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A 3D bar chart with several grey bars of varying heights. One bar in the center is highlighted in blue. The chart is set against a background of white lines that create a perspective effect, suggesting a grid or a floor with lines receding into the distance.

**Seminar on Internal Audit
Sales & Accounts Receivable
ICAI Tower – Mumbai
26th December, 2015**

Background

*“Internal auditing is an **independent, objective assurance** and consulting activity designed to **add value** and **improve an organization's operations**.*

It helps an organisation 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

Pre-Requisites

1

- Objectivity

2

- Confidentiality

3

- Integrity

Why Internal Audit?

- Recent events including global financial crisis.
- Mandatory by most stock exchanges
- Internal audit is considered good practice for establishing a control framework

Scope of Internal Audit

- Fixed Assets
- Stock
- Treasury Operations
- Current Assets
- Current Liabilities
- Loans & Advances
- Purchases
- Sales

Types of Internal Audit

- Financial Audits
- Compliance Audits
- Operational Audits
- IT/IS Audits
- Consulting & Advisory services
- Special Investigations

Risk Assessment

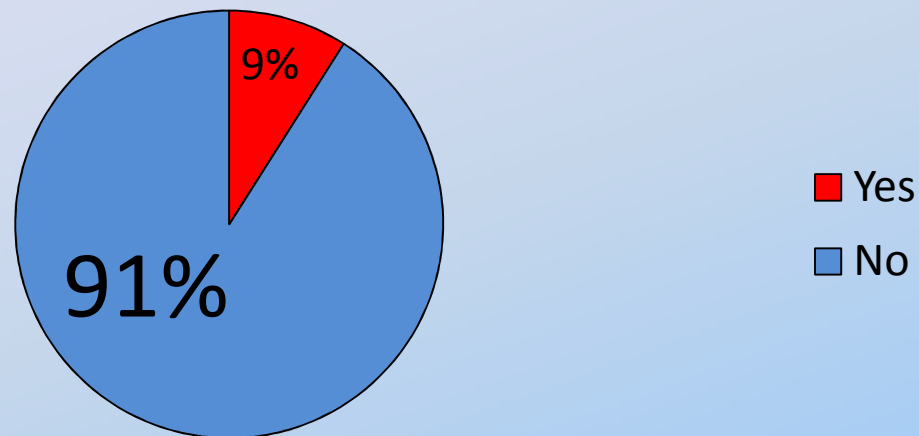
Do you use a formal risk assessment process for internal audit?

No

Yes

Risk Assessment

Presence of Formal Risk Assessment Process in Internal Audit



*Source: IIA GAIN 2009 Benchmark Study (for audit staff size 1-5)

Risk Assessment

How often do you perform an internal audit risk assessment?

Quarterly

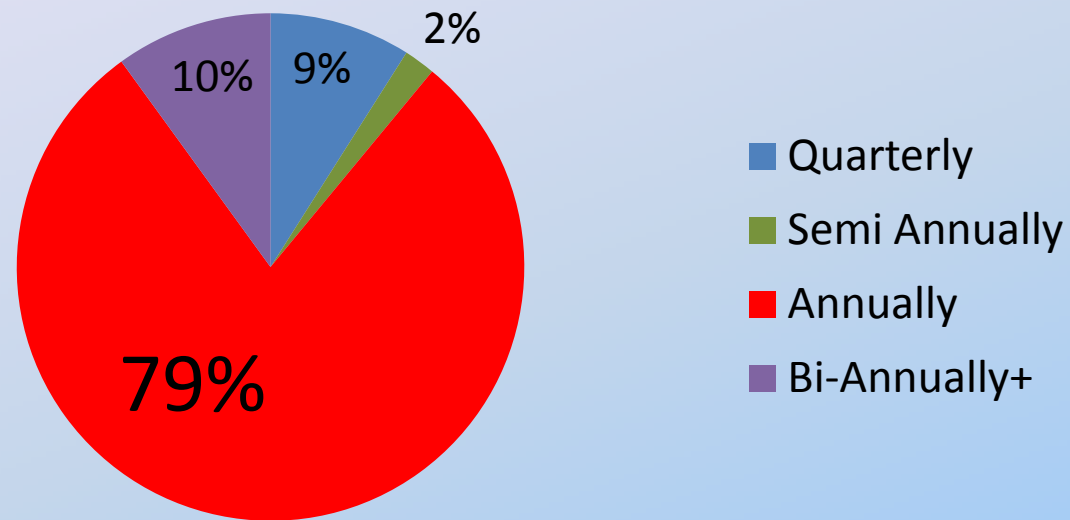
Semi
Annually

Annually

Bi-
Annually+

Risk Assessment

Frequency of Internal Audit Risk Assessment



Identify Risks

Step 1 in Risk Assessment:

Identify Risks

- Audit Population (size)
- Management control
- Define the objective
- Process flow chart

Identify Risks

“Risks only exist in the context of the achievement of an objective; if you don’t know the objective, you cant identify the risk.”

Measure Risks

Step 2 in Risk Assessment

Measure Risk:

- Focus on the overall objective
- Qualitative measurement
- Judgmental approach
- It is not a precise science

Determine Risk Factors:

- Inherent (Dollar), Subjective
(technology), Calculative (distance)

Measure Risks

How many risk factors do you consider in your internal audit?

1-3

4-7

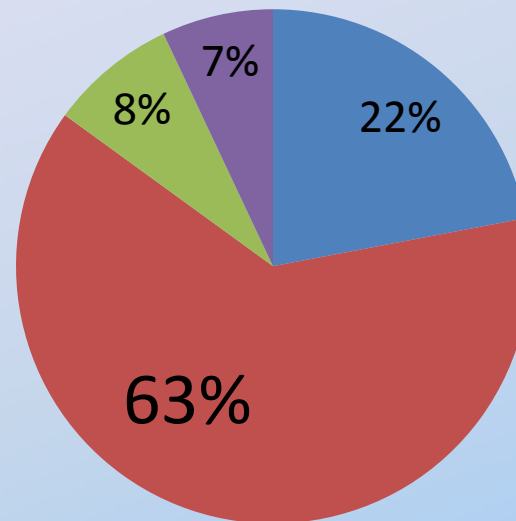
8-10

11+

Measure Risks

Number of Risk Factors considered

■ 1-3 ■ 4-7 ■ 8-10 ■ 11+



Measure Risks

Weighted Risk Factors:

- Subjective Process
- Documentation of judgmental analysis
- Add up total weights to 100%
- Can use Delphi Technique to assign weights

Score Risk Factors

- Choose a scoring scale (Eg. 1-3, 1-5, 1-10)
- Generally 5 point scale is used
- Evaluate each risk and assign a score
- Total risk = Sum of (Factor Weight x Risk Score)

About Us

Risk Calculation for Sales & Accounts Receivable

Factor	Weight	Risk	Weighted risk
Reputation of buyer	30%	5	1.50
Time since last audit	10%	1	0.10
Volume of Transaction	20%	3	0.60
Legal complexity	20%	2	0.40
Environmental Factors	10%	1	0.10
Distance	10%	4	0.40
Total	100%		3.1

Risk Based Audit

- Map all risks & areas to be covered
- The audit plan is prepared based on the % the total risk derived at in the earlier slide.
- 50%-75% of the total risk must be covered in our audit plan.
- 100% risk assurance is neither possible nor achievable.

Implementation

Management Approvals:

- Discussion with Management
- Written permission
- Documented in current audit file
- Confidential data

Implementation

Communicate risks & their impact

- Communicate risks identified (delay in processing sales order)
- Quantitative or qualitative impact must be discussed

Implementation

Design process controls

- Sample walk-through
- Additional process controls required
- Risk Mitigation & Risk avoidance

Implementation

Implement risk control measures

- Prepare Standard Operating Procedures (SOPs)
- Explain the controls at each stage to concerned staff members

Implementation

Testing of controls:

- Designed controls to be tested at account level balance.
- Sample size should be commensurate with the level of risk.

Implementation

Review & inspect controls:

- Every quarter the controls are to be reviewed and updated.
- Any process change must be incorporated.

Implementation

Prepare a list of deviations:

- All errors/deviations identified must be reported to the management.
- Check for approvals, if any, taken for the deviation.

Implementation

Management recommendations:

- All process controls must be operating effectively and efficiently.
- In every report submitted to the management, recommendations to improve controls must be given.
- Recommendations implemented from the previous report must be checked.

Perception

Client's staff feel that rather than being internal auditors, at times we are....



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