



Internal Audit: A key Element of Organizational Governance

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In the present business and regulatory environment, the role and responsibilities of the Board, its Committees and Executive Management are onerous. The importance of managing investor expectations, developing a sound business strategy with high quality execution coupled with robust systems, processes and good corporate governance practices cannot be overemphasized.

Internal Audit- Statutory provisions

In February 2000, the Securities and Exchange Board of India implemented the recommendations of the Kumar Mangalam Birla Committee on Corporate Governance and inserted Clause 49 in the listing agreement. It recognized the growing importance of Internal Audit in the governance structure and spelt out its relationship with the Audit Committee of the Board of listed companies. It is now more comprehensively replaced by SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Section 138 of the Companies Act, 2013 requires the board of a company to appoint an internal auditor. The prescribed rules covers a) all listed companies, and b) other public companies and private companies on the basis of threshold limits related to paid-up capital, revenues, borrowings or public deposits. This has recognized the profession of internal auditing.

Role of Internal Audit

Internal Audit plays a critical role in protecting and enhancing organizational value. As a key element of organizational governance, internal audit has moved from a traditional financial audit or a compliance role to risk-based audit that proactively provides independence assurance, advice and insight in risk management, internal controls and governance. The internal audit activity is increasingly becoming a change agent and a business partner.

The primary role of internal audit is to provide assurance to stakeholders that enterprise risks are managed adequately, internal controls are working as intended, compliance processes are effective and governance mechanisms are robust. Internal auditors are the eyes and ears of executive management and give comfort to the Board and Audit Committee when they provide

independent analysis, assurance and insight. They also highlight in a timely manner risk exposures or control deficiencies or identify areas for improving process effectiveness and efficiencies. Internal auditors keep a close watch on the business and regulatory environment and look for emerging risks.

International Standards

Established in 1941, The Institute of Internal Auditors Inc (IIA) provides internal auditors worldwide a comprehensive framework, standards and guidance, through the International Professional Practices Framework (IPPF), which facilitates professionalism and commitment to excellence. The Certified Internal Auditor (CIA) certification, which is globally recognized, is the hallmark of excellence in internal auditing.

As per the IIA “Internal auditing is an independent, objective assurance and consulting activity that adds value to and improves an organizations' operations. It accomplishes its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Governance and Internal Audit

Organizational governance can be defined as a set of structures, processes, systems and practices established in the interest of all stakeholders. Executive management focuses on business strategy, efficient and effective operations, and sets a risk and control culture with zero tolerance for violation of the code of conduct or the company values. The key players in the governance structure of a company are the Board of Directors, Executive Management, Internal Audit and External Audit.

When all the governance players perform their role with integrity, diligence and operate in a well-coordinated manner, it promotes good governance, higher disclosures, transparency and accountability.

The Need for Internal Audit

Organizations need internal auditing for the following reasons. The internal auditors

- provide independent assurance to key stakeholders
- focus audit efforts on enterprise risks that matter
- assist executive management & the board in discharging their responsibilities
- facilitate the identification and assessment of risk and monitor how well risks are being managed by the business
- evaluate design and operating effectiveness of controls and efficiency of business processes
- play a positive, objective, forward looking, constructive and insightful role in assisting the management to achieve optimum efficiency and effectiveness in business processes.
- evaluate compliance with regulatory requirements, company policies, procedures and plans
- assist in monitoring management action plans that mitigate risk

Internal Audit effectiveness

For internal audit to be overall effective, it should

- be independent, act with integrity, maintain high standards of internal auditing
- conform to professional internal auditing standards and have a quality assurance and improvement plan
- have unrestricted access to all data, information, records, property, personnel, systems and processes.
- provide real-time and relevant assurance, advice and insight and be future focused.
- have full and free access to executive management and the Audit Committee or the Board

Even in companies where internal audit is not mandated, the Board of Directors should evaluate at least annually whether an internal audit activity needs to be established. ■

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ACCA students are properly and fully prepared for the future that awaits them. Thank you for coming on this journey with us.

Much has been said about the threat digital advances pose to the professions as we understand them today. And with the increasing application of "robotic" software across the profession, we inevitably expect to see more automation taking place. However, the global research we've undertaken with the next generation of finance leaders has shown conclusively that, while they fully anticipate some displacement of more junior level roles across the profession, they also recognise that technology will enable finance professionals to focus on much higher value added activity.

Tomorrow's finance professionals very much see automation as an opportunity rather than a threat. And they see it as a great opportunity to influence their organisations and lead the way with technology. This could be in terms of improving business processes, driving better knowledge collaboration, influencing employment models and the working at home agenda, virtual working or shaping future learning interventions.

But, for all the transformation change, some core tenets that underpin the accountancy profession remain. Ethics and professionalism has always been central to the role professional accountants play. And our research shows that almost 9 in 10 professional accountants agree or strongly agree that ethics will become more important in a digital future. And 85% of C-suite executives who deal with professional accountants take a similar view.

The fast pace of technology change creates new and possibly

ambiguous, scenarios not previously seen. And this will make the ability to navigate ethical landmines that much more valued. Moreover, as automation increases, sound ethical judgment will become extremely important for senior decision makers – to ensure that innovation and digital adoption is supported in a way that doesn't compromise proper behaviour. The bottom line is that technology has an impact on the details one needs to understand in order to be ethical...but it doesn't reduce the importance of being ethical. In fact, it increases it.

So, the work that organisations like the IOD undertake in building ethical leadership and helping instil the right values and behaviours in the boardroom will also become even more critical.

And we shouldn't underestimate how much this is needed. Last week, at the World Economic Forum in Davos, Edelman presented its 18th annual survey into public trust in institutions. For the global business community, the message was clear: the public expects business to lead. 64 percent of the global audience say that CEOs should take the initiative on change rather than waiting for government to impose it. That's a significant challenge for us – but it's also a massive opportunity to build trust and demonstrate positive leadership.

Working in partnership with IOD and all our key partners, we are committed as ever, to providing all the possible support for the learning and skill development of the talented young workforce in India and to contributing to the profession and economic development of this great nation.

(Excerpts from the speech delivered by Ms. Helen Brand OBE, CEO, ACCA) ■