

# Stakeholder Management & Soft Skills

(Audit Committee Meetings and Statutory Auditors)

WIRC of ICAI

Mumbai

13<sup>th</sup> April, 2019

Jignesh Thaker

Partner, JHS & Associates LLP

Chartered Accountants

# SIA 4 - Reporting

- The internal auditor's report should contain a clear written expression of significant observations, suggestions/ recommendations based on the policies, processes, risks, controls and transaction processing taken as a whole and management's responses.
- The standard lists following items to make internal audit report complete: Title, Addressee, Report Distribution List, Period of Coverage of the Report, Introduction to Processes Covered & Management's Responsibility of the entity's management & Internal Auditors responsibility, Objective & Scope of Internal Audit, Approach of Internal Audit, Population & Sampling Technique, Executive Summary, Observations, Recommendations, Management Responses, Action Taken Report, Date, Place, Sign and Membership Number
- Communications by Internal Auditor are beyond report submissions

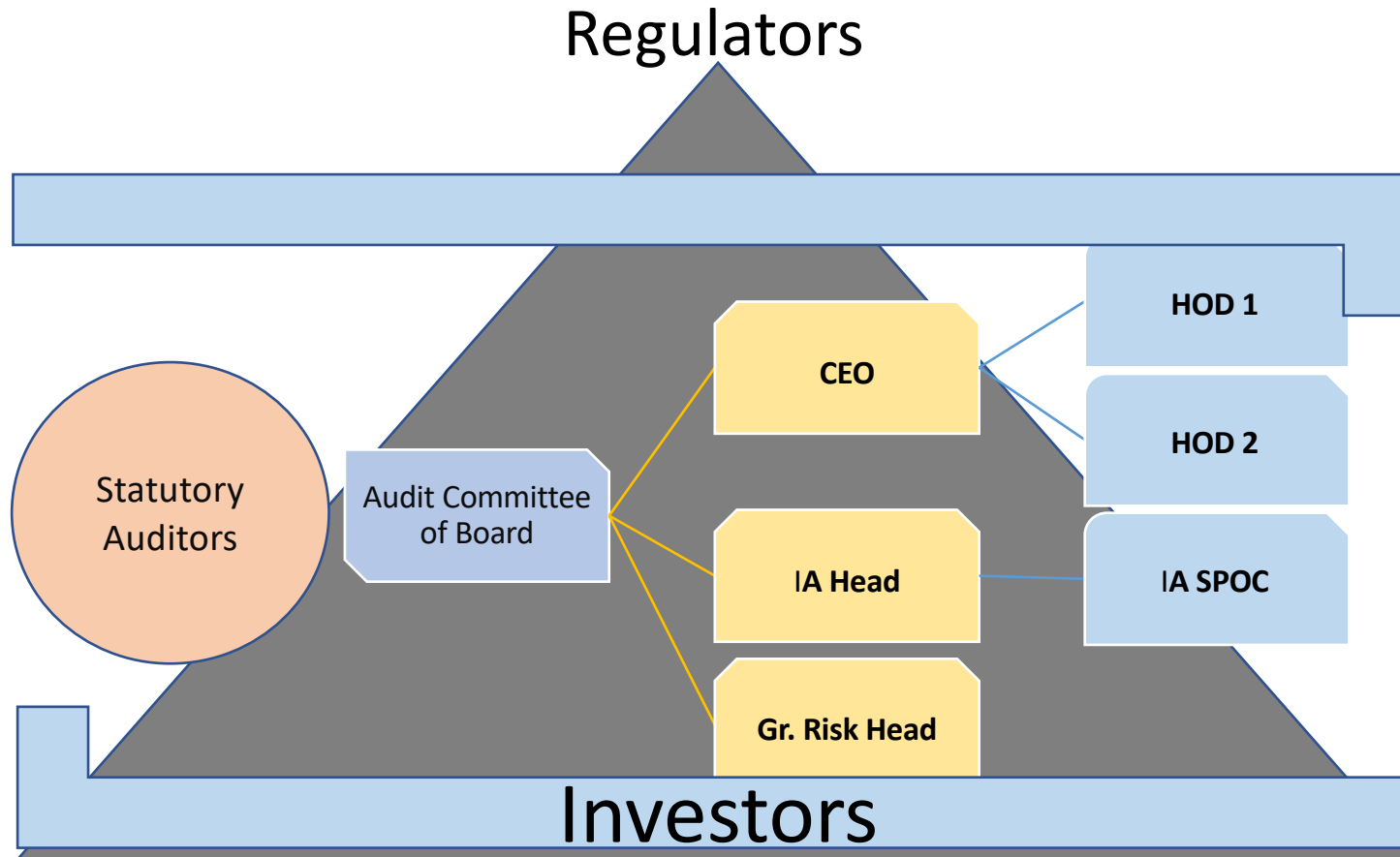


# SIA 9 - Communication with Management

The internal auditor while performing audit should:

- Communicate clearly the responsibilities of the internal auditor
- Obtain information relevant to the internal audit from the Management
- Provide timely observations arising from the internal audit that are significant and relevant to their responsibility
- Promote effective two-way communication between the internal auditor and the management.

# Stakeholders

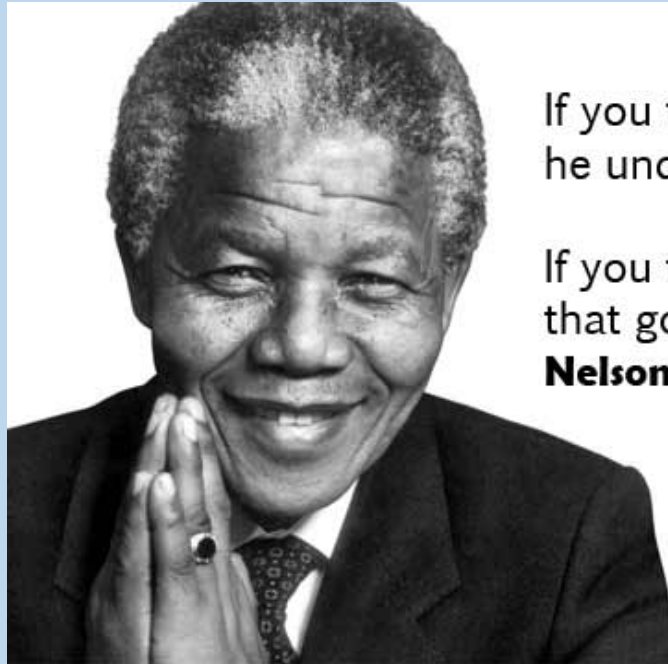


Audit Committee & Internal Auditor to jointly overcome

# Audit Resistance Indicators

- Cost Burden
- Necessary Evil
- Not a Priority
- Lack of Resources
- Smaller Operations
- How can you Add Value
- You learn at our costs
- Not prepared for Audit
- Implementers not Auditors
- Don't want Fault Finders
- Duplication of Auditors
- Benchmarking with Best Practices
- Want IA Report without Audit





If you talk to a man in a language  
he understands, that goes to his head.

If you talk to him in his language,  
that goes to his heart.

**Nelson Mandela**

**UNLOCKING RESISTANCE  
INVEST IN COMMUNICATION**

# Traits

- Head of Department
  - Operational orientation
- CEO
  - Overall operations management
- IA Head
  - Enhance internal controls environment across functions
- Audit Committee of Board
  - Governance, Risk & Control Practices
- Group Risk Head
  - Consistency in risk management practices across group
- Statutory Auditors
  - Assurance on financial reporting and internal financial controls



## Effective Communication Opportunities

### Point of Impact



#### Formal

- Adoption of Audit Charter
- Pre-audit committee meets
- Audit committee meets
- Audit Reporting
- Special Reviews
- Special Insight sessions
- Confirmation on standards

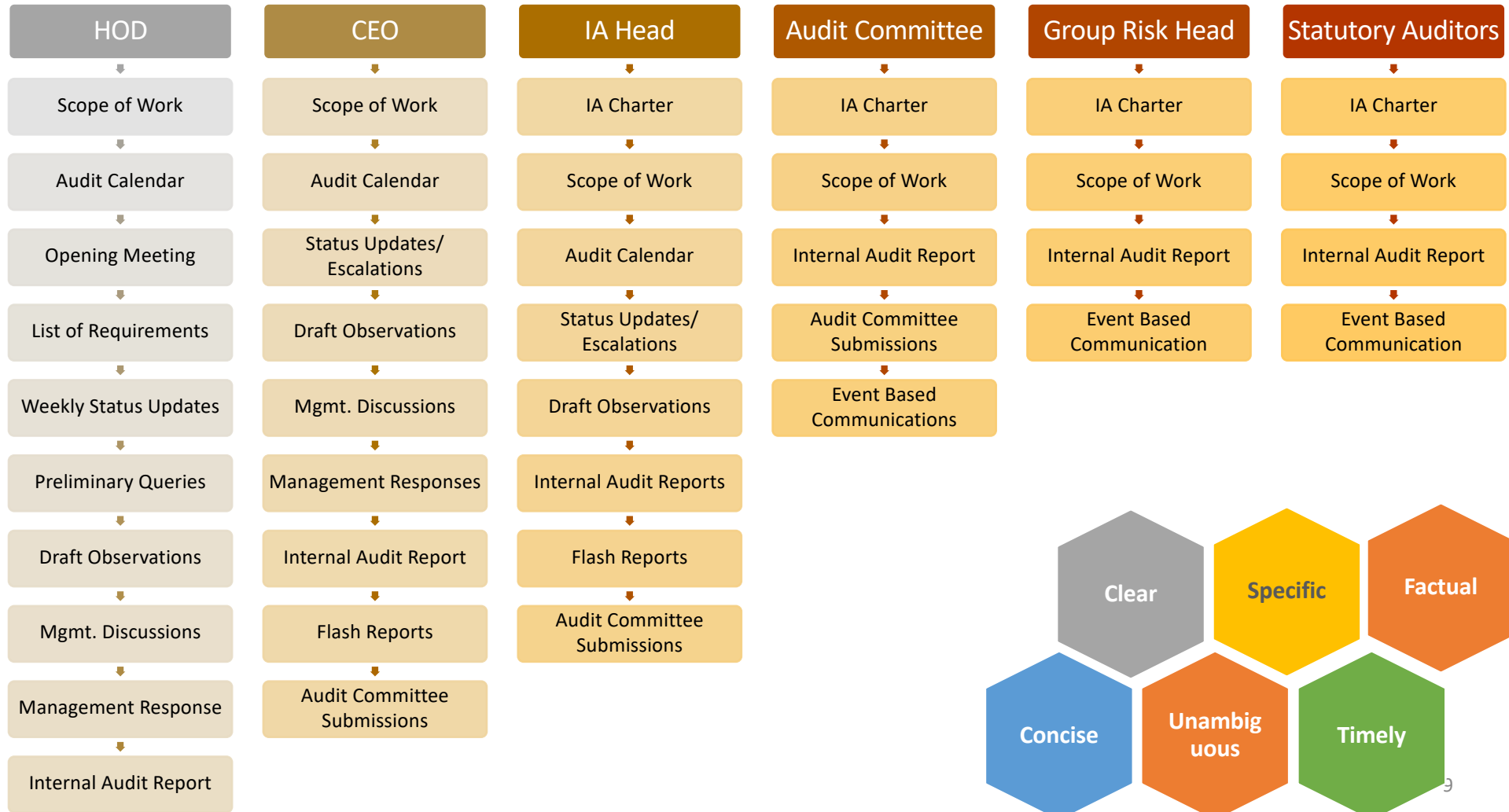
#### In-formal

- Lunch meets
- Special occasions
- Reach out calls
- Social media
- No agenda meetings





# Engaging Opportunities



# Department Level Communications

## Nature

- More specific and detailed
- More verbal / personal interactions
- More frequent
- Hierarchy to be ensured
- Prompt escalations

## Key Documentation

- Audit Calendar
- List of Requirements
- Data Received Tracker
- Walkthrough Questionnaire
- Minutes of Meetings
- Mgmt. Representations
- Draft & final IA Observations
- Management Responses

## Influencing Factors

- Clarity in scope of work, Expected timelines, Risk grading parameters
- Daily interactions
- Avoiding information leakage
- Due consideration to all evidences and facts of the case
- Unbiased reporting, focused on process improvement
- Value addition recommendations

# Communications with CEO/ IA Head

## Nature

- Overall engagement progress or bottlenecks
- Weekly / periodic status updates
- More formal
- Semi-final conclusions on events/ observations/ status
- Escalations only after reaching out to HOD

## Key Documentation

- Audit Calendar
- Weekly/ Periodic Status Updates
- Minutes of Meetings
- Management Representations
- Draft & final IA Reports
- Management Responses

## Influencing Factors

- Prior insights from them at commencement stage
- Early reporting on findings of high significance
- Updating on Inter-departmental and industry practices

# Statutory Auditors Communications

## Nature

- Assurance on overall internal control environment
- Most formal
- Discussions with reference to IA report submitted
- Generally brief
- Standard or unusual questions on internal controls
- Any key submissions, other than that in IA report

## Key Documentation

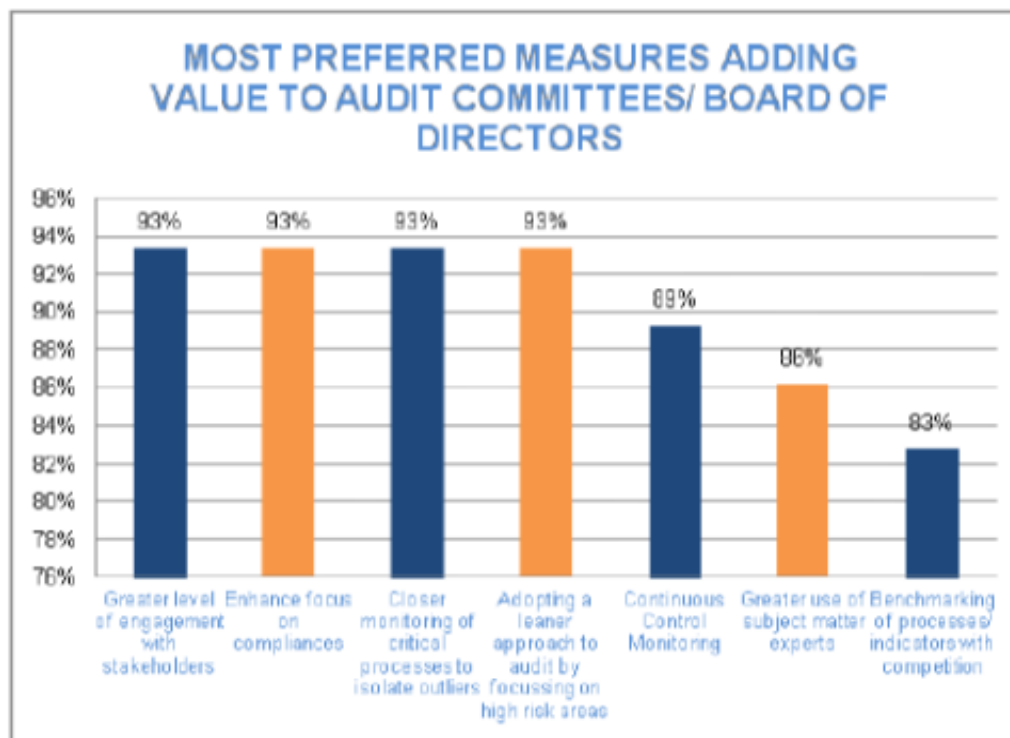
- Detailed IA Report
- Management Responses

## Influencing Factors

- Discussions at the beginning as well as end of IA activities
- Specific mention of any constraints in execution of internal audit

## Board/ Audit Committee preferences

*In uncertain times how does a modern day IA function add value to the Audit Committee/ Board of Directors?*



**93%** of respondents *agreed or strongly agreed* that the IA function could add value by

- Greater level of engagement with stakeholders
- Enhance focus on compliances
- Closer monitoring of critical processes to isolate outliers
- Adopting a leaner approach to audit by focusing on high risk areas

Source: IIA Bombay chapter survey 2012

## Setting the Governance Agenda – A Sustainable Journey

Assisting the Board to discharge its responsibility to exercise due care, diligence and skill in relation to the following areas:-

- Reporting of financial information to users of financial reports;
- Application of accounting policies and Financial management;
- Internal control system and Risk management system;
- Business policies and practices;
- Protection of an entity's assets;
- Compliance with applicable laws, regulations, standards and best practice guidelines;
- Providing a formal forum for communication between the Board of directors and senior management;
- Facilitating the maintenance of the independence of the external auditor;
- Consideration of significant matters that were raised during the audit process.
- Matters of whistle blowing, ethics, etc

“Strong  
corporate  
governance  
relies on robust  
processes for  
reporting, risk  
management  
and internal  
control”

# Audit Committee Communications

## Nature

- Assurance on overall internal control environment
- Most formal
- Discussions with reference to IA report submitted
- Generally brief
- Standard or unusual questions on internal controls
- Any key submissions, other than that in IA report

## Key Documentation

- Executive Summary & Detailed IA Report
- Management Responses

## Influencing Factors

- Prior insights on protocols
- No disputes over audit findings
- Being brief & flowing with IA Executive Summary being discussed
- Specific mention of any constraints in execution of internal audit
- Pre-ACM meeting with Chairman

# Special Situations – SEBI, P.E., R.T.I.

## Nature

- Specific about any items of internal audit, internal controls, books of account, regulatory compliances
- Only formal

## Key Documentation

- Detailed IA Report
- Management Responses
- Internal Audit Workpapers
- Response to communications

## Influencing Factors

- Completeness of internal audit workpapers
- Specific mention of any constraints in execution of internal audit
- Timeliness in responding



## What the Audit Committee likes to see...

# Audit Reporting – Element clubbing & summary

- ❑ Governance reviews (Entity, Policy)
- ❑ Foresight reviews (Budgets, Plans, New Projects, New Products, Potential Compliance issues)
- ❑ Risk Management (ERM, Cyber, Capital adequacy)
- ❑ Insights (External/ Internal Benchmarking)
- ❑ Sustainability of recommended actions
- ❑ Comparative Analytics

|               |               |       |          |       |         |
|---------------|---------------|-------|----------|-------|---------|
| Extreme       |               |       |          |       | 2       |
| Major         |               |       | 11       | 103   | 3       |
| Moderate      | 1             | 16    | 330      | 40    | 3       |
| Minor         | 11            | 85    | 72       | 7     |         |
| Insignificant | 36            | 29    | 9        |       |         |
|               | Insignificant | Minor | Moderate | Major | Extreme |

Impact

# Opportunities to make a difference

## **Eye on Value adding processes**

- Revenue/ Costs/ Savings
- Efficiency improvement (Rework, Complaints, Rejections, Inspections, Returns, Discounts, etc)
- Supply chain/ Procurement
- Benchmarking
- Analytics-Dashboard Reporting

## **Eye on Fraud Risks**

- Fraud scenarios
- Late adjustments
- Related Parties
- Exceptions
- Journal entries
- New transactions/ regions/ products
- Whistle blowing events
- Delays
- Continuing control deficiencies

## **Eye on Compliances**

- Comprehensive compliance tracking and monitoring
- Self assessments
- Independent reviews
- Board certifications
- Compliance history & assessments

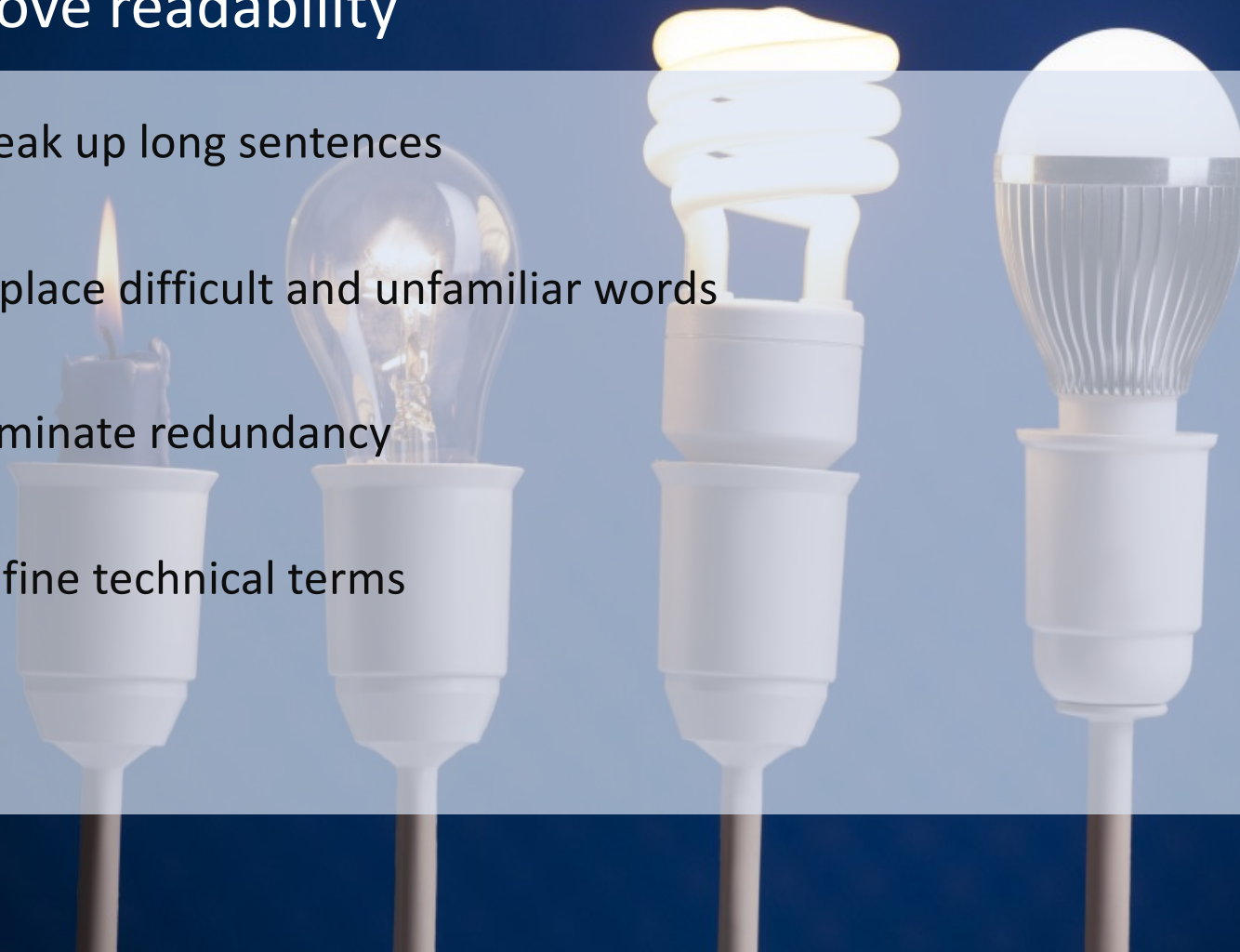
# Audit Reporting



"Words have the power to both  
destroy and heal.  
When words are both true and kind,  
they can change our world."  
~ Buddha

## Improve readability

- Break up long sentences
- Replace difficult and unfamiliar words
- Eliminate redundancy
- Define technical terms



## Placement of Negation & Connotation of words

### **Example 1**

- No training on fire drill procedures was provided to employees
- Employees had not received training on fire drill procedures

### **Example 2**

- Inability to understand the procurement process
- Lack of procurement process understanding

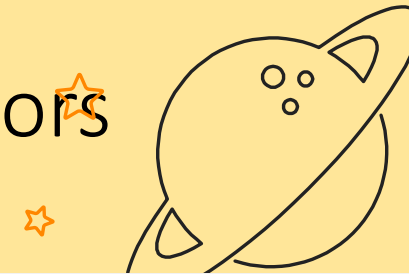
## Audit approach should be effective not damaging

- Simply avoid personalisation
- Conflicting views is an audit reality so handle it with tact and maturity
- Dig deeper into audit findings rather than mere language treatment
- Audit Issues or Opportunities for Improvement
- Rely on clear facts not team perceptions
- Present opportunity to be heard
- Do give positive assurance if no material findings



**“The difference between the right word and the almost right word is the difference between lightning and a lightning bug” ~ Mark Twain**  
Words are powerful! When you chose just the right word, you increase understanding ten-fold.

# 7 Deadly Sins of Internal Auditors



1. Auditing with an agenda
2. Issuing petty audit reports leading to waste of management time
3. Control failure is an event not a person. Make sure recommendation is focussed on the right target – the process. Focus on management help achieve their objectives and not finding faults
4. Get hung up on best practices when your client needs appropriate practices or next practices
5. Issuing incorrect audit observations
6. Reacting negatively to a client in distress or behaving unprofessionally with a client even though the client has behaved unprofessionally
7. Incomplete audit work papers

# Remarkable expectations from Internal Auditors

1. Assurance on Risk Management
2. Thinking out of the box
3. Balancing governance and performance
4. Ability to build relationships
5. Critical thinking
6. Good communicators
7. Problem solvers
8. Lead the change management
9. Multi-lingual





## Internal Auditor – Key Leadership Skills Requirements

### Positive Intent

a fair, independent and objective approach to internal auditing that conveys to stakeholders that the CAE has the overall organization's best interest at heart.

### Diplomacy

a direct, forthright communications style, political astuteness, and sensitivity to the organization's culture and how management gets things done.

### Prescience

an ability to foresee risks that lie ahead for the organization, a trait that requires curiosity, an ability to look at situations with fresh eyes, and a willingness to question assumptions.

### Trustworthiness

a demonstrated commitment to “walking the talk”, keeping confidences, operating with integrity, and being mindful of maintaining credibility.

### Leadership

an ability to set the appropriate tone not only for the internal audit staff but also for a wide range of others.

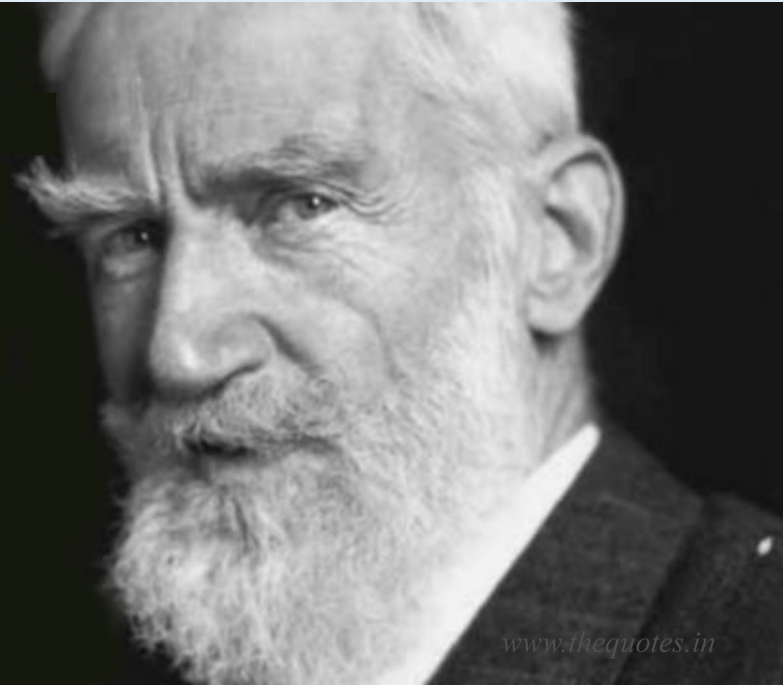
### Empathy

a knack for understanding and addressing each stakeholder’s point of view.

*Source: IIA Global Survey*

The single biggest problem in communication is the illusion that it has taken place.

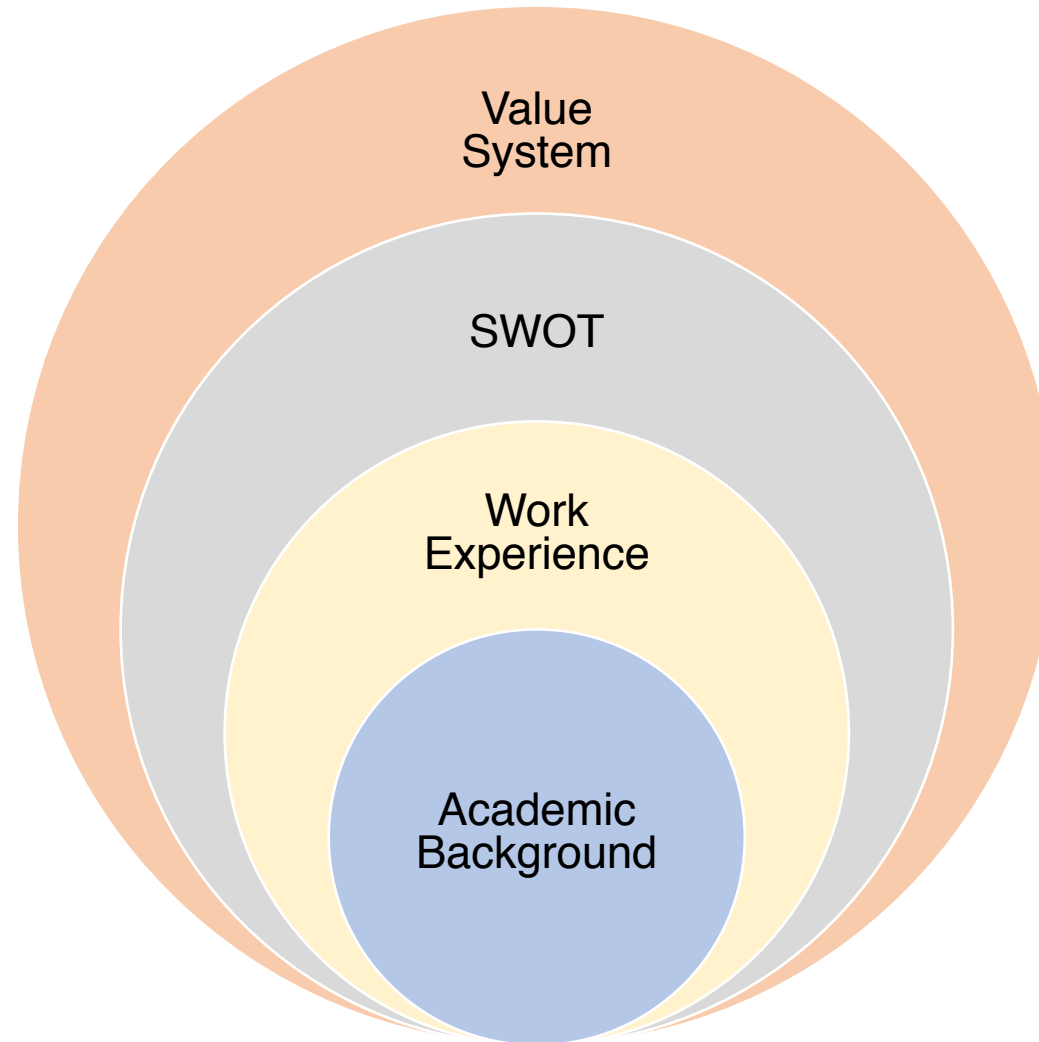
*George Bernard Shaw*



*www.thequotes.in*

**UNLOCKING RESISTANCE  
INVEST IN COMMUNICATION**

## Contributors to Communication Style





**The auditee cannot defeat you unless  
you accept defeat.**

**INTERNAL AUDIT IS A CONTINUOUS JOURNEY OF IMPROVEMENT. IT IS NOT AN EVENT SO THERE WOULD BE UPHEAVALS BUT YOU WOULD HAVE OPPORTUNITIES TO BOUNCE BACK. SO, IF YOU TAKE A KNOCK-RELAX AND RISE AGAIN BY EFFECTIVE USE OF COMMUNICATION. AS INTERNAL AUDITORS WE ARE NOT EXPECTED TO HAVE ALL ANSWERS SO DON'T TAKE YOUR JOB VERY SERIOUSLY.**

# THANK YOU

**Jignesh Thaker**  
**Partner, JHS & Associates LLP**  
**Chartered Accountants**

