EMERGING TRENDS IN INTERNAL AUDITING

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Future of Internal Auditing - Research Project
Participant Organisations

- Excel Industries Ltd
- Bata India Ltd
- German Remedies Ltd
- Indo Rama SyntheticsLtd.
- Exide Industries Ltd
- HDFC Ltd
- Orchid Chemical & Pharmaceuticals Ltd
- Smithkline Beecham India Ltd

- Pfizer Ltd

- Garware Wall Ropes Ltd
- Apple Finance Ltd
- Hindustan Lever Ltd
- TELCO Ltd
- TISCO Ltd
- Indian Aluminium Co.Ltd
- ITC Ltd
- ITC Bhadrachalam Paperboards Ltd

Expected Change In Audit Department's Role

- Enable Cost Effective Operations through thrust on Non - Financial areas
- Systems and Controls Specialist
- Benchmarking - Assurance of Best Practices in place
- Intensive use and coverage of Information Technology
- Facilitators/Consultants/Change Agent/Risk Assessors
- Shift to Self audit
- Quality , Safety, Environment
- Tool of Business Performance Appraisal
- Instrument of Corporate Governance

Expected Change in Audit Team Composition

- Function Specialist to be inducted.

- Technical Personnel in Audit Teams

- Information Systems skills to be within the audit team

- Increase Management graduates

New Definition of Internal Auditing

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

Earlier Definition

Internal Auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. It furnishes top management with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed.

Change in Emphasis

Traditional Auditing

- Compliance Focus
- Periodic Audit
- Find and Fix
- Labour - intensive

- Audit the Accounting Controls
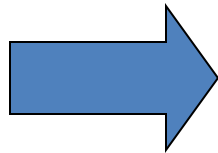
Auditing the Business

- Service Focus
- Continuous Audit
- Anticipate & Prevent
- Technology & Knowledge Leveraged
- Audit the Business Processes

Few Emerging Tools and Techniques

- Software Tools.

- Benchmarking.

- Control Self- Assessment.

Software Tools

Internal- Planning, Maintaining   Working Papers, Reporting etc.

External -Analysing data, Identifying fraud, Monitoring Control environment, Mitigating risks of electronic commerce.

Drawback- Cost to implement specialised high-tech tools often seems to outweigh the benefits.

Software Tools

Data Extraction and Analysis

- IDEA

- Digital Analysis Test and Statistics (DATAS) - Benford's Law.
  Benford's Law states that the individual digits in a set of random numbers will have an expected probability. The tests reveals the differences between actual data and what is expected as per this principle.

Risk Assessment and Analysis

- Auditors' Software Toolset - Methodware
  Risk Ranking Advisor (risk based audit planning);
  PRO Audit Advisor (control and risk evaluation);
  Business assessor (CRSA); and
  Risk Management 4360 Advisor

- ADM Plus - Pleier and Associates

- AuditMasterPlan - J.E. Boritz Consultants Limited

Software Tools

Automated Workpapers

- Autoaudit 2000 - Paisley Consulting

Network Security Assessment

- Cybercop Scanner 2.5 - Network Associates
- Internet Scanner 5.8 - Internet Security Systems (ISS)
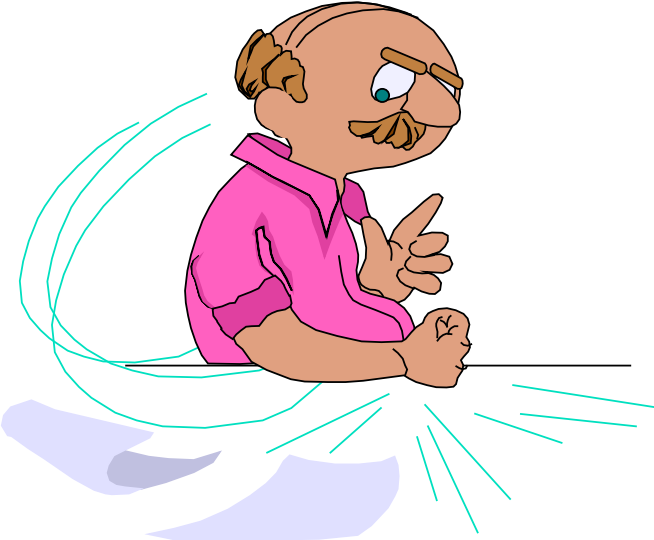- Netrecon - Axent Technologies

Benchmarking

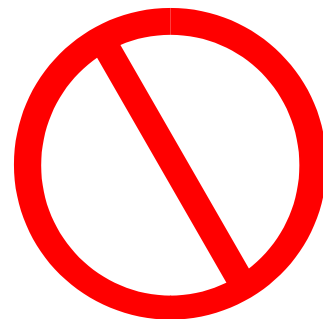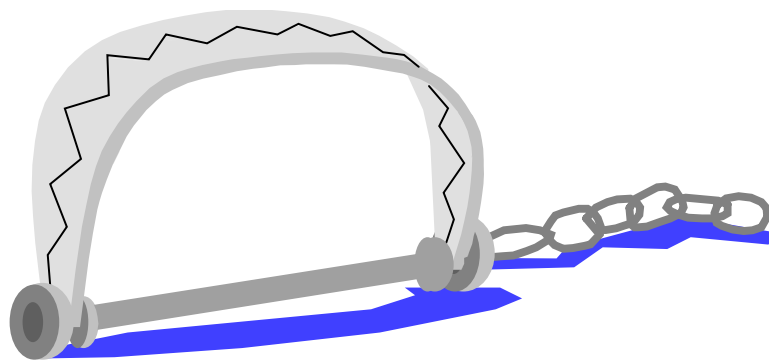**GAIN-** **Global Auditing Information Network.**

Audit Committee Issues - size, attendance, responsibilities, risk concerns, and view role of internal auditing.

Other issues - Staff Training, Information Technology Auditing, Quality Improvement, Staff Size etc.

Control Self Assessment

Controls

Controls

- Do Controls always CONSTRICT ?

- Do Controls always put shackles ?

- IS IT POSSIBLE TO THINK OF CONTROLS AS ENABLERS ?

- The definition of the brake in a car
  - it is there to stop the car
  - it helps the car to be driven safely

- Good controls enable achievement of objectives

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The new IA Paradigm

- CONTROL - concepts and definitions are undergoing significant changes
- Empowerment, Fast Cycle Time, BPR, TQM, ERP are all making old tomes archaic
- Internal Audit is not a mere policeman or fault finder
- Nit Picking on small issues adds no value
- Concern shifting to macro issues affecting achievement of organisational goals
- A new tool for the new age - CSA

What is Control Self Assessment ?

☞CSA is an _audit process_ that involves employees in assessing the adequacy of controls and identifying opportunities for in-creasing likelihood of achieving objectives

☞CSA is not a self audit checklist

CSA is a collaborative effort

The CSA process requires internal audit to _**work together**_ with business unit employees as a _**team**_ to determine the units effectiveness in achieving its objectives - operational, financial, reporting, legal compliance etc.

Internal Audit and CSA

- CSA is a technique within the audit framework
- CSA is complementary and not a substitute for traditional audit techniques
- Traditional audit would continue to be carried out
- CSA measures the fuzzy stuff that traditional audit cannot - morale, culture, tone, trust etc,
- The COSO control model also says that environment & culture are at the root of control failures
- The techniques used in CSA share many similarities with the TQM approach

Why is CSA better ?

CSA emphasises involvement of employees of the business unit because they :

- Understand their business better than anyone else
- Have a vested interest in their business unit
- Are responsible for implementation of any suggestions
- The CSA approach believes that every employee is inherently interested in doing his work in a proper control environment.

WHEN CAN WE TRY CSA ?

- **If pace of change is slow**
  - **traditional audit works well**
- **If pace of change is very fast**
  - **CSA is a better choice**
- **If rigid well followed procedures don't exist or**
- **They are no more practical in today's scene**
  - **CSA may come up with a solution**

The CSA Process

Gaining support	→	Planning
		↓
Analysing Data	←	Workshops
↓		
Reporting	→	Action Plans
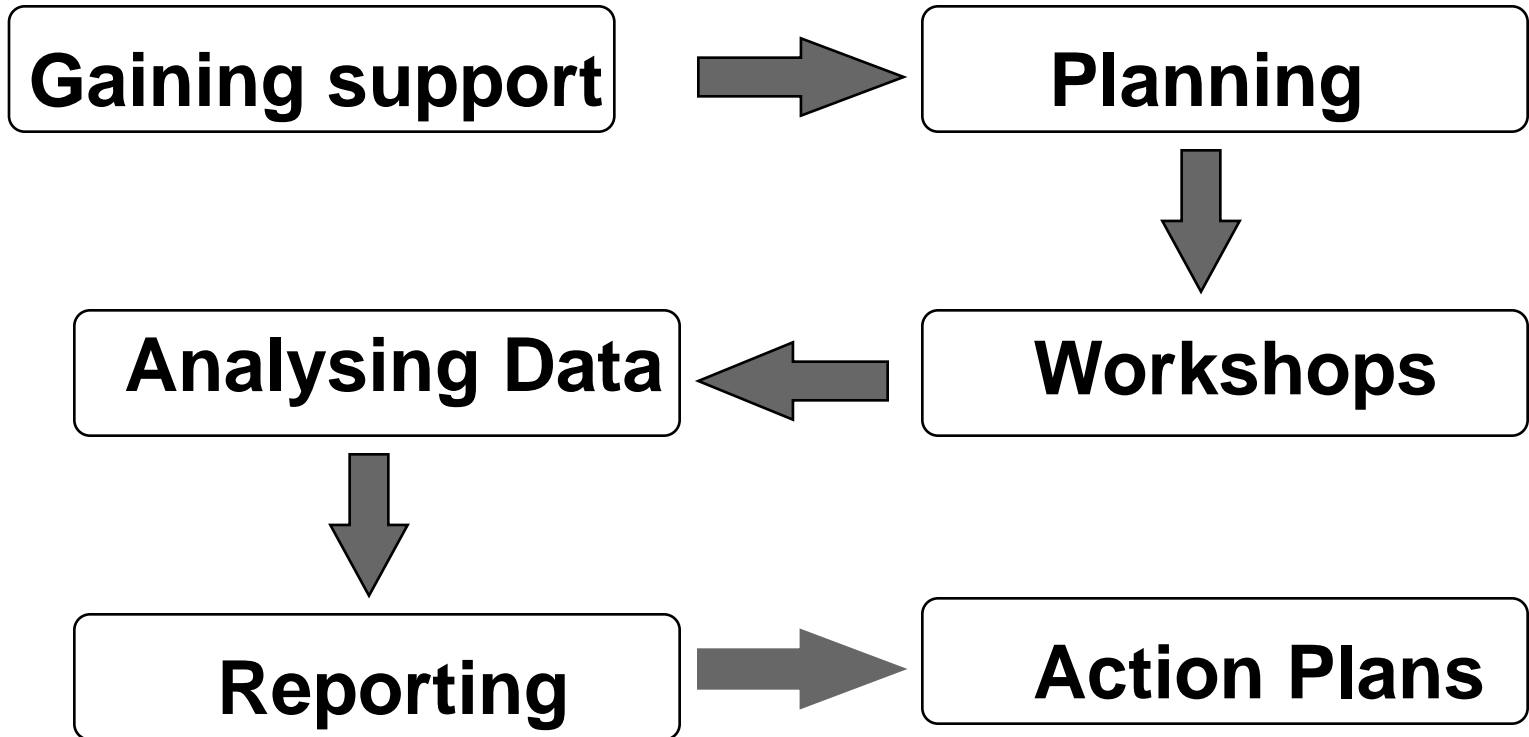
Gaining support for CSA

- Internal Audit must be able to convince

  - Top management
  - Management of the business unit
  - Employees
- CSA should be understood well

- CSA needs lot of time, effort & nurturing

- CSA needs to be suitably tailored to each organisation / orgn unit separately

- Identification of the Unit / Department where the CSA exercise would be carried out.

Planning for the CSA project

Planning involves :

Identifying in consultation with the management of the unit / department where CSA is to be done

- <u>Primary objective</u>
   The primary objective may come from a vision or mission statement

- <u>Supporting objectives</u>
   Objectives that are necessary to achieve the primary objective

Planning for the CSA project (contd..)

The facilitating CSA team has to understand
the business process being assessed by
- Preliminary surveys
- Walk throughs and   Interviews
- Review of control environment and
- Risk assessment

Thereafter
- Selection of participants
- Chalk out workshop process

CSA Requires..

- **Adequate Preparation**

- **Notice and Information to participants**

- **TOOLS**
  - **Option Finder**
  - **Computer, Projection Equipment**

- **Skilled Facilitator**
  - **managing time, problem solving**
  - **conflict resolution, enthusiastic, lively**

- **Skilled Notes maker**
  - **quick response, good language**

CSA Workshops

- One supporting objective is taken up for discussion at a time

- Facilitate discussion amongst employee participants so as to focus on

  <u>Successes</u> -   areas where supporting objectives have been met

  <u>Weaknesses</u> - obstacles that hinder achievement of objectives

  Ratings
  Desired   and   Actual
  giving Opportunity for improvement

Reporting

CSA report includes

- Purpose of the audit
- Management objectives
- Ratings
- Participants recommendations
- Detailed worksheets

CSA report to be distributed not only to the management but also to all workshop participants

CSA SUCCESS STORIES

☞ Mapco Inc.- fortune 500

  (Energy oil & gas)

☞ Gulf Canada Resources, ARCO Alaska Inc.

☞ Praxair Inc. (mfg)

☞ Pacific Bell (info tech)

☞ TMG Mutual Group Fin. Services Canada

☞ IIA's CSA center - CSA SENTINEL

VIDEO FILM ON CSA

- A live CSA workshop
- The company is in telecom & software
- The topic is "Telecommuting" i.e. employees doing work from home or elsewhere and not physically coming to office
- Why telecommuting ? What advantages?
- What control issues ? How to have benefits of telecommuting and also the controls ?

Thank You