Internal Audit effectiveness - Meeting the expectations of the Audit Committee

CAFRAL
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Expectations of the Audit Committee

- Internal Audit (IA) areas
  - Risk based approach
  - Audits of high risk/concern areas (Thematic audits)
  - Integration with risk management
  - Reporting of audit findings
  - Quality assurance
  - Group oversight
  - Resource management
  - Emerging practices – some examples
  - Whistleblower reporting
- Specific internal control areas

#1 Risk based approach

- Establish risk based audit plans
  - Conduct risk assessments
  - Consider inputs of related stakeholders
  - Identify focus areas for the year
  - Identify high risk/concern areas

- Mid year reviews
  - Adequacy of the risk based audit plan on account of changes in
    - Business strategy
    - Impact of changes in the control environment
    - External factors
    - Trend and direction of risk
    - Emerging risks

#2 Thematic audits

- Focussed review of high risk/concern areas cutting across the organisation
- Some examples
  - Collateral management
  - Customer service
  - Regulatory reporting
  - Outsourcing
  - Sourcing of business
  - Internet/mobile banking channels
  - Data confidentiality/privacy
  - Specific themes such as jewel loans

#3 Integration with risk management

- Correlate IA risk assessment process with risk appetite of the organisation
- Discussions with Risk Management function
  - Consider inputs while preparing audit plans
- Pay close attention to business areas having 'intrinsic hunger for risk'
- Assurance on the risk management framework
  - Risk management process
  - Correct identification and evaluation of risks
  - Reporting of key risks
  - Management of key risks
  - Advanced approaches

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#4 Reporting of audit findings

- Acceptance of issue, corrective measures/timelines
- Identify root cause (people/process/technology),
  - Sub-categorise root cause amongst 'lack of clarity in process', lack of training', 'genuine error' or 'intent'
- Grade audit findings based on likelihood/impact
- Existence of similar issues within the organisation
- Conduct a 360 degree view of the identified issue
- Audit issues identified for the first time – miss-outs during previous audits
- Audit Committee/Management expects IA to highlight issues rather than regulators pointing out

#5 Quality assurance

- Quality assurance reviews conducted by external agency
  - Based on mandate by Audit Committee
  - Once in three years
  - Track recommendations until closure
- Annual internal self assessments
  - Internal feedback mechanism
  - Fulfilment of Audit Charter requirements
  - Identify/plug gaps
- Annual benchmarking exercise (for e.g. GAINS)
- Views of regulators on effectiveness of IA function

#6 Group oversight

- Group level internal audit charter/policy
- Standardise internal audit practices across the group
- Common audit findings across the group
  - Specific issues, if any
  - Fraud prone areas

#7 Resource management

- Review of existing IA resources by the Audit Committee
  - Whether resources are appropriate, sufficient, effectively deployed and periodically rotated
  - Whether number of auditors and skill sets (for e.g. IT, Treasury, IFRS) are as per requirements
  - Whether adequate budget is available for implementing the audit plan
  - Advise on the need to seek services of an expert for specialised audit areas
- Conduct mid-year review of available resources

#8 Emerging practices – some examples (1/2)

- Audit Committee
  - Audit Committee meeting without routine agenda
    - Devote time to conduct a 'deep dive' on a specific key risk area
  - Annual meeting of Audit Committee chairs
    - Common areas of concern
    - Sharing of best practices across the group
    - Understanding the tone of the regulators
  - In camera meetings of the Chairperson of the Audit Committee with Head IA

#8 Emerging practices – some examples (2/2)

- IA function
  - Integrate process and information systems audits
  - Maintain linkage in the audit report – emerging expectation of regulators
    - Audit working papers
    - Scope of audit
    - Audit findings
  - Entity level audit opinions (ratings)
    - Migration of audit ratings
  - Analytics (SQLs, ACL)
  - Time management and productivity
  - Peer reviews
  - Code of conduct for IA function

#9 Whistleblower reporting

- Framing of whistleblower policy
  - Preparation of an operating framework to ensure compliance with the policy
- Classification of complaints – 'whistleblower', 'senior management escalations' and 'other complaints'
- Receive complaints, investigate, conclude and report to the Audit Committee of the Board
  - Includes complaints received on anonymous basis
- Categorisation of complaints – 'genuine', 'false alarms' and 'could not be proven'
- Periodic reiteration of the policy

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#10 Specific internal control areas

- Process notes – review
- Internal housekeeping – revamping
- Account codes in SAP
- Reconciliation in retail banking
- Other assets and other liabilities

Thank you