
Process Audit

By CA Vijay Pandit

Agenda

- ▶ Internal Audit Background
- ▶ Process Audit – Theory
- ▶ Process Audit – Practical workshop
- ▶ Q & A

Internal Audit Background

What is Internal Auditing?

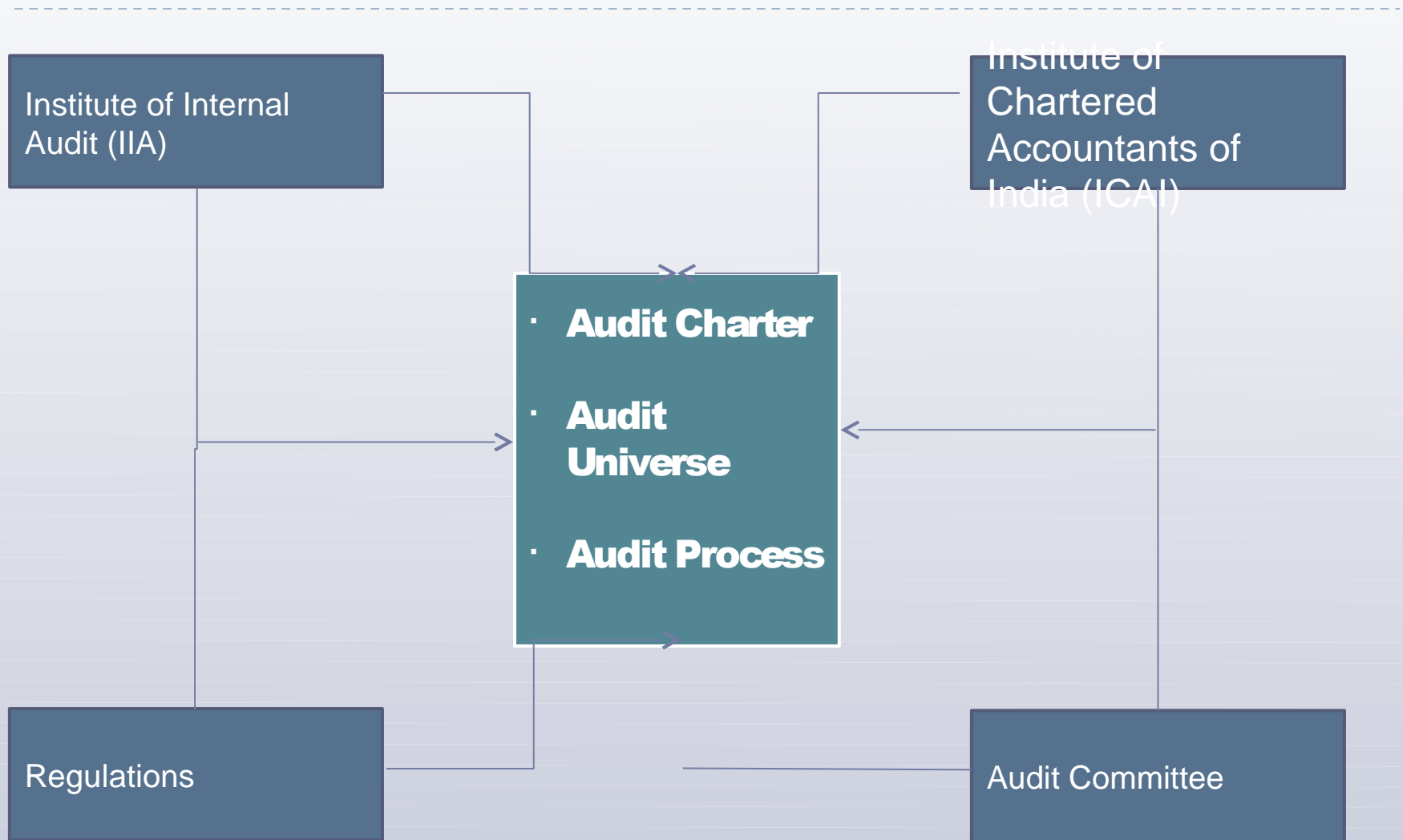
“Internal audit is an independent management function, which involves a continuous and **critical appraisal** of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.”

The Institute of Chartered Accountants of India

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by **bringing a systematic, disciplined approach** to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The Institute of Internal Auditors

Audit Framework & Guidance



Internal Auditing- Area of focus and method of working

Particulars	Internal Auditing
Area of Focus	<ul style="list-style-type: none">• Risks• Controls• Effectiveness and efficiency of operations• Compliance• Risk management• Governance structure
Method of working	<ul style="list-style-type: none">• Risk based Audits / Process Audits• Ongoing risk assessments• Regulatory Audits

Audit Universe and Plan Coverage – Process Level

Process Name	Name of the Process and Sub-process
Marketing	Capture Customer Insights and Develop Marketing Strategies
	Manage Brand, Advertising, and Sponsorship Agreements
	Manage Subsidies/Upgrades and Promotions
	Manage Customer Loyalty and Churn Prevention
Customer Relations Management	Provision Services and process Customer Orders
	Implement and Update Customer Master Data including Customer Privacy
	Adjustments and Issue Credits
	Customer Complaint Management
Sales Management	Manage Individual Customer Contracts and Conditions
	Manage Distributors and Other Channels
	Manage Retail Outlets including Sales
	Manage Enterprise Sales
	Commission and Incentive
Supply Chain Management	Procurement - Planning, Demand Management and Sourcing

Annual Audit Planning

Types of Audits

1. Process Audit: Examination of **significant Processes** i.e. business and operational key risks and the controls established to mitigate those risks, including compliance with laws, regulations and established policy, procedures and processes.

2. Thematic Audit: An evaluation of a thematic aspect of **current or emerging risks** impacting more than one group, department, line of business, or business segment to assess the effectiveness of the process or activity as performed by the different groups.

3. Targeted Audit: A **focused limited scope audit** of one or more key risks associated with a specific product, process and/or function. It is used to obtain the design and current effectiveness of selected key controls.

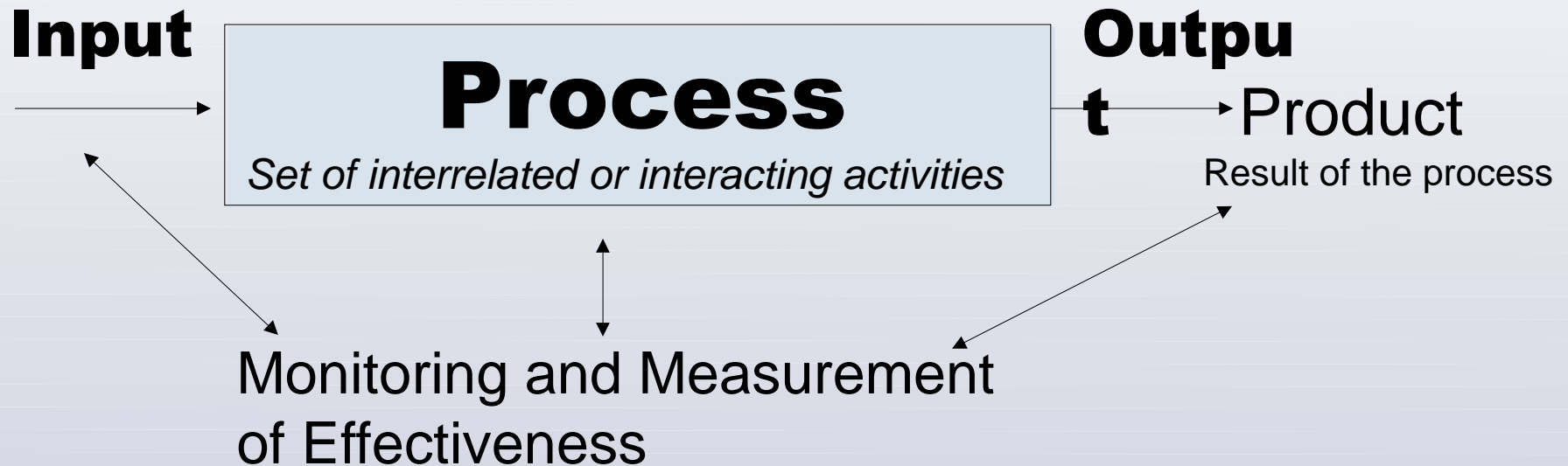
4. Regulatory Audit: Substantive testing performed to assess compliance with regulatory requirements and company policies.

5. Change Activity: An on-going and proactive evaluation of **significant projects and large scale business initiatives** during the life cycle or term of those projects/initiatives for the purpose of identifying possible unmitigated risks and highlighting other project management issues.

6. Continuous Risk Assessment (CRA): The objective of CRA is to facilitate **a dynamic risk assessment** process through ongoing evaluation of business and to adapt to audit plan in response to the businesses' evolving risk profiles.

7. Follow-Up Audit: Detail inquiries, observation and testing to verify the clearance status of reported audit issues.

What is a Process?



Risks in relation to process audit.

- **Inherent Risk:** Inherent risk is the risk involved in the nature of business or transaction. - (Process)
- **Control Risk:** Control failure due to design and operating effectiveness.
- **Detection Risk:** Detection risk is the probability that the audit procedures may fail to detect existence of a material error or fraud- (Process)

Process Controls

Preventive Controls	Detective Controls
Segregation of duties	Exception reports
	Reconciliations
Maker/Checker	Performance reviews & Peer reviews

Manual / Automated

Common Challenges faced

Challenges

Data is not received from client on timely basis

Client does not agree to the issues raised

Knowledge of the processes



Resourcing

Timelines

Process Audit – Theory

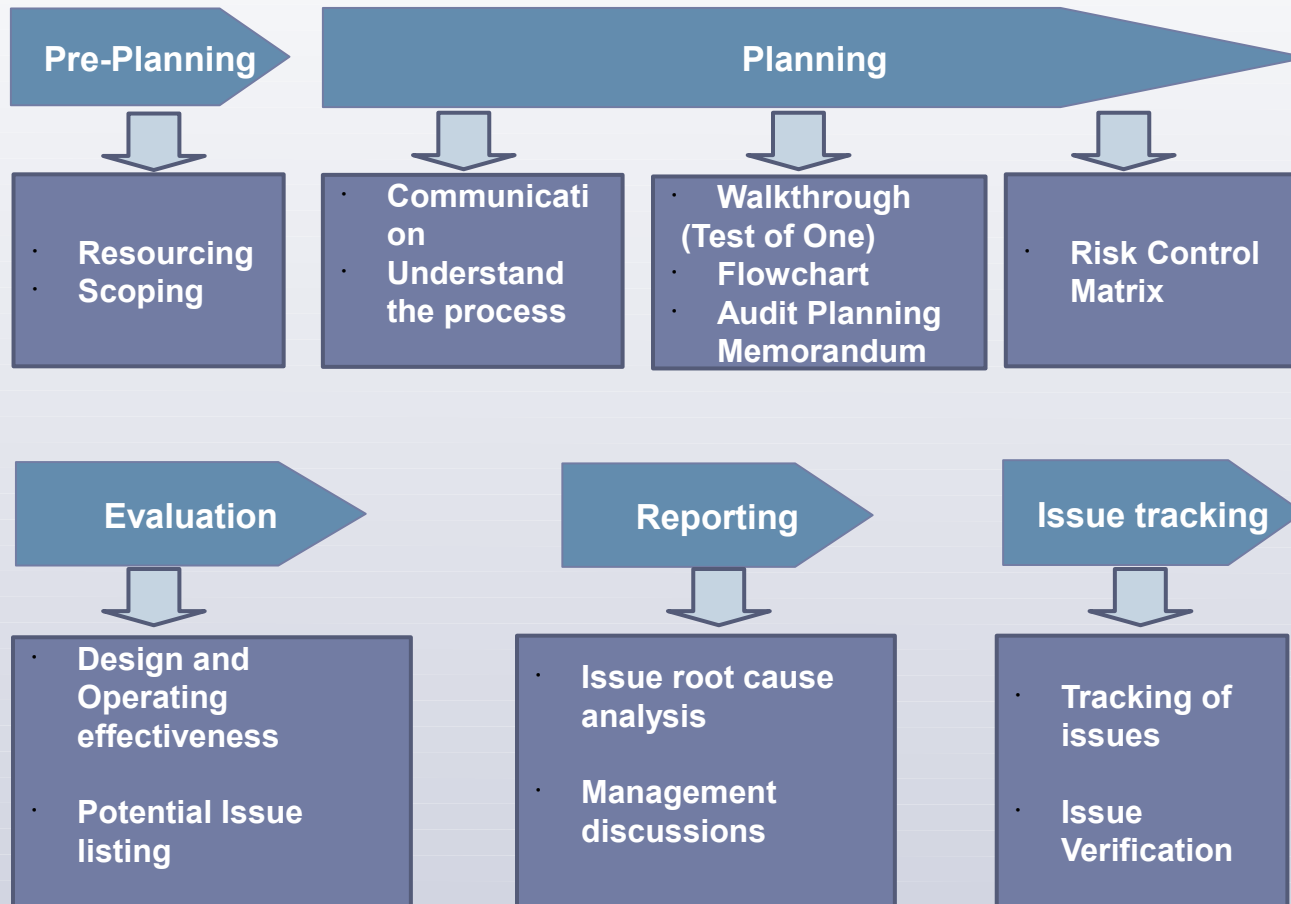
What is Process Audit ?

- **Process Audit:** Examination of **significant Processes** i.e. business and operational key risks and the controls established to mitigate those risks, including compliance with laws, regulations and established policy, procedures and processes. The audit is conducted to provide an opinion on both the design and effectiveness of the system of internal control for a process.
- Process Audit is an **audit** that focuses on **processes** and not a specific person or product.
- A Process Audit is where the organization's procedures are validated.
- A Process Audit **examines** the **effectiveness and efficiency** of organization procedures.
- ▶ 15
✓ Effectiveness of process = ability to achieve desired result.

Objective of Process audit

- To check the adequacy and effectiveness of the process controls established by procedures, work instructions and process specifications.
- To provide added value by providing various new insights to process for improvement. For e.g. Training requirement, automation.
- **To give assurance on process**, i.e. If the process is operating as intended and risks in the process is monitored and managed effectively.

Process audit stages and deliverables at each stage



*RCM- Risk Control Matrix

Tools of Process Audit

- Flow Chart
- Check List
- Process Note
- Risk Control Matrix
- Data Analysis

Planning – Important points

- Timing
- Communication with auditee
- Preliminary research
- Inherent risks
- Annual Risk assessment
- Identification of scope items
- Formal engagement memo
- Opening Meeting with the auditee

Fieldwork

- Assign areas to team members.
- Interviews with auditee on areas covered under the audit.
- Review of the processes involved in the audit engagement.
- Document reviews
- Decide sampling strategy
- Testing and verification of the data and documents

Planning & Design effectiveness

Planning : Step 1- Pre –Planning

- ❑ **Pre-Planning is the first step in the Planning Phase.**

- ❑ **The main objectives of this phase are:**
 - Verify logistics of audit.
 - Understand objective of the process being audited.
 - Officially announce the audit engagement.

- ❑ **Understand the business objective:**
 - Review available audit documents such as: Prior year work papers, continuous risk assessment, annual risk assessment.
 - Review available client information such as: Risks and Controls Self assessment, SOX, IFC / ICFR, business plan and budgets, Fraud information.

Planning : Step 2- Understand the Process

- ❑ This step is typically the beginning of “on-site” planning where the audit team interacts directly with the audit client to gather information and conducts interviews to understand the business.

- ❑ The primary objective of this step is to understand how the business operates (e.g., process, people, IT systems, etc.) to achieve its objectives.

- ❑ Define the Functions / Activities within the Process:
 - Functions may be defined as key processes, locations, products, etc.
 - Defining functions provides the framework for assessing risk for the audit engagement.

- ❑ **Obtain an Understanding of Each Function:**
 - This knowledge is generally gathered by reviewing available documentation and interviewing the client.
 - The audit team needs to balance the amount of information and detail to gather at this stage. Too much information provides unnecessary detail and wastes time and effort.
 - The type, level and amount of information to gather is to facilitate:

Planning : Step 3 – Process Risk Assessment

Process Risk Assessment differs from the Annual Risk Assessment, as depicted below:

Type	Annual	Process
Purpose	To determine business level Audit Strategy and Annual Audit Plan	To identify function level key risks and controls and develop Audit Test Plan
Hierarchy Level	Auditable Entity e.g. XYZ Company	Audit Unit /Functions e.g. Purchase / Production
Tasks	Assess inherent risk and control environment	Identify specific risks and controls for each relevant Process / function

Planning : Step 3 – Process Risk Assessment -

Identifying Key Risks

□ **Brainstorm:**

- For each major process/function, walk through the process and brainstorm “What could go wrong?”
- Use flowchart / narratives developed
- Areas have greatest impact on process / business objectives if things go wrong.
- Areas with greatest potential vulnerabilities for e.g. Manual process, decision / judgment points, management over-rides, handoffs, dependencies on other groups, etc.
- What are the most critical steps that has to get right?
- Do activities / output have direct impact to external customers / stakeholders


□ **Determine Key Risks:**

- Assess the likelihood of occurrence.
- Assess the magnitude of impact.

Planning : Step 3 – Process Risk Assessment-

Identifying Controls

- ❑ **Brainstorm expected controls based on Understanding of business and key risks:**
 - ▶ Possible preventive and detective
 - ▶ Possible manual and automated.

- ❑  **Identify existing controls:**
 - ▶ Existing Controls (based on interviews, flowchart and document reviewed).
 - ▶ Verify risks and control with clients.

- ❑ **Identify Gaps Between Expected and Existing Controls:**
 - ▶ Determine which Expected Controls do not currently exist in the client's process.
 - ▶ Evaluate whether there is a potential control gap, i.e., either no controls exist for the risk or current controls do not fully mitigate the risk.
 - ▶ For potential control gaps, document the issue as an Exception in the Summary of Audit Findings and Dispositions for further consideration.





Planning : Step 4 – Evaluate Control Design

Approach

❑ Analyze Controls to determine if they are adequately designed to mitigate the stated risk:


- ▶ In analyzing controls, use understanding of the audit area's control environment, including flowcharts and narratives.
- ▶ The Elements of a Good Control .

❑ Determine if a Potential Issue or a PIO should be raised:

- ▶  If the control is designed effectively to mitigate the risk, the control(s) can be considered for potential testing.
- ▶  If a control is NOT designed effectively to mitigate the identified risk, the control should NOT be tested.
- ▶  If a risk is not adequately mitigated, either by one control or a group of controls, a potential audit issue is required to be documented in the Summary of Audit Findings and Dispositions.
- ▶  The Audit Team should identify potential Process improvement opportunities (PIO), if any. PIOs are opportunities to make a process better and/or more efficient and do not arise from a control breakdown.

❑ Document Control Design Evaluation:

▶ 27

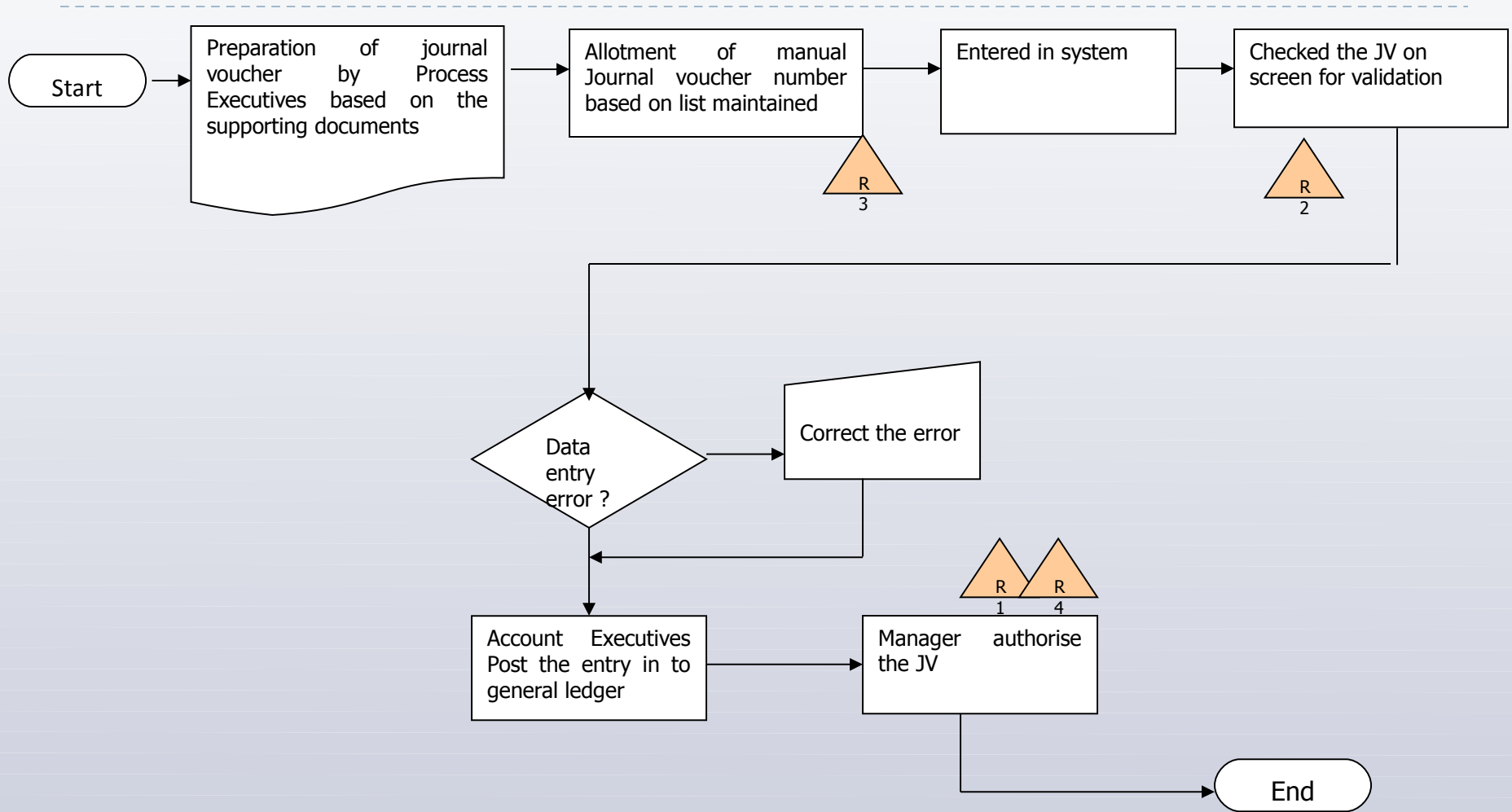
- ▶  The Audit Team's evaluation of control design provides a basis for part of the overall audit opinion

Workshop

Process Description – JV Authorization

- ▶ Two types of JV's are raised, one is normal JV and other is auto reversal, which are automatically reversed in subsequent month.
- ▶ Process executives raises JVs in respective departments and a Accounts manager authorizes all.
- ▶ Manual JV no. is allotted following the sequential order based on the list maintained for controlling the sequence numbers for each Process executives.
- ▶ After authorization same process executives enter in JV system.
- ▶ After entering the JV the same is validated in system by process executives for any error in punching.
- ▶ After validation the JV is posted only for the month that is open.
- ▶ In System JV can be entered by two options, one is by Journal Entry & other way is by Journal Import.
- ▶ In case of Journal Entry, the entry is directly keyed in to system.
- ▶ In case of journal import, the JV is directly imported in to system from worksheet, by using Microsoft access.
- ▶ Account Executives Post the entry in to general ledger.
- ▶ After entered and posting of JV, the Account manager approves the same.

Work Shop -Flowchart



Workshop – JV Authorization Risks and Control Identified.

1. Authorization of JV is insufficient and inaccurate.
(R1)
 - All JVs are authorized by Account Manager. (C1)
 - Staff who prepares does not authorize. (C2)

2. Posting with wrong account, amount and period.
(R2)
 - All JVs are authorized by Account Manager. (C1)
 - JV is validated on screen before posting. (C3)
 - Staff who prepares does not authorize. (C2)
 - System accept the entry for current month (C4)

Workshop – JV Authorization

_Control Deficiencies

- ▶ Responsibility / financial limit to authorize the JV is not defined. (R1)
- ▶ JV documentation are not reviewed periodically by independent staff for correctness. (R2)
- ▶ Account Manager has access to system to enter and post JV. (R1&R2)

Planning : Step 5 – Develop the Test Plan

The final step in the Planning Phase is to *Develop the Audit Test Plan.*

❑ **Objective is to determine:**

- ▶ Which control to test and how to test.
- ▶ To obtain the most persuasive audit evidence in the most effective and efficient manner.

❑ **Only key controls can be tested; factors to consider:**

- ▶ Cannot live without the control for that risk.
- ▶ Most efficient or effective control to mitigate the risk i.e. generally preventive control.
- ▶ Provide the most persuasive audit evidence e.g. reconciliations.

❑ **Validate control description:**

- ▶ A “test of one” walkthrough sample is required for all key controls.

- ▶ The purpose of walkthrough is to verify that the control has been implemented and is operating as designed before investing in additional resources to test the control.

Planning : Step 5 – Develop the Test Plan

Determine How to Test the Controls

□ **Control Testing Techniques**

- The following four techniques may be considered when developing the audit test plan, including a combination of techniques.

□ **Substantive Testing**

May decide to perform substantive testing to provide additional assurance of a control's operation.

□ **Analytics**

Elements of a Good Risk

When identifying and writing risks, test them against these elements:

□ **Answers “So What?”**

- Determine how the risk impacts the business in achieving its objectives if the risk is not mitigated.
- Example: Invoices are not authorized. Having unauthorized invoices may not impact the business if the invoice is valid. Paying for invalid or incorrect invoices would be a risk as it could result in financial loss.

Not an “opposite Control”

- Avoid using the control in the risk description.
- Attempt to re-write “opposite controls” by thinking of the reason for the control’s existence in order to identify the risk the control is managing.
- The “opposite-control” should not be used for the following reasons:
 - ✓ All risks relevant to the audit may not be evaluated if the focus is on the opposite of existing controls.
 - ✓ All controls to mitigate the true risk(s) may not be identified,
- Example of a risk worded as an Opposite-control:

▶ 34 ✓ Control: Management reviews the accounts weekly using a standardized checklist.

✓ Risk (opposite of Control): Management does not review the accounts timely and accurately.

Elements of a Good Control

When identifying and writing controls, test them against these elements:

❑ ***Not Just a Standard, Policy, or Process***

- ✓ A policy or standard is not a control on its own.
- ✓ The control is the activity to help ensure adherence to the policy or standard.

❑ ***Answers “How is this Activity Mitigating This Risk?”***

- ✓ Not all activities are controls.

✓ WHO	· Who is performing the activity?
✓ WHAT	· What is the activity
❑ A WHEN	· Timing within the process? · Frequency of the control?
✓ WHERE	· Where is the activity performed?
HOW/ WHY	· How is the control activity managing the risks? · Why does the control exist?

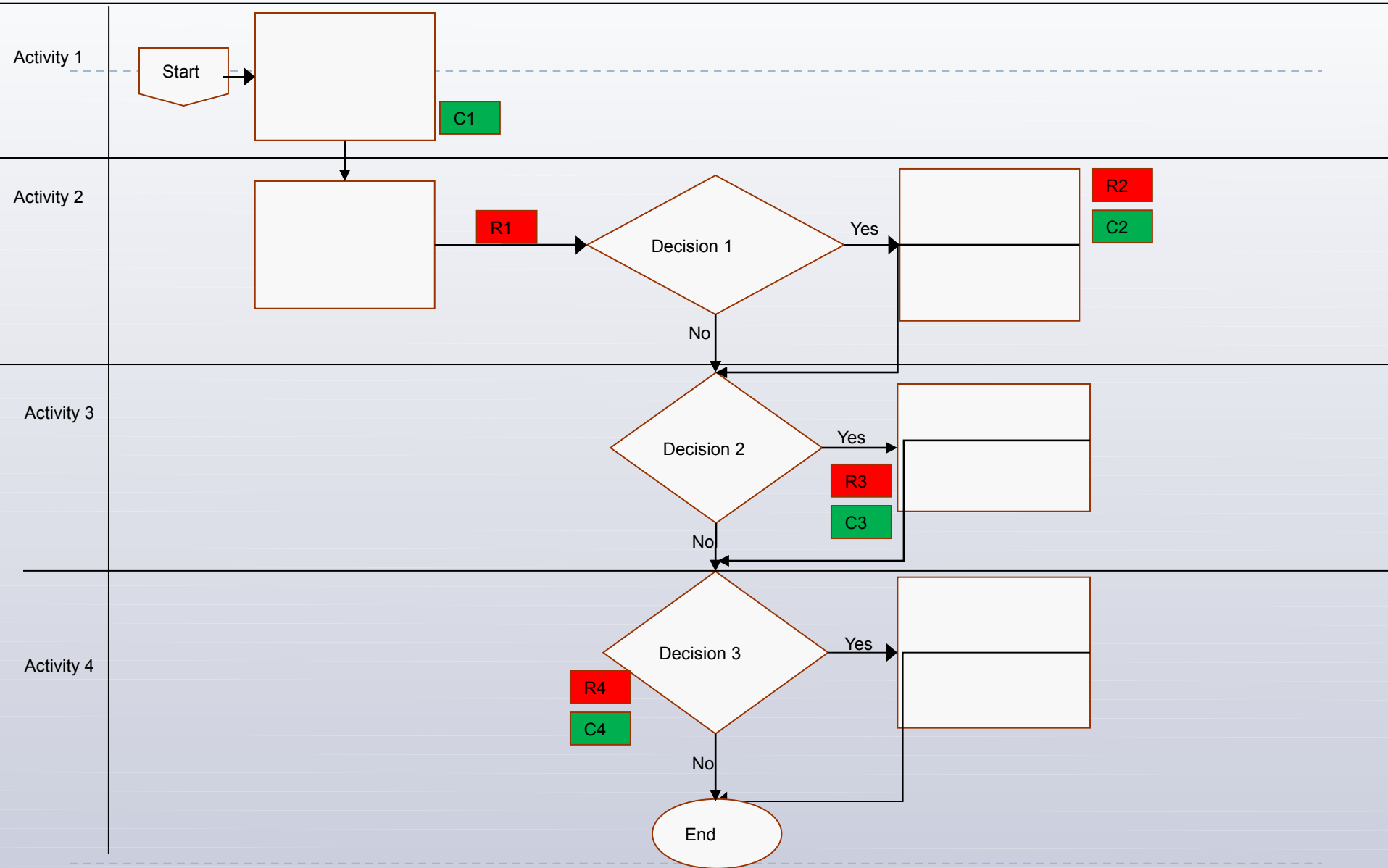
Planning- Sample Walkthrough document

- Attendees of the meeting
- Date of meeting
- Discussion with the auditee
- Activities handled by the auditee's department
- Process flows of the activities

The template for the walkthrough document is given below:

Sample walkthrough Doc..doc

Planning - Sample process flow



Planning -Sample Risk Control Matrix (RCM)

Activity	Risk Category	Risk No.	Key Risk	Control No.	Description of Control Activity	Frequency Of Control	Audit Test Step
Activity 1		R.1	Risk 1	C.1	Control 1	Annually/monthly/daily	
Activity 2		R.2	Risk 2	C.2	Control 2	Annually/monthly/daily	
Activity 3		R.3	Risk 3	C.3	Control 3	Annually/monthly/daily	
Activity 4		R.4	Risk 4	C.4	Control 4	Annually/monthly/daily	

Sample Audit Planning Memo

Audit Name	
Audit Director	
Audit Manager	
Auditor In-Charge	

Business Overview	Department Overview	Application/Systems Overview
Key Personnel	Risk Assessment	Frauds & Investigations
Audit Scope	SOX Applicability	Data Analytics
Time Budget & Staffing	Sampling Strategy	

Planning -Sample checkpoint

The objective is to evidence the planning checkpoint meeting among the internal audit team members regarding the Engagement Memo, Planning Memo, RCM and Flowcharts and/or Narratives.

This meeting **is attended by** the audit engagement members along with the Senior Audit Manager and Head of Internal Audit department.

The template for the planning checkpoint and Workpaper Quality Planning Checklist are given below:

Planning Checkpoint template.xls

Workpaper Quality Planning Checklist template.xls

*RCM- Risk Control Matrix

Evaluation

Performing audit activities- Sampling

- In performing audit activities, auditors should review and execute the test plan developed in Planning.
- Utilize Internal audit sampling approach in testing. Sampling allows the application of audit procedures to less than 100% of a population to form a conclusion on the entire population.
- Audit sampling is primarily used to assess the operating effectiveness of controls in mitigating key risks.
- The following is an outline of the steps to be taken in determining the appropriate sample size, selecting a sample and documenting your sampling approach.
 1. Determine type of sampling.
 2. Define the period under review, population and the source of the information.
 3. Define the sampling unit.
 4. Determine the sample size.
 5. Choose Sampling Selection Method.
 6. Select the sample.
 7. Document exceptions.

Performing audit activities- Evaluating test results

- Evaluate test results against the test objectives and determine if the key control(s) is/are operating effectively to mitigate the stated risk(s).

- Evaluate Test Results:
 - All differences from the expected result are required to be evaluated to determine if they are potential audit findings.

 - In certain instances, testing an additional sub-sample of items may be needed to substantiate the impact of a potential audit finding.

 - If testing exceptions are identified, discuss the items with the client to verify the facts. Document the finding in an Exception template.

Performing audit activities- Document the test results

- Test results are required to be adequately documented and testing documentation is required to be sufficient to support conclusions reached.
- Each test /lead sheet which provides a summary of the test objectives, sampling information, procedures, results, and conclusions.
- During fieldwork, the Audit Team evaluates the test results, discusses exceptions with the client, adjusts the audit test plan if necessary, and concludes on control effectiveness.
- The template for the Workpaper Leadsheet is given below:
- Lead Sheet template.docx

Sample test sheet

The objective of test sheet is to ensure that audit evidence from the test work has been documented in a consistent manner.

Test sheet template	
Objective of test sheet:	
RCM Reference: Risks and Controls	
Test Name:	
Test Objective:	
Client Contact:	
Sample Period:	
Source of Information:	
Sampling Information:	
Test Steps/ Results: Exceptions:	
Conclusion:	

Sample test matrix

- ▶ Internal Audit Division
- ▶ [Audit name]
- ▶ [Audit time period]
- ▶ [Workpaper title]

Item #	Item information			Test step 1	Test step 2	Reference	Comments
1							
2							
3							

Performing audit activities- Managing the fieldwork phase

- Meetings with client management are required to be held periodically during fieldwork.
- Control testing is executed and completed during the Fieldwork Phase.
- Fieldwork cannot begin until the:
 - Engagement Memo, Audit Planning Memo, and RCM have been finalised and reviewed and confirmed with the client.
 - Workpaper Quality Planning Checklist has been completed.
- The end date of fieldwork is typically when audit testing is substantially complete.
- Audit team management during fieldwork
 - The Audit team should meet frequently during fieldwork to ensure the audit is progressing as planned and to discuss any challenges that may affect the timely completion.
 - Potential audit findings should be discussed as they are identified to ensure timely communications with audit and client management, as necessary.
 - Work papers are required to be properly documented and reviewed as completed.

Workpapers- General workpaper guidelines

- Workpapers are written documentation that provide principal support for the procedures applied, tests performed and conclusions reached during an audit engagement. They are necessary to demonstrate compliance with Internal audit Policies and Internal Audit Standards.
- Workpapers are required to stand on their own to enable an experienced auditor, having no previous connection to the engagement, to understand the procedures performed, evidence obtained, and conclusions reached.
- In addition, workpapers may be used to:
 - Provide background information for future audits.
 - Facilitate third-party review and reliance.
 - Facilitate professional development of audit staff.

Sample Fieldwork checkpoint

The objective is to evidence the fieldwork checkpoint meeting among the internal audit team members on the progress of all audits and follow-up audits during fieldwork.

This meeting is attended by the audit engagement members along with the Senior Audit Manager and Head of Internal Audit department.

The template for the fieldwork checkpoint and Workpaper Quality fieldwork Checklist are given below:

Fieldwork Checkpoint template.xls

Workpaper Quality Fieldwork Checklist template.xls

Reporting

Reporting

- Develop draft audit report
- Closing meeting with the auditee
- Reporting checkpoint meeting
- Management responses on the issues raised
- Validate management response
- Positive assurance
- Root cause
- Final report discussion and distribution of the report to the management

Reporting- Summary Of Audit Findings And Disposition

- As potential findings and Process Improvement Opportunities (PIOs) are identified during planning and fieldwork, required to document these.

- Potential findings are required to be addressed in one of the following ways:
 - a) Carried forward to the Audit Report as an Issue or PIO;
 - b) Combined with another finding and carried forward to the Audit Report; or
 - c) Disposed of in the SAFD.

Sample Audit Findings And Dispositions summary

Sr. No.	LINK TO FINDING	SUMMARY OF FINDING	DISPOSITION OF ITEM	ITEM NUMBER IN REPORT	REASON NOT REPORTED	WHO DISCUSSED WITH

The template for the Reporting checkpoint and Workpaper Quality Reporting Checklist are given below:

Reporting Checkpoint template.xls

Workpaper Quality Reporting Checklist template.xls

Kaizen Memo sample

Kaizen is the practise of continuous improvement.

Audit Name	
Audit Manager	
Auditor-In-Charge	

Learning Opportunities

Audit stages	Observations/Experiences/Challenges	Opportunities for Improvement

Audit Survey

The objective of audit survey is to assist in maintaining the efficiency of the audit process and the quality of the audit report.

Audit survey questionnaire

Rating Scale

- ▶ **Importance:** 1 = Low importance 2 = Medium importance 3 = High importance

Questions	Importance	Performance
The timing of the audit was appropriate.	1 2 3	1 2 3 4
Were informed throughout the process on a timely basis and there were 'no surprises'.	1 2 3	1 2 3 4
The internal auditor(s) demonstrated a good knowledge of the subject matter.	1 2 3	1 2 3 4

Process audit - Workshop

Motor Insurance Claim



Auto claim process background

- In Insurance Industry Auto insurance is a major contributor. Typically, when an accident occurs, the insured notifies insurer's claim department after this claims handling process begins.
- Surveyors assessment in select cases.
- Claims nature generally is large volume less value.
- Auto Insurance covers two aspects:
 - Own damage:
 - Third party Damage:
- Types of Vehicle covers:
 - Private Car / Two Wheeler Insurance
 - Commercial Vehicle Insurance
- Compliance Requirements for Claims processing and payments:
 - Protection of Policyholder Interest, Regulations
 - Grievance Redressal guidelines, IRDAI
 - IRDAI has defined Parameters for monitoring timelines for claims processing.
- Some Inherent High risk area under auto Claims are:
 - Fraudulent claims
 - Inadequate reserve
 - IRDAI compliance
 - Customer Satisfaction
 - Subrogation

Claims Processing- Planning Audit Scope

- ✓ Claims processing, payments and accounting
- ✓ Timely provisioning of claims reserves
- ✓ Payments to surveyors and external investigators
- ✓ Subrogation and salvage recoveries
- ✓ Information Technology controls
- ✓ Compliance with IRDAI regulations and contractual obligations

*IRDAI- Insurance Regulatory and Development Authority of India

Key aspects to be considered during claims process planning

- Preliminary research:
 - ✓ IRDAI regulations and circulars
 - ✓ IRDAI Penalty orders
 - ✓ Past audit report
 - ✓ Past reported frauds and Industry frauds
 - ✓ Statutory auditor presentation
 - ✓ SOX/ICFR requirements

- Internal claims department SOP

- ERM Risk register

- Sampling techniques

- Data Analytics

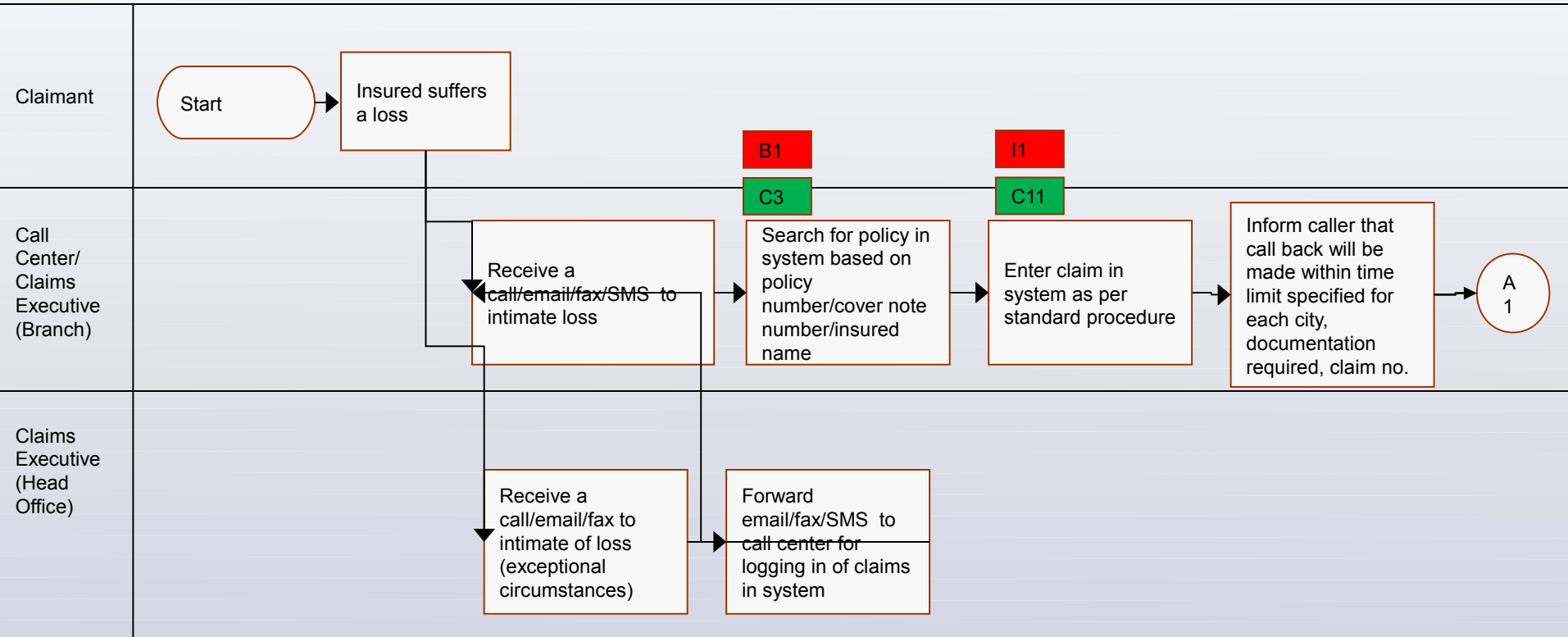
*ERM- Enterprise Risk Management

*ICFR- Internal control over financial reporting

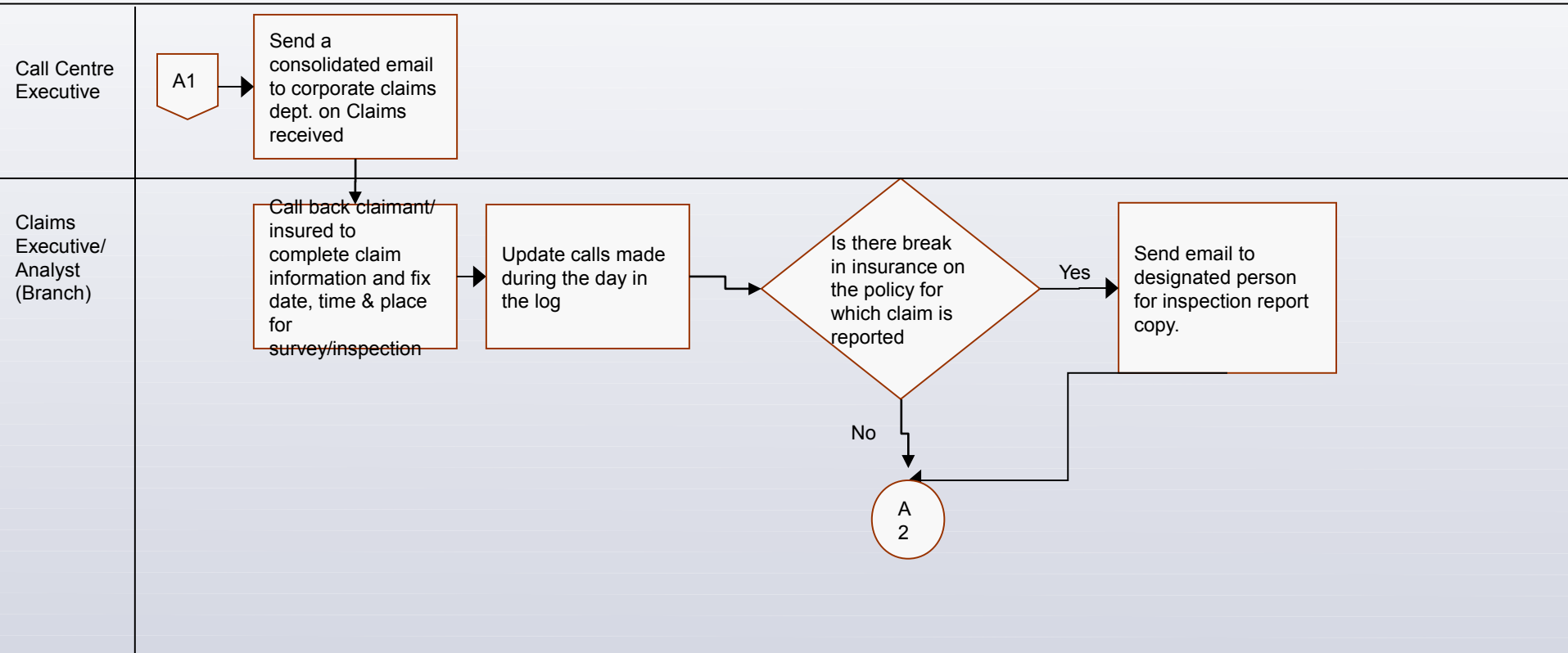
*SOP- Standard Operating Procedures

*SOX- Sarbanes Oxley

Claims process flowchart

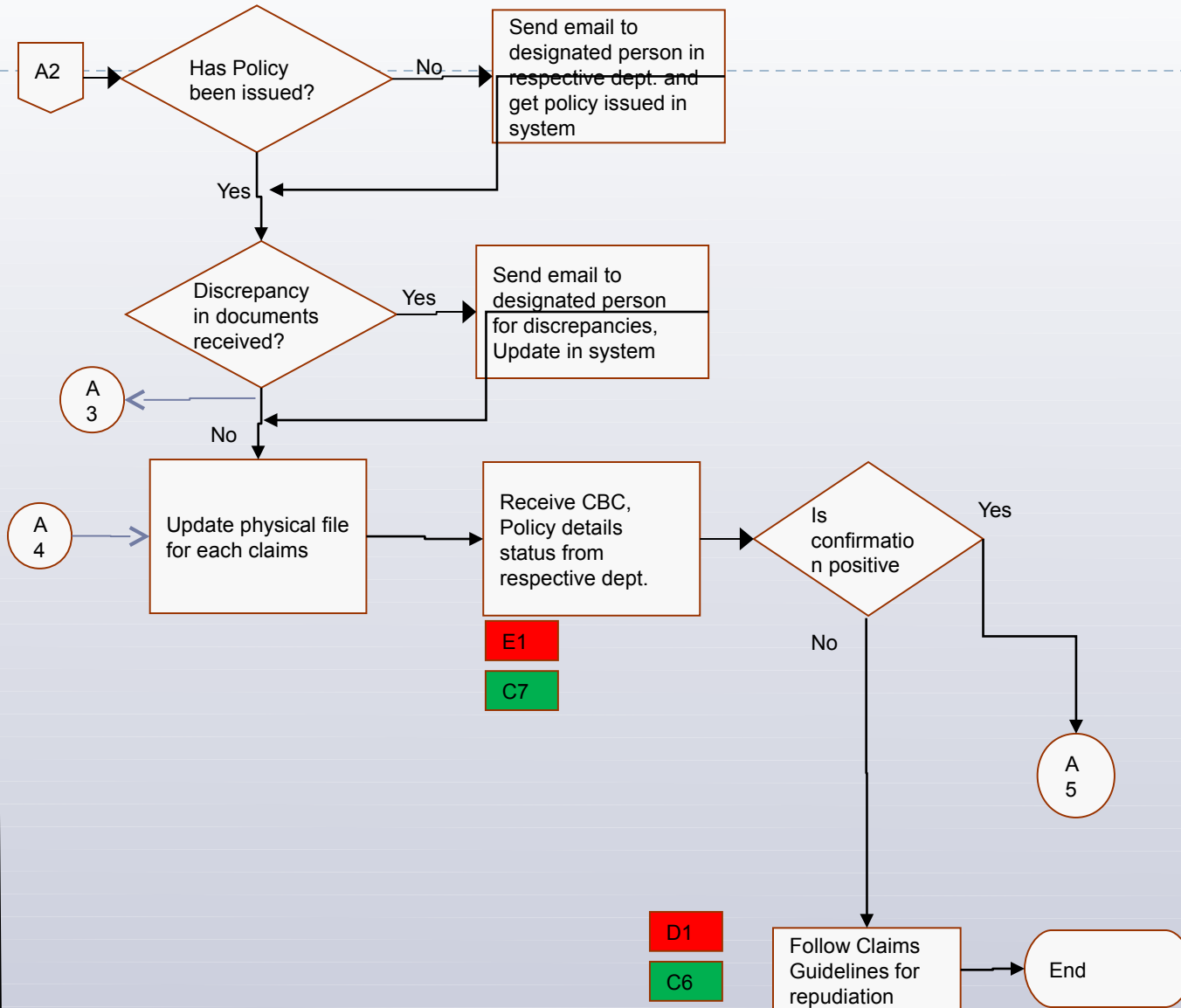


Claims process flowchart

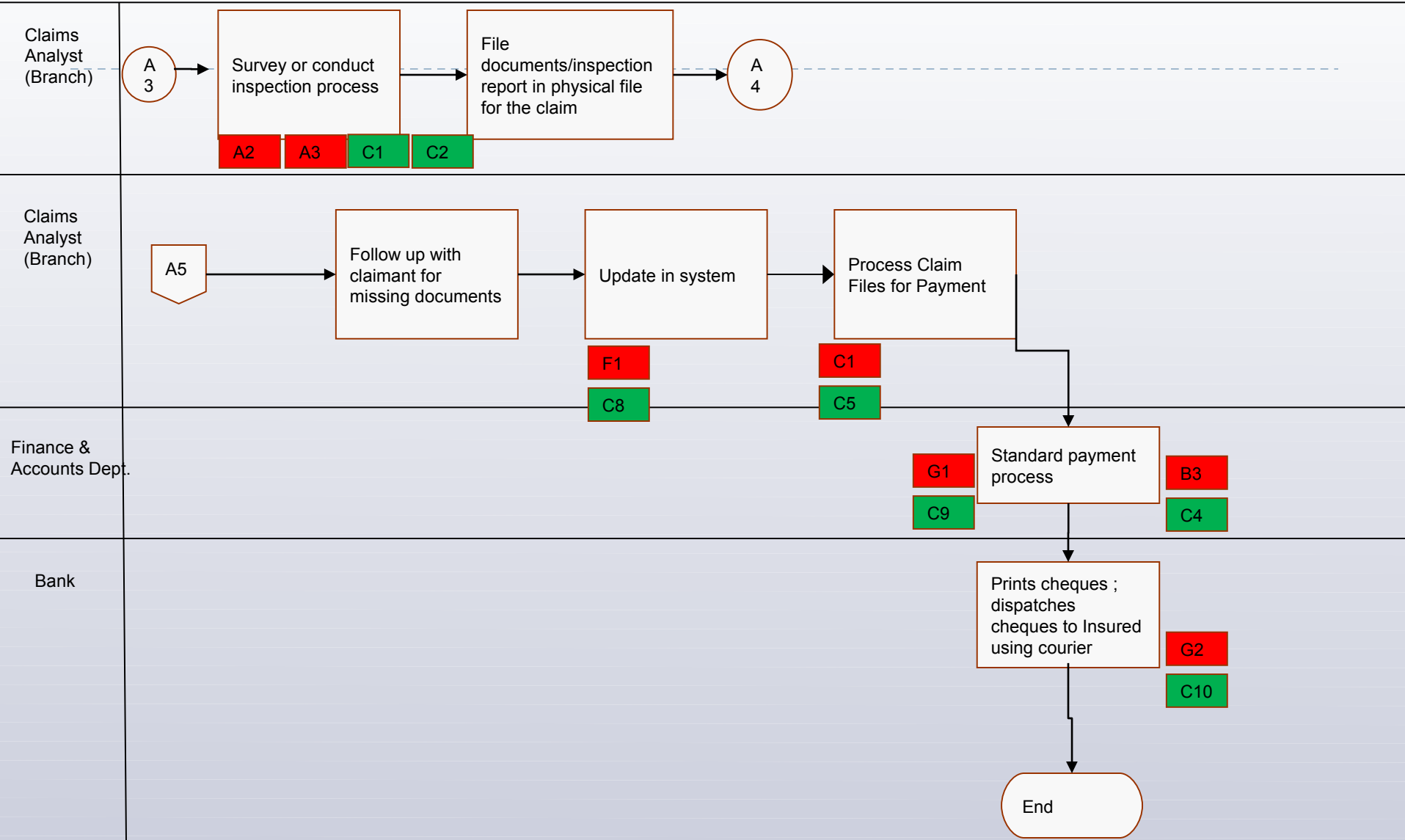


Claims process flowchart

Claims Executive/Analyst (Branch)



Claims process flowchart



Risk Control Matrix

Activity	Risk Category	Risk No.	Key Risk	Control No.	Description of Control Activity	Frequency Of Control	Audit Test Step
Claims Processing	Strategic	A.1	Non standardization of claims settlement	NA	<p>Claims Dept has Board approved claims management philosophy in place.</p> <p>Claims Dept has a claim settlement SOP in place & the same is reviewed and updated periodically</p>	As needed	<ol style="list-style-type: none"> 1. Obtain Board approved Claims Philosophy. 2. Obtained latest approved SOP developed by claims Dept.
Claims processing	Fraud	A.2	Occurrence of external frauds	C.1	A standardized process exists for appointment of surveyors/ external service providers and allocation of work to external service providers.	As needed	Inquire and obtain process defined for Surveyor empanelment.
Claims processing	Fraud Risk	A.3	Collusion between external vendors and claimant	C.2	Empanelment of authorized & preferred workshops is in place.	As needed	Obtain list of authorized garages. Perform ratio analysis of claims settled cashless garage wise
Claims processing	Operational risk/ Fraud	B.1	Unauthorized claim processing and settlement	C.3	Adequate system controls exist to ensure no claims are booked without a valid policy number	As needed	Verify whether claims are processed only on the basis of valid policy numbers.

Risk Control Matrix

Activity	Risk Category	Risk No.	Key Risk	Control No.	Description of Control Activity	Frequency Of Control	Audit Test Step
Claims processing	Fraud	B.2	Collusion between staff from different departments / between staff & external party	NA	<p>Delegation of authority matrix is developed and adhered during claims processing at all times.</p> <p>Claims processing personnel do not have write access to policy issuance system.</p> <p>For employee claims, the payment authorization is required from Head claims</p>	As needed	<p>Obtain the Delegation of Authority matrix developed for claims processing</p> <p>Obtain data of user ids of claims and policy system and check if claims user has a policy write access</p> <p>For employee claims, verify the approval from head claims.</p>
Claims processing	Fraud Risk	B.3	Unauthorized claim processing and settlement	C.4	Authorization for change of payee name is obtained in writing from the insured/claimant	As needed	Verify Claimant's letter instructing beneficiary name for which claims have to be settled vis-à-vis the Payee name

Risk Control Matrix

Activity	Risk Category	Risk No.	Key Risk	Control No.	Description of Control Activity	Frequency Of Control	Audit Test Step
Claim Processing	Financial / Reputational	C.1	Inconsistent execution of policies leading to erroneous claims processing or incorrect claim payments or repudiation of claims	C.5	All claims are processed and paid or closed in accordance with the policy terms & conditions.	As needed	Verify for the samples selected that claims are processed in accordance with the policy terms and conditions
Customer Relationship	Reputational risk	D.1	Improper management of claims denial or failure to manage poor perceptions	C.6	Internal re-assessment of the claim is done and if required investigation by approved agency is initiated for doubtful cases or at the instance of claimant on case to case basis.	As needed	Check for sample repudiations if, at the instance of the claimant request, repudiations are re-assessed by the Claims management & Verify whether investigation by an independent agency is carried out to ascertain the validity of the denial
Claim settlement	Operational risk	E.1	Claims may be settled without confirmation for collection of outstanding premium.	C.7	Policy booking system is interfaced with receipting system to ensure clearing status of premium collection instruments is updated on timely basis	At all times	Verify whether system interface exists between both systems for reflecting the correct status of receipt

Risk Control Matrix

Activity	Risk Category	Risk No.	Key Risk	Control No.	Description of Control Activity	Frequency Of Control	Audit Test Step
Reserve	Operational/ Financial	F.1	Reserve created may be insufficient/ over estimation of liabilities	C.8	The reserve provisioning philosophy is defined on a scientific basis with clearly defined assumptions	One time	Verify whether claims manual specify the minimum reserve creation for each line of business
Claims Payment	Operational/fraud	G.1	All approved claims cheques not dispatched to insured.	C.9	<p>Claims disbursement process is in place to ensure timely and safe delivery of claims cheques / remittance of funds through NEFT to beneficiaries/ claimants.</p> <p>Finance Dept performs Bank reconciliation on monthly basis to Identify open entries</p>	As needed	<p>Verify claims manuals to check whether a specific mention on the process of claim payments detailing mode of payment, beneficiary , payment authorizations etc.</p> <p>Perform data analytics on duplicate claims payment with same amount to same insured under single claims number.</p>

Risk Control Matrix

Activity	Risk Category	Risk No.	Key Risk	Control No.	Description of Control Activity	Frequency Of Control	Audit Test Step
Payment	Operational risk	G.2	Non timely payment of claims	C.10	Agreements are entered with the Bank , to ensure cheques are printed and delivered to the claimant on a timely basis	As all times	Verify the agreement for timely payment terms
Statutory compliances	Regulatory	H.1	Non compliance to IRDAI Regulations	NA	Internal guidelines are in place to ensure compliance to IRDAI regulations at all times	As needed	Obtains and verify the Internal guidelines documents to ensure it is in line with IRDAI regulations
Fraudulent claims	Fraud	I.1	Fraudulent claims registered and processed	C.11	<ol style="list-style-type: none"> 1. Claims Management has defined red flags to be considered by claims processor at the time of claims processing. 2. Claims processor has to review each case for possible red flag indicator & to check mark in the system 3. All Red flagged cases are reviewed by Investigation unit and guidance is provided in respect of the same. 	As needed	<ol style="list-style-type: none"> 1. Obtain red flags list and verify that same is modified periodically. 2. For sample files selected check whether the red flags are checked in system by the claims processor. 3. Obtain the MIS of red flagged cases and verify the remark/guidance by the investigation unit.

Sampling techniques

- Obtain claims paid report from system/IT team for the audit period.

- Document in testing sheet the sampling method chosen. Some of the examples are as under:
 - ✓ Select a sample of 25 claims using the Random Sampling method.

 - ✓ Select a sample of 25 claims using the Judgemental Sampling method i.e. claims above INR 1 crore.

 - ✓ Select a sample of 25 claims using the Judgemental Sampling method i.e. claims with close proximity to policy inception and policy expiry date

Red Flags Indicators

❑ Red Flags theft in OD Claims:

- ▶ The insured vehicle was hit by more than two cars
- ▶ Delayed reporting of accident
- ▶ Vehicle placed at a notorious garage which is known to engage in fraud
- ▶ No injuries in total loss claim
- ▶ Fresh opening mark on the nut and bolts of the parts

❑ Red Flags in Theft Claims:

- ▶ Delay in lodging of FIR
- ▶ Delay in reporting of claim
- ▶ Close proximity cases

❑ Red Flags common to OD / Theft:

- ▶ Insured wants the claim to be settled early

- ▶ ⁷¹ Insured does not want his family to know about the loss

Examples of data analytics in claims process

Test	Test objective
Garage Payments	Perform trend analysis of claims settled cashless for garage wise to see any trend or pattern for fraud trigger
Missing claim number	Perform data analysis on system list of claims paid to identify any missing claim number.
TAT analysis	Perform data analysis on various internal TATs set by the Claims guidelines and as per IRDA I guidelines
Multiple claims from single insured	Perform data analysis on multiple claims on same policy number from single insured

*TAT – Turn around time

SUMMARY OF AUDIT FINDINGS AND DISPOSITIONS

Sr. No.	LINK TO FINDING	SUMMARY OF FINDING	DISPOSITION OF ITEM	ITEM NUMBER IN REPORT	REASON NOT REPORTED	WHO DISCUSSED WITH
1.	ISS.1	Xxx	Reported	Issue # 1	NA	Relevant stakeholders
2.	ISS.2	Xxx	Reported	Issue # 2	NA	Relevant stakeholders
3.	ISS.3	Xxx	Reported	Issue # 3	NA	Relevant stakeholders
4.	ISS.4	Xxx	Not Reported	NA	xxx.	Relevant stakeholders

Q & A

Thank You!