



INTERNAL AUDIT : NATIONAL CONFERENCE



The New Risk Universe : What We Were Not Auditing 5 Years Ago & Finding the Blind Spots

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The Context

Changing Terrain :

- /// **Hyper Digitisation** : Rapid adoption of Cloud, API ecosystems, Automation and Interfaces has dissolved organisational boundaries and pose Vulnerabilities with for interconnected of systems.
- /// **Environmental Concerns** : Rapidly evolving regulatory compliance requirements, forcing businesses to adopt sustainable practices specially for cross –border trades.
- /// **Evolving Business Models** : Access of digital technology and assets has brought about huge change in business models.
- /// **Geo-political Volatility** : Swift shifts in global power balances and frictions adversely affecting cross border trade.
- /// **Velocity of Risk** : Risks now materialize overnight (e.g., algorithmic failures, viral reputational crises), while audit plans move in months periodic.
- /// **Regulatory Complexity** : Ever emerging security concerns prompting stringent regional data laws call for adapting and effective monitoring.
- /// **Stakeholder Expectation** : Boards now look to CAs not just for standard financial integrity, but for robust assessment of operational resilience.

Internal Audit

Traditional Coverage

- » Operating Systems & Policies and compliance thereof
- » Statutory Compliances
- » Transaction based checks
- » Risk Exposures

Newer Challenges are emerging and will further emerge with the ever evolving business dynamics, environment, technology, etc.

EXISTING		EMERGING
PERCIEVED	EXPECTED	New Businesses
Policeman	Doctor	Evolving Business Models
Transaction Checker	Business enabler	Increasing Competition & Cost pressure
Control Myopia	Business Practical foresight	Rapid transformation in Tech & IT
Fault finding	Strategic Solutions	Increasing Regulatory Complexity
Necessary Evil	Risk & Opportunity Manager	Environmental Awareness
Human error	Diagnosis for Process improvement	Crisis Preparedness & Resilience

**Bridging the gap between Perception, Expectation
and Emerging risks is a challenge to be addressed**

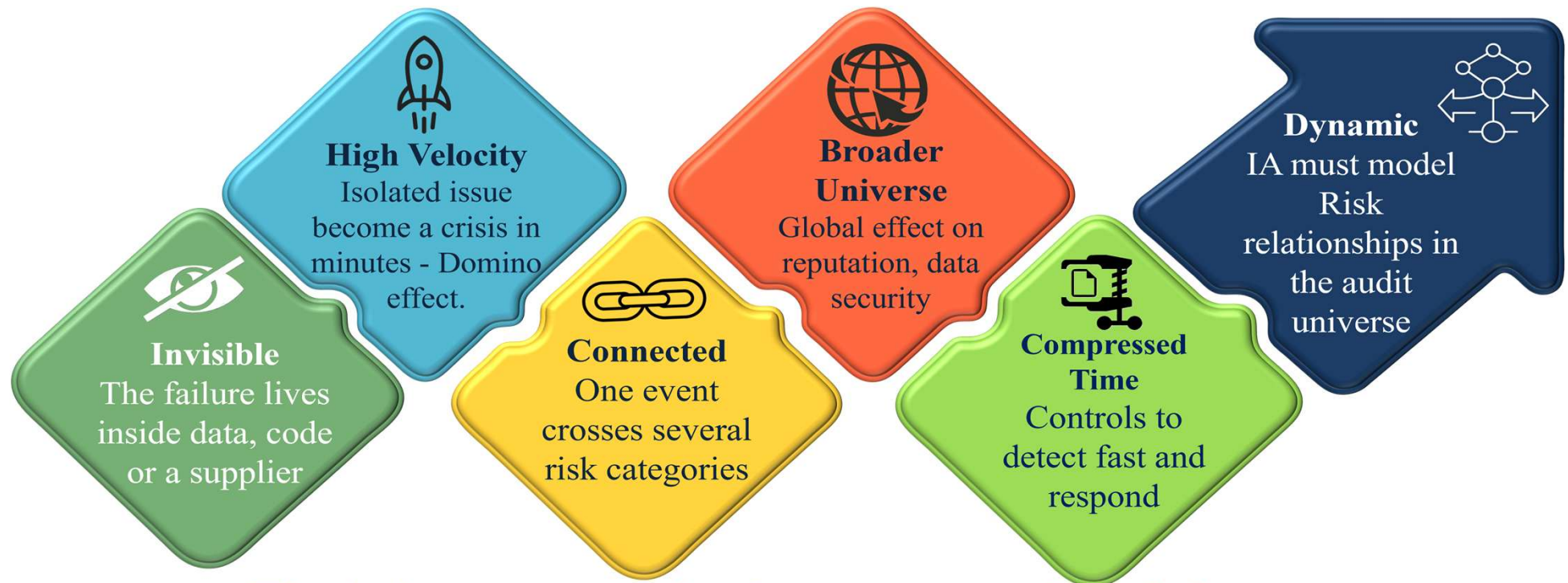
NEW RISK UNIVERSE

/// The audit universe is now larger than the organisation chart - risk domains now cut across functions, systems and legal entities



The extended enterprise has become the risk perimeter.
The “risk universe” is a network - not a list and we audit the chain of trust.

Emerging Risks – Traits



The infrastructure is also outsourced and the control environment moved to shared responsibility.

PARADIGM SHIFT : Moving Beyond Controls to Risk

- » Controls
- » Transactions
- » Periodic Checks/Tests
- » Compliance



- » Risk signals – Pre-emptive preparedness
- » Interfaces – not limited to Org. chart.
- » Alert, Adapt and be ahead
- » Strategy

Change is the only Constant

*The greatest danger in times of turbulence is not the
turbulence*

It is the apprehension which can fuel fear.



RISK

ASSESSMENT
INDEPENDENT OBJECTIVE

ASSURANCE

CHALLENGES & CHANGE

Audit Process & Methodology : A 'Diagnostic' mindset to identify the root cause.

- » Audit Planning - Risk based.
- » Complete congruence of objectives of Audit with Auditee.
- » Analytical Review - high level of professional assessment coupled with leveraging technology and audit tools, substantive procedures while ensuring Essential coverage.
- » Seamless integration of facts and relevant data.
- » Objectivity is paramount – be unbiased and not be paranoid
- » **Deep dive** - 360° Risk assessment vis-a-vis Governance, Compliance, Reporting, Tech, Image, etc.,
- » Audit Observation - solely be **“RISK and Compliance based”**

**"In the new risk universe, looking in the rearview mirror
will only ensure a faster crash.
We need a radar, to navigate ahead."**

AUDIT APPROACH

/// Audit Observation must be “**RISK IMPACT**” based => test the following :

/// Evaluate facts for pre-emptive management of Risks

⇒ Identification of Risks

⇒ Evaluation of Risks

⇒ Transfer of Risks

⇒ Monitoring of Risks

360° Risk Assessment Based i.e. w.r.t.
Business efficiency, Reporting,
Technology, IT, Compliances, etc.

» Devil’s Advocate – “**SO WHAT**” => helps get the IMPACT i.e. the **RISK**

» Pre-emption of Risk cannot be based on its “**Probability**” of materializing

» **Cover the last mile** – Do not forget that you are an ‘**accountant**’-what is the impact on Final Report & Accounts

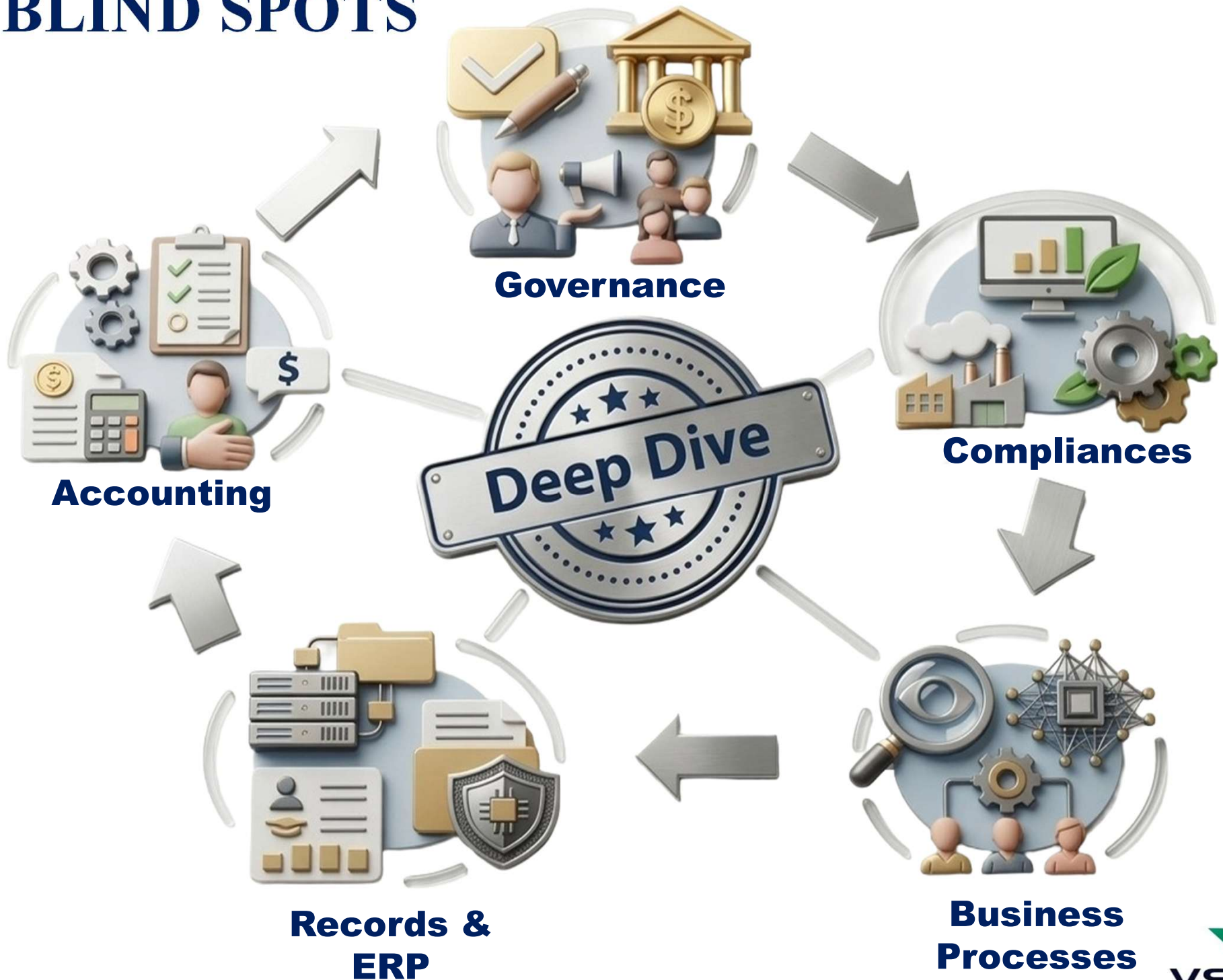
/// Adopt & Adapt to transform and be contemporary

/// Enhanced and Judicious use of appropriate Tools & Tech. Utilities for smart & value added solutions.

360° Risk Assessment



BLIND SPOTS



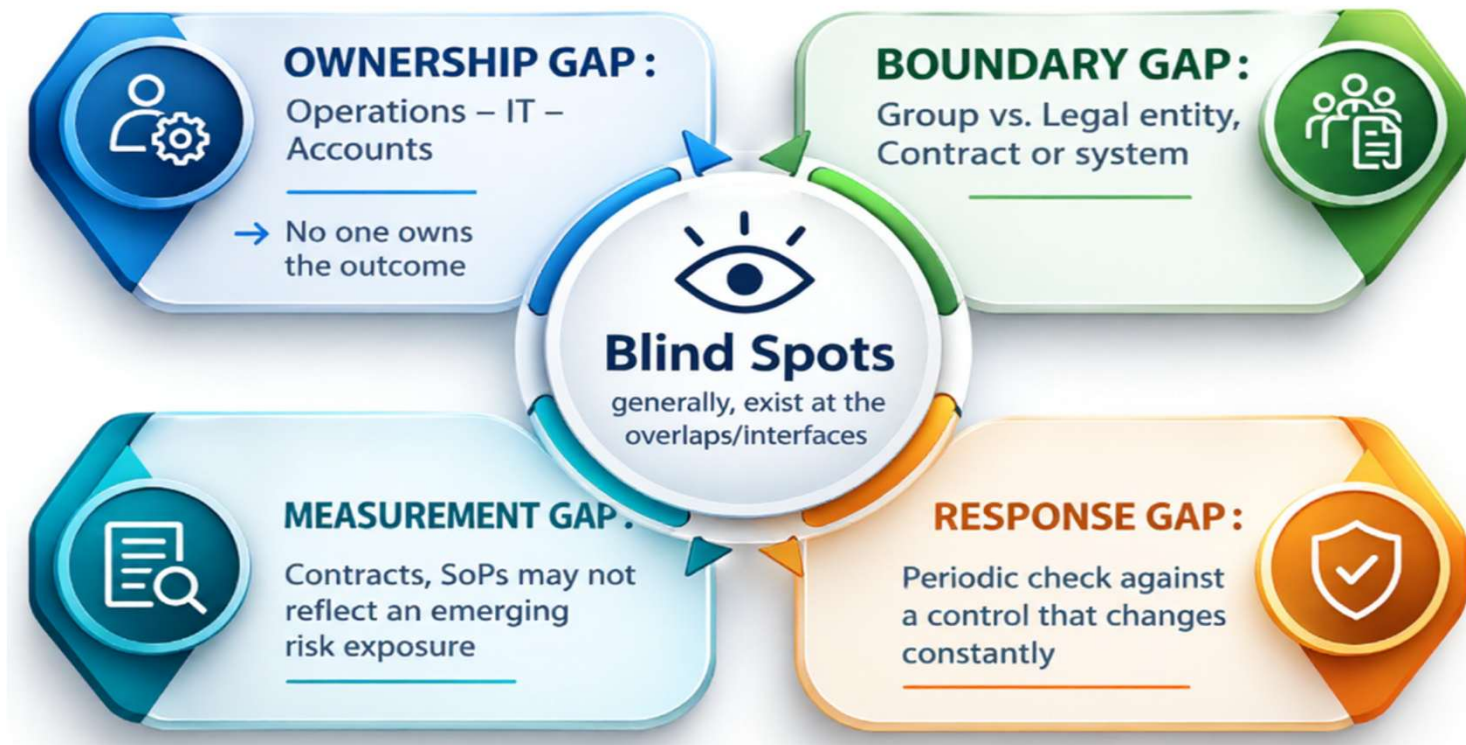
Blind Spots

Usually created by assumptions

- » Not by lack of controls
- » The gap between what people think is covered and what actually is
- » Which control depends on an assumption that no longer holds

FINDING THE BLIND SPOTS

Connected Governance Assess interfaces between functions/depts./systems/platform to get a grip on the control mechanism



The most dangerous control is the one everyone thinks someone else owns

Some Effective Tools



**Utilizing
Right Tools**

Some Effective Tools for Internal Audit

/// Adopt an 'all round view' - **Diagnostic approach**

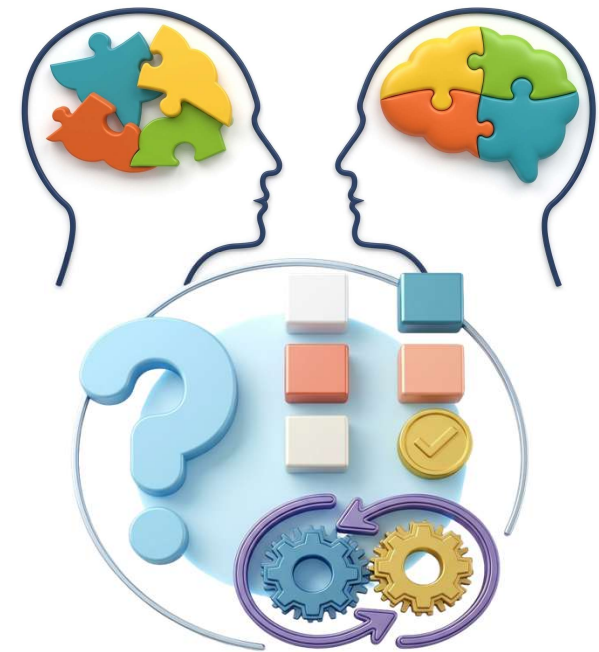
/// Understand the various interlinkages

- » **Process Flow Charting** is a fantastic tool
- » Map Accounting entries in the various stages in the Flow Chart
- » TB : Trend analysis / Interlinkages
 - ⇒ Helps identifying sample period – sharper than conventional 'random' sampling.



/// Shift from only number crunching to :

- » Focus on 'Logical thinking & Fundamentals'
- » Deep Dive - Diagnostic Approach
- » Root Cause Analysis
 - “5 Whys” Technique is very powerful
- » AI cannot be a substitute – only a supplement
- » Be 'Practical' – consider Business dynamics



The 5 Whys

BLIND SPOTS – Conventional areas

IT System

- » Scope Clarity – must include PLCs and other automations
- » Not a ‘Black-Box’ => understand the logic embedded
 - ⇒ Test for ‘Repeatability/Reproducibility’
- » ERP by itself does not add control or eliminate risk
 - ⇒ Study the system config documentation to understand embedded controls
 - ⇒ GRC & Role Based Access - periodic review, Maker-Checker, SOD
 - ~ ERP without adequate controls built in can be like a Sports car without brakes
 - ⇒ Single sided entry
 - ⇒ Super User/Fire Fighter ID usage trail
- » Focus on Interconnected/Interfaced systems – vulnerabilities can be high
 - ⇒ E-payment – Integration API control
- » Change Management Process – UAT, Documentation
- » Compliance - IT & DPDP Act and Rules
- » Credentials Sharing

BLIND SPOTS - Conventional areas

Management Decision Making Process

- » Not question the decision - Study / analysis done for arriving at decision :
- » Make or Buy or Outsource
- » Own asset vs. Lease
- » Abatement vs. full duty
- » SEZ/EOU : benefit vs. obligations



Insurance

- » Basis of finalising the Insurance co. – Price discovery
- » Standard policy vs. “Add On” covers – e.g. hailstorm, terrorism, riot, etc.
Third Party liability.
- » Specific covers – Fidelity, EEP, Pressure Vessel, EAR, CAR
- » Marine - ICC-A, B, C
- » Sum Insured => Replacement value vs. Book value
- » Accounting - Premium, Claim vs. write-off/expense

BLIND SPOTS - Conventional areas

Treasury

- » Fund Based vs. Non-Fund Based – Interchangeability
- » Compliance to Sanction terms – Investment & Credit co-existing
- » Cash Mgmt. Products / Services vs. Insurance
- » Interest Rate Arbitrage
- » Substitute Advance/ deposit with BG
- » Commodity / Currency Risk : Clandestine hedge

Intangible Assets

- » Brand, Logos, Tagline, Design Patent - IPR
- » Registration - Category, Country
- » Usage
- » Scanning for objections, Violations
- » Evidence of advertisement – media verification

Contracts

- » Terms & Conditions – Onerous clause, comprehensiveness, INCOTERMS
- » Applicability of Stamp Duty – India Stamp Act
- » Signing – Person vested with authority by the Board

"लकीरें खींचने से काफ़िले रोका नहीं करते
पुरानी बंदिशों से नए ख़तरे डरा नहीं करते।
बदलना होगा हमें अपने हुनर का दायरा
क्योंकि अब तूफ़ान पुराने रास्तों से आया नहीं करते।"



DISCLAIMER

The contents of this presentation are only illustrative and not exhaustive in any manner.