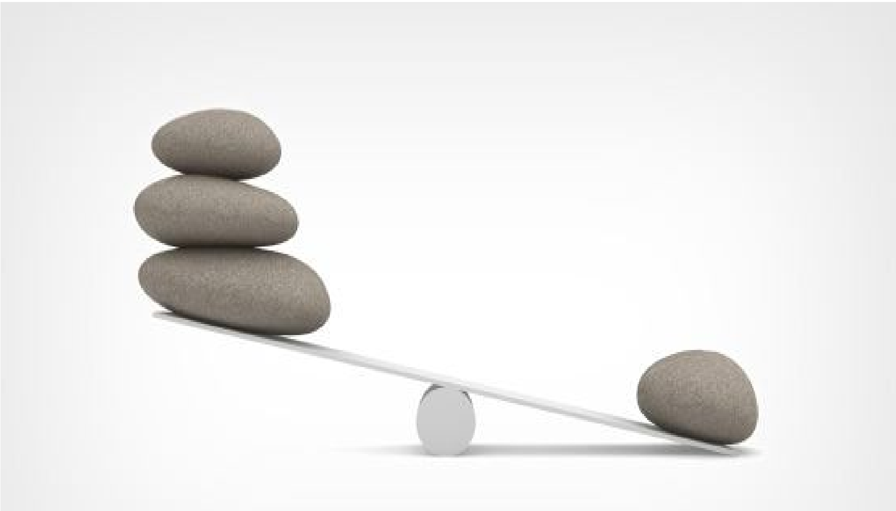
g) Internal audit helps to detect commonly errors and incidental frauds and provides suggestions to improve and correct them which helps the management to take corrective actions.

h) Staff remain alert as their work is verified checked by the internal auditor.

i) As internal audit is targeted to improve efficiency ,Internal audit detects the misuse of resources in time which helps to reduce unnecessary expenses.

j) The work performed by the internal auditor stands as a support for statutory audit and other audits performed by government authorities like Excise, VAT, Service Tax departments etc and increases the integrity of the organization.

k) Internal audit increases the morale of honest staff because evaluation of performance of any staffs will be made at any time.



An active and informed audit committee provides the ultimate independent and objective oversight of the corporate control environment, including focus on emerging trends and risks. Internal auditing is the primary agent of the audit committee within the company

- Ford motor company

Types of Internal audits

Financial

Audits involve the evaluation of internal control processes over revenues and expenses, and the accuracy of their reporting in accordance with laws, regulations and internally developed policies and procedures. In addition, the safeguarding of the entity's assets, as well as the fair presentation of its rights and obligations may be the subject of financial audits.

Operational

Audits examine the use of the entity's resources to evaluate whether those resources are being used in the most efficient and effective way to fulfill the entity's mission and objectives. These are sometimes called performance audits.
An operational audit may include elements of both a financial and compliance audit.

Compliance

Audits review both financial and operating controls and transactions to see how well they conform to established laws, standards, regulations and procedures. In addition the audit might identify gaps between regulations and entity procedures, and in turn, would suggest training and follow-up programs to ensure personnel are adequately informed about compliance requirements.

Management Audit

The purpose is to review and evaluate business and management issues to enhance profitability. Its scope is on the business support activities of a unit or the entire organization. The expected results from this audit are to give opinion on strategic issues and recommendations or solutions.

Information Technology

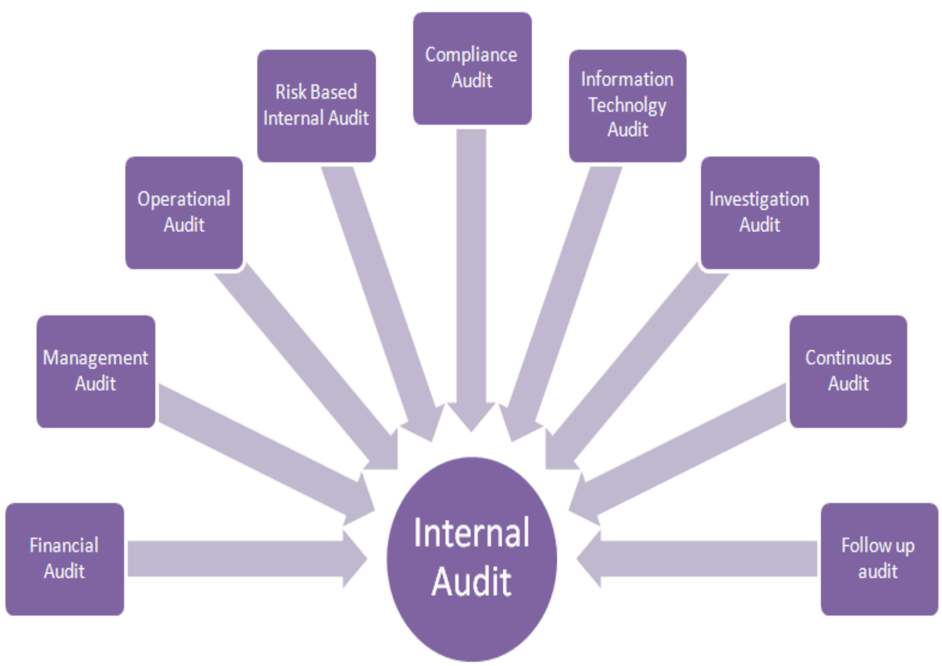
Audits evaluate the internal controls related to the management of information technology environments and related infrastructure, applications and data.

Continuous Auditing

The objective of Continuous Auditing is to assess the completeness, accuracy and propriety of a monthly sample of transactions using Computer Assisted Audit Techniques (CAAT's). CAAT's are tools used by Internal Audit to select samples and monitor transactions and data recorded for anomalies and compliance with organization policies and procedures.

Investigation Audit

The purpose is to audit in dept into irregularities such as misappropriation of bank's assets or reported fraud or allegations. Its scope is in the area specified to determine modus operandi. The expected results from this audit is to give conclusion to findings with recommendations to prevent recurrence. .



Internal Auditing is a valuable resource to an organization's executive management, governing bodies (audit committees), and other stakeholders in helping them achieve their business goals and objectives, as well as strengthening internal control and governance.

This might be a lot to ask from one organizational resource, but for Internal Auditors — it's all in a