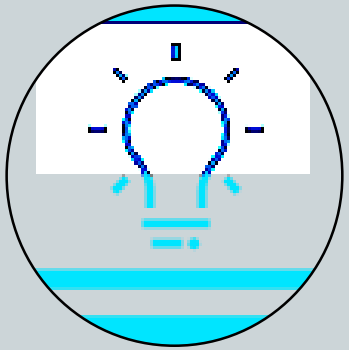
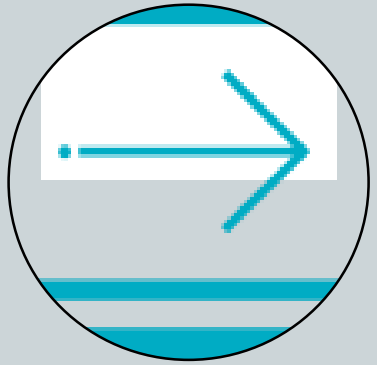
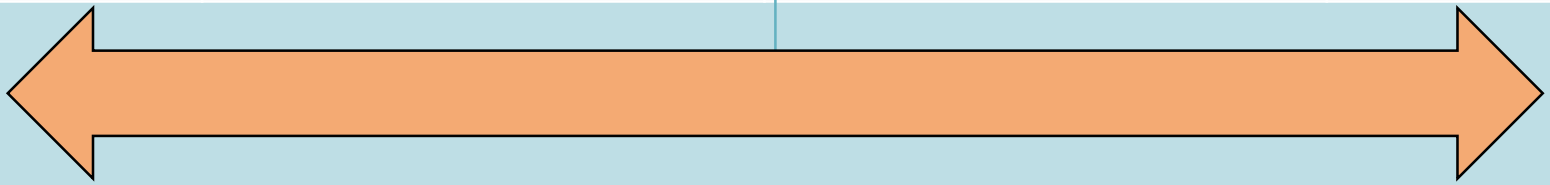
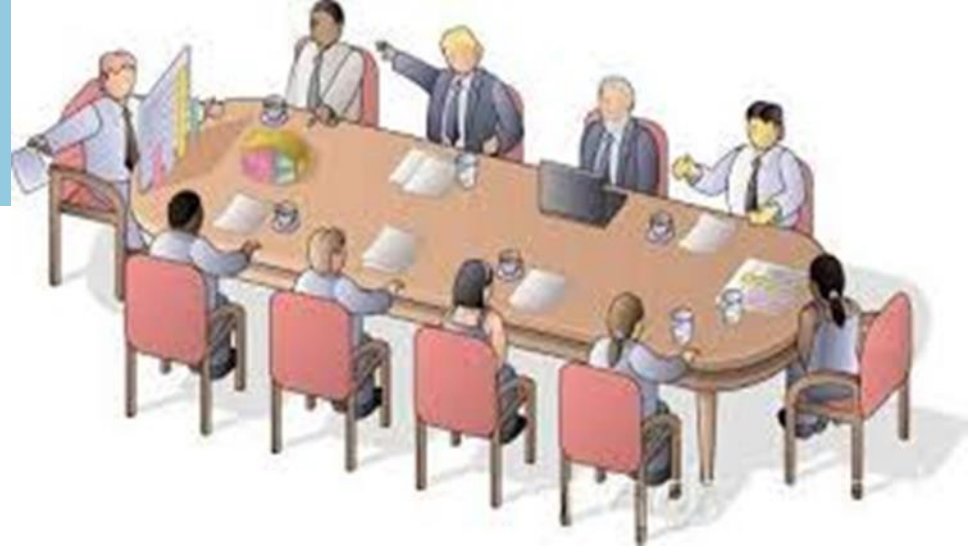
BEST PRACTICES IN THE EXECUTION OF

AGENDA

Audit Planning	Audit Execution	Audit Reporting	Audit Closure
			



AUDIT PLANNING - OPENING MEETING



AUDIT PROTOCOL :

- Overview of Audit Process
- Nature of Reports / Key Deliverables
- Audit Universe and Scope of the review
- Audit Period and Milestones
- Resource Competencies
- Audit Coordinator
- Escalation Matrix
- Leaves and Critical periods

SET THE TONE :

- Audit Objectives (Assurance / Value Add)
- Business Objectives, Strategies and risks
- Assess the Internal Control Environment
- Any major organizational system changes
- Any processes undergoing changes
- Understand Auditee's concerns
- Area(s) where Auditee is not the control owner

PRELIMINARY DATA REQUEST :

- Process / Policies / Guidelines / Directives
- Empowerment Matrix / Delegation of Authority
- CSA Reports / MIS / Dashboards
- Key Performance Indicators (KPI Reports)
- Job Description of Key profiles
- Board / Audit / BRM Documents
- Projects in Hand / Assignments / Project Tracker
- Process / Concurrent Audit Report

Know the Business Customer and Ecosystem

Business :

- Business Strategy / Goals (Long Term and Short Term)
- Vision and Mission
- Main & Ancillary products / services
- Key markets of operations
- Business SWOT
- Organization Structure
- IT applications / systems / interfaces - ERP / SAP, Core Business Solutions (CBS)

Customer : Auditee

- CEO + CFO
- Board
- Audit Committee
- Risk Committee
- Regulator
- Shareholders / Promoters
- Lenders / Funding Agencies
- Advisory and Lawyers

Ecosystem

- Competitors & Market share
- Key Customers
- Business Partners – Suppliers / Agents / Contractors
- Regulations applicable – IRDA, SEBI, RBI, FDA,
- Continuous update of what is happening in the professional field *(Risk Management guidelines, Forensic, Auditing Standards etc.)*

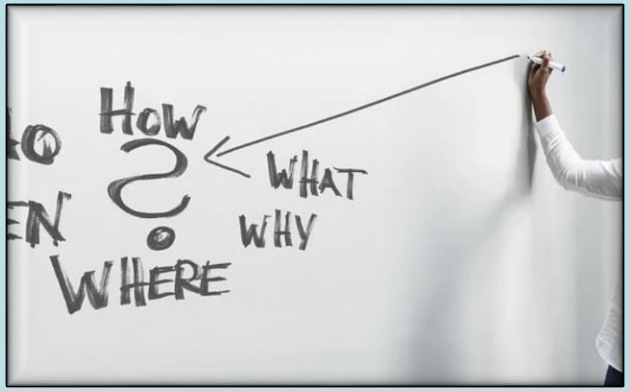
AUDIT PLANNING _ KEY OUTCOME

OPENING MEETING

KNOW THE BUSINESS

KNOW YOUR CUSTOMER

AUDIT SCOPE MEMO



AUDIT PROTOCOL

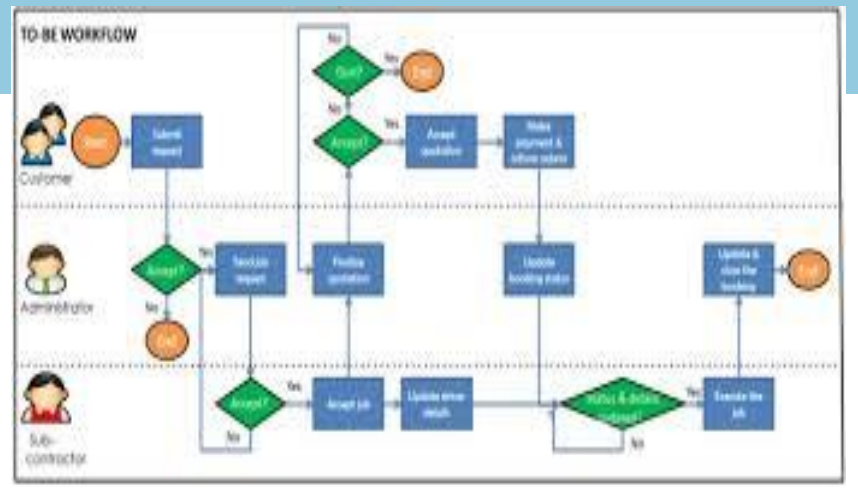
PRELIMINARY DATA REQUEST

Audit Execution

MEETING & INTERVIEWS

- Obtain an overview of the process
  - ✓ Understand process objectives
  - ✓ Key process participants,
  - ✓ Key metrics,
  - ✓ Potential areas of weaknesses
  - ✓ IT systems used

- Who makes decisions, based on what data, and how are these documented / communicated; handling of exceptions, etc.



MAPPING OF PROCESS, RISKS & CONTROL

- Creation of high-level process maps to document understanding of the process
- Validation of process maps by the Process Owners
- Minutes of Meeting circulated to Process owners
- Assessment of 'What Could Go Wrong' at each stage of the process
- Identify existing controls for mitigating risks
- Creation of Risks and Controls Matrix (RCM) to documents risks and controls identified

Audit Execution

DATA REQUEST

- Request Specific Data vs Generic Data
- Learn the system and spool the report yourself from the Applications

TESTING OF CONTROLS

ANALYTICS

- Perform Analytics through Computer Assisted Audit Techniques or Digital Softwares (Macros, ACL, idea)
- Performance of compliance procedures over transactions so as to identify deviations from the laid down policies and procedures

SAMPLING

- Based on scientific sampling techniques;
- Sample to cover all variations in the transactions that could occur;
- Check if same sample is used to test multiple controls
- Exception report _ RCA _ end to end process for exceptions identified from Testing and Analytics to understand why the exception/s occurred

Audit Execution

TESTING OF CONTROLS EXISTENCE AND EFFECTIVENESS

A. Existence: Validation through Walkthrough / Site Visit / Demo

B. Design Effectiveness:

- Is the control mitigating the risk?
- Is there a better way of operating the control?)
- Comparison with best practices

C. Operating Effectiveness:

Some considerations of the controls that are designed effectively;

- Nature of control and significance in achieving control objective
- Whether more than one control achieves a particular objective
- Assess whether significant changes in volume or nature of the transactions might adversely affect design of control or its operating effectiveness
- Degree to which control relies on effectiveness of other controls
- Whether it's an automated / person dependent control and thus prone to error.
- Assess the Competency and independence of the person who performs the controls
- Assess the Likelihood that a control is bypassed during peak processing periods
- Potential for management override of a control
- Changes in related processes

Audit Evidence

- Gather Appropriate, Sufficient and Reliable audit evidence
- Record all audit evidence collected in such a manner that it can be reproduced (if in digital form) and reviewed independently of the Internal Auditor.

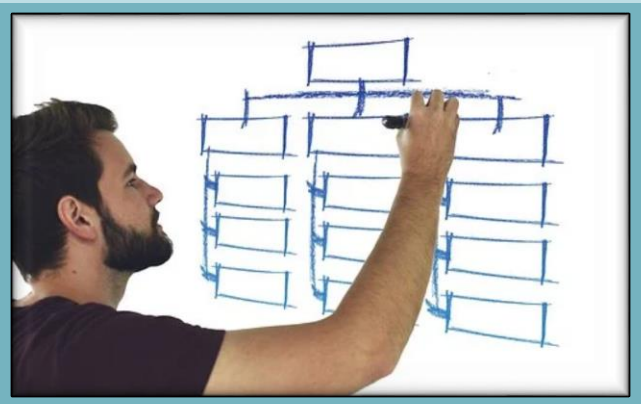
Nature of Evidence

- Collected either from the underlying company's books, records, systems and processes. This includes Documents supporting transactions (e.g., bills/invoices) or business arrangements (e.g., contracts/agreements) are evidences in the nature of the former.
- Through the performance of audit activities and testing procedures. The evidences for which are collected by performing one or more of the following audit procedures, i.e., checking, inspection, observation, inquiry, confirmation, computation, re-performance, analytical review and using the help of experts.

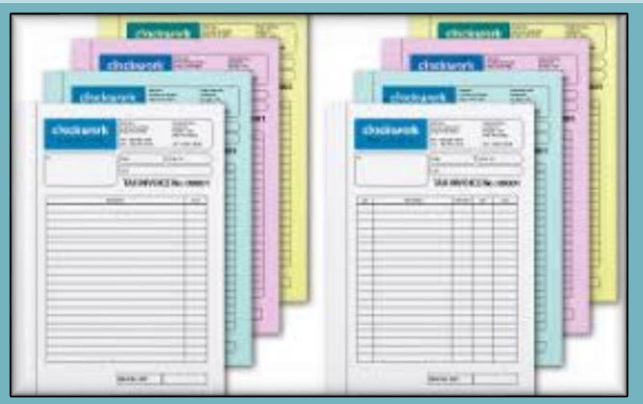
Draft a written process explaining the manner in which audit evidence is to be gathered, reviewed, recorded and stored in conformance to the Standards on Internal Audit.

AUDIT EXECUTION _ KEY OUTCOME

DETAILED MEETING

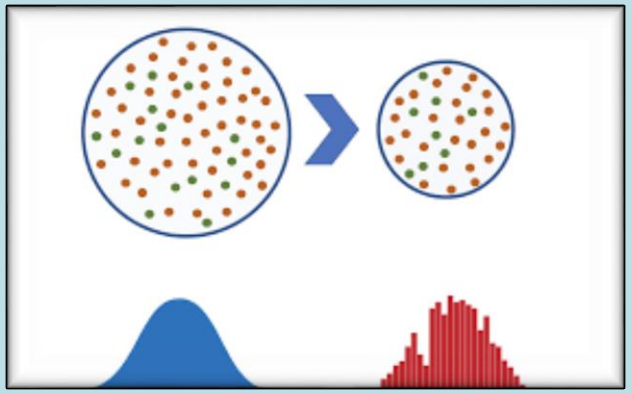


PROCESS MAPS & RCM



SPECIFIC DATA REQUEST

TEST OF CONTROLS



SAMPLING

AUDIT EVIDENCE

Audit Reporting

Preliminary Query Sheet

- On Realtime basis the Risk indicators
- Agree response time with process owners
- conduct regular follow-ups and escalate (per the protocol agreed) if responses not received within defined time frame.
- Basis the response received on the Query Sheet, discuss the same with your Audit Director and Auditee before drafting the report.
- Draft Report / Final Report

Closing Meeting

- With Process Owners / Functional Heads to validate observations
- Agree on action plan with responsibility
- Target date for implementation of recommendations

Audit Committee Reporting

- Executive Summary
- Business and Process Overview
- Audit Opinion (*along with a comparison for previous audit opinion)*
- Risk Rating and classification of Findings
- Note for consideration or Areas of Improvement *(which is not part of a Finding)*
- Key Recommendations and Best Practices
- Status on last years findings *(Open / Closed / Repeat)*

Recommendation

- Co-develop Practical and Implementable solutions.
- Understanding of the Company, the market in which it operates, the process objectives and the right root cause help us in providing the most practical and beneficial recommendations.

Audit Reporting

Audit Finding

- Follow the Finding Hierarchy Transactional | Policy | Process Control | Governance
- Each Findings should describe the nature of a Control Gap / lapse along with Risk Implication.
- Mere facts and figures doesn't indicate an Audit Finding.
- Deviations should have exact details – No ambiguity of ' few / certain / some / most / largely etc.

Audit Articulation

- Must be simple and lucid.
- Avoid Complex sentences and information overload
- Every Audit Finding must describe:

  ✓ Audit finding title
  ✓ Facts: Quantified & Qualified data
  ✓ Brief background giving reference of the process
  ✓ Root Cause of the Finding
  ✓ Nature of the Finding (Design Deficiency / Control Lapse)
  ✓ Reference of Annexures
  ✓ Risk Severity / Audit Rating
  ✓ Recommendation

Audit Opinion

- Audit Rating should be done based on the established and agreed criteria (High / Medium / Low)
- Design Ineffectiveness vs Operating Ineffectiveness
- Mention REPEAT ISSUE – If its a reoccurrence in the same Branch / Function OR even other Branch / Function

AUDIT REPORTING_ KEY OUTCOME

QUERY SHEET and REPORT

CLOSING MEETING

AUDIT COMMITTEE REPORTING

AUDIT FINDING

AUDIT ARTICULATION

AUDIT OPINION

Materiality

- Difference between a Finding and an error
- Difference between a Moderate Risk Finding and a LOW Risk Finding
- Consideration of Actual Risk and Potential Risk
- The difference between all the above is "MATERIALITY"
- One off cases can be excluded from Audit Report and communicated via Audit Memo
- Too many findings creates Audit Fatigue and loss of essential risks

Never Never compromise on Audit Opinion if it has a Potential Risk of HIGH / MODERATE category

Let the Auditee feel that you have a large heart to FORGIVE errors ☺

Value Addition

- Internal Audit = Assurance Services
- Audit **MUST Add VALUE** to the Stakeholders : Service Philosophy
- Value Addition includes:
  - ✓ Recommending Best Practices
  - ✓ Conducting / Sharing a Benchmarking study
  - ✓ Giving Practical recommendations
  - ✓ Opinion on Strategy
  - ✓ Out of the Box is the IN thing
  - ✓ Introduce Contemporary Auditing
  - ✓ Vouching, Vouching Vouching …..is Ouch ing
  - ✓ Auditee expects Innovation in Audit Methodology / tools deployed
  - ✓ Audit Execution to include 'Surveys / Interviews' , Physical observation
  - ✓ Audit Reports to include graphs / visuals – to tell a 'Story'

Value Addition doesn't mean Taking on the roll of the AUDITEE

Audit Closure

- Update your Audit Program
- All ***Audit Work Papers*** to be properly structured, indexed referenced and archived within 30 days to ensure quick and easy retrieval
- Follow proper Folder and File Naming conventions
- Audit Team Leader to review and sign-off on Audit Completion Checklist

Proper ***trail and approval*** for the following

- Audit areas Scoped out / not audited due to data not received / other challenge
- Audit Finding Dropped
- Audit Limitations (if any)

- Audit Team Leader to circulate ***Post Audit Engagement Survey*** to the auditee
- Survey duly completed by the Auditee should be directly received by the Audit Director to understand the Feedback and areas of improvement
- In case of 'Unsatisfactory' Feedback, write back / meet the Auditee

Issue the ***Final Set of Report*** to all the Auditees and Senior Management

Audit Work Papers

- Includes written records (electronic or otherwise) of various audit activities and procedures conducted, including evidence gathered, information collected, notes taken, and meetings held.
- It includes, for example, internal memoranda, letters of confirmation and representation, checklists, external reports and correspondence (including e-mail) concerning significant matters.
- Abstracts or copies of the entity's records, significant and specific contracts and agreements may be included as part of internal audit documentation, if and when appropriate.
- Audit evidence *(as explained in previous slide)*

Communication Protocol

- Communication :– Verbal | Digital | Non-Verbal
- Most used communication medium is – Digital (Email / Text / Whats app)
- Ensure Stakeholder Management by having continuous engagement with them. Keep them informed at every stage of Audit
- Auditee expects prompt, simple and specific communication
- Communication is required at different stages.
  - ✓ Audit Start Date and Audit Schedule
  - ✓ Audit Scope
  - ✓ Any Change in the Audit Schedule
  - ✓ Queries on Real time and ongoing basis
  - ✓ Escalation in case of non receipt of data
  - ✓ Interim updates / meetings by Team Leader | Audit Director
  - ✓ Minutes of Critical Meeting

Others

Attribute Standards

- Strong Value System – Integrity and Ethics
- Independence in giving Assurance
- Reliability | Walk the Talk

Performance Standards

- Auditors to have Risk Acumen even though may not have domain finance knowledge
- A mix of cross professional team is advantageous to execute special assignments
- Continuous update of what is happening in the professional field (Risk Management guidelines, Forensic, Auditing Standards etc)

thank
you