Internal Audit & Performance Audit

Lesson 14

KEY CONCEPTS

■ Internal Audit ■ Audit Techniques ■ Operational control ■ Risk areas of the organisation ■ Internal Controls ■ Risk management

Learning Objectives

To understand:

- Internal Audit as a mechanism to provide an independent and objective assessment of the effectiveness and efficiency of a company's operations, specifically its internal control structure.
- How the function of internal audit helps an organization to accomplish its objectives by bringing systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- The broad scope of Internal Auditing and what are the Internal Audit Techniques.
- How Internal Audit includes effects the efficiency of internal control, operations, IT controls, the reliability of financial reporting, deterring and detecting fraud and compliance with laws and regulations.
- The pro-active and central role Company Secretary plays in the governance of the company.
- Role of Internal Audit in organisation Control Mechanism.

Lesson Outline

- Introduction
- Internal Audit under the Companies Act, 2013
- Appointment of Internal Auditor
- Objective of Internal Audit
- Scope on Internal Audit
- Internal Audit Core principles
- Independence of Internal Auditor
- Internal Audit Techniques
- Role of Internal auditor in organisation Control mechanism
- Appraisal of Management Decisions
- Internal Control Mechanism
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings
- Other References (Including Websites/ Video Links)

REGULATORY FRAMEWORK

- The Companies Act, 2013
- The Companies (Meeting of the Board and its Power), Rules, 2014
- The Companies (Accounts) Rule, 2014

INTRODUCTION

Historically, internal auditing was confined to ensure that, the accounting and allied records have been properly maintained, the assets of the organization have been properly safeguarded and that the policies and procedures laid down by the management have been complied with. Post liberalization of economy, the growth and expansion made it increasingly difficult for organizations to maintain control and operational efficiency. The economic conditions further expanded organizations' responsibilities for scheduling, managing with limited materials and labourers, complying with government regulations, and an increased emphasis on cost efficiency It was difficult for management to observe all the operating areas or be in touch with everybody. This requires companies to appointed auditing personnel for report on affairs of the company, which are known as 'Internal Auditors'.

The operations of the Companies which have huge and sophisticated business structure and have decentralization of their business activities among the various functional heads and division or wherein the top management is remotely concerned with the day-to-day activities of the concern. Now a day, the role of internal auditing has a great significance in the performance of the company.

With the changes in the economic conditions, now the scope of internal auditing is not confined to financial transactions it is extended up to the minute activities of the company, which may or may not be the cost centre but have an impact on the efficiency of the company.

DEFINITION OF INTERNAL AUDIT

As defined by the Institute of Internal Auditors (IIA)

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Independence is established by the organizational and reporting structure. Objectivity is achieved by an appropriate mind-set. The internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems, in relation to:

1. Effectiveness and efficiency of operations;
2. Reliability and integrity of financial and operational information;
3. Safeguarding of assets;
4. Compliance with laws, regulations, and contracts.

According to *Professor Walter B. Meigs,* "Internal auditing consist of a continuous, critical review of financial and operating activities by a staff of auditors functioning as full time salaried employees."

Based on the results of the risk assessment, the internal auditors evaluate the adequacy and effectiveness of how risks are identified and managed in the above areas. They also assess other aspects such as ethics and values within the organization, performance management, communication of risk and control information within the organization in order to facilitate a good governance process. An effective internal audit activity is a valuable resource for management and the board and the audit committee due to its understanding of the organization and its culture, operations, and risk profile. The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organization's internal control, risk management, and governance processes. Similarly an effective internal audit activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders.

Nature of Internal Audit:

1. **A Management tool:** Internal Audit is management tool performed by the employees of the organisation or the engaged professional firm to check the appropriateness of internal checks and control in the organisation. The reporting authority is generally board of directors and audit committee.

2. **A continuous Exercise:** Internal Audit is a continuous and systematic process of examining and reporting the operations and records of a concern by its employees or external agencies specially assigned for this purpose. It is, in essence, auditing for the management and its scope may vary depending upon the nature and size of the concern.

3. **A Control System:** It is a control system concerned with examination and appraisal of other control mechanisms.

4. **A Risk Management Tool:** The internal audit work encompasses fostering the creation of a risk management process and ensuring it addresses key objectives, and the subsequent evaluation of the process. The internal audit work also encompasses an identical role in the creation and subsequent evaluation of, the business continuity planning process, and the information security and privacy system.

INTERNAL AUDIT UNDER THE COMPANIES ACT, 2013

The concept of the internal audit has been recognized as a statutory exercise under Section 138 of the Companies Act, 2013, and has been made mandatory. As per Rule 13 of Companies (Accounts) Rule, 2014, the following class of companies shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely:

Listed Company
All the listed companies

Every Unlisted Public Company having			
(i) paid up share capital of fifty crore rupees or more during the pre-ceding financial year; or	(ii) turnover of two hundred crore rupees or more during the preceding financial year; or	(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or	(iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year.

Every Private Company having	
(i) turnover of two hundred crore rupees or more during the preceding financial year; or	(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

CASE STUDY

1. **ABC Pvt. Ltd. having Rs. 90 lacs paid-up capital, Rs. 5 crores reserves and turnover of last three consecutive financial years, immediately preceding the financial year under audit, being Rs. 50 crores, Rs. 175 crores and Rs. 300 crores, but does not have any internal audit system. In view of the management, the internal audit system is not mandatory. Comment?**

   Solution:

   Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, read with rule 13 of Companies (Audit and Auditors) Rules, 2014, every private company shall be required to appoint an internal auditor or a firm of internal auditors, having-

   (i) turnover of two hundred crore rupees or more during the preceding financial year; or

   (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

   Conclusion: In the instant case, ABC Pvt. Ltd. is having a turnover of Rs. 300 crores during the preceding financial year which is more than two hundred crore rupees. Hence, the company has the mandatorily statutory requirement to appoint an Internal Auditor and mandatorily conduct an internal audit.

2. **Will the Partnership firm / Proprietary firm mandatorily required appointing an Internal Auditor?**

   Solution:

   No, the Partnership firm / Proprietary firm is not mandatorily required to appoint an Internal Auditor. However, voluntary the Partnership firm / Proprietary firm can appoint an internal auditor of the organization.

3. **The Management of XYZ Pvt. Ltd appointed Luthra and Co. (Chartered Accounting Firm) as an internal auditor of the company who is also a statutory auditor of the XYZ Pvt. Ltd. Is the appointment of Luthra and Co. (Chartered Accounting Firm) as an Internal Auditor of XYZ Pvt. Ltd. is valid?**

   Solution:

   - As per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company.
   - The internal auditor may or may not be an employee of the company. However, Statutory Auditor shall not be appointed as internal auditor of the Company.

   Therefore, the appointment of Luthra and Co. (Chartered Accounting Firm) as an internal auditor of XYZ Pvt. Ltd. is not valid as Luthra and Co. is also a statutory auditor of XYZ Pvt. Ltd.

The audit committee of the company or the board shall, in consultation with the internal auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

The Companies Act, 2013 does not prescribes any specific time frame for conducting internal audit but it is considered a good practice to conduct the audit on a quarterly basis so that the compliances are monitored properly and there are no frauds or deviations in the company.

Internal Audit is performed by professionals with an in-depth understanding of the business culture, systems, and processes. Internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met.

Penal Provisions for default/non-compliance

As per section 450 of the Companies Act, 2013, if a company or any officer of a company or any other person contravenes any of the provisions of this Act or the rules made thereunder, or any condition, limitation or restriction subject to which any approval, sanction, consent, confirmation, recognition, direction or exemption in relation to any matter has been accorded, given or granted, and for which no penalty or punishment is provided elsewhere in this Act, the company and every officer of the company who is in default or such other person shall be liable to a penalty of ten thousand rupees, and in case of continuing contravention, with a further penalty of one thousand rupees for each day after the first during which the contravention continues, subject to a maximum of two lakh rupees in case of a company and fifty thousand rupees in case of an officer who is in default or any other person.

Question: Is there any penalty for non-compliance with respect to appointment of internal auditor?

Answer: Yes, If a company or any other officer of the company, contravenes the provisions of this section, then the company or any officer of the company who is in default is liable for punishment with a penalty of up to Rs.10,000. In case of continuation of default in complying with the above section further fine of Rs.1,000 per day will be imposed subject to a maximum of Rs. 2,00,000 in case of a company and Rs. 50,000 in case of an officer who is in default or any other person.

CASE LAW

In the matter of *M/s. Indu Nissan Oxo Chemical Industries Limited, ROC-GJ/ADJ-order/Section 454 /Indu Nissan /Sec.138/ 2022-23 /6504 – 6506 dated 02.01.2023* ROC Gujarat has passed an adjudication order pertaining to consequences of default while complying with the provisions of section 138(1) of the Companies Act 2013 relating to the appointment of internal auditor in specified class (es) of companies.

Facts of the case:

The Ministry of Corporate Affairs has ordered to inquiry of the subject company under section 206 of the Companies Act 2013. During the course of an inquiry, it was observed that the company is the eligible company to appoint an internal auditor and the company failed to appoint an internal auditor which is the mandatory requirement under section 138 of the Companies Act 2013 read with Rule 13 of the Companies (Accounts) Rules, 2014. The company has failed to appoint an internal auditor for the period from 1st April 2014 to 31 March 2021 (for seven financial years) and violated the provision of section 138 of the Companies Act 2013.

Consequently, ROC issued a show cause notice to the company and its directors. The company replied that the company has been shut down since 1999 and it had stopped its production completely and the company had been a sick unit since the year 2002. Further the company was also registered with Board for Industrial and Financial Reconstruction (BIFR) under the Sick Industrial Companies (Special Provisions) Act 1985.

The ROC issued Personal hearing notice to give a reasonable opportunity of being heard to the company and its directors. On the scheduled date of the hearing neither the company nor KMP had appeared for the hearing and also not submitted any reply / letter, in spite of further reminder / written notice issued to the company / its director. Hence, the Registrar of Companies / Adjudicating Officer proceeded on the matter in the absence of a reply of the company / non- appearance of any of the company officials even after providing the sufficient opportunity to the Company / director.

Decision:

Based on the forgoing facts and circumstances, the Registrar of Companies/ Adjudicating Officer came to the conclusion that the company and its director committed the default of section 138 by not appointing an internal auditor for a period of seven years and therefore, it is concluded that the company and its director in default were liable for penalty under section 454 of the Companies Act 2013 for default under section 138 of the Companies Act 2013.

Since none of the company officials appeared and presented themselves for the personal hearing in spite of reminders and in the absence of any response from the company, the Registrar of Companies / Adjudicating Officer went ahead on this matter ex-parte and passed the adjudicating order as per the provisions of Section 454 (3) of the Companies Act 2013 read with sub-rule 11 of Rule 3 of the Companies (Adjudication of Penalties) Rules 2014.

The Registrar of Companies / Adjudicating Officer imposed penalty on the company and its directors amounting to Rs. 1.4 lacs.

ROLE OF COMPANY SECRETARY AS AN INTERNAL AUDITOR

A Company Secretary as an Internal Auditor allocated in the act, is expected to:

- Ensure proper following of accounting standards and conventions by the company.
- Ensure audit of the company's financial statements and books of accounts.
- Ensure management of compliance timely and properly and true representation of management funding and financial risk in business.
- Ensure safely keeping of records of meetings held in the company.
- Provide required advisory on finance usage and corporate litigation.
- Ensure proper management of capital, debt and tax planning.
- Prepare cost structures and representing efficiency indicators of the business.
- Design audit methodologies and reporting criteria.

APPOINTMENT OF INTERNAL AUDITOR

Section 179 of Companies Act, 2013 read with Rule 8 (4) of the Companies (Meeting of the Board and its Power), Rules 2014 provide that the appointment of the internal auditors shall be done only through a resolutions passed by the board of directors at the meetings of the board.

Test Yourself:

Question: Internal Auditor is appointed by the ________________

a) Shareholders of the Company

b) Statutory Auditor

c) Institute of Internal Auditors of India

d) Board of Directors of the Company

Correct Option: d) Board of Directors of the Company

Also, the resolution for appointment of the Internal Auditor shall be filed with the Registrar of Companies within 30 days from the passing of the said resolution pursuant to the provisions of Section 117 & 179 of the Companies Act, 2013.

Hence, it could be very well interpreted that the appointment of internal auditor can be made only at the meeting of the board and whenever an internal auditor is appointed in a company, the resolution should be filed with the concerned Registrar of Companies vide e-Form MGT-14 within 30 days from the date of passing of the said resolution. In case of Private Companies, an exemption has been granted from filing of e-Form MGT-14, for resolution passed in pursuance of sub-section (3) of section 179 of the Companies Act 2013, vide notification issued by the Ministry of Corporate Affairs dated 5th June, 2015.

Certain best practices adopted by companies in terms of Internal Audit (2022):

Bharti Airtel Limited

The Company has 100% Independent Audit Committee. The Company has a robust Internal Assurance Group (IAG) led by Chief Internal Auditor supported by reputed independent firms.

Cipla Limited

Independent Assurance Report on the non-financial/ sustainability performance.

The audit committee reviews and approves the non-audit services availed from the Statutory Auditor and confirmed that such services did not affect the independence of the auditor in any manner.

UNO Minda Limited

The company rotates Internal Auditors at regular intervals.

ONGC Videsh Limited

Statutory Auditors and Internal Auditors are invited for their remarks and observations at the quarterly audit committee meetings.

Tata Chemicals Limited

The company conducts internal audit through an independent external agency on a continuous basis.

Terms of reference

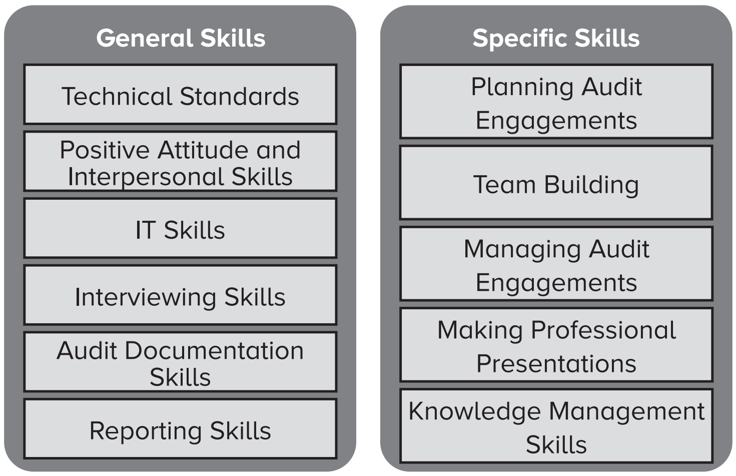
The overall scope of internal audit should be formalized in terms of reference. It is often referred to as an audit manual, and approved by the board, normally through the audit committee. These should then be communicated to the functional heads within the organisation. Internal audit's terms of reference or manual should provide clarity about its:

- **Strategy and objectives;**
- **Role and responsibilities within the organisation;**
- **Scope of work;**
- **Accountability to the audit committee;**
- **Reporting lines for line management purposes;**
- **Accessibility to the board and the audit committee; and**
- **Unfettered access to all information, people and records across the organisation.**

The terms of reference should make it clear that internal audit should not be put in a position where it has to review its own work.

Internal Auditor's Skills

In general, internal auditors should develop and maintain a healthy level of professional skepticism and objectivity to assist in evaluating information and making judgments. Internal audit professionals should possess exceptional verbal and written communication skills, and be proficient in negotiating and reasoning with a variety of departments and groups over which internal audit may have no formal authority. Further personal integrity, professional due diligence and curiosity are important traits for individuals tasked with conducting internal audit work.



General Skills

The internal auditor needs to possess the following general skills for discharging their professional obligations proficiently.

- **Technical Standards:** The internal auditor should have adequate knowledge of the applicable Indian Accounting Standards and also in-depth knowledge on how to apply them in practice.
- **Positive Attitude and Interpersonal Skills:** The internal auditor should possess positive and objective attitude, free of any prejudice. He should posses good interpersonal and communication skills.
- **IT Skills:** With the rapid proliferation of information technology (IT) in the accounting and other operational aspects of an entity, it is essential for an internal auditor to be able to work in an IT driven environment. Thus, it is essential that the internal auditor should either have or acquire sufficient knowledge of how information technology has been integrated in the functioning of the organization and also skills that would enable him to effectively use IT tools in carrying out a purposeful internal audit.
- **Interviewing Skills:** Interviewing is the process of ascertaining information through verbal interaction with clients. It involves detailed questioning on various processes and procedures to ascertain whether the client's organization complies with the established standard operating procedure and practices and whether there is favorable or adverse variance from the standards, and in case of adverse variance what measures have been initiated by the management to ensure prevention of such adverse variances in future.
- **Audit Documentation Skills:** Audit documentation is the process of compiling and filing of the findings of audit. It involves collating requisite documents as evidences for supporting audit findings, filing the analysis and supporting papers in a logical manner and assimilating information for presentation in a structured manner.

- **Reporting Skills:** Reporting is the result of any audit assignment. It is therefore necessary that the audit report is written in such a manner that all issues are reported objectively and process gaps are addressed properly. It is also necessary that each observation is constructed in a manner that it represents the facts about the issue, its monetary or other impact, the cause of the issue and the suggestions for remedial actions and improvements.

Specific Skills

These skills would be required at senior levels and will assist the senior internal audit personnel in discharging the supervisory and management role efficiently and effectively.

- **Planning Audit Engagements:** This involves the ability to plan audit engagements on the basis of a comprehensive risk assessment prior to commencement of audit. The individual has to be experienced in the conduct of a brainstorming discussion on risk assessment. He should also have the necessary experience and capability to be able to preempt significant issues that might come up during the audit, needing greater focus.

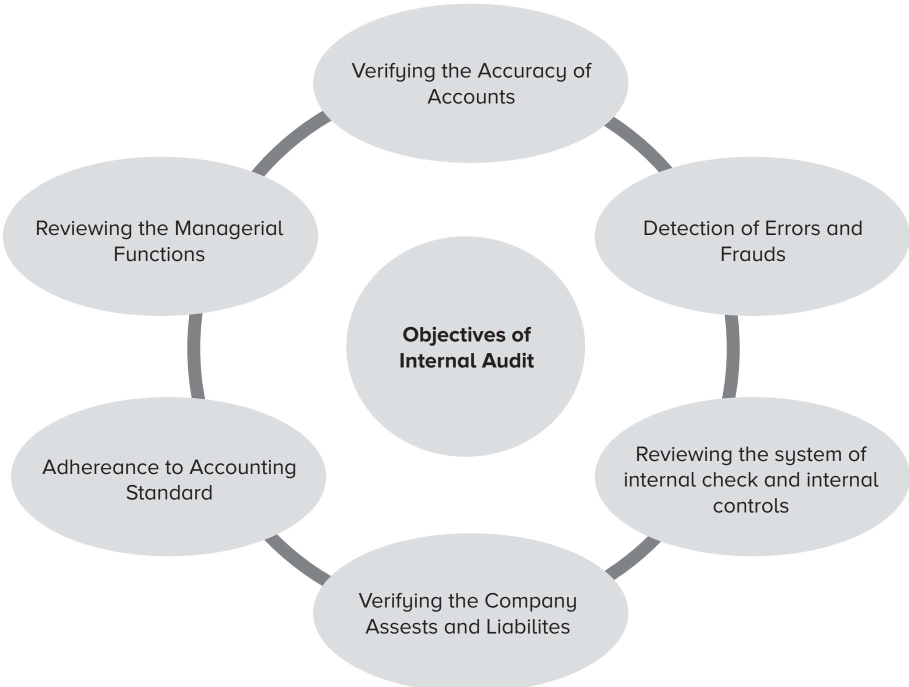
- **Team Building:** This involves collecting people and facilitating coordination among them to ensure that they work as a unified team. It involves identification of team leaders, delegation of authority, motivating the team and communicating to them the results expected.

- **Managing Audit Engagements:** This involves administration of the audit assignment. It involves the task of meeting auditees, understanding their expectations, communicating the engagement plan to them, selecting the right team, etc.
- **Making Professional Presentations:** An experienced internal auditor should be able to make effective presentations to the Audit Committee. This would involve selecting and presenting the major issues that warrant senior management attention in a clear and unambiguous manner.
- **Knowledge Management Skills:** An internal auditor either has or obtains sufficiently detailed knowledge of the operations of the entity as well as the constituents of the external environment in which the entity operates. For example, the industry, the regulators, the customers, etc. Some of this knowledge might be confidential and critical to the working of the entity. The internal auditor needs to have skills to effectively manage the knowledge, for example, deciding on issues such as:
  - i. collating the knowledge.
  - ii. how and where to apply the knowledge.
  - iii. assessing which team member needs what type and quantum of knowledge.
  - iv. assessing when the knowledge has become obsolete and needs updating.
  - v. establishing the relationships between various pieces of knowledge and assessing how the same affects the internal audit.
  - vi. deciding on manner and channels of flow of information.
  - vii. Benchmarking Skills

Besides the above skills, an Internal Auditor should also possess:

1. Analytical/Critical thinking skills
2. Data mining and Analysis Skills
3. Good Business Acumen and the ability to understand different business needs
4. He should have the ability to trace out facts and figures
5. Should be methodical and tactful while dealing with people and processes
6. Should be a hard worker, always cautious, vigilant and inquisitive
7. Should be courageous, assertive and determined with the ability to take independent decisions
8. Should lead by being punctual, reliable and updated with the latest knowledge and skill set.

OBJECTIVES OF INTERNAL AUDIT



The main objective of the internal audit process is to provide an assurance on the organisation's risk management, internal control environment and governance framework through review and appraisal of:

(a) Operational control framework including fundamental and basic systems in all areas of the business. The adequacy of risk identification, assessment and mitigation in the organisation. This shall include fraud risks.

(b) Extent, adequacy, relevance of, and compliance with existing policy, plans and procedure documents within the organisation.

(c) The extent of compliance with relevant statutory requirements.

(d) Status of implementation of internal / external audit recommendations.

(e) Evaluating internal control. Internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of the following core objectives for which all businesses strive:

- Effectiveness and efficiency of operations;
- Reliability of financial and management reporting;
- Compliance with laws and regulations;
- Accomplishment of established goals for operations;
- Safeguarding of assets;

(f) Determines the risk area of the organisation;

(g) Establishes the risk management framework;

(h) Identifies potential threats and assesses risks;

(i) Decides on response to risks like implementation of control;

(j) Monitors and coordinates the risk management processes and the outcomes;

(k) Provides assurance on the effectiveness of risk management processes;

Excerpts from the interview of Chief Internal Auditor of Hindustan Unilever Limited in 2017

The success of the internal audit division at HUL begins with its clear Vision and Objective.

The vision of the internal audit is "Zero Surprise, Risk Controlled Organisation." The vision itself is quite formidable to have a zero surprise organisation. The objective is "Provide to the management a proactive and value adding independent review process which enables them to maintain the risk profile at an acceptable level, in a rapidly changing environment" The vision and objectives are very clearly aligned to the company's vision and objectives and that I believe is our biggest success points.

How did the HUL go about giving shape to its vision?

"...........Firstly, the Company adopted the "Best in Class Approach" through Control Assurance in a multi-pronged manner viz, Risk based Transaction review, Process reviews and proactive forensic reviews. This three pronged approach gives us focussed view and fits for all as well as wider coverage."

Source : *https://www.iiabombaychapter.com/iianewsletter-april-17/interview.html*

SCOPE OF INTERNAL AUDIT

The Institute of Internal Auditors defines scope of internal auditing as 'The examination and evaluation of the adequacy and effectiveness of organization's system of internal control and the quality of actual performance'

Accordingly, the internal audit is concerned with an evaluation of both internal control as well as the quality of actual performance. According to the Institute of Internal Auditors, internal audit involves the following areas of operations, which can be discussed as follows:

1. Review of Internal Control Systems and Procedures

The internal auditor should determine whether the internal control system is in consonance with the organizational structure. As far as possible, control should be in built in the operating functions, if they are cost effective.

For example, the establishment of a separate credit control department would be justified if the objective of reducing the credit risk and minimizing debt recovery period could be met through controls in-built in the accounting and sales systems especially in small and medium size concerns

Each control should be reviewed and analysed in terms of its costs and benefits. It should also be seen whether the internal controls were in use throughout the period of intended reliance. A breakdown in internal controls for a specific portion of the intended reliance would need specific attention.

CASE LAW

In the matter of United Phosphorous Ltd. and Ors. vs. DCIT and Ors. (28.09.2011 - ITAT Mumbai), it was recognised by the court that the company has proper internal control and the internal auditor also seems to verify majority of the expenses and report to the management in the case of any adverse finding.

2. Reliability and Integrity of Financial and Operating Information

The internal auditor should review the information systems to evaluate the reliability and integrity of financial and operating information given to management and to external agencies such as governmental bodies, trade organisations and labour unions.

For the purpose the internal auditor should review the means used for measuring, classifying and reporting information including the records from which the information is extracted. He should examine the accuracy and reliability of financial and operational records. He should review the frequency and timeliness of the reports keeping in view the statutory time limits in the case of reports to government agencies. He should examine the information mentioned in the report is meaningful to the user. The usefulness of the report and the records should be evaluated with reference to their costs. The internal auditor should examine whether the reporting is by exception i.e. the reports highlight the significant and distinctive features.

Internal Auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.

3. Economical and Efficient Use of Resources

The internal auditor should check whether proper operating standards and norms have been established for measuring economical and efficient use of resources. They should be detailed enough to be identifiable with specific operating responsibilities and should be capable of being used by operating personnel for monitoring and evaluating their performance. The internal auditor should review the methods of establishing the operating standards and norms. He should carefully examine the assumptions made while setting the standards to ensure that they are appropriate and necessary. The variances should be examined to evaluate whether or not the standards and norms are practical. Where there is a wide divergence between actual performance and the corresponding standards, reasons may be looked into. The system of identification and analysis of deviations from standards should be examined. The internal auditor should examine whether analysis of variances is communicated to those concerned in time. He should also examine whether in communicating the variances serious matters are highlighted and whether exceptional variances are communicated more expeditiously than is done in the normal course. As a part of evaluating resources utilization, identifying the facilities which are under-utilized is an important function of the internal auditor. Such instances may consist of under-utilized machines, unoccupied storage space, huge cash or bank balances, idle man power etc. The internal auditor may also identify under-staffing and overstaffing in various areas as these prevent optimum use of resources.

While commenting on staffing, the internal auditor should pay special attention to non-productive work being performed. This would require an enquiry into the job descriptions of employees combined with an intelligent observation of the work being done. Finally the internal auditor should review all procedures with reference to their costs and benefits. One of the factors resulting in inefficiency is that in many cases procedures become hindrance to operations.

4. Compliance with Laws, Policies, Plans, Procedures, and Regulations

It is essential that the various functional segments of an enterprise comply with the relevant policies, plans, procedures, laws and regulations so that the operations are carried out in coordinated manner. The internal auditor should examine whether the management has a system by which its policies, plans and procedures are communicated to all concerned. He should examine whether management formulates the major accounting policies after due regard to their effect on the financial statements both present and future. He should also examine the system of periodical review of existing policies particularly when there is a change in the method and nature of operations of the enterprise. By combining the results of his review of the adequacy of the systems with the result of his compliance tests, the internal auditor should be able to evaluate the effectiveness of the former. He should point out specific weaknesses and suggest remedial action.

Internal Auditor should review the systems established to ensure compliance with those policies, plans and procedures, law and regulations which could have a significant impact on operations and should determine whether the organization is in compliance thereof.

Illustration:

It is common to us that the business undertakings require some certified statement on various matters and the auditors certify such statements after carrying out audit which might be necessary under the particular cases.

Suppose when a company applies to a bank for some loan, a certified statement showing the turnover of the company for the past two or three years along with the current year might be necessary, and for this purpose the certified statements are to be attached with the application, otherwise the application will be rejected. So these certified statements showing the turnover of the company depicts compliance with laws, policies, plans, procedures, and regulations. Internal audit for compliance could be more broad base to include compliance with documented procedures/policies, compliance with statutory requirements in the relevant areas etc.

5. Review of Organizational Structure

The internal auditor should conduct an appraisal of the organisation structure to ascertain whether it is in harmony with the objectives of the enterprise and whether the assignment of responsibilities is in consonance therewith. For this purpose he should review the manner in which the activities of the enterprise are grouped for managerial control. It is also important to review whether responsibility and authority are in harmony with the grouping pattern. The internal auditor should examine the organisation chart to find out whether the structure is simple and economical and that no function enjoys an undue dominance over the others. He should see whether the lines of authority and responsibility are clearly defined and communicated to all the organisational levels. He should particularly see that the responsibilities of managerial staff at headquarters do not overlap with those of chief executives at operating units. This situation often results in organisational chaos. He should examine whether there is a satisfactory balance between authority and responsibility of important executives i.e., the authority of each executive should be commensurate with the responsibility assigned to him. This can be evaluated by discussing the problems of operations and implementation with various executives. The internal auditor should examine the reasonableness of the span of control of each executive (the number of sub-ordinates that an executive controls). There should be a proper balance between the span of control of different executives at different levels. He should examine whether there is a unity of command i.e., whether each person reports only to one superior. Where dual responsibilities cannot be avoided, the primary one should be specified and the specific responsibility to each senior fixed. This must be made known to all concerned. He should examine whether there is a sufficient flexibility in the day to day working of the organisation and that initiative is not being stifled by a strict adherence to rules. One way of reducing organizational rigidity without sacrificing control is to have a quick and free flow of information within the enterprise. Finally he should evaluate the process of managerial development in the enterprise. This is a vital aspect in a fast growing enterprise. Unless executives are properly groomed to take over positions of responsibilities when senior people retire, there is bound to be organizational chaos.

6. **Accomplishment of Established Goals for Operations**

The internal auditor should review the overall objectives of the enterprise to evaluate whether they are clearly stated and are attainable. The translation of such overall objectives into specific objectives for each department and programme should be reviewed. It should be examined whether the objectives are revised periodically in the light of changes in internal and external environment. The internal auditor should examine whether to the extent possible, objectives are expressed in precise quantifiable terms (both monetary and non-monetary) to facilitate detailed planning and execution. Budgeting forms an important part of such planning. Line managers who are to implement the plans should fully participate in framing them. This will ensure that plans anticipate the problem areas. There should also be sufficient flexibility in the plans to permit such improvements in their implementation, as would benefit the enterprises as a whole. The responsibility for achieving specific facets of a plan should be clearly identified with the concerned person or department. Apart from these, the internal auditor should examine whether departmental plans are supported by top management. The departmental plan summaries should be sent to concerned managers. These should be discussed and communicated at meetings at which all managers participate.

Internal Auditor should review operations and programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.

7. **Review of Custodianship and Safeguarding of Assets**

The Internal Auditor should verify the existence of the assets and also review the control system to ensure that all assets are accounted fully. He should review the means used for safeguarding assets against losses e.g. fire, improper or negligent activity, theft and illegal acts etc. He should review the control systems for intangible assets e.g. the procedures relating to credit control. Where an enterprise uses electronic data processing equipment, the physical and systems control on processing facilities as well as on data storage should be examined. He should also review the adequacy of the insurance cover for the various risks involved.

INTERNAL AUDIT CORE PRINCIPLES

As per the Institute of Internal Auditors (IIA), core principles of Internal Audit hovers around the performance of effective internal auditing and all of them must be present and working well. How an internal auditor, as well as an internal audit function, demonstrate achievement of the core principles may be quite different from organisation-to-organisation. But, failure to achieve any of the core principles implies that an internal audit activity is not as effective as it could be in achieving internal audit's mission. Core principles of internal audit are:

1 • Demonstrates integrity.

2 • Demonstrates competence and due professional care.

3 • Independent and objective exercise.

4 • Aligns with the strategies, objectives, and risks of the organisation.

5 • Is appropriately positioned and adequately resourced.

6 • Demonstrates quality and continuous improvement.

7 • Communicates effectively.

8 • Provides risk-based assurance.

9 • Insightful, proactive, and future-focused.

10 • Promotes organisational improvement.

CASE STUDIES:

1. Credit Suisse admits failures in internal risk assessments

In its Annual report, the banking giant stated "management has identified certain material weaknesses in our internal control over financial reporting for the years 2021 and 2022."

The issue is related to failure to design and maintain an effective risk assessment process to identify and analyze the risk of material misstatements and various flaws in internal control and communication.

(Source: https://www.investmentweek.co.uk/news/4080433/credit-suisse-admits-failures-internal-risk-assessments)

2. The story of internal controls and Netflix

The corporate fraud stories are becoming more pervasive and are not isolated to a particular industry. In recent years, we have seen stories on the illegal conduct of executives from WorldCom, Tyco, Wells Fargo, Fannie Mae and others. One root cause amongst all of them: internal controls.

On December 14, 2021, Mr. Michael Kail, the former vice president of IT operations at Netflix, was sentenced to 30 months after his conviction for fraud and money laundering.

Like most companies, Netflix maintains a Code of Ethics; Code of Conduct; and a Gifts, Travel and Entertainment policy that addresses and prohibits employee conflicts of interest and requires the disclosure of actual or apparent conflicts of interest, and the reporting of gifts from entities seeking to sell products or services to the company. Although these policies are essential, it is equally important to build a culture that emphasizes ethical behavior, operationalizes procedures and monitors compliance with the program. Often, the failure to monitor provides employees with the opportunity to engage in misconduct and exposes the company to unnecessary risk and potential liability.

From 2011 until 2014, Kail was Netflix's VP in charge of IT operations. He approved contracts to purchase IT products and services from smaller outside vendors and authorized the corresponding payments as part of his role. However, he selected the IT contracts according to the kickbacks he would receive rather than on their merit. As the evidence at trial demonstrated, Netflix's internal control failures allowed Kail to employ a "pay-to-play" scheme. As part of his scheme, he approved millions of dollars in contracts for goods and services, and in exchange, he received over $500,000 and stock options from nine tech companies.

This case emphasizes the need for a robust compliance program. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission identifies internal controls' five integral components: the control environment, risk assessment, control activity, information and communication, and monitoring activities. Performing periodic evaluations of the program, a subset of the monitoring component, is critical to ascertain if internal controls are present, designed appropriately and functioning properly and effectively. Similarly, periodic evaluations help identify the relative strengths and weaknesses of the company's risk and control environment.

Kail's actions impacted Netflix's operations and compliance objectives, hurt the company's shareholders and tarnished Netflix's reputation.

It's no secret the regulators continue to scrutinize compliance. Many deferred prosecution, non-prosecution and enforcement releases hammer companies for poor internal controls. The regulators don't realize that companies need a methodology to have properly designed internal controls, where everyone consistently follows without exception. Many are treating the symptoms and not the root cause.

(*Source: https://www.bakertilly.com/insights/the-story-of-internal-controls-and-netflix)*

RECOMMENDED CONTROLS TO PREVENT AND DETECT FRAUD AND EDUCATE TO IMPROVE THE ORGANIZATION'S FRAUD AWARENESS

There are several controls that an organization can implement to prevent and detect fraud, and education is a crucial component in improving an organization's fraud awareness.Here are some recommendations for controls and educating across the entity:

1. **Segregation of duties:** Ensure that no single person has control over multiple aspects of a process or transaction. For example, the person who approves a purchase should not be the same person who pays for it. Maker, Checker and Approver is an excellent tool to prevent errors and frauds.

2. **Rotation of duties:** Ensure that there is periodical rotation of duties for key positions. We saw in the largest municipal fraud that in the absence of rotation of duties, huge fraud perpetrated by one employee gone unnoticed. Punjab National Bank fraud also happened due to absence of mandatory job rotation or transfer of few employees of the branch.

3. **Mandatory vacation:** Having a HR policy for giving mandatory vacation to key employees helps the employees to come fresh after vacation and also prevents employees from hiding their tracks of crime.

4. **Treat employees well:** It has been observed that if the employees are treated well by giving timely rewards and recognition for their work, they feel motivated. If they are treated badly like being underpaid or overlooked for promotion, they look for the opportunity and rationalise to do frauds to take revenge on their employers.

5. **Regular audits:** Conduct regular internal audits especially at remote locations where there are significant projects being executed or manufacturing facilities are run to identify potential fraud and ensure compliance with internal controls.

6. **Background checks:** Conduct thorough background checks on employees, especially those in positions of trust or responsibility.

7. **Whistleblower hotline:** Implement a confidential hotline for employees to report suspicious activity without fear of retaliation.

8. **Use of technology:** Implement fraud detection software and use data analytics to identify patterns of suspicious activity.

9. **Fraud awareness training:** Provide periodical training to all employees on the types of fraud that can occur, how to identify it, and how to report it. Also ensure that adequate documents are kept in HR as evidence to prove that the employee participated in the training and understood it. This will help on a later date if the fraudulent employee feigns ignorance.

10. **Code of conduct:** Establish a code of conduct that clearly defines ethical behavior and expectations for employees.

11. **Management oversight and Tone at the top:** Ensure that management regularly reviews and approves transactions and financial statements. Ensure that independent directors are really independent.

12. **Reinforce accountability:** Hold employees accountable for their actions and ensure that consequences are enforced when necessary.

13. **Document retention:** Establish policies for the retention and destruction of records to ensure that important documents are not lost or destroyed.

Communicate all key changes to Policies and Procedures of the entity to all stakeholders like employees, vendors, customers and document evidence in support of the same that these stakeholders have read and understood the implications of changes made.

By implementing the above controls and providing education on fraud prevention and detection, organizations can help protect themselves against potential fraud and improve their overall fraud awareness.

INDEPENDENCE OF INTERNAL AUDITOR

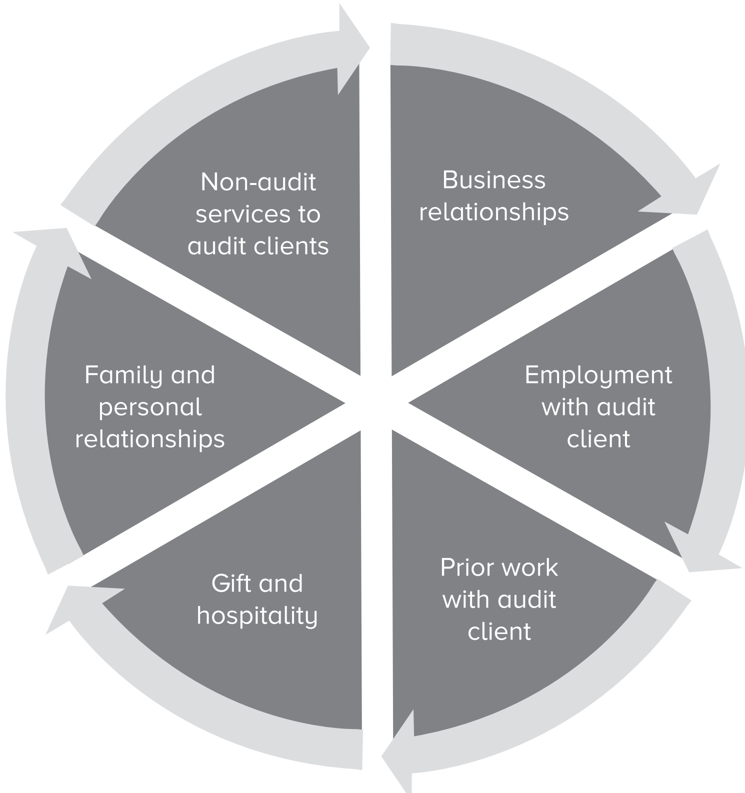
"Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner".

"Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others".

Achieving independence and objectivity in work is one of the critical preconditions that internal auditors need to meet to serve the purpose. Independence means ensuring the possibility of objective performance of internal auditor's duties, and is linked to the organizational positioning of internal audit in the company, reporting relationships with boards of directors, audit committee, or other governing bodies separated from the management, authority for the evaluation of information, reports, and the like.

Internal auditing, being an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations, the concept of independence is equally relevant for the internal auditor. As mentioned above, under the statutory provisions of Companies Act, 2013, internal auditor may or may not be an employee of the company, but he evaluates the functioning of the management at different levels. Therefore, to be efficient and effective, the internal auditor must have adequate independence. It may be noted that by its very nature, the internal audit function cannot be expected to have the same degree of independence as is essential when the external auditor expresses his opinion on the financial information. To ensure his independence he is made responsible directly to the board of directors through audit committee. Such a channel of communication provides an independent mode whereby an internal auditor can communicate and share his views on the scope of internal audit, findings, etc. If internal auditor is made subordinate to lower level management, his independence will be effected which will affect his functioning and effectiveness. An outsider, like a chartered accountant or a company secretary or a firm of chartered accountants or a firm of company secretaries, if acting as internal auditor, is likely to be more independent than an employee of the organization.

The following factors impairing the independence of internal auditors:



Business relationship: involves common commercial or financial interest between the auditor and client. This shall create self-interest or advocacy threats towards audit independence. Therefore, the business relationship shall be restricted as much as possible. Let's take an example: The wife of auditor is the supplier of the client. The auditor here has indirectly created business relationship between him and the client.

Employment with audit client: Any kind of employment relationship with the Auditee Client gives the impression that the audit is not performed independently. Such relationships create self-review threats, familiarity threats, and intimidation threats.

Prior work with audit client: The senior personnel may have had prior work experience with the audit client. This ought to create familiarity and self-interest threats if the work experience resulted in good relationships between them. Such association may create or help in the longer audit tenure of the audit function. This will in turn impact the audit independence and objectivity.

Gift and hospitality: The auditors should not accept any gifts (or kind) from the auditee. The acceptance of such gifts may impair the auditor's objectivity. The internal auditors are also required to immediately report any such offer to their supervisors if any. Such gift and hospitality ought to create familiarity and self-interest threats.

Family and personal relationships: There may exist family and personal relationships between member of audit team and audit client. This creates self-interest and familiarity threats towards audit independence.

Non-audit services to audit clients: Offering non audit services to audit clients creates self-review threats to auditor's independence inherent in the model of business of audit firms.

CASE STUDY

Toshiba – a case of internal audit failure

In July 2015, Toshiba Corp president Mr. Hisao resigned after investigations found that the company inflated earnings by $1.2 billion during the period 2009-2014. The company Toshiba was one of the early adopters of corporate governance reforms initiated in Japan.

Some of the observations of the independent investigation committee of the company on internal audit demand discussion and debate.

The investment committee observed:

a) The fault in internal audit in Toshiba was that it focused on consultation service rather than assurance service.

b) In Toshiba, the audit committee was neither capable nor independent. Internal Audit can function independently only if audit committee is capable, independent and effective, and internal auditor reports to the audit committee.

   The three external members of audit committee had no knowledge of finance and accounting. The ex-CFO, who was the CFO during the timeframe when accounting irregularities occurred, was the only whole time member of the audit committee.

c) A corporate culture existed in Toshiba whereby employees could not act contrary to the intent of their superiors. In such a culture an upright internal auditor cannot survive, particularly if he is not independent of the management.

Internal auditor is the 'eyes and ears' and 'go-to man' of the audit committee. Therefore, internal audit failure leads to corporate governance failure.

INTERNAL AUDIT TECHNIQUES

An internal auditor uses internal audit tools/techniques to ensure that controls, processes and policies are adequate and effective, and that they adhere to industry practices and regulatory mandates. The techniques which are often used by an internal auditor are discussed herein.

(a) Review of Operating Environment

For carrying out the audit effectively, it is necessary for an internal auditor to understand how the company operates. He determines it by referring to departmental employees, external auditors report, and risk specialists. A firm's operating environment describes management's ethical qualities, leadership style and business practices. An internal auditor also could determine how a corporation operates by evaluating industry trends and regulations.

(b) Review Controls

An internal auditor determines how a company's segment or departmental controls operate by reading prior audit reports or working papers and by inquiring from segment employees who perform such controls on a regular basis. An auditor applies generally accepted auditing standards (GAAS) to detect mechanisms, procedures, tools and methodologies that build controls.

(c) Test Controls

An internal auditor tests a business organization's controls, policies and guidelines to ensure that such controls are adequately designed and are operating effectively. Controls are mechanisms and methodologies a corporation's management puts into place to prevent losses due to error, fraud, theft or breaks in technology systems. Effective controls remedy deficiencies and problems properly. Controls are adequate if they provide detailed step-by-step procedures and guidelines for task performance, decision-making processes and lines of hierarchy.

(d) Account Details

An internal auditor performs tests of account details to ensure that financial statements of a business entity are not "materially misstated." tests of account details and account balances are referred to as substantive tests. An auditor conducts such tests if a firm's controls and processes are not adequate or not functioning properly. "Material" means significant or substantial in accounting and audit parlance; a misstatement could result from human errors, intentional fraud or technology system weaknesses.

The above list is not exhaustive and other techniques may also be used by an internal auditor in the internal audit exercise.

INTERNAL AUDIT PROCESS: STEP WISE APPROACH

Step 1	● Establish and communicate the scope and objectives for the audit to appropriate management.
Step 2	● Develop an understanding of the business area under review. This includes objectives, measurements and key transaction types. This involves review of documents and interviews. Flow charts and narratives may be created if necessary.
Step 3	● Describe the key risks facing the business activities within the scope of the audit.
Step 4	● Identify control procedures used to ensure each key risk and transaction type is properly controlled and monitored.
Step 5	● Develop and execute a risk-based sampling and testing approach to determine whether the most important controls are operating as intended.
Step 6	● Report issues and challenges identified and negotiate action plans and solutions with management to address the problems.
Step 7	● Follow-up on reported findings at appropriate intervals. Internal audit departments maintain a follow-up database for this purpose.

EVALUATION OF INTERNAL AUDIT FUNCTION BY AN AUDITOR

During the performance of the Secretarial Audit, the secretarial auditor also needs to report on the adequacy of systems and process in the company. The internal audit function greatly assist the Secretarial auditor in determining the extent to which he can place reliance upon the work of the internal auditor. The Secretarial auditor should document his evaluation and conclusions in this respect. The important aspects to be considered in this context are:

1. **Organisational Status -** Whether internal audit is undertaken by an outside agency or by an internal audit department within the entity itself. The internal auditor reports to the management, in an ideal

situation he reports to the highest level of management and is free of any other operating responsibility. Any constraints or restrictions placed upon his work by management should be carefully evaluated. In particular, the internal auditor should be free to communicate fully with the external auditor.

2. **Scope of Audit Function -** The external auditor should ascertain the nature and depth of coverage of the assignment which the internal auditor discharges for management. He should also ascertain to what extent the management considers, and where appropriate acts upon internal audit recommendations.
3. **Technical Competence -** The external auditor should ascertain that internal audit work is performed by persons having adequate technical training and proficiency. This may be accomplished by reviewing the experience and professional qualifications of the persons undertaking the internal audit work.
4. **Due Professional Care -** The external auditor should ascertain whether internal audit work appears to be properly planned, supervised, reviewed and documented. An example of the exercise of due professional care by the internal auditor is the existence of adequate audit manuals, audit programmes and working papers.
5. **Monitoring of internal control:** The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto.
6. **Examination of financial and operating information:** The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
7. **Review of operating activities:** The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non- financial activities of an entity.
8. **Review of compliance with laws and regulations:** The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
9. **Risk management:** The internal audit function may assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
10. **Governance:** The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

REPORT WRITING – COMMUNICATING ENGAGEMENT RESULTS

The essential part of internal audit is the dissemination of the results of internal audit and reporting the findings to management, and those charged with governance. The internal audit report of the company is a significant aspect which throws light on any kind of non-compliance with the regulations that are needed to be kept in mind. It also highlights the aspects which need to be improved.

Objectives of Reporting

The objectives of issuing Internal Audit Reports on significant internal audit assignments are to:

(a) Share with the auditee, details of all significant findings based,on audit procedures undertaken;

(b) Allow management to understand the issues and take corrective actions

(c) Leads to improved performance and control framework

(d) The follow-up process monitors the progress of agreed upon management action plans and reports this progress to senior management and the audit committee.

The overall objective of reporting results is to highlight the effectiveness of internal controls and risk management processes to enhance governance in line with the Internal Audit Charter.

An Internal Audit report is basically a four step process comprising of :

1. What is Wrong?

Disclosure of findings and processes involved in arriving at such finding.

2. Why it is Wrong?

Description of the findings-the root cause analysis.

3. How to correct it?

Recommendations and Suggestions.

4. What will be done?

Auditee's views and comments.

ROLE OF INTERNAL AUDIT IN ORGANIZATION CONTROL MECHANISM

1. Internal Control

The internal control may be defined as "the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations". The term "controls" refers to any aspects of one or more of the components of internal control.

Definitions of Internal Control:

As per Section 134 of the Companies Act, 2013, the term "Internal Financial Controls" means the policies and procedures adopted by the company for ensuring, orderly and efficient conduct of business, including adherence to company's policies, safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records, and timely preparation of reliable financial information.

Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

The Institute of' Chartered Accountants of England and Wales defines Internal Control as "Internal Control means not only internal check or internal audit, but the whole system of control, financial and otherwise, established by management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible accuracy and reliability of its records".

Objectives

(i) To ensure that the transactions are executed in accordance with management's general or specific authorization;

(ii) To make sure that all the transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which executed, so as to permit preparation of financial information within a framework of recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets;

(iii) To ensure assets are safeguarded from unauthorised access, use or disposition; and

(iv) To make sure that appropriate action is taken with regard to any differences between the recorded assets are compared with the existing assets at reasonable intervals.

EXAMINE THE EFFECTIVENESS AND EFFICIENCY OF INTERNAL CONTROLS

Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements. Implementation of a control means that the control exists and that the entity is using it. There is little point in assessing the implementation of a control that is not effective, and so the design of a control is considered first. An improperly designed control may represent a material weakness or significant deficiency in the entity's internal control.

An entity's system of internal control contains manual elements and often contains automated elements. The use of manual or automated elements in internal control also affects the manner in which transactions are initiated, recorded, processed, and reported. An entity's mix of manual and automated elements in internal control varies with the nature and complexity of the entity's use of information technology.

CASE STUDY

WorldCom Scam, USA

In 1983, Bernard Ebbers and 3 other investors formed Long Distance Discount Services, Inc. based in Jackson, Mississippi and in 1985, Ebbers was named chief executive officer. The company acquired over 60 telecommunications firms and in 1995, it changed its name to WorldCom.

The company became a public company as a corporation in 1989 as a result of a merger with Advantage Companies Inc. The company name was changed to LDDS WorldCom in 1995. The company grew rapidly in the 1990s, after completing several mergers and acquisitions.

Accounting Manipulation

Beginning modestly during mid 1999 and continuing at an accelerated pace through May 2002, Ebbers, CFO Scott Sullivan, Controller David Myers and general accounting director Buford "Buddy" Yates used fraudulent accounting methods to disguise WorldCom's decreasing earnings in order to maintain the company's stock price by capitalizing expenses, it exaggerated profits.

In 1999, revenue growth slowed and the stock price began falling. In 2000,

WorldCom began classifying operating expenses as long-term capital investments. Hiding these expenses in this way gave them another $3.85 billion. Broadly financial statement fraud was accomplished primarily in two ways:

i. Booking "line costs" (interconnection expenses with other telecommunication companies) as capital expenditures on the balance sheet instead of expenses.

ii. Inflating revenues with bogus accounting entries from "corporate unallocated revenue accounts".

On July 1, Worldcom provided the SEC with a statement detailing what the company knew to date about its accounting problems.

Role of Internal Auditors as a Whistleblower

After tips were sent to the internal audit team and accounting irregularities were spotted in MCI's books, the SEC requested that WorldCom provide more information. The SEC was suspicious because while WorldCom was making so much profit, AT&T (another telecom giant) was losing money.

Cynthia Cooper, WorldCom's vice president - internal audit, instructed her internal audit team to audit all capital expenditures. Internal audit team also found $500 million computer expenses having been entered in the books without any documents. There was also another $2 billion in questionable entries. WorldCom's audit committee was asked for documents supporting capital expenditures, it could not produce them. Senior vice president and controller admitted to the internal auditors that they weren't following accounting standards and admitted to inflating its profits by $3.8 billion over the previous five quarters. When internal audit team informed about what happened, both the company's current auditor, KPMG, and its former auditor, Andersen, agreed that accounting entries were not in accordance with Generally Accepted Accounting Principles (GAAP).

After reviewed by the company's audit committee, WorldCom's board terminated accepted the resignation of senior vice president and controller. The SEC suit came a day later.

A little over a month after the internal audit began, WorldCom filed for bankruptcy.

Internal Control Mechanism

Internal Audit is a vital constituent of internal control mechanism. It is important to constitute and maintain an audit committee that shall provide assistance to the board of directors in fulfilling their oversight responsibility to the shareholders relating to:

(a) The integrity of the financial statements and the financial reporting process and principles;

(b) Internal controls;

(c) The qualifications, independence, remuneration, and performance of the independent auditors;

(d) Staffing, focus, scope, performance, and effectiveness of the internal audit function;

(e) Risk management; and

(f) Compliance with legal, regulatory, and corporate governance requirements.

The board defines clearly the roles and responsibilities of the audit committee. Management however, has primary responsibility for financial statements and reporting process, internal controls, legal and regulatory compliance and risk management

The internal auditor should examine and contribute to the ongoing effectiveness of the internal control system through evaluation and recommendations. However, the internal auditor is not vested with management's primary responsibility for designing, implementing, maintaining and documenting internal control. Internal audit functions add value to an organization's internal control system by bringing a systematic, disciplined approach to the evaluation of risk and by making recommendations to strengthen the effectiveness of risk management efforts.

The internal auditor should focus towards improving the internal control structure and promoting better corporate governance. The role of the internal auditor encompasses:

- Evaluation of the efficiency and effectiveness of controls
- Recommending new controls where needed or discontinuing unnecessary controls
- Using control frameworks
- Developing Control self-assessment

Companies Act, 2013-specifies:

Audit Committee	Section 177 (4)(vii) - Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia, include evaluation of internal financial controls and risk management systems.
	Section 177(5) - The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.
Auditor's report	Section 143(3)(i) - Whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

Whilst section 134(5) requires directors to state their responsibility on internal financial controls in case of listed companies, auditors are required to report on the adequacy and operating effectiveness of such controls in case of all companies.

Further, Rule 8(5)(viii) of the companies (Accounts) Rules, 2014 requires the board report of all companies to state the details in respect of adequacy of internal financial controls with reference to the financial statements. IFC to be included as part of Directors Responsibility Statement from March 31, 2015 onwards and as part of Statutory Auditors Report from March 31, 2016 onwards.

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, specifies:

Regulation 4(2) (f) (ii) (7)	Ensuring the integrity of the listed entity's accounting and **financial reporting systems,** including the independent audit, and that appropriate systems of control are in place, in particular, **systems for risk management, financial and operational control,** and compliance with the law and relevant standerds.
Regulation 18 Audit Committee	Role of the audit committee and the information to be reviewed by the audit committee shall be as specified in Part C of Schedule II including: ● **evaluation of internal financial controls and risk management systems;** ● reviewing, with the management, performance of statutory and internal auditors, **adequacy of the internal control systems**
Part B: Compliance Certificate [Regulation 17(8)]	Compliance Certificate by Chief Executive Officer and Chief Financial Officer to state: Responsibility for **establishing and maintaining internal controls for financial reporting** and that they have evaluated the effectiveness of internal control systems pertaining to financial reporting.

2. Risk Management

Meaning of Risk

Risk is a possibility that something bad will happen. Risk management minimises the probable loss through the effective and efficient management. It evaluates risks in terms of probability of occurrence and its impact.

Internal auditing professional standards require the function to monitor and evaluate the effectiveness of the organization's Risk management processes. Risk management relating to an organization objectives, and identification, analysis, and response to those risks that could potentially impact its ability to realize its objectives.

Generally, the risks fall under strategic, operational, financial reporting, and legal/regulatory categories. Management performs risk assessment activities as part of the ordinary course of business in each of these categories. Examples include: strategic planning, marketing planning, capital planning, budgeting, hedging, incentive payout structure, and credit/lending practices. The finance department access the risk relating to account preparation, financial reporting and disclosures, corporate legal adviser often prepares comprehensive assessments of the current and potential litigation a company faces. Internal auditors may evaluate each of these activities, or focus on the processes used by management to report and monitor the risks identified. For example, internal auditors can advise management regarding the reporting of forward-looking operating measures to the board, to help identify emerging risks.

Illustrations:

Below mentioned companies are observing certain best practices for Risk Management (2022):

1. Happiest Minds Technologies Limited

The Internal Auditor Taskforce conducts quarterly audits of support functions and Customer projects to ensure the processes confirm to ISO 9001''2015 and ISO 27001 standards.

The risk registries are maintained by respective functions and customer project team. The Internal Auditor Taskforce along with the compliance team reviews and monitors this regularly with the process owner responsible for the area of risk.

2. Reliance BP Mobility Limited

There is a system-based Risk Register for the foreseen issues with stakeholders at each level with reasonability matrix.

The Internal Audit Department reports to the Audit Committee on matters relating to status on audit coverage of top 10 risks in the financial year. The company also has a Business Risk and Assurance Committee (BRAC) for management of Business and Strategic Risk.

Business and Functional Leaders ensure identification and mitigation of existing and new risks and its monitoring on day to day basis through weekly meetings.

3. Corporate Governance

Internal auditing activity as it relates to corporate governance is generally informal, accomplished primarily through participation in meetings and discussions with members of the board of directors. Corporate governance is a combination of processes and organizational structures implemented by the board of directors to inform, direct, manage, and monitor the organization's resources, strategies and policies towards the achievement of the organizations objectives. The internal auditor is often considered one of the "four pillars" of corporate governance, the other pillars being the board of directors, management, and the external auditor.

A primary focus area of internal auditing as it relates to corporate governance is helping the audit committee of the board of directors (or equivalent) perform its responsibilities effectively. This may include reporting critical internal control problems, informing the committee privately on the capabilities of key managers, suggesting questions or topics for the audit committee's meeting agendas, and coordinating carefully with the external auditor and management to ensure the committee receives effective information.

CASE STUDY ON FRAUDS AND ROLE OF INTERNAL AUDITOR

SATYAM COMPUTER SERVICES FRAUD, INDIA

Background

Satyam Computer Services Limited was founded in 1987 in Hyderabad, by Ramalinga Raju. Raju served as Chairman, his brother, B. Rama Raju, served as the Managing Director and Chief Executive Officer. It specialised in outsourcing IT and business process services. It began as a small company with only 20 employees quickly grew to become India's leading outsourcing company, employing over 53,000 people and serving over 650 companies worldwide.

The company was listed on stock exchanges around the world, including the New York Stock Exchange and the Bombay Stock Exchange.

On 16 December 2008, the Satyam board made the decision to invest $1.6 billion in Maytas Properties and Infrastructure without the agreement of their shareholders. Later it came to light that this was a last ditch attempt to fill the fictitious assets of Satyam with real ones acquired through Maytas. This move was highly criticised by investors and led to the company's stock plummeting on the New York Stock Exchange. As a result, the board of Satyam reversed the decision.

The Satyam fraud went on for a number of years and involved both the manipulation of balance sheets and income statements. Audit failure was a key factor in the failure of Satyam. The fraud was so apparent that it should have been spotted much earlier by auditors, before it grew to such a serious extent.

Accounting Manipulation

Revenues, operating profits, interest liabilities and bank balances were grossly inflated to show the company in good health. It presented a growing problem as facts had to be doctored to keep showing healthy profits for Satyam that was growing in size and scale.

Every attempt made to eliminate the gap failed. On 7th January 2009, the chairman of Satyam, Raju resigned, confessing that he had manipulated the accounts in several forms. Raju made shocking disclosure to the Board of Directors of Satyam that the financial statement contained

- Inflated Cash and Bank Balance of Rs.50.4 Billion.
- Non-existent accrued interest of Rs.3.76 Billion.
- An understated liability of Rs.12.30 Billion on account of funds arranged by Raju.
- An overstated Debtors position of Rs.4.90 Billion.

The company's global head of internal audit, V.S. Prabakar Gupta created fake customer identities, generated fake invoices against their names to inflate revenue and illegally obtained loans for the company.

Satyam overstated its income nearly every quarter over the course of several years in order to meet analyst expectations. Fake invoices and bills were created using software applications such as 'Ontime' that was used for calculating hours put in by an employee.· A secret programme was allegedly planted in the source code of the official invoice management system creating a user id 'Super User' with the power to hide or show the invoices in the system.

Raju explained his reasons for inflating revenues in his letter to the board:

"As the promoters held a small percentage of equity, their concern was that poor performance would result in a takeover, thereby exposing the gap." For the sake of meeting ambitious targets as well as gaining profits, Satyam lied to the stakeholders and the market about their financial health, attracting more investment into the company.

Raju also created numerous bank statements to advance the fraud using his personal computer. He falsified the bank accounts to inflate the balance sheet with balances that did not exist. Furthermore, Raju created 6000 fake salary accounts and took the money from these accounts after it had been deposited. The cash so raised was used by Maytas (reverse name of Satyam) to purchase several acres of land across Andhra Pradesh to ride on a booming realty market.

Description	March 31, 2008 In Million US $	March 31,2007 In Million US $
Revenue	2138.10	1461.40
Trade Receivable- Short Term (a)	598.80	396.10
Trade Receivable- Long Term (b)	38.20	21.20
Unbilled Revenue (c)	81.50	38.60
Bank Deposits (d)	894.80	782.70
Total (a+b+c+d)	1613.30	1238.60

Role of Internal and External Auditors

Internal audit system in Satyam was ineffective as they did not discover that Raju and Gupta collaborated to hide the company's true financial information. Satyam had claimed $1.04 billion on its balance sheet in non-interest-bearing deposits.

Pricewaterhouse (Pw) completely relied on the fixed deposit receipts and bank statements provided by the Chairman's office, without confirming the bank deposit independently. Pw failed to fulfill its role as an auditor as they should have noticed this large amount of bank balance and carried out further verification and substantive testing.

Table 4. Satym's Total Income and Audit Fees (Rs. In Millions)

Year	2004-05	2005-06	2006-07	2007-08
Total Income (A)	35,468	50,122.2	64,100.8	83,944.8
Audit Fees (B)	6.537	11.5	36.7	37.3
% of B to A	0.0184	0.0229	0.0573	0.0444

Source: Annual Reports of Satyam, Percntage computed

PwC audit fees increased by 5.7 times over a period of four years (from 2004 to 2008). These inflated audit fees suggests that auditors may have been bribed in order to keep the fraud from being discovered and to allow Satyam to continue their accounting irregularities.

The Verdict

Central Government disbands Satyam board, to appoint its own 10 directors. On 9 April 2015, Raju and nine others were found guilty of collaborating to inflate the company's revenue, falsifying accounts and income tax returns, and fabricating invoices, among other findings, and sentenced to seven years imprisonment by Hyderabad court.

Unlike Enron collapse, in March 2012 Tech Mahindra, the information technology (IT) arm of Mahindra and Mahindra Ltd (M&M), completed merger process with Satyam Computer Services, creating the fifth-largest IT company based in India, four years after acquiring the Hyderabad-based firm.

OLYMPUS CORPORATION FRAUD

JAPAN Background

Olympus was established on 12th October 1919. It initially specialized in microscope and thermometer businesses. In 1949, the name was changed again to Olympus Optical Co., Ltd. in an attempt to enhance its corporate image.

In 2003, the company made a fresh start as Olympus Corporation. In Greek mythology, Mt. Olympus is the home of the twelve supreme gods and goddesses. Olympus was named after this mountain to reflect its strong aspiration to create high quality, world famous products. Tsuyoshi Kikukawa was the board chairman and CEO.

Accounting Manipulation

British-born Michael Woodford was an Olympus veteran of 30 years, and previously executive managing director of Olympus Medical Systems Europa. As European Director in 2008, Woodford had noticed the "strange goings-on at the company" such as the Gyrus acquisition, which should have been within his scope but was instead handled from Tokyo. Woodford had set out to resign over the matter but stayed with Olympus after being reassured on the acquisition and being promoted to oversee Olympus' European businesses and appointed to the main Olympus board.

FACT

A Japanese monthly news magazine features economic information for readers. The magazine provides investigative reports. FACTA in the August 2011 issue said that Olympus had acquired from 2006 to 2008 three small companies — Altis, a medical waste recycling company, Humalabo, a facial cream maker, and News Chef, which makes plastic plates and containers for microwaves for US$773 million, but wrote down most of their value within the same fiscal year. The publication said that all three companies continued to post losses.

Apparently irregular payments for acquisitions had resulted in very significant asset impairment charges in the company's accounts and had come to Woodford's attention. He also wanted answers about the acquisition in 2008 of Gyrus Group Limited, a British medical equipment maker, for U.S. $2.2 billion.

Olympus had issued more than $600 million in preference shares "directly to AXAM Investment Limited, a company registered in the Cayman Islands, which is described as 'the portfolio manager for AXES Investment Limited LLC.'

Woodford wanted to know why Olympus had paid AXAM so much money to apparently "advise" Olympus on the acquisition of Gyrus. KPMG report, stated that Olympus hadn't accounted for the shares given to AXAM, and "in our opinion proper accounting records have not been maintained."

Olympus defended itself against allegations of impropriety when Woodford confronted Tsuyoshi Kikukawa, chairman of the Olympus board. Kikukawa called a special board meeting in October at company headquarters in Tokyo. The meeting began at 9:07. Kikukawa fired Woodford and didn't allow him to respond. The meeting ended at 9:15 a.m.

CEO blowing the whistle on his own Company

As a CEO, Woodford commissioned PricewaterhouseCoopers (PwC) to investigate the relationship and transactions with AXES/AXAMsurrounding the acquisition of Gyrus. PwC released its report in October.

The PwC report also stated that "there appears to be potential misstatements made in Gyrus' 2009 audited accounts and potential unlawful financial assistance provide by Gyrus to Olympus in relation to the transaction."

Afterreaching London, Woodford then delivered the six letters and the replies togetherwith the PwCreport to the Britain's Serious Fraud Office, the FBI, the U.S. Department of Justice; the Japan Securities, Exchange and Surveillance Commission; the Tokyo Metropolitan Police; and the Tokyo Prosecutors Office. "Olympus needs a complete and utter forensics accounting," On 26 October, 2011 Kikukawa was replaced by Shuichi Takayama as chairman, president, and CEO. On 8 November 2011, the company admitted that the company's accounting practice was "inappropriate" and that concealment of more than 117.7 billion yen ($1.5 billion) money had been used to cover losses on investments dating to the 1990s.

The company blamed the inappropriate accounting on former president Tsuyoshi Kikukawa, auditor Hideo Yamada and executive vice-president Hisashi Mori.

The Verdict

In July 2013, Kikukawa and Mori were both sentenced to 3 years in prison, 5 years suspended. The auditor who had been party to the fraud was sentenced to 2.5 years in prison, 4 years suspended. Olympus was fined 700 million yen ($7 million USD). In April 2014, six banks filed a civil suit against Olympus over the fraud, seeking an additional 28 billion yen in damages.

APPRAISAL OF MANAGEMENT DECISIONS

The management for the company owns the responsibility for establishing and maintaining a system of internal controls within an organization. Internal controls are those structures, activities, processes, and systems which help management effectively mitigate the risks to an organization's achievement of objectives. Management is charged with this responsibility on behalf of the organization's stakeholders and is held accountable for this responsibility by an oversight body (e.g. board of directors, audit committee, elected representatives).

A dedicated, independent and effective internal audit activity assists both management and the oversight body (e.g. the board, audit committee) in fulfilling their responsibilities by bringing a systematic disciplined approach to assessing the effectiveness of the design and execution of the system of internal controls and risk management processes. The objective assessment of internal controls and risk management processes by the internal audit activity provides management, the oversight body, and external stakeholders with independent assurance that the organization's risks have been appropriately mitigated. Because, internal auditors are experts in understanding organizational risks and internal controls available to mitigate these risks, they assist management in understanding these topics and provide recommendations for improvements.

Beside above, internal audit has become an important management tool for the following reasons:

1. Internal auditing is a specialized service to look into the standards of efficiency of business operation.
2. Internal auditing can evaluate various problems independently in terms of overall management control and suggest improvement.
3. Internal audit's independent appraisal and review can ensure the reliability and promptness of MIS and the management reporting on the basis of which the top management can take firm decisions.
4. Internal audit system makes sure the internal control system including accounting control system in an organization is effective.
5. Internal audit ensures the adequacy, reliability and accuracy of financial and operational data by conducting appraisal and review from an independent angle.
6. Internal audit is an integral part of "management by system".
7. Internal audit can break through the power ego and personality factors and possible conflicts of interest within the organization.
8. It ensures compliance of accounting procedures and accounting policies.
9. Internal auditor can be of valuable assistance to management in acquiring new business, in promoting new products and in launching new projects for expansion or diversification of business.

The main objective of appraisal of management decision is to see how decisions are taken by the management:

- Whether the decisions are taken after following the decision making process.
- Whether such decisions meeting the organisation objectives.
- Whether such decisions are documented in a fair manner.

Steps in appraisal of management decision.

In appraisal of management decision the following step should be considered by the auditor:

1. Whether the management decision are well defined or not.
2. Whether the Objectives and desired output has been set out clearly and relate explicitly with the policy or strategy adopted by the company to help in post event evaluation of the management decisions. Ideally the objectives of the every management decision should be specific, measurable, agreed, realistic and time-dependent.
3. While taking decision, whether the management has considered the effect of the associated risk; time availability; scale and location; scope for alternative arrangements with other public bodies; degree of involvement of regulators and civic bodies; capacity of the market to deliver the required output; alternative asset uses; use of new or established technology; and environmental issues.
4. In case of the major investment decision, whether the various possible options were considered.
5. Whether such potential options are analyzed reviewed in terms of value, costs, benefits, risk and uncertainties of options.
6. Whether the options are selected after due analysis and a consensus decision is taken after a manager has analyzed all the alternatives,
7. Whether the selected alternative implemented efficiently.
8. Ongoing review of management decision control and evaluation system actions need to be monitored.

PERFORMANCE ASSESSMENT

The first step in conducting assessment of the Internal Audit function involves reviewing the management's expectations and achievements. This may also include remediation measures for better results, if necessary, and should be reported to the board/audit committee.

Performance measurement ensures high standards for audit strategy, execution, and reporting. It also helps organizations align their audit strategy with the overall business strategy, thereby linking the audit's performance to the organization's mission and objective. This ensures that concerned stakeholder audit needs are fulfilled. Key benchmarks of performance assessment are mentioned below:

- Effectiveness of audit in covering key areas;
- Feedback of audit findings during audit;
- Duration and timeliness of the audit;
- Accuracy of audit findings;
- Value of the audit recommendation;
- Value added by the internal audit function.

Keeping Track of Performance

The Internal Audit functioning may be aligned by understanding the business environment and its changes, as well as its people's role in creating business value. In today's scenario management of the organization want auditors to clearly understand the nuances of business. This is necessary not only to assess the business operations but also to stimulate a healthy relationship.

Another essential point is to integrate the Internal Audit function with corporate governance. The Internal Audit function in an organization should become an integral part of governance with focus to provide independent advice to management on the organization's ability to meet its governance obligations.

The practical performance of the planned audit program is not only exists in the technicality of the audit function but also in its correctness. It is quite necessary that auditing and the measurement system need to be kept transparent. It also leads to high level of trust the most critical factor for success.

Finally, the Internal Audit function needs to focus on improving business performance by being fully integrated into the business and adding value by supporting strategic business objective.

With such a vital role to play in corporate governance and business performance, it is critical for the Internal Audit team to maintain oversight of the traditional requirements, and, at the same time, evolve with the demands of the role. The auditors would need to align people, process, and systems with the overall organizational objective, allowing the executive management to confidently answer the critical questions that investors are asking today.

CASE STUDY

Mindtree Limited

The performance evaluation of statutory auditors and internal auditors is done every year. The audit Committee in turn reviews he performance of Statutory Auditors as well as Internal Auditors and provides their feedback and suggestions to the management.

The CFO/Financial Controller conveys the feedback to the auditors based on the outcome of performance evaluation and Audit Committee's suggestions.

LESSON ROUND-UP

- Internal Audit is performed by professionals with an in-depth understanding of the business culture, systems, and processes. Internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met.
- There are various techniques of internal audit including Review of Operating Environment, review of controls, test controls, accounts details.
- The work of internal auditor and statutory auditor is interlinked. In his report, statutory auditor needs to comment on the adequacy of internal control system and internal audit. In many case, internal auditor is also required to refer the statutory auditor report.
- Internal audit and statutory audit differs with each other in terms of the scope, responsibilities, terms of reference etc.
- Internal audit play a very important role in risk management, corporate governance and internal control.
- He is who examine and contribute to the ongoing effectiveness of the internal control system through evaluation and recommendations.
- Internal Audit is management tool performed by the employees of the organisation or the engaged professional firm to check the appropriateness of internal checks and control in the organisation. The reporting authority is generally board of directors and audit committee.

- The concept of the internal audit has been recognized as a statutory exercise under Section 138 of the Companies Act, 2013, and has been made mandatory.
- Section 179 of Companies Act, 2013 read with Rule 8 (4) of the Companies (Meeting of the Board and its Power), Rules 2014 provide that the appointment of the internal auditors shall be done only through a resolutions passed by the board of directors at the meetings of the board.
- In general, internal auditors should develop and maintain a healthy level of professional skepticism and objectivity to assist in evaluating information and making judgments.
- The main objective of the internal audit process is to provide an assurance on the organisation's risk management, internal control environment and governance framework.

GLOSSARY

Terms of reference : Terms of reference is often referred to as an audit manual, approved by the board, normally through the audit committee.

Appraisal of Management Decision : Appraisal of Management Decision is to see how decisions are taken by the management.

Generally Accepted Auditing Standards : An auditor applies generally accepted auditing standards (GAAS) to detect mechanisms, procedures, tools and methodologies that build controls.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation)

1. ABC Ltd. has to appoint the internal auditor for the financial year 2022-23. The company called a board meeting on 28th April, 2022 to appoint the internal auditor, but due to non-finalisation of audit firm, the Board of directors deferred the matter of appointment of internal auditor for next board meeting. Subsequently, the company has finalized the proposal of a practising Chartered Accountants firm for appointment as internal auditor. Now, in view of urgency, the directors of the company want to appoint the internal auditor by calling a board meeting at shorter notice. Examine whether the appointment of internal auditor in this manner is permissible under the Companies Act, 2013.
2. Can a Company Secretary be appointed as an Internal Auditor of the Company ? Explain the role of Internal Auditor.
3. List out the Companies which are required to appoint Internal Auditor under section 138 of the Companies Act 2013 read with Rule l3 of the Companies Accounts Rules 2014.
4. "To be efficient and effective, the internal auditor must have adequate independence." Comment
5. Mr. Raju has recently started as a Company Secretary in Practice. He has got an assignment of internal audit. Advise Mr. Raju about internal audit and its stepwise approach.
6. Explain internal audit and its, objectives and scope.
7. What are the different techniques of internal audit?
8. Explain the role of internal audit in corporate governance, risk management and internal control.

LIST OF FURTHER READINGS

- The Companies Act, 2013

OTHER REFERENCES (Including Websites/Video Links)
● https://www.icsi.edu/media/portals/86/Geeta_Saar_99_Internal_Audit.pdf. ● https://metricstream.com/insights/audit-performance-measurement.htm. ● https://cnbc.com ● https://bakertilly.com/insights/the-story-of-internal-controls-and-netflix.