



Internal Audit – A tool or a challenge for CFOs

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Internal Audit – *Then & Now*

Traditional Internal Audit

- **Independent eyes and ears** of boards - *for risk oversight and compliance*
- **Inspection-oriented**, custodian of corporate governance
- Transaction based - focus on sample testing of **financial controls**



New-Age Internal Audit

- More **strategic and proactive**
- **Forging partnerships** with the business
- Risk-based & tech. driven - focus on **strategic, business and compliance risks**



Changing risk landscape & IA Role

New risks and opportunities for organisations to consider:

- New competitors
- Disruptive technologies
- Changing cost structures and global regulations
- Geopolitical risk and supply chain disruptions

Changing Role of Internal auditor

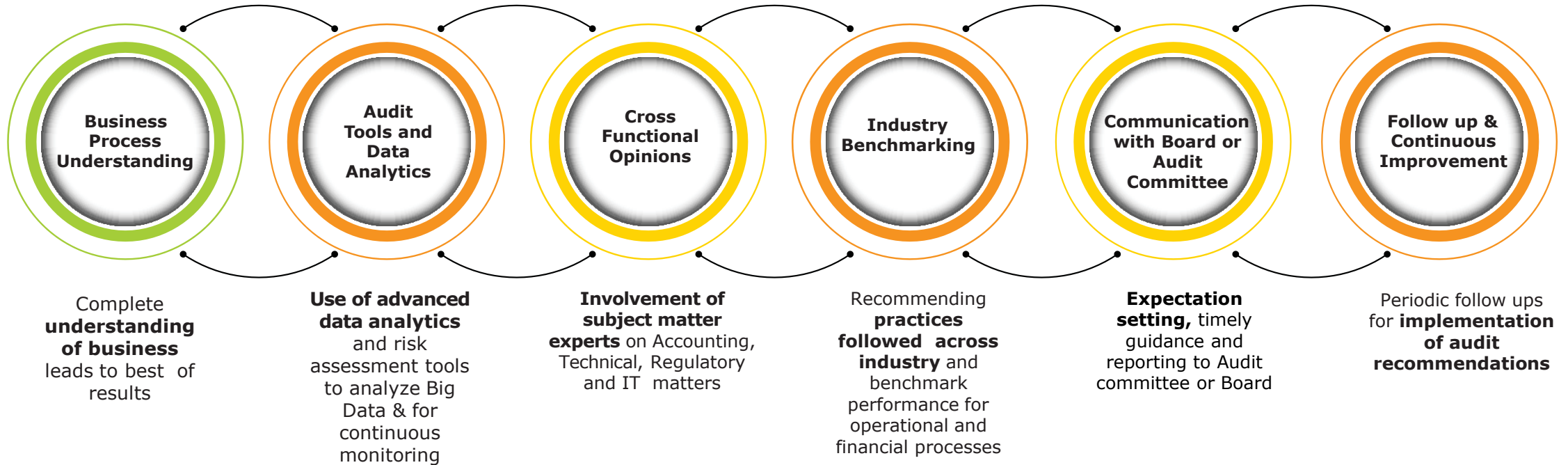
**Value
preservation**
(control focus)



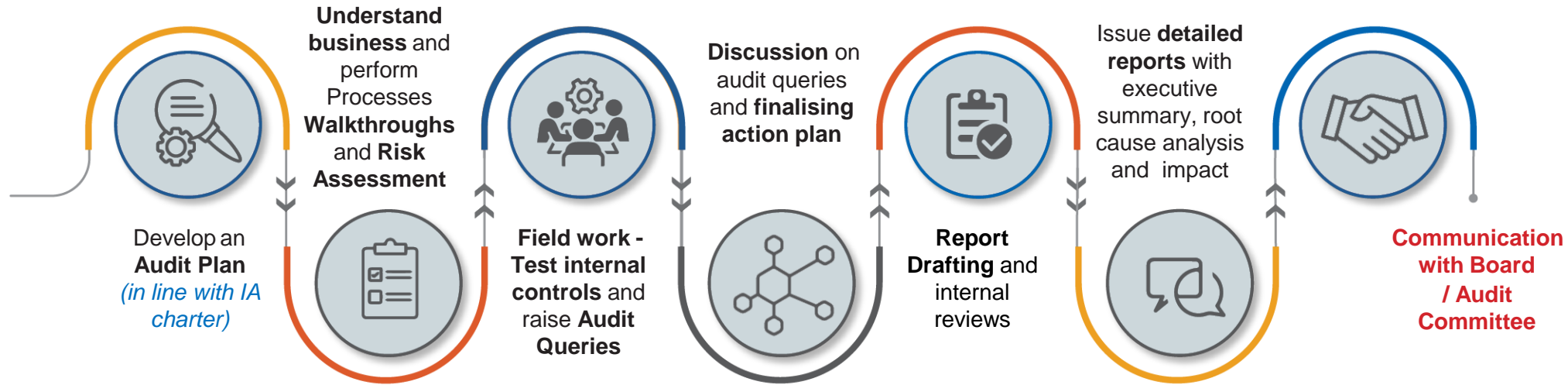
**Value
Creation**
*(performance &
growth focus)*



IA Approach



Audit Methodology



Focus Areas

Enterprise Risk management

Risk-based audits with risk ratings linked with impact and root cause

Regulatory Compliance Framework

Presenting compliance scorecards

Enhanced Fraud Risk Assessment

System-based solutions focused on automated controls

Internal Audit – Key Deliverables (Reporting Template)

1 — Internal Audit Report is divided in 2 parts-

- *Executive Summary*
- *Detailed Report*

2 — **Scorecard** given for key statutory compliances

3 — All observations given **risk rating** in 3 categories – *High*, *Medium* and *Low*

4 — **Root cause and impact** is given for each observation as –























- *Root Cause – Organization design, People Effectiveness or Technology*
- *Impact – Operational, Financial, Strategic Business or Compliance*

5 — **Category Classification** in terms of Audit Area –

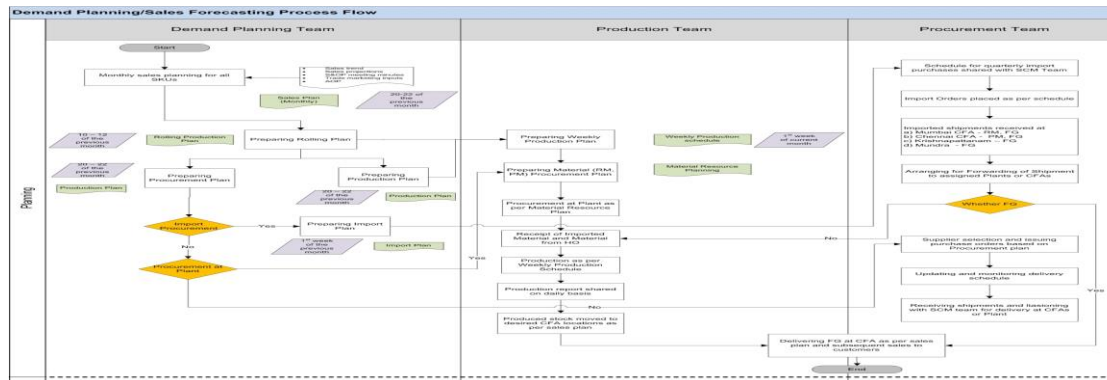
- *Value Addition*
- *Statutory Compliances*
- *Risk & Internal Control*
- *Policy, Procedure & Documentation*

Internal Audit – Key Deliverables Reporting (Template – *Illustrative*)

Statutory Compliance Snapshot

Snap Shot of Statutory Compliances					
	Statutory Compliance	Audit rating		Statutory Compliance	Audit rating
1	Tax withholding		4	Sales tax/VAT	
	• Deducted/Withheld			• Deducted/Recognized	
	• Deposited with tax authorities			• Deposited with tax authorities	
	• Returns furnished			• Returns furnished	
2	Service Tax		5	Gratuity	
	• Collected/Recognized			• Provisioning requirement	
	• Deposited with tax authorities			• Documentation (Form C, H & F)	
	• Returns furnished				
3	Provident Fund & ESIC		6	Bonus Act	
	• Deducted/Recognized			• Documentation	
	• Deposited with authorities			• Payment and return furnished	
	• Returns furnished				
	• Documentation maintained				
			7	Labour Laws	
				• Maintenance of Records	
				• Return filing	
	Unsatisfactory		Requires Improvement		Satisfactory

Business Process Flow Chart



Audit Observations & Recommendations

1.1 Observation

1.1.a Observation

Risk:

Recommendation:**Management comment:****Responsibility and target date:**

Responsibility :
Target Date :

Root Cause	Organization Design	Operating Design	People effectiveness	Technology
Impact	Financial	Operational	Strategic Business	Compliance

Risk-Response Matrix

The matrix below summarizes the business impact and implementation effort of the issues and observations detailed in the report. This matrix provides an overview of important recommendations.



Expectations from Internal Audit

Agile and resilient IA function

Focus on **business value - continuous risk monitoring**
(Risk-based Audits)

Increased audit **quality** and **reduced cost**

Shorter, accelerated **audit cycles**

Increased collaboration between audit team and auditee, improved expectation management

Improved project visibility – IA Project Dashboards and MIS

Timely insights and reporting



Risk-based Internal Audit (RBIA) – Key Steps



Internal Audit – A tool for CFOs



Looking **beyond** the scope of **financial execution** tasks

Setting **strategic goals** of an organisation

Extracting greater **value from investment in internal audit** - IA process costs around 0.02% - 0.12% of revenue (for Fortune 500 companies)*

For CFOs to play **more-strategic roles** - a forward-looking IA department can be a valuable weapon in their arsenal

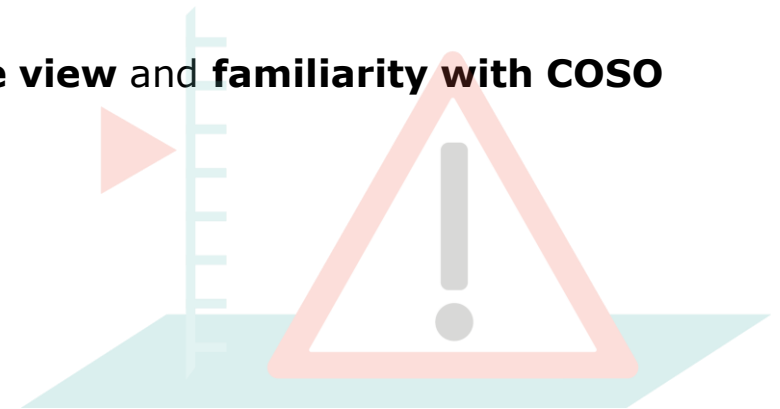
Internal Audit – A tool for CFOs

1. Supporting the Leadership Agenda

- **Changing role of CFOs'** – at the centre of leadership decision making and influence
- **Similar opportunities for IA & CFOs** → *Expand Value Preservation and support Value Creation (like finance transformation, M&A, post-merger integration, strategic sourcing, ESG, tax planning, IPOs, technology as enabler for change etc.)*

2. Enterprise-wide Risk Management (ERM)

- IA's **knowledge of organization's key risks**, its **enterprise-wide view** and **familiarity with COSO framework** brings an important perspective for CFOs
- IA helps in developing a **single consolidated view of risk**
- **ERM added as a component in scorecard** for CFOs



Internal Audit – A tool for CFOs

3. Technology Enablement and Data Analytics

- **Increasing the impact of audit findings** through technology and advanced analytics
- **IA data analytics** can be of value for CFOs for **risk prioritization**
- New technologies are **making reports timelier and more accessible** - *predictive modelling and continuous auditing for real time assurance*

4. Overall Compliance and Real-time Assurance

- IA checks the compliance of applicable laws, regulations and industry standards and presents a **scorecard**
- IA's **Compliance Scorecards and Overall Risk Scoring of Business Functions** gives more confidence to CFOs to certify financials and compliances (*CEO/CFO Certifications under LODR and SOX certifications*)



Challenges

1. Attracting talent with non-traditional Audit skills

- Introduction of emerging technologies require **unconventional ways to audit**
- **Manpower** with requisite advanced analytical skills **not readily available**
- Evolving **employee expectations**, changing work culture
- 1/3rd of audit leaders believe - *high-performing talent is leaving their organization*
- Risk leaders have **lower confidence in team's ability to audit evolving areas** - *cybersecurity, ESG, IT audits etc.*



2. Inadequate assurance over Cyber security risks

- **Lack of cybersecurity expertise** among internal audit staff
- **Inability to provide assurance** over readiness and response to **cyber threats** and **inadequate IT audit practices**
- **Lack of cooperation** or communication from company's own **IT department**

Challenges

4. Keeping pace with ever expanding Risk Universe

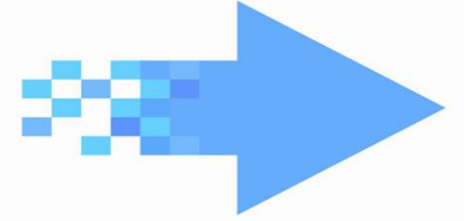
- **Sustainability** targets - *ESG Reporting*
- Increasing **Fraud Risks**
- Ever **expanding regulatory compliances**
- **Cloud computing**
- **Business continuity** and disaster recovery



4. Filling the technology gap

- Technology / digitization of IA function is equally important as for other business functions
- Inability to make a leap to advanced analytical applications
- **Inadequate IT auditing practices** and skill sets
- **Insufficient investments** in technology

Key Considerations for CFOs



Focus on the future – **Risk-Based auditing**

Augment skill sets and leverage resources - *involvement of IT/ cyber security and subject matter experts*

Consider **co-sourcing** or **outsourcing** as a viable option, when in-house skills are not adequate

Continuous monitoring and analysis using advanced analytics

Timely feedback of IA's performance and reporting to the Board

