An Integrated Approach to Internal Auditing
Qualities of Top Internal Auditors

As the pace of change continues to increase, organizations of all sizes and shapes struggle to adapt, and meet stakeholders’ expectations and increase their profitability. For today’s organization, the typical challenges include more number of challengers and increased competition, innovative and disruptive technologies that are constantly changing the way business is done, inflated and sometimes unrealistic expectations from the workforce and external stakeholders which include global economy and political changes. Although these factors multiply the risk factor manifold, companies cannot become complacent. In most scenarios, what worked 4 to 5 years ago, or even last year may no longer work. Companies need to adapt accordingly, by becoming agile and efficient in the way they conduct business activities. This requires the Internal Audit department of a company to add tangible value apart from providing the required assurance.

Topics to be Covered

1. Effective Internal Audit Practices

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Challenges Faced by The Investment Risk Management Function

- 24% Risk Governance
- 48% Regulatory Compliance
- 42% Data Management & Availability
- 41% Third-Party Service Provider Oversight
The below table clearly mentions the responsibilities of the Internal Audit team after the risk management has been planned.

<table>
<thead>
<tr>
<th>Risk Management</th>
<th>Internal Audit Team</th>
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<tbody>
<tr>
<td>1. Construct a top-notch Risk management structure</td>
<td>1. Audit the efficacy and potency of the Risk Management system</td>
</tr>
<tr>
<td>2. Execute the Risk Management structure that has been developed</td>
<td>2. Audit whether the Risk Management structure is functioning properly or not</td>
</tr>
<tr>
<td>3. Guide the management team on how to fuse the Risk Management structure so developed, with the business operations</td>
<td>3. Internal Audit team should readily take up roles as mentioned in the Risk Management plan</td>
</tr>
<tr>
<td>4. Educate on how and what to assign for risks and measures for their controls</td>
<td>4. Audit whether the assigned managers are capable enough to fulfil the assigned roles</td>
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<tr>
<td>5. Counsel the board and clarify any doubt that the management team has with respect to the interpretation of the Risk Management information including, facts, and figures</td>
<td>5. Reassure the management board about the credibility of the submitted risk management plan</td>
</tr>
<tr>
<td>6. Grant appropriate risk management status and performance information to the risk committee and Board Audit</td>
<td>6. Furnishes an independent view on the reliability and credibility of the risk management information submitted to the Risk Committee and Board Audit</td>
</tr>
<tr>
<td>7. Manoeuvre risk management matters by acting as a mentor</td>
<td>7. Provides assurance on management’s capability and performance in risk management by acting as an independent reviewer</td>
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B. Risk Mitigation

Internal Auditing is an independent consulting activity. It provides objective assurance to the board on the effectiveness of risk management, and that major business risks and internal control framework are managed appropriately. Let’s discuss a few benefits of Risk Management Practices:

A. Assurance of Achieving Objectives
B. Solid Reports on Diverse Risks at Board Level
C. Refined Understanding of Key Risks & Their Wider Applications
D. More Management on The Occasions That Really Matter
E. Reduced Crisis & Surprises
F. Improved Focus on Internal Matters
G. Improved Probability of Programmes That Kick Off at The Last Moment
H. Doing Right Things at The Right Time is Always at Prime Focus
I. Increased Appetite for Risk & Higher Decision Making Skills

Role of An Internal Auditor

Core Internal Audit Roles in Regard to ERM
1. Giving assurance on the risk management processes
2. Giving assurance that risks are correctly evaluated
3. Evaluating risk management processes
4. Evaluating the reporting of key risks
5. Reviewing the management of key risks

Legitimate Internal Audit Roles With Safeguards
1. Facilitating identification & evaluation of risks
2. Coaching management in responding to risks
3. Co-ordinating erm activities
4. Consolidated reporting on risks
5. Maintanng & developing the erm framework
6. Championing establishment of erm
7. Developing rm strategy for board approval

Roles Internal Audit Should Not Undertake
1. Setting the risk appetite
2. Imposing risk management processes
3. Management assuarance on risks
4. Taking decisions on risk responses
5. Implementing risk responses on management behalf
6. Accountability for risk management
## Key Risks Issues & Control Measures

<table>
<thead>
<tr>
<th>Control Activity</th>
<th>Control Category</th>
<th>Type of Control</th>
<th>Point of Specific Attention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical access to dealing room is approved by management</td>
<td>Physical access, supporting Authorization and Segregation of duties</td>
<td>Preventative control Automated, reliance on GITC</td>
<td>Access during leave or out of office hours</td>
</tr>
<tr>
<td>Access to systems is restricted to approved individuals</td>
<td>Logical access, supporting Authorization and Segregation of duties</td>
<td>Preventative control Automated, reliance on GITC</td>
<td>Access review based on incompatible roles &amp; responsibilities; specifically when changing roles; access during leave</td>
</tr>
<tr>
<td>Roles &amp; responsibilities are appropriately segregated across different functional areas to ensure independence &amp; integrity of controls</td>
<td>Segregation of duties</td>
<td>Preventative control</td>
<td>Front Office is segregated from Finance, Risk and Back Office functions</td>
</tr>
<tr>
<td>Front office supervision &amp; oversight of dealer activity</td>
<td>Supervision</td>
<td>Detective control Manual control</td>
<td>Typically only through interview and observation; often difficult to evidence</td>
</tr>
<tr>
<td>Approval of counterparties, limits &amp; changes to static data</td>
<td>Segregation of duties Documentation to substantiate contracts, rights and obligations</td>
<td>Preventative control Auto-Manual control</td>
<td>Focus on proper authentication of changes instructed by authorized parties; instructions should not come from front office, particularly for confirmation or settlements static data</td>
</tr>
<tr>
<td>Creation and approval of specific books &amp; portfolios for each type of business / product</td>
<td>Authorization</td>
<td>Prerequisite for a detective control</td>
<td>Dummy books, accounting and reconciliation switched on</td>
</tr>
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### 2. Tackling Fraud & Corruption

Conducting a fraud risk is one of the most important functions of an internal auditor. It helps to identify how vulnerable is an organization to both, internal and external fraud. It also takes into account the organization’s specific risk appetite. An internal auditor also needs to combat the expectation gap, needs to build a tandem between words and deeds, needs to define policies and procedures against bribery, corruption, and last but not the least, needs to put a strong whistleblowing policy in place. The info graphic below, depicts steps that can be used to effectively manage fraud:
After getting a brief understanding how fraud management is carried out, let’s focus on a particular kind of fraud audit i.e., forensic audit investigation. The info graphic explains how such a fraud should be dealt with.

**a. Investigation Planning**

A. First & Foremost Recognize The Fraud That is Being Carried Out
B. Ascertain The Time Period for Which The Fraud Has Been Carried Out in The Organization
C. Look for The Factors by Which The Fraud Has Been Concealed So Far
D. The Next Step is to Track Down The Fraudsters Who Have Committed The Crime
E. Identify The Loss That The Organization Has Suffered Due to The Fraud
F. Collect The Relevant Evidence That is Admissible in The Court of Law
G. Educate The Employees & The Senior Management Team How to Prevent Such Frauds in The Future

**b. Gathering Evidence**

- Make Use of Substantive Techniques Such as Reviewing The Documents
- Make Use of Analytical Procedures That Help Compare Trends Over A Certain Period of Time
- The Auditor Should Make Use of Computer-Assisted Audit Techniques
- Comprehending Internal Control & Testing Them So as to Understand The Loopholes That Allowed The Perpetration of Fraud
- Interviewing The Suspect in Order to Gather Sufficient Evidence, So as to Make The Fraudster/s Confess His/her Mistake

**c. Reporting & Indulging With The Court Proceedings**

A. The Entire Matter Has to be Presented to The Client With Respect to The Fraud
B. The Report Will Help To File A Legal Case Against The Fraudster in The Court of Law
C. The Fraudster Needs to be Presented in The Court of Law as They Would be Required to Explain The Evidence Gathered Against Them
Communication is very important for promoting Internal Audit, your team and yourself. Internal auditors should know how to demonstrate their worth to senior executives. They must know the main communication needs of an internal auditor, what makes a good communicator, and different personality types and preferred communication styles. Moreover, how to get a message across, developing a facilitation mind-set, understanding the facilitation continuum, report writing, powerful wording are some of the attributes that an internal auditor should learn.

An internal auditor should keep in mind of the following things to assert his/her ideas on others.

**CONCLUSION:** Today, there exist myriad programmes on Internal Audit but unfortunately, most of them are devoid of tools, which can train auditors on how to deliver competitive advantage to a company, and how they can develop an Audit strategy that is perfectly aligned to the business strategy. In our 3 day workshop, Gregory Coleman, will teach you how to sail your way through the nitty-gritties of Internal Audit, by covering topical areas like ethical behaviour, fraud and forensic auditing as well as other areas that challenge internal auditors. The course will also spend time on developing ‘soft skills’ that all business professionals, but particularly Internal auditors, need to improve upon, covering all effective communication in all its forms, both at individual and at departmental level. We urge you not to miss this opportunity, and take-home expert Internal Auditing skills and increase the productivity to higher level.
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