ROLE OF INTERNAL AUDITORS

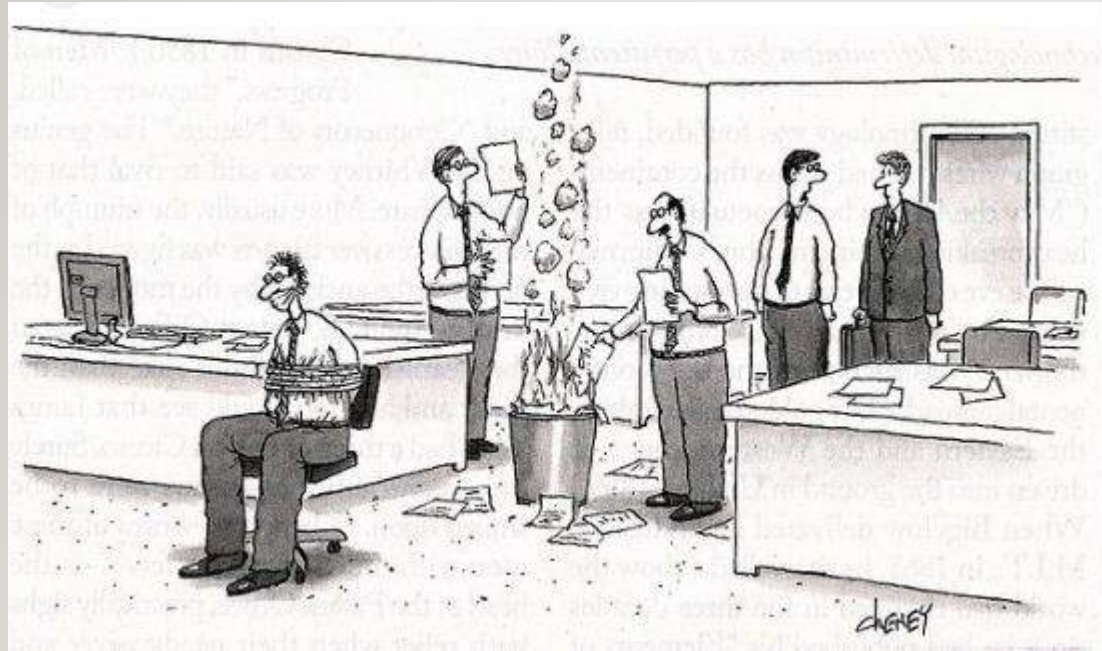## IN CONTROL ACTIVITIES

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HEAD INTERNAL AUDIT –

SBI FUNDS MANAGEMENT LIMITED

JULY 2023

COLLUSION IS POLLUTION

What happens in Accounting Stays in Accounting !!

Internal Controls?1?

INTERNAL AUDIT & INTERNAL CONTROLS

WHAT IS INTERNAL AUDIT

- It is an Assurance & Consulting Activity.
- It is evaluation of Company's
  - **Internal Controls,**
  - **Corporate governance**
  - **Accounting processes**

  designed to add value and improve organization's operations

WHAT IS INTERNAL CONTROL – STEPS TAKEN TO MITIGATE RISK

By Whom?
➢ Action taken by Senior management/ board

What Action?
➢ Rules, and procedures put in place

Why Action?
- Ensure accuracy of financial and accounting data
- Comply with laws and regulations
- Managing risk including prevent fraud/waste

End Objective
✓ Established objectives and goals are achieved
✓ Mitigate Reputational risk

INTERNAL CONTROL – EXAMPLES

- ✓ **Approval of Proxy voting done by the organisation by competent authority as per Proxy voting policy**

- ✓ **Periodic site inspection by project manager**

- ✓ **Automatic serial numbering of purchase orders**

- ✓ **Bank Balance Confirmation from Bank**

- ✓ **Signing contracts with vendors**

- ✓ **Fixed assets Verification**

INTERNAL CONTROL - CLASSIFICATION

Nature of Control	PREVENTIVE	DETECTIVE
	*Controls to be performed **PRIOR TO** processing transactions*	*Controls performed **AFTER** processing transactions*
	- Authorisation	- Reconciliations
	- Segregation of Duties	- Review of exception report
		- Security Violation Report

Type of Control	Manual	Automated
	Controls that require human intervention	Controls automated through the IT System
	- Management review/KPI	- Segregation of duties
	- Reconciliations	- Access Control
	- Review of exception report	- Back-up and recovery controls

THREE LINES OF DEFENCE MODEL

Board of Trustees/Audit Committees – Perform Oversight

Executive Management – Monitor Performance

1st Line of Defense **Business Operations**	2nd Line of Defense **Oversight Function**	3rd Line of Defense **Independent & Objective Assurance**
Departmental, Operational, Functional Management	Risk Assurance Function	Internal Audit
Design & Implement Controls	Ongoing monitoring of Controls	Testing of Controls
Management Controls	Risk Management	Internal Audit
Internal Controls	Compliance	

External Audit

Regulators

MANAGEMENT'S ROLE IN CONTROL

- Management has responsibility to:

  - Assess risks to the organization of not meeting its objectives

  - Identify and develop appropriate controls to mitigate/manage identified risks

  - Implement controls and monitor them to ensure they are working as designed and are adequate

MANAGEMENT'S ROLE IN CONTROL

❖ **Control Environment –**

• The board and Management's attitude and actions on the importance of control in the organisation

CONTROL ENVIRONMENT
(CONTINUED)

Example of

✓**Vision**

✓**Mission &**

✓**Values**

MANAGEMENT'S ROLE IN CONTROL

❖**Risk Assessement –** Risk Register, RCSA

❖**Control Activities**
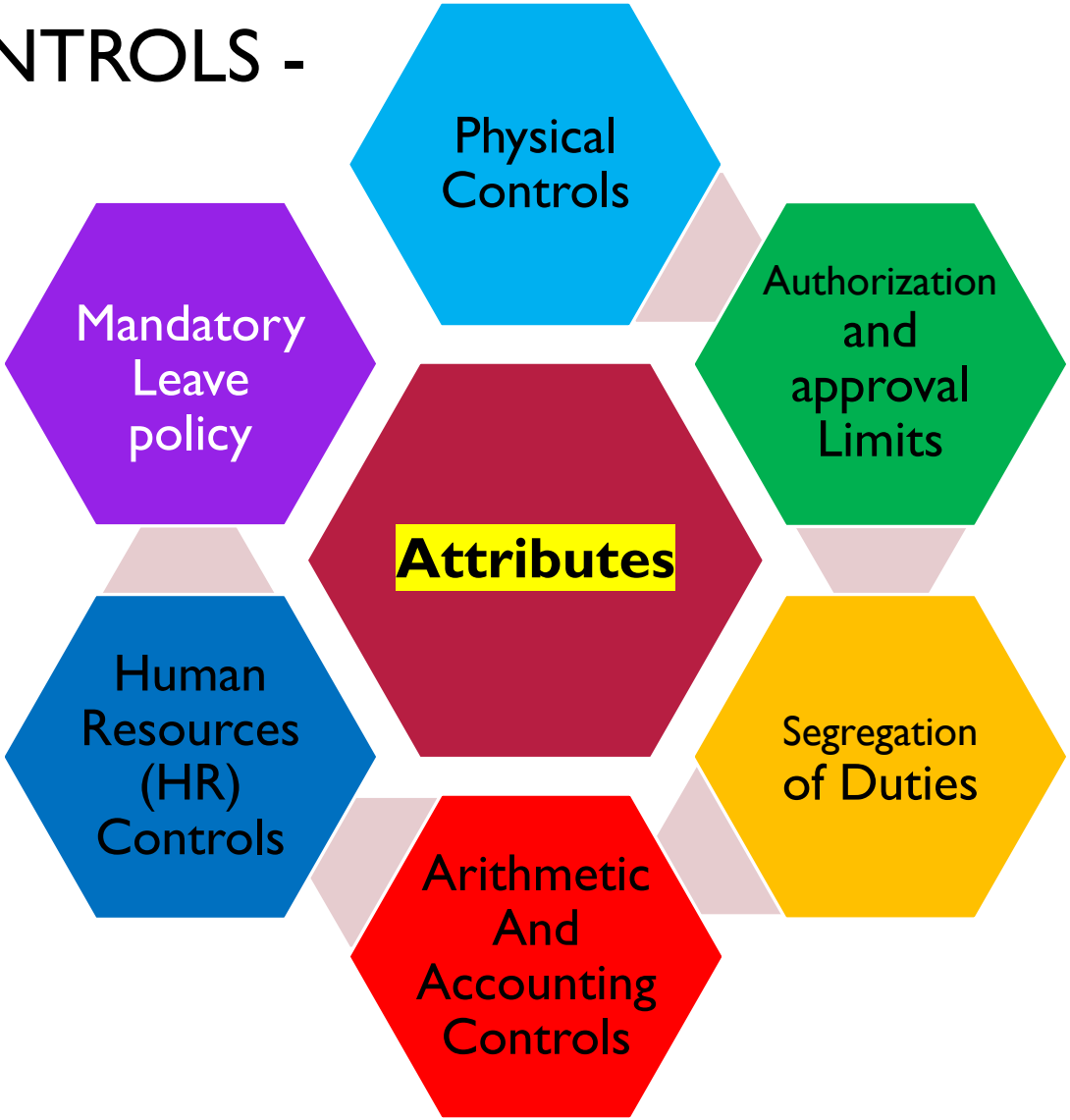
MANAGEMENT'S ROLE IN CONTROL

- Information & Communication

- Monitoring

INTERNAL CONTROLS - ATTRIBUTES

INTERNAL AUDIT'S ROLE IN CONTROL

The role of Internal Audit is to provide independent assurance that an organization's risk management, governance and internal control processes are operating effectively.

These internal controls can ensure

- Compliance with laws and regulations
- Accurate and timely financial reporting
- Maintain Operational efficiency
- Identifying problems and correcting lapses before they are discovered in an external audit.

INTERNAL AUDIT'S ROLE IN CONTROL - METHODOLOGY
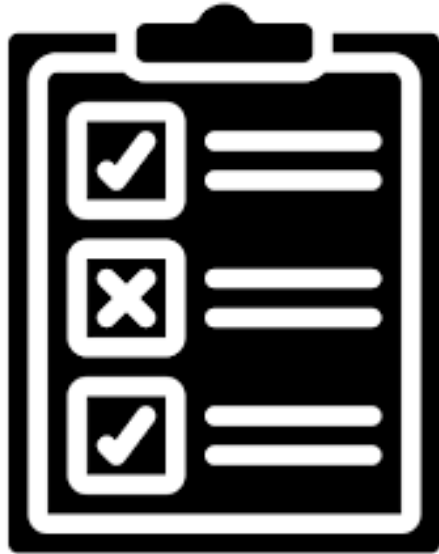
1) **Assessing Control Environment:**

- Internal auditors evaluate the control environment by assessing management's commitment to internal controls, ethical values, and the overall control culture within the organization.

INTERNAL AUDIT'S ROLE IN CONTROL - METHODOLOGY

2) **Testing Control Activities:**

- Internal auditors perform testing procedures to evaluate the effectiveness of control activities.

- They assess whether controls are operating as intended and identify any control deficiencies or weaknesses.

INTERNAL AUDIT'S ROLE IN CONTROL - METHODOLOGY

3) **Reporting and Recommendations**:

- Internal auditors document their findings and communicate control deficiencies to management.

- They provide recommendations for improvement, including enhancements to control activities or the implementation of new controls.

INTERNAL AUDIT'S ROLE IN CONTROL - METHODOLOGY

4) Suggest, Designing and **Enhance Control Activities:**

- Internal auditors actively participate in the design and enhancement of control activities.

- They ensure that controls are designed to address identified risks and comply with applicable laws, regulations, and best practices.

ROLE OF INTERNAL AUDITORS IN CONTROL ACTIVITIES:

5) **Monitoring and Follow-up**:

- Internal auditors monitor the implementation of recommendations and verify whether control deficiencies have been addressed.

- They follow up on the status of remediation efforts and provide ongoing support and guidance to management.

INTERNAL CONTROLS IN **CYBER SECURITY**

- Security Operations Center – SOC
- Data loss prevention software – DLP
- Vulnerability Assessment and Penetration Testing (VAPT)
- Identity and Access Management (IDAM) Solution
- Mobile Device management
- Encryption Tools
- Antivirus Software
- Firewall Tools

Ransomware Attacks

PARADIGM SHIFT

Disruption in external environment

Increased Regulatory changes

Adoption of digital systems

Complexity of business

Who is responsible for Internal Controls?

- Though leadership is ultimately responsible, everyone in an entity has some responsibility for the organization's internal controls.

- All personnel should be responsible to effect internal controls and to communicate problems in operations, deviations from established standards and violations of policy or law.

Internal Controls is Everyone's Business!

Perturbed?

Confused?

METAMORPHOSIS – VIDEO CLIP

Interview of
Lisa Lee of Google by

Richard Chambers –
Senior Internal Auditor –
Audit Board

Author of books relevant
to us like *Agents of
Change, Speed of Risk*

METAMORPHOSIS

Watch Dog to **Change Agent/ Value creators**

Compliance & controls-based player to a **Strategic partner**

Traditional Audit to **Technology Based Audit**

Akin to a Butterfly- One form fades to give rise to the new form