

**What is Reasonable Assurance in Internal Audit?
National Conference on Company Law
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Challenges of Audit Function

“Just as it is difficult to know if a fish swimming in water is also drinking the water, it is difficult to detect if officers appointed for carrying out works are stealing the king’s wealth.”

Arthaśāstra(2.9.33)

Regulatory Activism

Yes Bank loan default case: ED arrests CFO, internal auditor of Cox and Kings group

In August, ED had conducted searches at the residences of Khandelwal and Jain, claiming that it had found alleged irregularities in relation to the loan sanctioned to the group by Yes Bank.

PNB case: CBI says arrested internal auditor conspired in 12,400-crore fraud

Reuters, Mumbai/New Delhi | By Reuters

Mar 01, 2018 09:05 PM IST






The CBI on Wednesday arrested the Punjab National Bank's internal chief auditor Mohinder Kumar Sharma, widening its probe into the Rs 12,636-crore bank fraud allegedly involving jeweller Nirav Modi and his uncle Mehul Choksi.

Regulatory Activism

NFRA imposes fine, bans auditors for 1 yr for misconduct in audit of DHFL branches

PTI • Last Updated: Apr 15, 2023, 06:24 PM IST

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Coffee Day Global, MACEL audit lapses: NFRA slaps Rs 1.25 cr fine, imposes ban on 4 auditors, 1 audit firm

PTI • Last Updated: Apr 13, 2023, 08:53 PM IST

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Media Trial - Activism

- Instant and more often sensationalized judgment
- Why was it not detected?
- Collusion?
- Negligence?
- Incompetence?
- Absence of knowledge of Different types of Audits, the difference between absolute and reasonable assurance, agreed-upon assignments, materiality, etc
- Speed/absence of content regulation on social media

Statutory Auditors & IA

- MAOCARO 1988
- CARO 2003
- CARO 2015
- Internal Financial Control
- CARO 2016
- National Financial Reporting Authority
- CARO 2020

Assurance - Stakeholders

- Board and Audit Committee
- Promoters/Owners/Key Shareholders
/Trustees etc
- Regulators including semi-judicial
authorities
- Statutory Auditors
- CFO and Other KMPs
- NFRA?
- General Public, Proxy Firms, Media

CARO Requirement

3(xiv)(a) whether the company has an internal audit system commensurate with the size and nature of its business;

3(xiv)(b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;

Rule Based Approach or Principle Based?

- Broad-based standards in preference to detailed rules.
- Outcome-based regulation.
- Increasing senior management responsibility.
- Legal obstacles
- Lack of certainty.
- Proliferation of guidance.

Expressing Opinion

- Professional Judgement
- Materiality
- Audit Risk
- Reasonable care and skill
- Without applying his mind to the facts
- Expression of opinion recklessly, in complete disregard of the facts.

Competency Levels

1 = Awareness only

2 = Basic competence and knowledge with support from others

3 = Independently competent in routine situations

4 = Independently competent in unique and complex situations

Pulse of Internal Audit

- Audit plan – Coverage – Left out areas
- Audit program coverage
- Risk based or cyclical
- Data analytics tools
- Continuous control monitoring
- Fraud indicators
- Internal audit standards used
- Inhouse capability for specialist areas like ITGCC, Foreign Exchange etc
- Organisational Positioning of IA

Pulse of Internal Audit

- Outsourced areas, coverages, and accountability
- Involvement in Process Changes
- Internal Financial control
- Pulse of Internal control responsibility
- Repeat audit observations
- Compliance and follow up
- Proportion of Manual and Automated controls
- Whistle blower complaints

Pulse of Internal Audit

- Automation of Internal Audit administration.
- Access to information
- Qualification of IA Team members.
- Training – internal and external
- Evaluation of IA by the Audit Committee
- Participation in Governance activities like business review, MIS circulation, Managing Committee meetings

Pulse of Internal Audit

- Business Knowledge.
- 3 Lines of Defense.
- Is Internal Audit Trusted and Valued?

Transformation of internal audit

Past	Present
Documentation	Data
Manual	Automation
People	Technology
Transactions	Exceptions
Detection	Prevention
Errors	Fraud Indicators
Assurance	Value Add

Chat GPT?

Internal Audit Risk

- Absence of any framework
- Capability of the people
- Absence of business Knowledge
- Organizational positioning of Internal Audit Function
- Quality / Peer Reviews
- Specialist engagements
- Data Analytics
- Retention of Records
- Outsourcing/insourcing decisions

Internal Audit Risk

- Levels of maturity
- Alignment among stakeholders
- Capability building
- Earn a seat

THANK YOU!

Guidance Note

The purpose of this Guidance Note is to enable the auditors to comply with the reporting requirements of the Order. It should, however, be noted that the guidance contained in this Guidance Note is not intended to be exhaustive and the auditors should exercise their professional judgement and experience on various matters on which they are required to report under the Order.

The Order is not intended to limit the duties and responsibilities of auditors but only requires a statement to be included in the audit report in respect of the matters specified therein.

Guidance Note

Check Limit during the preceding Financial Year (for the purpose of Appointment of Internal Auditor in a Company)	Unlisted Public Company (In Crores)	Unlisted Private Company (In Crores)
Turnover	200	200
Loans	100	100
Capital	50	NA
Deposits	25	NA

Note: All listed companies are compulsorily required to appoint an internal auditor.

Agenda

As per SA 610(Revised), Using the Work of Internal Auditors, the term internal audit function is defined as follows: “A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control processes”.

‘internal control’ as “the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. The term “controls” refers to any aspects of one or more of the components of internal control.”