



Soft Skills – Pivotal Element in Internal Audit

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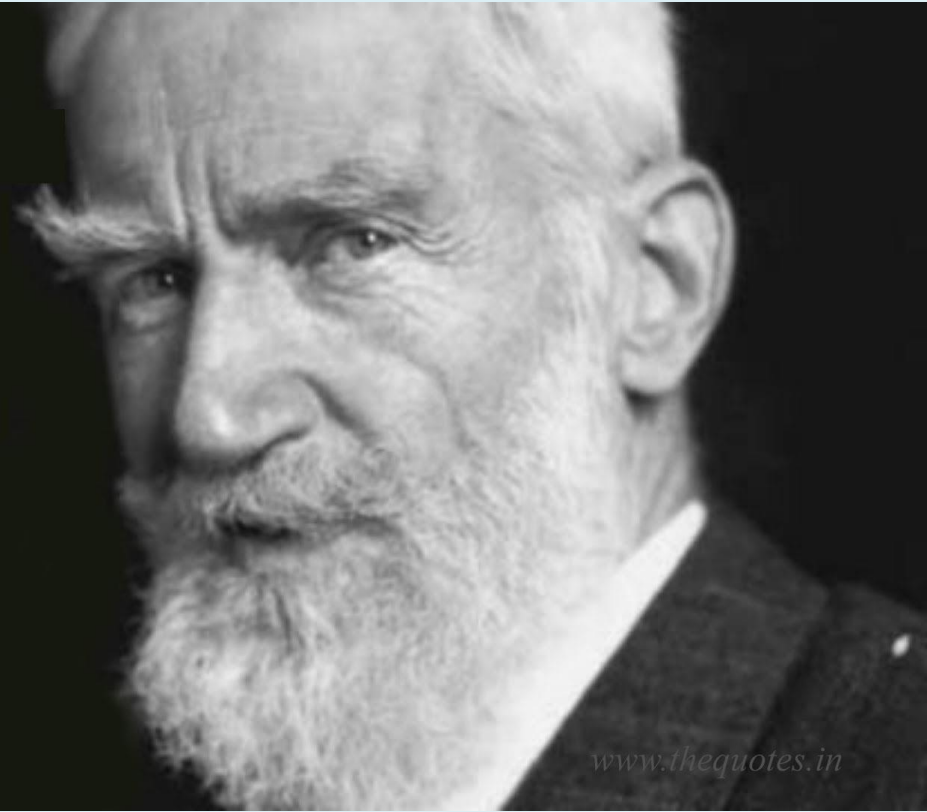
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The single biggest problem in communication is the illusion that it has taken place.

George Bernard Shaw



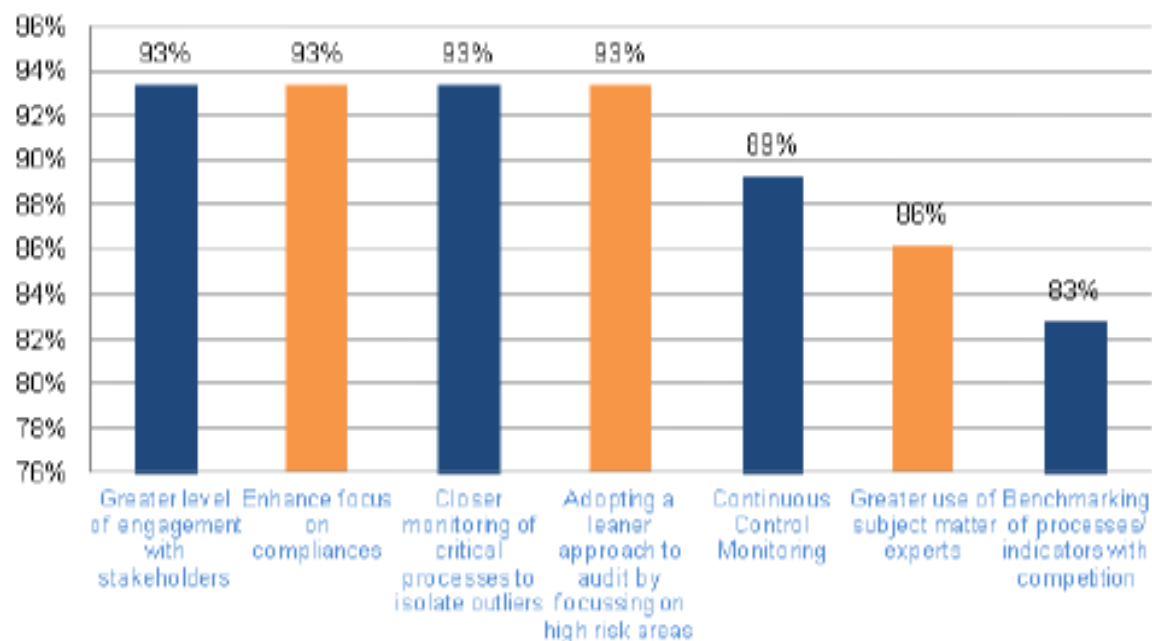
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**UNLOCKING RESISTANCE
INVEST IN COMMUNICATION**

Board/ Audit Committee preferences

In uncertain times how does a modern day IA function add value to the Audit Committee/ Board of Directors?

MOST PREFERRED MEASURES ADDING VALUE TO AUDIT COMMITTEES/ BOARD OF DIRECTORS



93% of respondents *agreed or strongly agreed* that the IA function could add value by

- Greater level of engagement with stakeholders
- Enhance focus on compliances
- Closer monitoring of critical processes to isolate outliers
- Adopting a leaner approach to audit by focusing on high risk areas

Source: IIA Bombay chapter survey 2012

Setting the Governance Agenda – A Sustainable Journey

Assisting the Board to discharge its responsibility to exercise due care, diligence and skill in relation to the following areas:-

- Reporting of financial information to users of financial reports;
- Application of accounting policies and Financial management;
- Internal control system and Risk management system;
- Business policies and practices;
- Protection of an entity's assets;
- Compliance with applicable laws, regulations, standards and best practice guidelines;
- Providing a formal forum for communication between the Board of directors and senior management;
- Facilitating the maintenance of the independence of the external auditor;
- Consideration of significant matters that were raised during the audit process.
- Matters of whistle blowing, ethics, etc

“Strong corporate governance relies on robust processes for reporting, risk management and internal control”

Internal Audit a Key Tool for Success of Audit Committee

UNDERSTAND THE BUSINESS

- ✓ Understand your markets, operation and competition
- ✓ Develop Internal Audit Universe

IA FRAMEWORK

- ✓ Develop / review Internal Audit Charter
- ✓ Client relationship management
- ✓ Quality assurance

ASSESS RISK & DEVELOP STRATEGIC AUDIT PLAN

- ✓ Identify and prioritise business risks
- ✓ Identify and prioritise potential audit areas
- ✓ Develop Audit Plan

AUDIT EXECUTION

- ✓ Engagement planning
- ✓ Identify and assess risks and controls
- ✓ Testing
- ✓ Reporting

IA GOVERNANCE & REPORTING

- ✓ Internal Audit Terms of Reference
- ✓ Risk and control matrix
- ✓ Process documentation
- ✓ Work programme
- ✓ Testing documentation
- ✓ Internal Audit Report

“The internal audit activity is sufficiently resourced with competent, objective internal audit professionals to carry out the internal audit plan, which has been reviewed and approved by the audit committee”

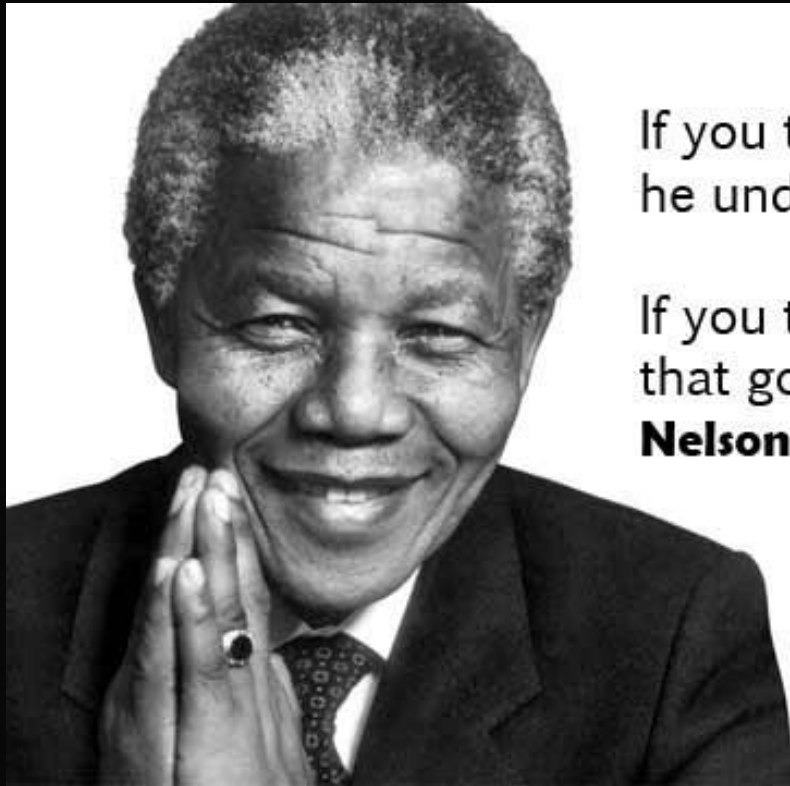
“The audit committee regularly communicates with the chief audit executive about the performance and improvement of the CAE and the internal audit activity”

“The internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee”

Audit Resistance Indicators

- Cost Burden
- Necessary Evil
- Not a Priority
- Lack of Resources
- Smaller Operations
- How can you Add Value
- You learn at our costs
- Not prepared for Audit
- Implementers not Auditors
- Don't want Fault Finders
- Duplication of Auditors
- Benchmarking with Best Practices
- Want IA Report without Audit





If you talk to a man in a language
he understands, that goes to his head.

If you talk to him in his language,
that goes to his heart.

Nelson Mandela

UNLOCKING RESISTANCE
INVEST IN COMMUNICATION

Areas Where Internal Audit Activities Have Uncovered Cost Savings and Expense Reductions

Cost Savings/Expense Reduction Areas	All Organizations	Fortune 500 Companies
Vendor payments	33%	46%
Streamlining of Sarbanes-Oxley compliance	32%	46%
Contract compliance	29%	37%
Contract administration	27%	25%
Organization control structure/ span of control	26%	22%
Construction and capital projects	21%	31%
Outsourcing agreements	18%	18%
Revenue assurance	18%	21%
Overtime payments	9%	6%
IT infrastructure spending	8%	13%
Sales commissions	7%	6%

Source: Internal Auditing in 2010, IIA Publication



Point of Impact



Formal

- Adoption of Audit Charter
- Pre-audit committee meets
- Audit committee meets
- Audit Reporting
- Special Reviews
- Special Insight sessions
- Confirmation on standards

In-formal

- Lunch meets
- Special occasions
- Reach out calls
- Social media
- No agenda meetings



STANDARDS ON INTERNAL AUDIT - COMMUNICATION WITH MANAGEMENT - 9

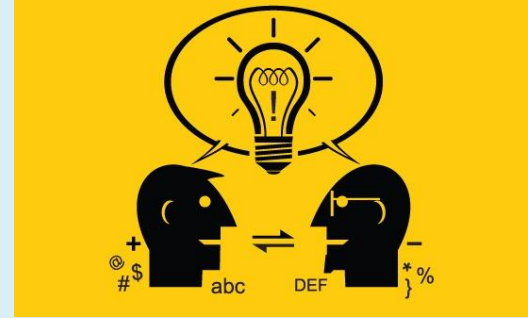


Communication with Management



- The internal auditor while performing audit should:
 - Communicate clearly the responsibilities of the internal auditor
 - Obtain information relevant to the internal audit from the Management
 - Provide timely observations arising from the internal audit that are significant and relevant to their responsibility
 - Promote effective two-way communication between the internal auditor and the management.

Matters to be Communicated



- The Internal Auditor's Responsibilities in Relation to the Terms of Engagement
- Planned Scope and Timing of the Internal Audit –
 - ✓ Assist the management: To understand objectives, To discuss issues & Identify additional procedures
 - ✓ Assist the internal auditor to understand better the entity and its environment
- Significant Findings from the Internal Audit

The Communication Process



- Establishing the Communication Process –
 - Clear communication of the internal auditor’s responsibilities
 - The planned scope and timing of the internal audit
 - The expected general content of communications helps establishing the basis for effective two-way communication
- Forms of Communication –
 - Structured presentations and written reports
 - Less structured communications, including discussions
- Timing of Communications - The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by the management.
- Adequacy of the Communication Process –
 - The appropriateness and timeliness of actions taken by the management
 - Openness of the management in their communications
 - Ability of the management to comprehend matters raised by the internal auditor
 - Difficulty in establishing the management
 - Inadequate two-way communication may indicate an unsatisfactory control environment and influence the internal auditor’s assessment of the risks of material misstatements

What the Audit Committee likes to see...

Audit Reporting – Element clubbing & summary

- ❑ Governance reviews (Entity, Policy)
- ❑ Foresight reviews (Budgets, Plans, New Projects, New Products, Potential Compliance issues)
- ❑ Risk Management (ERM, Cyber, Capital adequacy)
- ❑ Insights (External/ Internal Benchmarking)
- ❑ Sustainability of recommended actions
- ❑ Comparative Analytics

Extreme					2
Major			11	103	3
Moderate	1	16	330	40	3
Minor	11	85	72	7	
Insignificant	36	29	9		
	Insignificant	Minor	Moderate	Major	Extreme

Impact

Opportunities to make a difference

Eye on Value adding processes

- Revenue/ Costs/ Savings
- Efficiency improvement (Rework, Complaints, Rejections, Inspections, Returns, Discounts, etc)
- Supply chain/ Procurement
- Benchmarking
- Analytics-Dashboard Reporting

Eye on Fraud Risks

- Fraud scenarios
- Late adjustments
- Related Parties
- Exceptions
- Journal entries
- New transactions/ regions/ products
- Whistle blowing events
- Delays
- Continuing control deficiencies

Eye on Compliances

- Comprehensive compliance tracking and monitoring
- Self assessments
- Independent reviews
- Board certifications
- Compliance history & assessments

Positive Intent

a fair, independent and objective approach to internal auditing that conveys to stakeholders that the CAE has the overall organization's best interest at heart.

Diplomacy

a direct, forthright communications style, political astuteness, and sensitivity to the organization's culture and how management gets things done.

Prescience

an ability to foresee risks that lie ahead for the organization, a trait that requires curiosity, an ability to look at situations with fresh eyes, and a willingness to question assumptions.

Trustworthiness

a demonstrated commitment to “walking the talk”, keeping confidences, operating with integrity, and being mindful of maintaining credibility.

Leadership

an ability to set the appropriate tone not only for the internal audit staff but also for a wide range of others.

Empathy

a knack for understanding and addressing each stakeholder’s point of view.

Source: IIA Global Survey

Audit committee chair & Internal Auditor to address special situations on Stakeholder insecurity



SOURCES OF PRESSURE

- Keeping your job
- Meeting personal financial obligations
- Meeting quarterly earnings targets
- Upholding brand and reputation
- Advancing career
- Ensuring financial success / better performance of company
- Increasing shareholder value
- Expanding globally/ investors on the board
- IPO

“ Culture, values and ethics are increasingly important considerations in the governance of organisations. In many organisations audit committees are charged with overseeing, on behalf of the board, the quality of all the above processes ”

Tell me and I forget, teach me
and I may remember, involve
me and I learn.

Benjamin Franklin



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UNLOCKING RESISTANCE FROM AUDIT TO AUDIT ENGAGEMENT

From Audit to Audit engagement

Involving Audit Committee:-

- Audit Committee Expectations - Understanding needs beyond the scope of work
- Understanding Board's priorities - Aligning audit focus
- Audit planning – CFO, Statutory Auditor, Chair of Audit Committee
- Undertaking Risk Assessment - Talking to Auditees, ACs
- Invitation for key Joint Site Visits on Special moments
- Confiding with the Key Sponsor
- Timely escalations/ no surprises
- Seeking feedback for Audit Improvements



Audit approach should be effective not damaging

- Simply avoid personalisation
- Conflicting views is an audit reality so handle it with tact and maturity
- Dig deeper into audit findings rather than mere language treatment
- Audit Issues or Opportunities for Improvement
- Rely on clear facts not team perceptions
- Present opportunity to be heard
- Do give positive assurance if no material findings



“The difference between the right word and the almost right word is the difference between lightning and a lightning bug” ~ Mark Twain
Words are powerful! When you chose just the right word, you increase understanding ten-fold.

Audit Reporting



"Words have the power to both
destroy and heal.
When words are both true and kind,
they can change our world."
~ Buddha

Placement of Negation & Connotation of words

Example 1

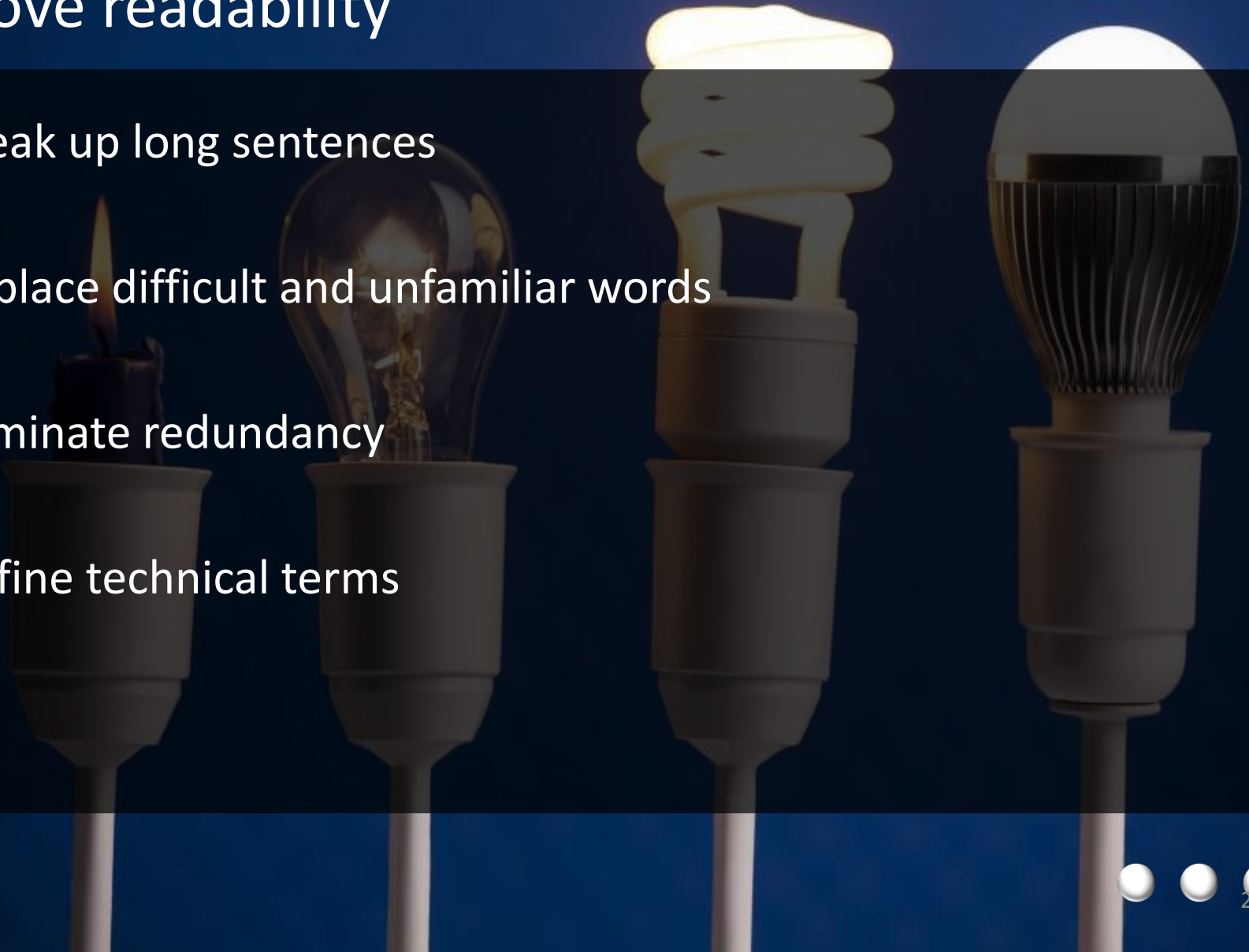
- No training on fire drill procedures was provided to employees
- Employees had not received training on fire drill procedures

Example 2

- Inability to understand the procurement process
- Lack of procurement process understanding

Improve readability

- Break up long sentences
- Replace difficult and unfamiliar words
- Eliminate redundancy
- Define technical terms



Safety lies in silence then to rectify what you lost !!!

- Good audit improves your business performance
- Audit is team work
- We take pride in being your auditor
- Your effective implementation motivates the audit team
- Discover weak controls
- Acting on our audit improves organisational performance
- Are you avoiding substantial risks by not acting on our recommendations
- Early warning indicators in our report warrant immediate attention
- Report provides tangible revenue measures that could assist you in meeting your year end goals



Audit Reporting



Your Mind is a powerful thing. When you fill it with positive thoughts, your life will start to change.

7 Deadly Sins of Internal Auditors



1. Auditing with an agenda
2. Issuing petty audit reports leading to waste of management time
3. Control failure is an event not a person. Make sure recommendation is focussed on the right target – the process. Focus on management help achieve their objectives and not finding faults
4. Get hung up on best practices when your client needs appropriate practices or next practices
5. Issuing incorrect audit observations
6. Reacting negatively to a client in distress or behaving unprofessionally with a client even though the client has behaved unprofessionally
7. Incomplete audit work papers

Remarkable expectations from Internal Auditors

1. Assurance on Risk Management
2. Thinking out of the box
3. Balancing governance and performance
4. Ability to build relationships
5. Critical thinking
6. Good communicators
7. Problem solvers
8. Lead the change management
9. Multi-lingual





**The auditee cannot defeat you unless
you accept defeat.**

INTERNAL AUDIT IS A CONTINUOUS JOURNEY OF IMPROVEMENT. IT IS NOT AN EVENT SO THERE WOULD BE UPHEAVALS BUT YOU WOULD HAVE OPPORTUNITIES TO BOUNCE BACK. SO, IF YOU TAKE A KNOCK-RELAX AND RISE AGAIN BY EFFECTIVE USE OF COMMUNICATION. AS INTERNAL AUDITORS WE ARE NOT EXPECTED TO HAVE ALL ANSWERS SO DON'T TAKE YOUR JOB VERY SERIOUSLY.

THANK YOU

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