

Role of Internal Audit in GRC - Governance Risk and Compliance

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Elevating to the GRC Civilization

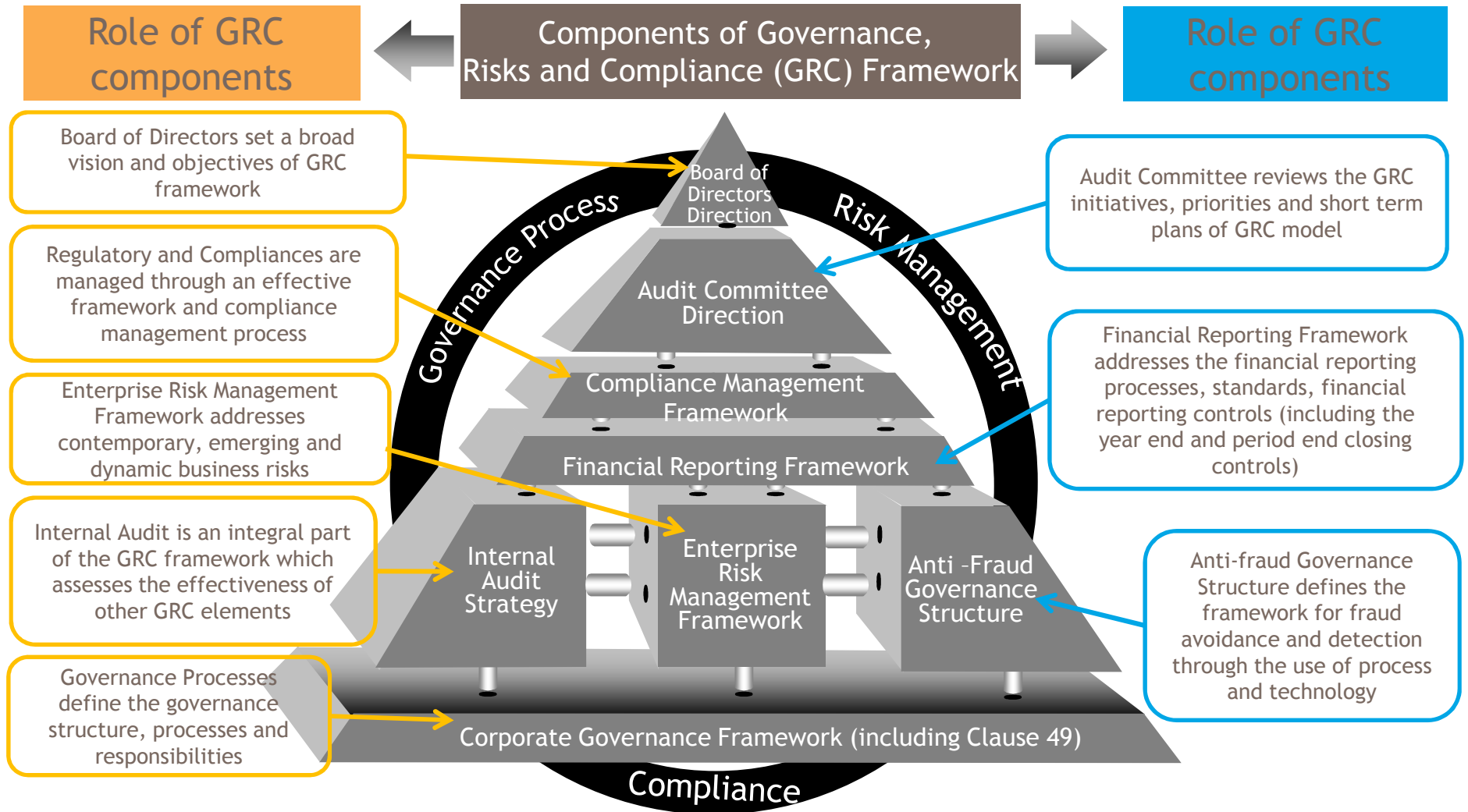
Four major cultural shifts in business environment

- 1) Advent of ERP
- 2) Opening of Banking and Insurance Sector - Public Sector Banks and Insurance Companies
- 3) IT Enablement in business
- 4) Advancement of Physical Security Measures (9/11, 26/11)

Pre 2002	2002 - 2008	2008 - 2014	2015 onwards
<ul style="list-style-type: none"> ❑ Advent of Corporate Governance (Cadbury Committee, Kumarmangalam Committee) ❑ MAOCARO and Clause 49 for listed companies ❑ Regulatory Role and Intervention 	<ul style="list-style-type: none"> ❑ SOX, J-SOX ❑ CARO and Clause 49 Amendments ❑ Risk Registers - creation and maintenance ❑ Risk Ownership and Risk Treatment Plans ❑ Regulatory Mandate for Risk Management 	<ul style="list-style-type: none"> ❑ Kings III Report (game changer) ❑ The Companies Act, 2013 ❑ European Commission - Green paper on Corporate Governance ❑ Cross Functional Ownership and Interfaces ❑ Risk Indicators and Early warning signals ❑ Integrated and Cohesive ❑ Action plans 	<ul style="list-style-type: none"> ❑ Risk dimension embedded in Decision Making Models and day to day operations (Sensitivities and scenarios are built into decision making framework) ❑ An attempt to control the uncontrollable ❑ Risk function is highly specialized function and discipline ❑ Consolidation of Governance Functions

Evolution and Cultural Shift from pure Internal Audit to Internal Audit based GRC framework

The GRC Alignment of Internal Audit



Progression of Internal Audit Function



- Risk based Internal Audits
- Risk Assessment
- Control Assessment

Risks & Control Effectiveness

- Policies & Procedures
- Operational Framework
- System integrity with business operations and business need
- Management Information System

Operational Efficiency

- Code of Conduct
- Clause 49 Compliances
- Audit Committee Effectiveness
- Risk Management Committee

Governance Process

Cost Optimization and Rationalization plans

Cost Efficiency

- Key Performance Indicators and Key Results Areas
- Balanced Scorecards
- Roles and Responsibilities

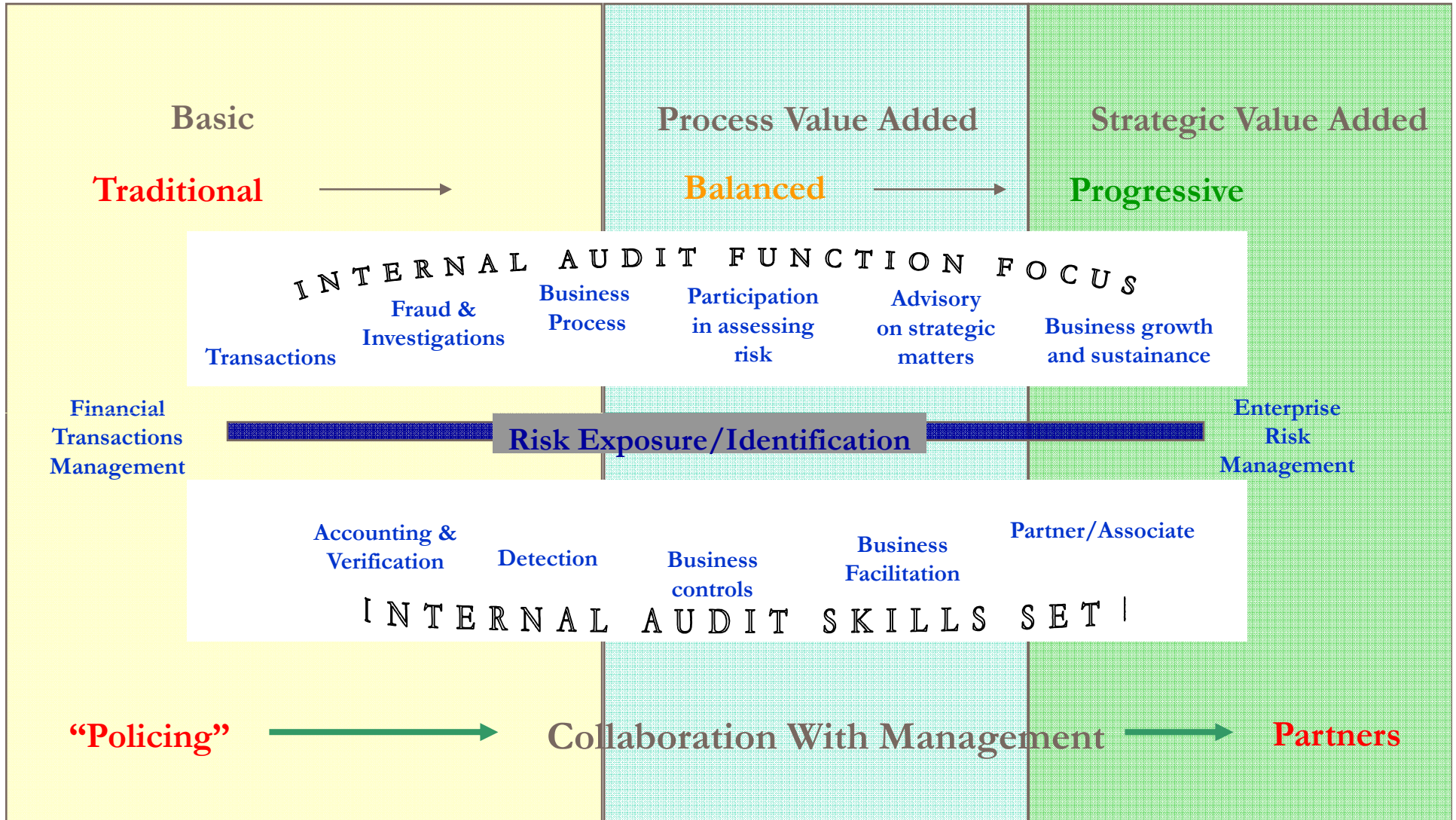
Performance Efficiency

- Business Strategies and plans
- Annual Business Plans
- Budgets & Budgetary Controls

Business Strategy & Plan

These aspects are the building blocks of Internal Audit Function. The Role of the Function of Internal Audit has evolved from traditional transaction auditing to review and advising on governance processes, cost-performance-operational efficiencies, Business Strategies. The role has also evolved from current issues to future issues related to sustainability and contemporary areas related to Business Strategy and Plans.

Risk & Business Context based Internal Audit



Laying down the policy framework (Policy on Acceptable behavior)

Policy Standards Deliberation	Policy Setting - Drafting & Finalization	Policy Disseminate
<ul style="list-style-type: none"> ▪ Global best practice ▪ Extensive research of Pharmaceutical industry ▪ Organizational practice review - Business requirements, external compliance, industry compliance or third party requirements ▪ Peer policy benchmarking 	<ul style="list-style-type: none"> ▪ Clarity on principles and coverage regarding policies ▪ Discussions with Process Owners and key personnel ▪ Draft policy preparation ▪ Discussion with quality board ▪ Final approval 	<ul style="list-style-type: none"> ▪ Awareness Campaign ▪ Brochures, banners and postures ▪ Workshops and Videos ▪ Quiz ▪ E-learning tools ▪ Compliance/Participatory awards

Traditional Policy Management

1. Decentralized and Ad-hoc framework
2. Lower level of accountability
3. More non-compliance exceptions
4. Joining up signoffs and year end confirmations for accepting and following policy

Integrated Policy Framework

- Centralized and unified approach
1. Robust accountability
 2. Less non-compliance exceptions
 3. Policy related proactive awareness creation and implementation

Contents of Integrated Policy Framework

Review of existing policies, which are an essential part of the Integrated Policy Framework, and suggest changes / modification in the existing policies and also recommend additional policies, if any that the company needs to develop and implement which may not be presently followed or documented. The List of policies to be reviewed are as under:

1. Code of Conduct
2. Code of Ethical Business Conduct
3. Sexual Harassment Policy
4. Whistle Blower Policy
5. Hot line Policy
6. Legal Compliance Management Policy
7. Safety Policy
8. Record Maintenance Policy
9. Compliance Policy
10. Participation in political activities
11. Insider Trading
12. Risk Management Policy level Effectiveness
13. Risk Management Effectiveness
14. Corrupt practices
15. Financial Disclosure Practices
16. Related Parties
17. Corporate Governance Code
18. Non-Disclosure Agreements

GRC Cultural Infrastructure

Success story of Today's Enterprise is driven by Soft Infrastructure, i.e. Cultural Infrastructure, and not alone by the hard infrastructure

The Soft Cultural Infrastructure is the most important entrepreneurial asset

Soft Cultural Infrastructure is enabled by following components

- | | |
|--|--|
| 1. Board Effectiveness | <ul style="list-style-type: none">- Leadership Governance- Board Oversight- Clarity of Righteousness |
| 2. Strategic - Wisdom & Vision | <ul style="list-style-type: none">- Value Proposition |
| 3. Governance and Ethics - Wisdom and Vision | <ul style="list-style-type: none">- Policy Environment- Guidelines- Do's and Don'ts- Awareness- Business Behavior and Corporate Behavior |
| 4. Performance - Development and Growth | <ul style="list-style-type: none">- Capabilities and Competencies- Economic growth- Human Resource development (career profile and path) |
| 5. Information Enabling | <ul style="list-style-type: none">- Rightful and timely information for correct decisions- Crafted Information Links |

GRC Cultural Infrastructure (Contd...)

Soft Cultural Infrastructure is enabled by following components

6. The Connect

- Top to bottom connect
- Talk the same language across the organization
- Unity of vision and action at all the levels
- Top connects to the bottom via participatory programs, messages and email communiqués

7. Compliance Regime

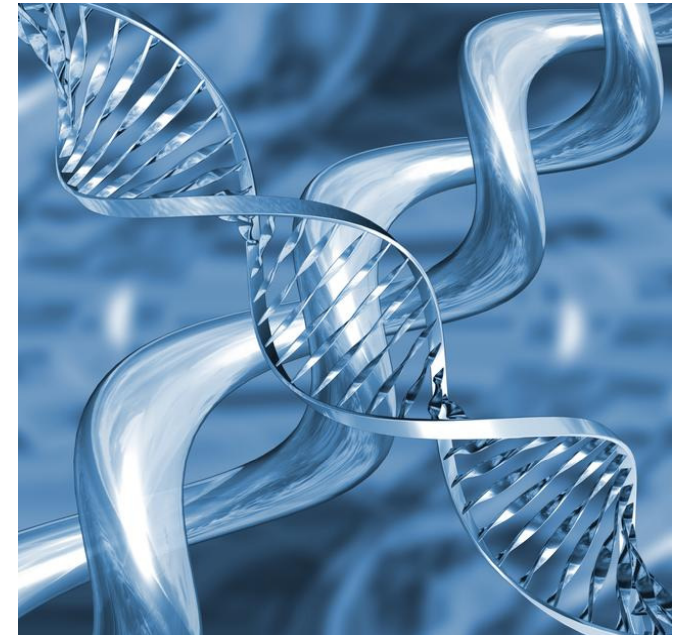
- Corporate Compliance Framework to ensure religious compliance in spirit to all applicable regulations

8. Political Wisdom

- Political wisdom for sustainability
- Cannot be straight in all actions
- Straight trees are cut first
- Complete straightness can open up vulnerabilities
- Governance demands to be politically correct
- Should be well governed and appear to be well governed

The Soft Healthy Company can absorb the stressful shocks and jerks, adapt to changes and lead thorough a sustainable core.....

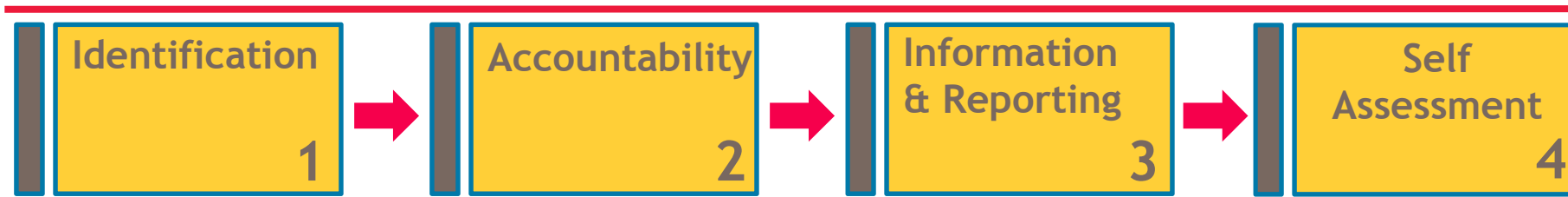
Transposing to the DNA view of a Soft Healthy Company



Crafting and Mutation is required at the DNA level to build a Sustainable and Governed Structure.....

DNA is the Core.....

Compliance Management System - Key Components



Process	Approach & Methodology	Deliverables
Identification	<ul style="list-style-type: none"> ❖ Acts/ Regulations/ Notifications/ Rules/ Circulars ❖ Frequency of compliance ❖ Filing requirements ❖ Classification - Criminal/ Civil, criticality, etc. ❖ Penalties 	<ul style="list-style-type: none"> ✓ Compliance checklist
Accountability	<ul style="list-style-type: none"> ❖ Responsibility & Ownership ❖ Re-visiting various laws for amendments/ modifications 	<ul style="list-style-type: none"> ✓ Compliance checklist ✓ Compliance calendar ✓ Regulatory compliance policy framework
Information & Reporting	<ul style="list-style-type: none"> ❖ Reporting Hierarchies ❖ Escalation Mechanism ❖ MIS Distribution 	<ul style="list-style-type: none"> ✓ MIS ✓ Dashboards
Self Assessment	<ul style="list-style-type: none"> ❖ Submission of Compliance certificates/ Declarations ❖ Submission of Evidences 	<ul style="list-style-type: none"> ✓ Compliance certificate/ Declaration template

Contemporary Internal Audit Findings

Sr. No.	Internal Audit Finding	Root Cause	Internal Audit Recommendation
1a	<p><u>Delay in distribution of steam resulting in loss of production hours</u></p> <ul style="list-style-type: none"> • Ideal time for steam distribution to plant is by 08:45 AM. • To avoid any loss of production hours leading to production delay, boiler process commencement should be done by 7:15 AM • Ideal time for steam distribution 8:45 am • No. of days when steam distribution was delayed - 105 days • Total production hours lost in 9 months - 77 hours (4.23%) 	<ul style="list-style-type: none"> • Absence of monitoring mechanism over steam distribution activity and their timelines • Absence of well defined accountability for boiler related activities 	<ul style="list-style-type: none"> • Adequate monitoring mechanism is required over steam distribution activity and its timelines. MIS should be prepared and circulated to the plant head • To ensure that the boiler attendant commences the boiler activities by 7: 15 am in order to distribute the steam by 8: 45 am • There should be well defined accountability for boiler related activities
1b	<p><u>Delay in steam generation resulting in loss of production hours</u></p> <ul style="list-style-type: none"> • Ideal time taken for process of firing of oil to steam generation is 20 mins. • In 156 (73%) cases out of 214 cases, there is a delay in steam generation ranging from 5 mins to 240 mins. 	<ul style="list-style-type: none"> • Absence of monitoring mechanism over steam generation and distribution activity and their timelines 	<ul style="list-style-type: none"> • Adequate monitoring mechanism is required over steam generation activity and its timelines. MIS should be prepared and circulated to the plant head • There should be well defined accountability for boiler related activities

Contemporary Internal Audit Findings

Sr. No.	Internal Audit Finding	Root Cause	Internal Audit Recommendation
1c	<p><u>Bus arrives at plant after ideal arrival time and bus leaves from the plant before ideal exit time</u></p> <ul style="list-style-type: none"> • Currently the working hours at plant are from 8:00 am to 4:30 pm • On reviewing the bus timings for November 2013 we observed that range of bus time in (for 8 buses) is 7:59 am to 8:47 am. Hence in majority cases buses arrived post 8 am. Also the range of bus time out is 4:30 pm to 8:32 pm . Hence all the buses leave plant premises earliest at 4:30 pm 	<ul style="list-style-type: none"> • Bus timings not in compliance with the work hour policy of 8:00 am to 4:30 pm 	<ul style="list-style-type: none"> • Bus timings should be such where it reaches the plant by 7:30am - 7:45 am and should leave by 4:45 pm - 5:00 pm to attain the necessary 8.5 working hours

Contemporary Internal Audit Findings

Sr. No.	Internal Audit Finding	Root Cause	Internal Audit Recommendation
2	<p><u>Group Ticket Booking</u></p> <ul style="list-style-type: none"> The request for group ticketing is received from all the customers at groupdesk@goair.in or at call centre or at a dedicated telephone line (displayed at Go Air's website) Absence of Guidelines to arrive at the discount to be offered for group booking. Absence of Minimum & Maximum discount that can be given to groups A process to ensure effective recording of the enquiries / request received by group ticketing team is not in place Observed few instances where the quotations are released at different rates for similar request and few cases where for larger group a higher rate was quoted as compared to rate for smaller groups Analysis of sample 5 cases for the October 2013 showed Rs.11,534, short charged (than tariff rate) to the customer. (Annexure 13) No formal Approval is available for considering 1 to 6 passengers, travelling on same day, as a group and providing group discount to such group 	<ul style="list-style-type: none"> Absence of business rules defined for discounts to be passed to customer Absence of SOP on group booking 	<ul style="list-style-type: none"> Business Rules for discounts to be offered to the groups based on different group sizes should be defined. Customer service software for recording the enquiries received and responses. An MIS providing the summary of Group Ticketing business activities should be provided to DGM (RM) for review Potential increase in the Business Revenue would be Rs.250 crores (increase in revenue from 12% to 17% of total revenue). Specific approval of the DGM (Pricing) should be obtained in case group booking done for 1 to 6 passengers If possible try to explore the possibility of having a separate class for booking of people other than groups like commercially important persons, etc, and provide special constructed fares

Contemporary Internal Audit Findings

Sr. No.	Internal Audit Finding	Root Cause	Internal Audit Recommendation
3	<p><u>Price Change & Approval Process</u></p> <ul style="list-style-type: none"> • Absence of: <ul style="list-style-type: none"> ✓ Standard/ Minimum price for all the routes is yet to be defined ✓ Defined Guidelines for price change ✓ Defined frequency for review of QL2 reports, website of competitors / travel agent etc. by the pricing executive. QL2 reports are not downloaded and reviewed on a daily basis presently. ✓ Recording and documenting prices for days out (days to fly) along with competitor prices with the current level of occupancy and forecasted occupancy (considering seasonality factor) for defined frequency. • Price change recommendations by the Pricing - Executive are currently done on verbal basis without audit trail and preventive controls 	<ul style="list-style-type: none"> • Absence of SOP on Pricing and its changes 	<ul style="list-style-type: none"> • Minimum price for all the routes should be defined and a price change below such level should be approved by CCO or Revenue Head • Screenshots should be maintained for evidence of price extraction • MIS for price change containing the following indicative details should be provided to DGM - RM on daily basis for review: a) original price, b) % reduction in the price, c) final changed price d) current occupancy, and forecasted occupancy, f) the competitor price g) price change category h) justification for price change deviating from business rule etc

Contemporary Internal Audit Findings

Sr. No.	Internal Audit Finding	Root Cause	Internal Audit Recommendation
4	<p><u>Pricing</u></p> <ul style="list-style-type: none"> Based on QL2 report the prices are changed/ modified Cases were observed wherein the fare has been charged up to 33% lower than the competitor's fare On sample review, 881 tickets were sold at a fares lower than the competitor's fare. Resulting into revenue loss of Rs.2 lakh <p><u>Missing Strategy</u></p> <ul style="list-style-type: none"> No process of capturing the rationale for the price changes/ maintenance 	<ul style="list-style-type: none"> Absence of business rules defined for pricing 	<ul style="list-style-type: none"> Business rules to be defined to operationalize the price changes decision depending upon a. Competitor's price, b. Occupancy , c. Number of days out, d. Historical trend Have a limit defined for lowering of rates below the competitor's tariff. Appropriate justification should be taken for lowering beyond defined limit. SOP needs to be updated accordingly Pricing policy to cover the pricing decision through out the year should be developed and approved

Quiz 1

Risk of occurrence of safety incident(s) that may cause a loss of life / permanent disablement or other fatal accidents

1. New Contract Staff Recruited
3. Maintenance work in Heating Room
4. Room got locked
5. 25 people died

Existing Risk Management Practice

- 1) Safety Awareness Training for all new employees
- 2) Periodic Corporate Safety Audits
- 3) Safety Registers and Incident reporting process

Additional Recommendations

- 1) Induction (Pre-execution) training for all new employees/contracted staff - before start of work.
- 2) Periodic reporting of programmed safety awareness initiatives / campaigns.
- 3) Surprise Safety Audits (including safety awareness audits at sites)
- 4) Senior Management Agenda on Safety Initiatives and incidents. Oversight of CEO on safety.
- 5) Annual Internal Audit of safety
- 6) Customized Project Specific Safety Modules (Contemporary Modules).

Quiz 2

- EPC type of project along with balance of project (power plant)
- They have further sub-contracted part of project
- Costing Method used is Cost Completion Method as per AS 7

Project Name	AAA (Rs in crores)	BBB (Rs in crores)	CCC (Rs in crores)	XXX (Rs in crores)	Total (Rs in crores)
Project Estimated Cost	164	100	129	186.29	579.29
Project Revenue (X)	164	100	129	307.75	700.75
Actual Cost (Y)	102.62	39.61	100.69	295.89	538.80
Balance cost to be incurred (X-Y)	61.38	60.39	28.31	0.00	150.09
Max. UBR which can be booked (A)	102.62	39.61	100.69	307.75	550.66
UBR booked (B)					634.44
Excess UBR booked (B-A)					83.78

Existing Risk Management Practice

- Company has given LOA to sub-contractors for work to be completed by them and hence value of project revenue is the total billing to be raised by them on company
- Company has not bifurcated its revenue & cost share while working out UBR hence though there is further cost to be incurred for the projects, they are shown as 100% complete and the same is accepted without any checks

Additional Recommendations

- 1) Mechanism to compare actual cost with estimated cost on periodical/quarterly basis
- 2) Mechanism to compare work completed with cost incurred to verify % of completion used for UBR working
- 3) Identified cost overrun

Thank You

