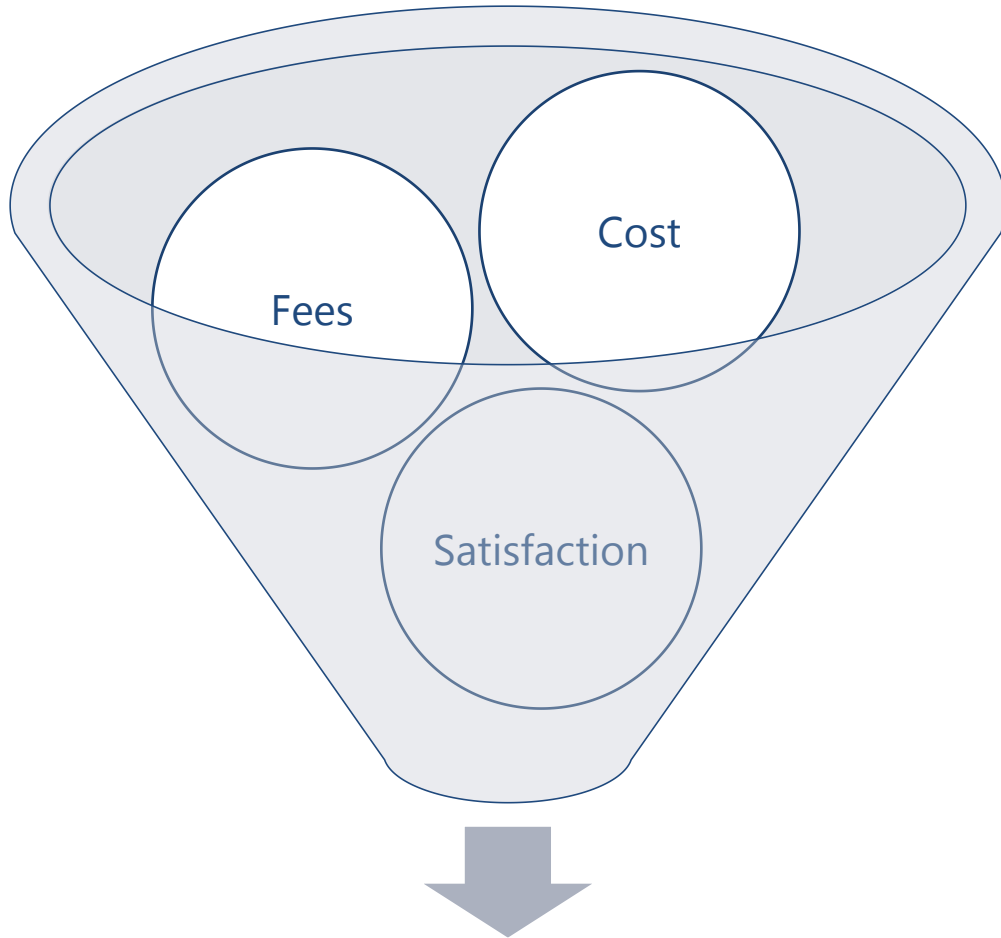


# **Value addition through Internal Audit**

## **WIRC –webinar on 5<sup>th</sup> May 2020**

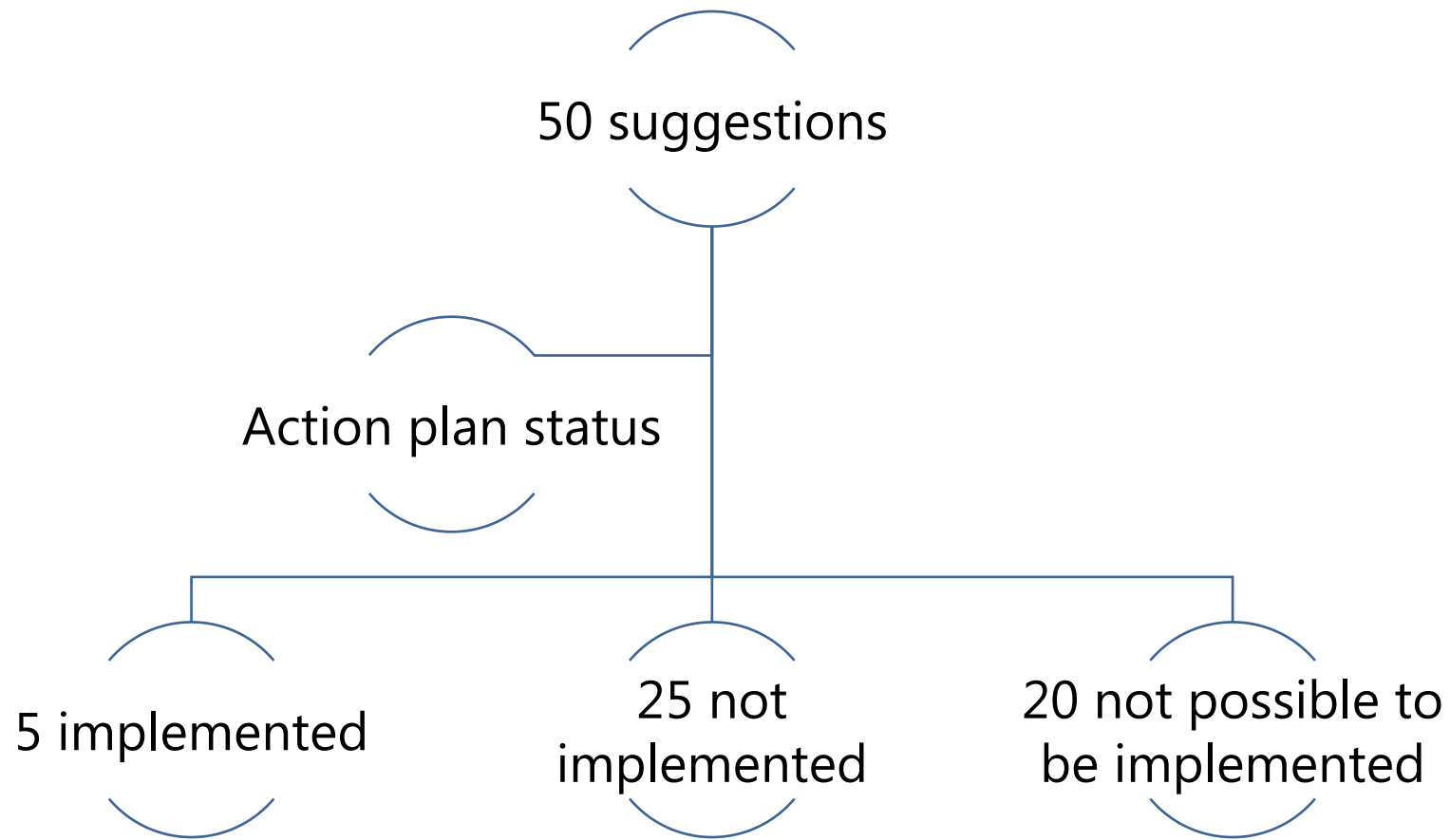
# Do we consciously think about the following



Engagement renewal

- Is internal audit viewed as a cost center or a profit center
- Do process owners welcome the internal auditors with open arms
- Compliance Vs continuous improvement

# How do we read the below data



- Company is not keen on implementing IA recommendations

Or

- Whether suggestions given were practical

# How do we measure effectiveness of IA

Benefits

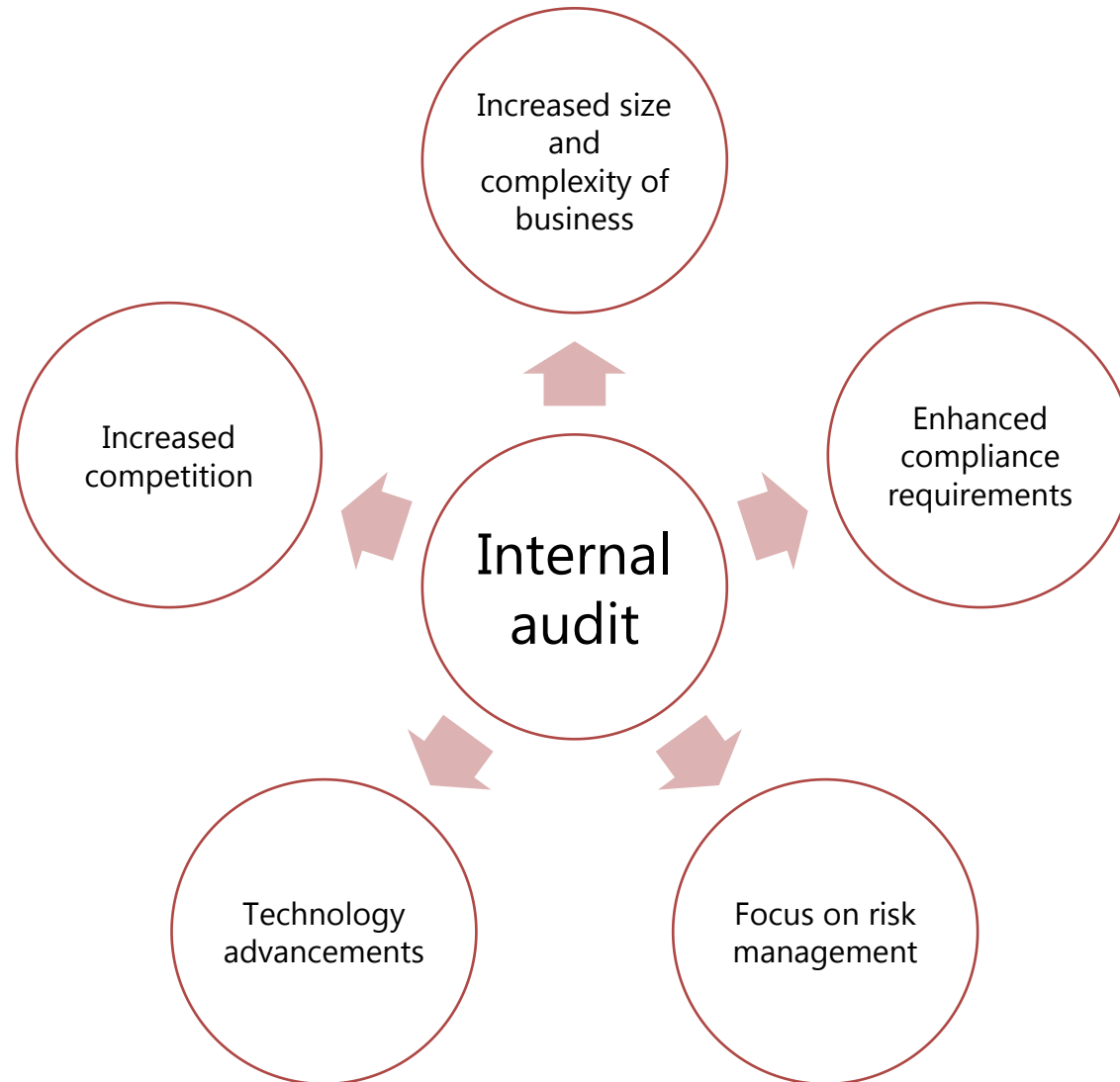
Process owners welcoming auditors

Used as a sounding board for new ideas

Proactive implementation of IA suggestions

# Internal Audit

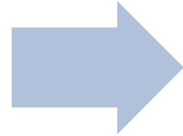
# Need for internal audit



# Evolution of Internal Audit

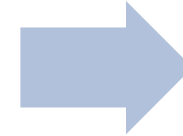
## Oversight

- Compliance of SOP & regulatory
- Control review
- Fraud detection
- Transaction audit



## Insight

- Process review
- Suggest improvements
- Data analysis
- Benchmarking



## Foresight

- Value addition
- Cost optimization
- Fraud prevention
- Usage of software



Value Addition



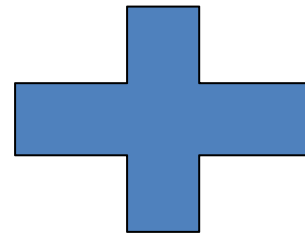
# What is value addition?

We always mention this term  
– value addition

The term "value-addition" describes the enhancement a company gives its product or service before offering it to customers. It can be considered as an extra special feature added by a company or producer to increase the value of a product or service.

# What is value addition?

Tangible  
Benefits



Intangible  
Benefits

# Why is this important to focus on value addition?

Survival

Respect

Increased  
competition

Increasing  
pressure on  
cost

Being relevant

How do we add  
value?

# Know your clients value proposition

Each one perceives value differently

Size of the organization

Maturity of the organization

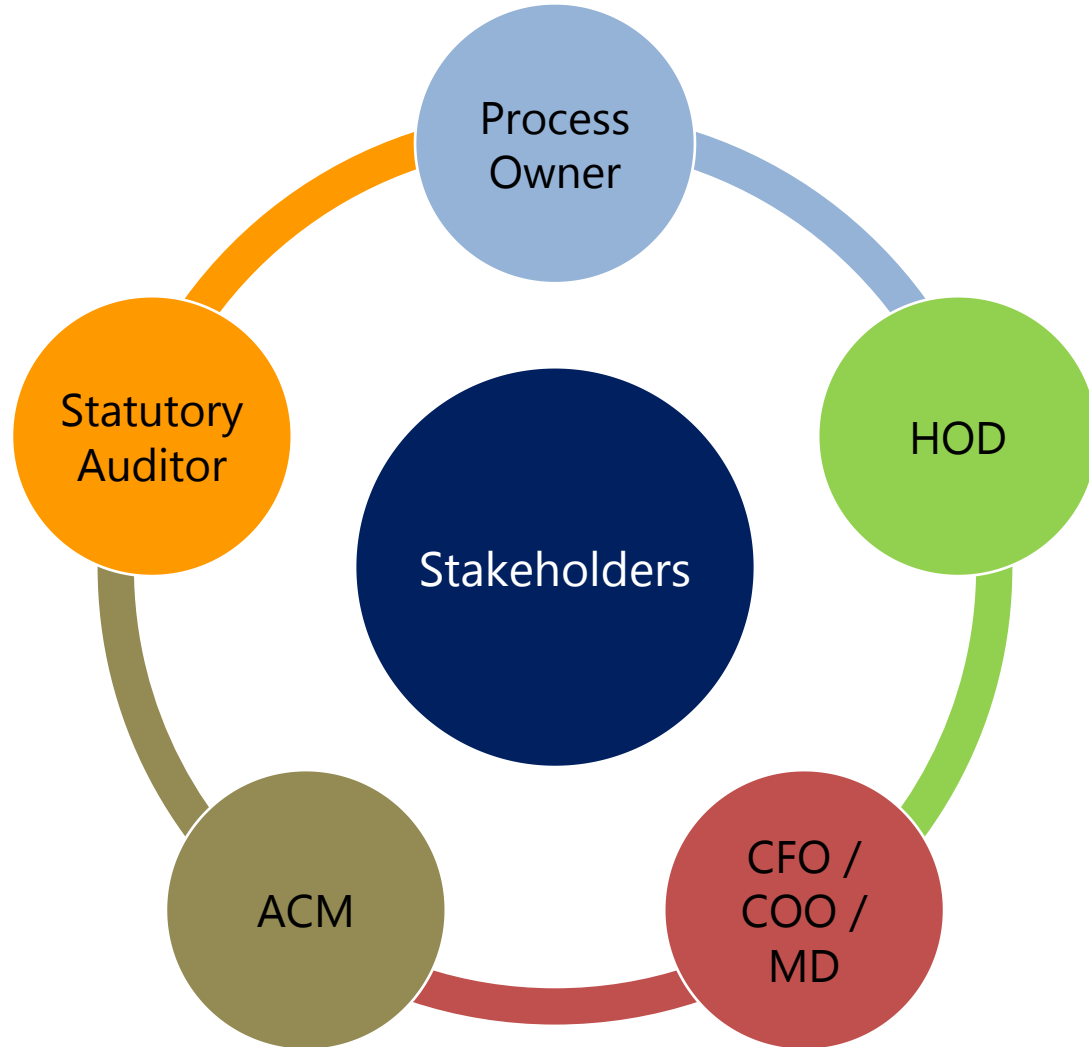
Management philosophy

# Focus on deliverable



- Razor sharp focus on the audit objective & deliverable
- Timely completion of work
- Begin with the end in mind

# Different stakeholders have different perception of value



Understanding who your stakeholders are and their mindset is a key step in ensuring value addition

# What do stakeholders expect from IA?

## Process owners

- G e n u i n e observations
- P r o c e s s understanding
- Listening to their point of view
- Practical suggestions
- Appreciation for work done

## HOD / CFO / COO / MD

- Value addition
- Summarised format
- Overall risk assessment
- Fair presentation
- Root cause analysis
- Categorisation based on risk
- Process owner's acceptance
- Implementation status

## Audit Committee

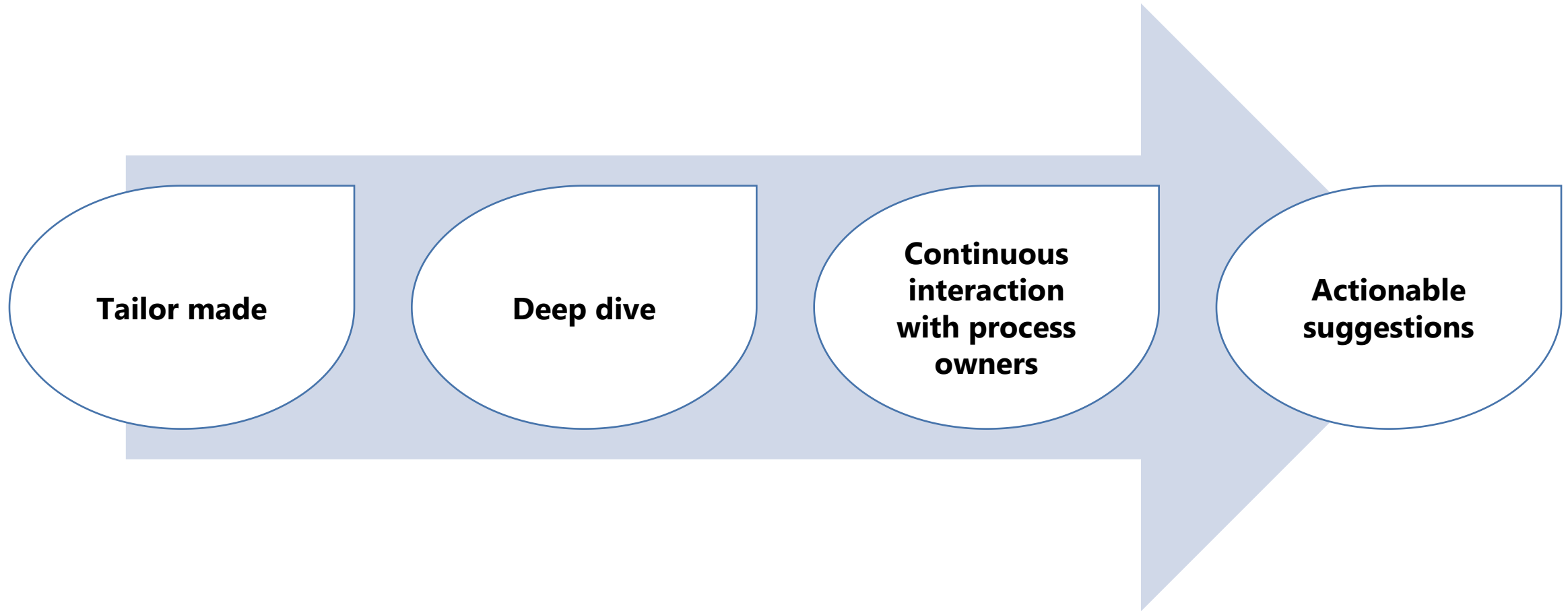
- Summarised format
- Observations to the point
- Overall coverage & risk assessment
- K e y i s s u e s highlighted
- M a n a g e m e n t comments
- T i m e l i n e & responsibility for implementation

## Statutory Auditor

- Overall coverage
- Issues which affect true and fair view of the accounts
- S t a t u t o r y n o n - compliance
- Assurance which they can rely on
- Comfort which would help them make a proper assessment and save their time



# What should be our approach?



# What should you focus on?

Compliance with SOP / management guidelines

Maker-checker controls

Segregation of duty

Process efficiencies

Manual controls v/s automation

# What should you focus on?

Frame work for statutory compliance and its dashboard

IT controls

- Access rights
- Authority to edit, delete or modify data

Cost optimization

Risk management, including fraud risks

Exception reporting & MIS

# What type of observations add value?

**Identification of revenue leakage**

**Process gap which makes organization susceptible to leakages**

**Significant deviation from authority matrix**

**Incorrect MIS**

**Elimination of redundant processes to increase efficiency**

**Suggest alternatives which reduce cost**

**Potential Fraud risk**

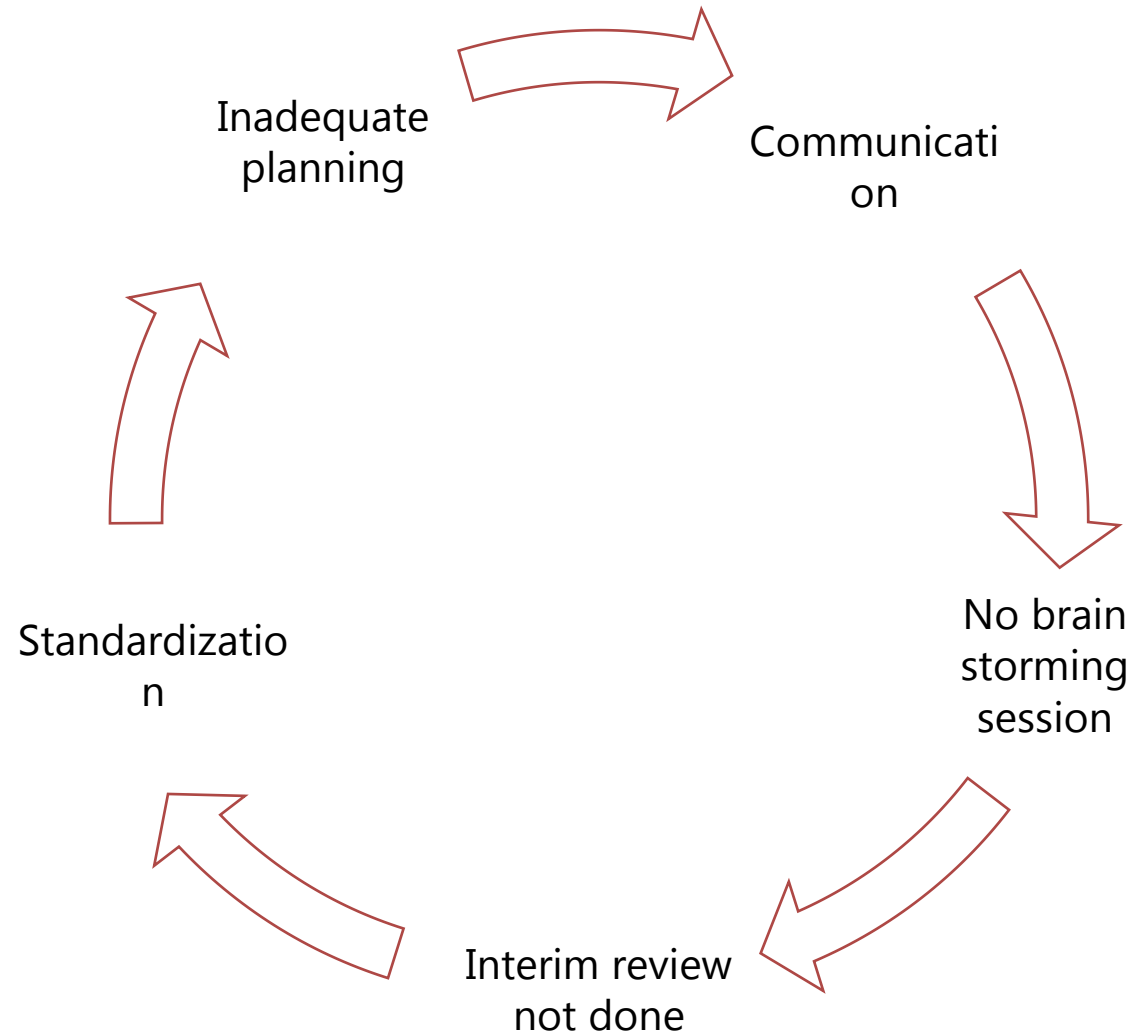
# Examples of value addition

- Under / over insurance of inventories, fixed assets, capital work in progress
- TDS deducted by foreign customer accounted as bank charges due to lack of maker-checker controls
- Purchase benchmarking – same items procured at different rates at two branches
- PO split up into smaller quantities to circumvent authority matrix
- Online banking password not blocked upon resignation of employee
- Additional services provided at site but not captured / considered while billing

# Examples of value addition

- Lack of co-ordination between operating team and accounts leading to under billing
- Under-utilization of assets procured on lease due to mismatch in operational requirement and capacity of asset
- Debit notes not raised for violation of contractual obligations by vendors
- Access controls not changed upon resignation of employees
- Back-up data not tested
- Double payments / excess payments

# Common pitfalls



A complete checklist driven approach also leads to lack of creativity and consequently impacting out of box thinking

How to  
innovate &  
increase  
effectiveness  
of IA?



# Thoughts to increase IA effectiveness

## Planning

- Make your department's mission and vision statements the driving force behind every engagement
- Clarity on audit objective and client needs
- Brainstorm risks on process or unit being audited
- Evaluate business dynamics to check only key risk & controls
- Skill sets & team rotation

## Audit program

- Recalibrate time based on risk maturity
- Audit non-traditional area –corporate culture & ethics, social media, knowledge management, training & development, etc.
- Brainstorm fraud scenarios with every audit
- Try to think of five new ideas
- 80:20 approach

## Field work

- Intelligent sampling – need for senior involvement
- Test the entire population whenever possible & feasible
- Prepare question bank for testing procedure
- Use expert – Labour consultant, Indirect & Direct tax, etc.
- Structured root-cause analysis
- Continuous interaction with process owners

[Continued...]

# Thoughts to increase IA effectiveness

## Risk assessment

- Expand the rating of risk impact beyond monetary measures - brand erosion, lost opportunities, employee demotivation, etc.
- Add velocity and persistence - While some risks are slower to occur others occur more quickly
- Consider using a numerical scale for risk rating instead of High, Medium and Low
- Develop a partnership with management to use Key Risk Indicators (KRIs), so the organization moves toward pre-emptive

## Reporting

- Use different format based on type and urgency
- Internal / external benchmarking
- Increase use of visual element - smart art, chart, graphs, images, statistics etc.
- Provide a macro over-view
- Focus on critical points
- Share positive points and create an environment of positivity

## Management discussion & Action Plan

- Interactive discussions with management and agree upon implementation plan
- Take feedback from management and process owners
- Implementation tracker and periodic review
- Use of dashboard to monitor status of implementation

**“Quality in a service or product  
is not what you put into it. It is  
what the client or customer gets  
out of it.”**

*- Peter Drucker*

Any questions



# Thank You

C.A. Prashant Daftary  
Prashant.daftary@nashah.com