

# **Internal Audit- What the Board expects?**



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# **IA – role metamorphosis**

Internal audit has historically been viewed as stable, traditional and beneficial but not necessarily critical for the organization.

Actually IA has to be more than critical. IA should develop the capability of influencing CHANGE ..in managing Risks, Costs, and Value

# **The truth is-audit gets no respect**

Quick frankly, if the audit department is using yesterday's approach in today's company, has not maneuvered the board into focusing on company's key risks, and has not succeeded in developing authorized bounds of risk tolerance

Then it does not deserve any respect

# Changing Business Scenario

- Technology has erased global barriers
- Interlocking global economies require constant monitoring of International events that impact local business conditions
- Customer sophistication has increased

- Compliance demands are growing both in terms of quantity and complexity
- Stakeholders are demanding progressive value addition
- Enterprise Risk Management is emerging as the key element in Corporate Management

- Incredible speed of generation of new ideas/products/designs
- Improved media coverage of issues
- Growing business compulsions for good governance (G2)
- Ever increasing competition in the Business Environment
- New Business structures/Models

# Role of the Board

Responsible for providing oversight, vision and direction to the company for maximizing stakeholders value through an effective linking and monitoring of Management Control Systems, Strategy and Performance

# Expectations of the Board from Internal Auditors

- Assist the Board in identification, monitoring and management of Business Risks
- Offer and provide insight, advice and assurance on enterprise risks
- Provide assurance on Internal Controls



- Inform Directors about the tone of the organization-culture, ethics, performance
- Continuously evaluate the efficiency and effectiveness of operations
- Check compliance with laws and regulations
- Check reliability of financial and management reporting

- Safeguard the assets of the company
- Evaluate performance management and control systems
- Act as an advisor to the Management
  - Effective Cost Management
  - Waste Reduction
  - Productivity and Process Improvement

- Mergers & Acquisitions
- Expanding footprint
- New product development
- Climate Change and Sustainability

# **Aligning Internal Audit to the expectations of the Board**

The new Business environment requires a new vision for Internal Audit:

1. Develop an Internal audit strategy that is linked with the organization's strategic plan with focus on optimizing Risks, costs, and value

2. Develop a risk centric mindset and help enterprise navigate the complicated risk landscape
3. Move beyond Cyclical auditing-Develop flexible and dynamic internal audit plans
4. Communicate frequently with key stakeholders on their needs, expectations, satisfaction with the internal audit
5. Leverage technology to optimize audit operations

6. Assist management in developing and maintaining a comprehensive performance management framework

7. Understand the Business – develop ability to connect the dots

8. Simplify reporting - Cut through the clutter-KISS

**9.**Catch the manager doing something right-provide recognition and positive reinforcement / help duplicate best practices

**10.**Support and facilitate business process improvement and re-engineering

**11.**Provide active support in furthering good Corporate Governance

# Internal Audit is at crossroads

Its fundamental value proposition must change - Focus on business value agenda

- People
- Products
- Processes,
- Profitability,
- Planet.



# **Unlocking the strategic value of IA**

Internal audit must offer business insights into strategic initiatives, Offer ideas that challenge existing practices and lead to ongoing and sustainable business performance improvements for maximizing stakeholders value.

# **Internal Audit transformation**

In the past raising the bar each year in response to current and looming business scenario was good enough. But in today's landscape of fast emerging and quickly shifting business environment, where stakeholders are asking for deeper insights and clearer communications, internal audit needs to rise to the new floor.

# Three key steps to Internal Audit Transformation

- Link IA to the business value agenda
- Build the business case for change
- Create a plan that focuses on value, measurement and accountability

It sounds like a lot of change is on the horizon and all of it is good for the profession and for business

# IA must develop a risk centric mind set

- Organization's have changed and so have the risks
- Complexity , unpredictability and variety at the key elements of the organization's risk profile
- Companies in the top 20% risk maturity generated 3 times level of EBIDTA as those in the bottom 20%
- IA has to be the epicenter of risk identification , quantification, monitoring and control
- Strengthen risk coverage of technology, fraud and strategy
- Help turn risks into results / to fuel better performance

# **Performance management & control**

- Identify financial and non financial performance parameters – effectiveness, efficiency, quality, profitability, quality of work life, innovation, products, culture
- Use the corporate steering wheel

**Financial perspective**

**Customer perspective**

**Operation perspective**

**People perspective**

- Focus on where the organization is going rather than where it has been
- use financial modeling, CAAT, data mining, data analytics for predictive analysis and measuring performance of organizational resource

# **Provide active support in improving corporate governance**

- Review board structure
- Review code of conduct and ethics policy
- Evaluate board processes
- Evaluate Board performance
- Ensure consideration of sustainability frame work in decision making
- Help the company emerge as the good corporate citizen

The future of internal audit is now. Its here... and Internal Audit functions need to put their act together now to remain relevant to the business or..... be left behind.





