

Internal Audit in decision making

Presentation by
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IA role in decision making

- **Decision making** – selecting a course of action amongst various alternate possibilities - Bounded rationality i.e. Decision making limited by available information, time & the mind's information processing ability
- **Steps** - Identify decision to be made –gather information –identify alternatives –weigh evidence – choose from alternatives – take action – review action –
- Distorted perception – Illogical interpretation – Inaccurate judgement –Illusory co-relation - **Analysis paralysis** – state of over analysing & over thinking - **Information Overload** -
- How a decision is made -Pros & Cons – Cost benefit – Prioritization – Eliminating alternatives – Expert advice – Laying down criteria - Participative decision making – Opportunity cost -

IA role in decision making

- Optimal decision or decision good enough -
- Establish objectives – Classify objectives in order of importance – develop alternate actions – evaluate alternates against objectives – arrive at a tentative decision i.e. Alternative to achieve the objective – evaluate the tentative decision for more possible consequences – take decisive action – take additional actions to prevent adverse consequences from that action –
- **Decision making bias** - Premature termination in search of evidence by accepting 1st alternative that looks like working – Unwillingness to change existing thought patterns - Wishful thinking – Recent bias - Repetition Bias - Peer pressure – Group Think -Under estimating uncertainty & controls - Tendency to reject a person's statement due to personal bias - Decisions based on initial information that shape views on subsequent information

IA role in decision making

- 3 lines of defense theory –
- IA as a conscience keeper –
- 5 rows principle –
- Cognitive Biases –
- Peeling the onions –
- Will versus Skill quadrant
- VUCA world – volatility, uncertainty, complexity, ambiguity

Internal audit definition

- The Institute of Internal Auditors – defines IA as an independent, objective assurance & consulting activity designed to add value & improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate & improve the effectiveness of the risk management, controls & the governance process.

IA as a decision maker

- IA is a catalyst for improving an organization's governance, risk management & management controls by providing insights & recommendations based on analysis & assessments of data & business processes.
- Data – Information – Knowledge – Wisdom.
- Hindsight – Insight – Foresight -

IA role in decision making

- Visionary pragmatist to Collaborative strategist -
- Part of current economic turmoil due to poor risk management –
- Corporate Cop to useful business partner in decision making – From **Assurance** – Governance, Risks & Controls to **Insights** – Catalyst, Analyse & Assess with **Objectivity** – Integrity, Accountability & Independence.
- Beyond traditional controls & process oriented work to partner senior management on strategic risk – identify early & effective risk response as an opportunity to gain competitive advantage –

IA role in decision making

- Traditional role – Governance, Risk management & Controls – Effectiveness & Efficiency of operations – Safeguarding assets – Reliability of management & financial reporting – Regulatory compliance –
- Strategy – where are we going
Plan – what are we doing to go there
Role – how can I contribute
Reward – what is in it for me

IA role as a decision maker

- Improvement is fundamental to IA. This is done by advising, coaching & facilitation so as not to undermine the responsibility of management.
- IA deals with issues fundamentally important for survival & prosperity in an unbiased & objective manner. They consider wider issues like reputation, growth, environmental impacts & also way employees are treated.
- Integrity – Objectivity – Confidentiality – Competency -

Information System

- An Information system is the set of activities involving people, processed, data & or technology which enables the organization to obtain, generate, use & communicate transactions & information to maintain accountability & measure & review the entity's performance or progress towards achievement of objectives – COSO 2013 framework -

IA role in decision making

- Risk naive – controls missing or incomplete
- Risk aware – controls in place but not linked to risks
- Risk defined – majority of risks identified & assessed regularly – regular risk review responses in place to manage most risks
- Risk managed / enabled – all risks identified & assessed – regular risk reviews in place to manage risks

COSO framework

- Control environment
 - Risk assessment
 - Control activities
 - Information & communication
 - Monitoring activities
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- Entity level – Division – Business unit – function
 - Operations – Reporting – Compliance -

Information systems

- **Quality information –**
- Accessible
- Correct
- Current
- Protected
- Retained
- Sufficient
- Timely
- Valid
- Verifiable

IA as a successful leader

- IA leadership – leading staff, resources, planning & quality assurance.
- Organizational leadership – providing insights into corporate governance, risks & controls influencing corporate thinking.
- Ethical leadership – championing professional conduct standards, stewardship of resources & social responsibility.
- Innovation & change leadership – effecting change & process improvement while adopting leadership practices in IA.

IA role in decision making

- Communicate relevant information & latest developments for informed decision making – effect change by convincing management that action is necessary, appropriate & urgently required – IA as best read, connected & informed group in the organization -
- Inquisitive, associative thinker & learner grappling material issues to generate fresh insights challenging management to think differently
- Test resilience to withstand risk events & assess agility to adapt to dynamic business environments

IA role in decision making

- Aggregate & synthesize knowledge & information in myriad people, systems & resources- connect disintegrated information points by a multi faceted approach to problem solving by operating nimbly within resource constraints –
- Manage risk that interrupts fulfilment of objectives along business life cycle – Assess process used to choose & execute objectives – Look at information used to decide objectives & strategic planning to achieve objectives – enable strategy execution & evaluation of strategic success

IA role in decision making

- Strategy review as a good preventive control -
- Need of special skills to understand business strategically & speak from that context –
- Most audit plans still focus on operational compliance & IT risks & only few focus on business strategy –
- Give inputs to manage volatility risk – research, develop & share industry best practises in the organization – be the organization knowledge centre -
- Structured & standardized reporting to deliver deeper insights, align business focus on right business risks enabling informed decision making –

IA role in decision making

- Vet existence of formal compliance process across functions - document strategic objectives & underlying assumptions – review approval process, measure & communicate strategic objectives - organization readiness.
- Board faces on going stakeholder pressure to mitigate risks & drive business performance – keep pace with increasing business risks – understand organizational objectives, risk management priorities, regulatory environment & diverse needs of critical stakeholders

IA role in decision making

- Provide objective assurance that major business risks are managed appropriately & risk management & internal control framework operates effectively
- **Facilitator** -Expertise in considering risks & understanding connections between risk & governance
- Develop a common language, framework & understanding of risks - Act as a central point for co-ordinating, monitoring & risk reporting – support management to identify best ways to mitigate risks –
- Understand governance requirements -Project management, analytical & facilitating skills add value by taking a healthy, balanced view of risks rather than extreme risk taking or avoiding behaviour

IA role in decision making

- Commitment to on going learning & capability development with deep understanding of organizational needs
- Catalyst for improving governance, risk management & internal controls by providing insights & recommendations based on analysis & assessment of data & business practices - objective source of independent advice with commitment to integrity & accountability –
- Enable decisions based on accurate & timely concrete information

IA role in decision making

- Risk appetite – level of risk an organization is willing to accept
- Risk management – process to identify, analyse, respond & gather information & monitor strategic risks that actually or potentially impact ability to achieve the mission & objectives -
- Risk management framework – Totality of structures, methodology, procedure & definitions chosen to implement the risk management process
- Risk management process – processes to identify, manage, assess & control potential events or situations to provide reasonable assurance on achievement of objectives
- Risk maturity – event to which a robust risk management approach has been adopted & applied as planned by management to identify, assess & decide responses & report on threats, opportunities affecting achievement of objectives
- Risk responses – means elected to manage individual risks

IA role in decision making

- Wealth of knowledge makes IA best equipped & a training ground for managerial posts – eliminate wastes, simplify tasks – provide information to improve risk management & controls & bridge information asymmetry – identify strengths & weaknesses to critically analyse productive & economic processes to allocate scarce resources – match results obtained with strategy as per action plan – identify new threats & opportunities – enable effective board oversight on ERM / fraud & ethics -
- Governance finds ways to prevent abuse of power by administrators –refers to policies, processes & structures used by organizational leadership to direct activities, achieve objectives & protect interests of diverse stakeholders in a manner consistent with ethical standards - Pillar of governance alongside Stat audit, Board & management –

IA role in decision making

- IA reporting - Objectivity, Clarity, Accuracy, Brevity, Timeliness –
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- **5 C's – Condition** (actual issue or problem identified) – **Criteria** (benchmark or guideline) – **Cause** (why the mistake or error happened) – **Consequence** (impact) – **Corrective action** -
- IA evaluated based on quality of information & counsel given to top management –
- Active business player influencing events rather than criticizing, finding errors & mistakes – provide recognition & positive reinforcement for right things being done – role of a respected & knowledgeable advisor who is reasonable, objective & concerned about achieving stated goals –

IA role in decision making

- Maturity of IA –
- Level 1 - Informally providing consulting & risk management advice
- Level 2 - Catalyst in framing risk management
- Level 3 - Active participation in framing risk management
- Level 4 - Participate as part of a formal risk management program
- Level 5 – provide independent assurance on risk management
- Level 6 – assist & advise a separate risk management function

IA role in decision making

- Level 1 - Facilitate identification & evaluation of key risks
- Level 2 – participate in identification of emerging risks
- Level 3 – written assurance to manage key risks
- Level 4 – coach management to respond to risks
- Level 5 – written assurance on correctly identifying & evaluating risk
- Level 6 – consulting reports to improve & implement risk management process
- Level 7 – written assurance over the risk management process
- Level 8 – consolidated risk reporting
- Level 9 – participate in setting organization risk appetite
- Level 10 – develop policies for the risk management process
- Level 11 – implement risk responses on behalf of the management
- Level 12 – take decisions on risk responses

IA as decision makers

- Are we focused on the right things
- Are we proactive or reactive
- Are we adapting to change
- Do we have the right talent
- Are we incentivizing openness & collaboration
- Are we articulating the risks and the responses to manage the risks with sufficient clarity