



Internal Audit: A Personal Evaluation

**May 19, 2011,
Wipro Internal Audit Team Meeting
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What I Will Cover Today



Internal Audit: An Organizational View

Internal Audit: A Personal Development View

Internal Audit –The Inherent Challenges

All things evolve



From Cover drive to Dilscoop

Questions for You



- **When do you think internal audit as a practice started?**

- **What triggered this practice?**

Krupp Company, Germany



The auditors are to determine whether laws, contracts, policies and procedures have been properly observed and if all business transactions were conducted in accordance with established policies and with success. In this connection, the auditors are to make suggestions for the improvement of existing facilities and procedures, criticism of contracts with suggestions for improvements. etc.

Internal Audit Manual, January 17, 1875

Internal Audit to supplement the supervisor

Internal Audit for Compliance



**Krupp Company
Internal Audit
Manual,
Jan 1875**

**Compliance,
Criticism &
Suggestions**

Companies with
**1. Large
employee base**
**2. With dispersed
operations**

Birth of Internal Audit as Formal Specialization

Internal Auditor for Asset Protection



Protection of company assets and detection of frauds were the principal objectives. Consequently, the auditor concentrated most of their attention on examination of financial records and on the verification of assets that were most easily misappropriated. A popular idea among management people a generation ago was that the main purpose of an auditing program was to serve as a psychological deterrent against wrongdoing by other employees.

**National Industrial Conference Board study on Internal Audit,
1941**

Institute of Internal Auditors formed in 1941

Internal Audit for Operational Efficiency



**World War II
Triggers material
shortage**

**All resources
diverted to
increase
production**

**Result
Operational
Audits**

**Statement of Internal Auditors Responsibility, IIA
1948: Might also deal, 1957: Should deal**

Operational Audits



- **Level 1**
 - Identify operational inefficiency
 - Suggest methods for elimination

- **Level 2**
 - Identify best practices for implementation
 - Suggest new practices for enhancing profitability

Internal Audit as Assurance



Treadway Commission 1987

- Fraudulent Financial Reporting
- Role of Internal controls and internal audits

Levanthol & Howrath

- 7th largest audit firm
- Bankruptcy due to damages
- 115 claims for \$362 m
- Results in E&O insurance

Audit turns competitive

- Companies shopping for better deals
- Quotes based on defined work
- Work based on risk assessed

Results in Risk based Audits to contain Costs

Internal Audit in Wipro



Year	Trigger	Action
1975	Company Law mandates Internal audit	SB Billimoria appointed
1980	Wipro realizes the value of audit experience	Started as internal function
1983	Wipro Information Technology & Wipro Systems started	Audit divided into Audit West & Audit South
1989	Dr. Balasubramanian joins as CFO	Audit combined & shifted to B'lore
1990s	NYSE listing: Independence of Audit function formalized	Head of Audit reports to Audit Committee

Internal Audit In Summary Today



Description	Primary	Secondary	Tertiary
Objective	Fraud detection, Asset Protection	Prevent shocks	Weed out inefficiency
Scope	Financial & susceptible assets	Ensure repeatability of results	Operational inefficiencies
Responsible to	Management	Board of Directors	Management
Success measure	Absence of fraud / losses	Assurance / Absence of 'shocks'	'Profits' generated

Internal Audit Efficiency through Risk based Audits ¹²

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You are what you want to be



A Short Exercise



- List down on paper, what you expect from your career in the next three years
 - List a minimum of 3 items
 - Make it as descriptive as possible
 - If a role model exists in your mind, please name them

5 minutes for this Exercise

My Experience



At 25

- CEO of a large firm

At 35

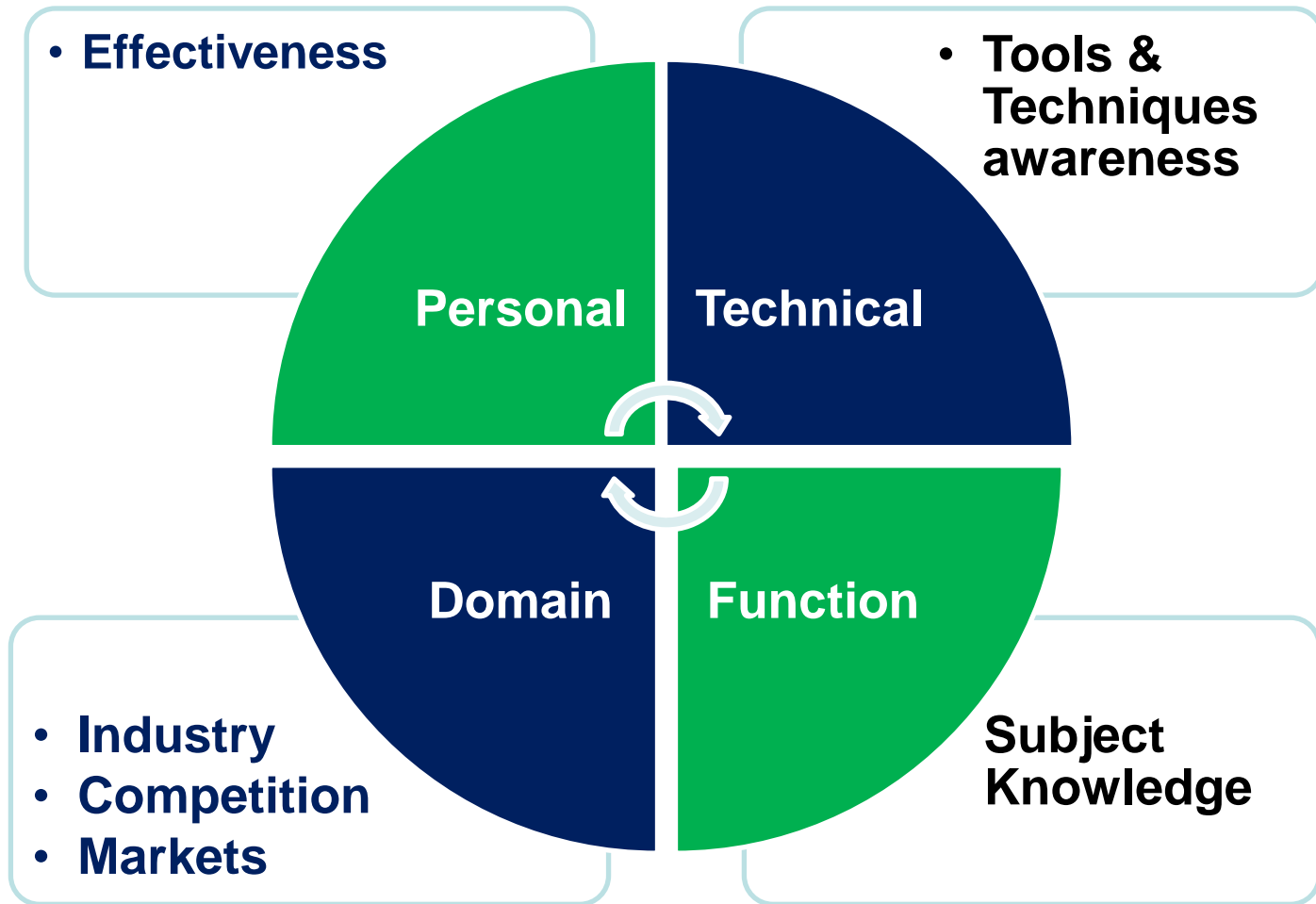
- World's best Treasurer

At 45

- Author whose books are read and relevant 100 years from now

Expectations can change with time

Key Is to Build All-round Competencies



The 4 Competencies required for All Positions

Audit Role: Personal Competencies



What You Get

1. Dealing with Superiors
2. Influencing people
3. Learning to learn
4. Time management
5. Primary skill -analysis
6. Opportunity to Communication
7. Responsible for substantial results

What You May Miss

1. Managing a team
2. Using discretion/ power
3. Doing the known
4. Prioritization
5. Primary skill- application
6. Opportunity to manage
7. Responsible for defined results

Staff vs. Line

Audit Role: Technical Competencies



Get Exposure To

- 1. Multi-functional disciplines**
 - Exposure to Auditing Standards
 - Exposure to sampling techniques
 - Legal, taxation, accounting etc.
- 2. Access to information**
 - Company Plan and MIS
 - Functional strategies and performance reports

Inadequate Exposure To

- 1. In-depth exposure**
 - Interpreting and structuring transactions: IAS & IFRS
 - Limited to one sphere
- 2. Working in multi-functional teams**

Generalist vs. Specialists

Audit Role: Functional Competencies



Get Exposure To

1. Annual Planning Exercise for Audit
2. Exposure to Audits, Auditing standards, Risk management techniques

What you may miss

1. Number crunch for SBU plans or consolidate
2. Specialize in identified areas like Taxation, Controllership, BFM

Working knowledge vs. Expertise

Audit Role: Domain Knowledge



What you get

- See the big-picture: Industry, Company, Competition, SBUs

What you may miss

- Start from Components: Account wise / regional build up of a business plan

Top Down vs. Bottoms-Up View

In Summary



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1. Staff role
 2. Generalist
 3. Working Knowledge
 4. Top-down View

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1. Line role
 2. Specialists
 3. Expertise
 4. Bottoms-up view

**It is Easier to Move from Generalist to Specialist
Than from Specialist to Generalist**

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Framework for Evaluating Internal Audit Challenges



Functional View

- As Internal Auditor
- As Internal Auditee

Users' View

- As Management
- As Director

As Internal Auditor: Top 3 challenges



Wish list:

1. Engaging the Auditee
2. Attracting top management attention
3. Finding a mentor

My Experience:

1. Understand their position: R K Gupta
2. Let the data speak: Presentation key
3. Show genuine interest

As Auditee: Top 3 Expectations



Wish list:

1. Place the error in context
2. Provide workable Solutions
3. Hindsight vs. foresight appreciation

My experience:

1. Treasury Audit experience
2. Extensive deliberations / discussions
3. Cash management experience

As Top Management: Top 3 expectations



Wish list:

1. Sequencing based on importance
2. Factual accuracy & 360° view
3. Potential solutions & timelines

My experience:

1. Clean report does not mean a bad auditor
2. Stating difference of views on solutions not incorrect

Top 3 Expectations: As Audit Committee Member



Best Practices Seen:

1. Defining A, B, C classification
2. Highlighting External Sensitivities vs. Internal Implications
3. Highlighting changes in the culture of organization (especially in one on ones with Audit Committees)

In Conclusion



- **Internal Audit an excellent place to start your career**
 1. High visibility: Good work recognized, shabby work less visible
 2. Learning to learn: Frequent new assignments
 3. Soft-skills focus: Time devoted to Written and spoken communication
 4. Higher learning: Working in large teams of functional specialists
 5. Easier Transition from Generalist to Specialist

Thank You

