



Internal Audit effectiveness - Meeting the expectations of the Audit Committee

CAFRAL

Conference of Heads/Members of Audit Committee
of the Boards of Banks

Mumbai

November 5, 2012

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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



#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



#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

