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The Journey

Chief Audit Executives Round
Table Conference

2009-10

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Introduction

Background

The journey of the round table conferences began with discussions amongst a few Chief Audit Executives who were deliberating on the need to have a forum which would allow them to network with their peers on a regular basis.

PwC offered to facilitate such discussions in a structured manner and the first roundtable conference came to life in October 2009.

Objective

The conference was envisioned to bring together creative and forward thinking senior internal audit professionals and provide a forum for open exchange of ideas on diverse issues .

The conference also aims to assist young and upcoming professionals in enhancing their knowledge through interactions with more experienced internal audit professionals.

So far six round table conferences have been held and the following themes were discussed:

- Positioning for Future Success: Transforming Internal Audit
- Risking it All- A Case Study
- The Financial Fraud at Wipro
- Control Self Assessment
- Emerging Risks
- Risk Assessment Process
- PwC's Global Internal Audit Survey 2010
- Bridging the Gap Between Diverse Expectations of Various Stakeholders from the Internal Audit Function
- Role of Internal Audit in Addressing Fraud Risk



Positioning for Future Success

Transforming Internal Audit

First Round Table
Conference -
15 October 2009

An Overview

In a globalised business community and with the state of the western economy on the brink of recession during the later half of 2009, the fear of a trickle down effect onto Indian businesses became a matter of grave concern.

With all aspects of company operations under pressure and management scrutiny, chief audit executives were challenged to pay special attention to the value that their departments deliver and the value that is recognized by their internal customers – typically the audit committee and management.

Key Pointers

The discussions highlighted key aspects of how Internal Audit could deliver in such challenging times. The focus of these discussions was on understanding how Internal Audit can deliver more value & improved performance and at the same time reduce internal audit costs.

Some key practices deliberated in the forum were:

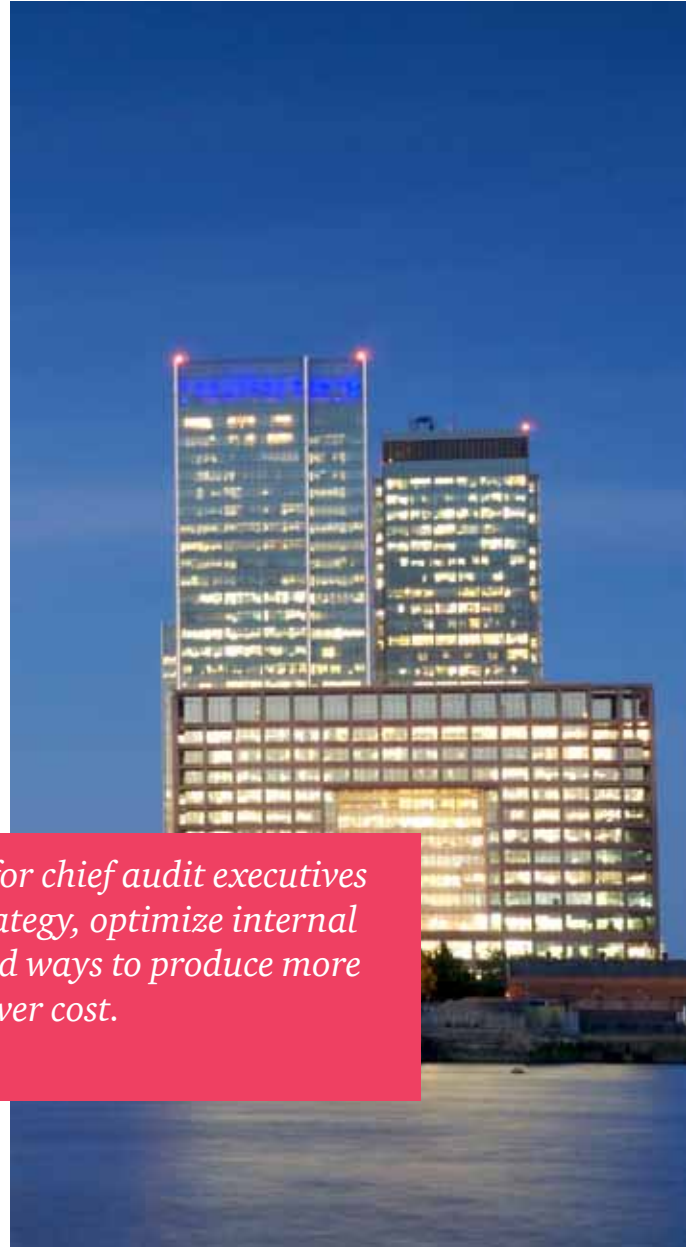
How to realign audit coverage and deliver more value

- Incorporating an accepted model of value creation & performance, as a reference point, for identifying risk.
- Identifying risks through an industry sector lens & the audit impact associated with these risks.
- Evaluating risk, based on its impact to enhance or reduce shareholder value.
- Creating an audit plan that is prioritized based on results of a value-oriented risk assessment.

How to reduce cost

- Explore opportunities to reduce audit cycle time by conducting more focused audits.
- Focus and reduce fieldwork through better risk assessment and more focused transaction testing.
- Streamlining reporting processes. Explore opportunities to standardise and automate reporting.
- Explore areas where technology can streamline or enhance an audit process.
- Use staffing models that adequately leverage skill-sets.
- Leverage offshoring & outsourcing opportunities.

The time is right for chief audit executives to re-examine strategy, optimize internal processes, and find ways to produce more value, but at a lower cost.





Risking it All A Case Study

Second Round Table
Conference -
27 November 2009

An Overview

With the increasing complexities and demands for better performance, there seemed to be a growing trend of management frauds either to show better results or for personal gains.

In these times, it was important to step back and look at the role of internal audit. It was also important to recognize that for many internal audit functions, team members may not have experienced such a crisis

Key Pointers

To facilitate the discussion, a video was screened. This video has been successfully presented at various conferences held by the PwC network firms.

The video talked about a whistle blower's allegations around a fraud. It traced events beginning with the audit committee meeting, where the next steps were deliberated, till the closing of the issue with the stock exchange regulator. The video touched various aspects which play on the minds of the audit committee while facing such allegations and how their decisions affect the company and the shareholders.

Some of the key insights from the discussion are indicated below:

Internal audit function needs to take charge

In an event of a fraud, the internal audit function needs to step in and assist the management by conducting thorough investigations. If the need arises, it needs to make use of external/ appropriately skilled 3rd party resources.

Position of internal audit within an organization

The video portrayed a disconcerting position of the internal audit function showing that it held little credibility in the eyes of the audit committee. In all their discussions, internal audit function was not even consulted.

Get to the bottom

The stakeholders should tread carefully in fraudulent situations and should spend sufficient time in order to get assurance that all the wrong doings have been identified and rectified .

The organization should ensure investors are duly informed on the developments of the investigations and the impending actions being taken to resolve the crisis.

Set an example / Tone at the top

The senior management needs to set an example by coming down heavily on all involved in the fraud to ensure that going forward, the employees think twice before proceeding with such malpractices.

Policies and procedures

Organizations need to have in place a whistle blower policy, a compliance office and strict code of conduct to discourage employees from adopting any unethical or fraudulent practices.



It is imperative to act decisively ; to identify all the root causes as well as the perpetrators and eliminate both from the organization.



The Financial Fraud at Wipro

Third Round Table Conference - 19 February 2009

An Overview

In light of the news around the 4 Million dollar fraud at Wipro a couple of days before the conference, the CAE's wanted to exchange notes on the latest updates on the case. The group deliberated on the following:

- How an employee could manage to carry out such an elaborate fraud for over 4 years and go unnoticed.
- What are some of the common pitfalls and control gaps that Internal Auditors should be sensitive about.

Key Pointers

The group, while debating, pointed out that often some basic control lapses can lead to severe frauds. All agreed that it is therefore important for organizations to ensure that basic controls are not compromised:

- Periodic job rotation, especially in all sensitive areas.
- Strong Bank Reconciliation process.
- Segregation of Duties.
- Tighten information security policies.
- Periodic lifestyle check for key personnel.



Control Self Assessment

Third Round Table
Conference -
19 February 2009

An Overview

“Control self Assessment” (CSA) is an important step towards improving the consciousness and culture in the organization. The group wanted to deliberate the pros and cons of the CSA process and also wanted to know more about practical challenges in implementing and then driving this process.

Key Pointers

Mr Amit Roy from NIIT and Mr Harish Dua from SRF took the group through the Control Self Assessment process in place at their organizations. The group discussed the following:

Key Benefits

- Journey towards driving cultural changes.
- Empowerment of process owners and improving control consciousness.
- Strong synergies which can make the audit process more efficient.

Key Features

- Buy in of process owners.
- Risk based assessment.
- Prioritization in terms and impact.
- Need for digitization.
- Real time dashboards.
- Audit of responses on a sample basis for ensuring correctness of self evaluations.
- Penalties for incorrect responses.

In the long run, the CSA program helps the employees in becoming more mature in their understanding of internal controls, thereby supporting organizational growth.



Emerging Risks

Third Round Table
Conference -
19 February 2009

An Overview

CAE's discussed the increased board room conversations around emerging risks. They wanted to deliberate on what are the emerging risks and how they could be on a look out for those risks in their business.

Characteristics

- They impact multiple parties across geographic borders and industries / sectors.
- They may be low on probability but represent a very high impact.
- They may be beyond an organizations direct control.
- Mitigation requires collaboration across supply chain partners or with peers.

Key Pointers

The emerging risks (across 5 categories - mentioned below) pointed out by World Economic Forum 2010 were shared and discussed in the cofnerence.

- Economic Risks
- Geopolitical Risks
- Environmental Risks
- Technological Risks
- Societal Risks

Internal audit should be engaged with the leadership and the Board for driving a discussion on emerging risks and evaluating the impact that these may have on the business.

An Overview

With an increasingly complex and global business environment, heightened governance and increasing stakeholder expectations, the need to proactively assess risks has become the fore front agenda for every management and board.

Internal audit is often asked to play the role of a facilitator and spearhead the process of Enterprise -wide Risk Management(ERM).

Mr. Kamal Hingorani from Bharti Airtel volunteered to lead the discussion and shared his insights into the process of Risk Management.

Key Pointers

Following good practices were shared in the discussion:

- Get sponsorship from Board / senior leadership for the ERM exercise.
- Ensure a high level of engagement with the leadership team.
- Go after the vital risks – Adopt a top-down approach beginning with the organizational priorities/ objectives
- Set up a comprehensive risk management framework including risk identification, prioritizing, mitigation, and monitoring processes.
- Prioritize risks on a 5 point scale of likelihood and impact.
- Use simple criteria for computing the risk rating. Mathematical models are more prevalent in the Financial Services sector.
- Integrate the risk management process with the strategic business planning process.
- Continuous monitoring and reporting is key - Regularly monitor the prioritized risks to ensure appropriate mitigation measures are being taken.
- Set up incentive / recognition programs for employees who actively contribute to the ERM process.

Risk Assessment Process

Fourth Round Table Conference -
25 May 2010

Knowing the risks inherent in the business as well as being able to identify emerging threats and pro-actively addressing them to minimize loss or enhance stakeholder value is most important in today's originations.



Global Internal Audit Survey 2010

Fourth Round Table
Conference -
25 May 2010

An Overview

The world in which internal audit operates continues to change. In the year 2009-10, while we moved from economic crisis to cautious optimism; however, many of the fundamental causes of the recession have not been addressed.

The focus of the 6th Annual Global Internal Audit Survey conducted by PwC was to enable internal audit functions to prepare themselves to handle such events.

Key Pointers

Some of the themes of the discussion revolved around:

- How expectations from the function are likely to change in the short-term.
- What further adaptations Internal Audit functions are anticipating.
- Internal Audit's role in organizational governance.
- Using technology to drive quality and efficiency.

Change is inevitable

For meeting the growing expectations of stakeholders, the IA function is being forced to change. World over the IA functions are imbibing the following:

- Leverage the governance opportunity and play a larger role in driving the governance agenda.
- Enhance scope and coverage within the internal audit plan.
- Integrate risk and compliance activities and create synergies.
- Close the skills gap to meet the expectations of being a business advisor.
- Respond to cost pressures.
- Use technology as an enabler.
- Elevate the quality of Risk Assessment.

Embarking on the change journey

PwC shared its thought leadership around 10 fundamental steps to maximizing the value delivered by internal audit:

- Understand stakeholder expectations
- Develop a strategic plan
- Leverage other risk & control initiatives
- Assess strategic risks
- Develop a flexible audit plan
- Develop the right people
- Use technology and develop an infrastructure roadmap
- Obtain funding commitment
- Establish a relationship plan
- Create a performance scorecard

The need for internal audit to equip itself in meeting the evolving expectations and delivering value to the stakeholders has become a paramount priority.



Bridging the Gap Between Diverse Expectations of Various Stakeholders from the Internal Audit Function

Fifth Round Table
Conference -
20 August 2010

An Overview

Internal audit has to deal with a variety of stakeholders – Audit committee, senior management, operational management, statutory auditors and sometimes regulators. The expectations from each one of them can be often unique and divergent.

With the limited budgets, resource and time available, the CAE's decided to brainstorm on how to manage these divergent needs and arrive at some best practices that can help to bridge the gap between these diverse expectations.

Key Pointers

A few questions discussed amongst the participants to enable a discussion were:

- Are you able to cover key risks within the audit plan every year?
- How much does management influence the audit coverage?
- Do you have sufficient bandwidth to deal with flexible needs that arise during the year?
- How do you balance your focus between Value Enhancement and Value Protection?
- What are the skill sets needed to deliver value? Do you have access to the right skill sets?
- How frequently do you get to interact with the CEO? Are you a part of strategy discussions along with senior management?
- How frequently do you get to interact with the Audit Committee?

- Are you expected to participate in “implementation” or are you considered as an internal consultant, giving advice?
- How do you showcase the value addition done during the year to your stakeholders?
- Do you get objective feedback on the performance of the function and areas of improvement?

The following points emerged from the discussion:

- *Increase communication* with stakeholders and build strong working relationships.
- *Set the ground rules* for better expectation management.
- *Be an internal consultant* and do not undertake responsibility for implementation.
- *Lend your best resources* for implementation, if implementation pressure is high.
- *Improving the position of internal audit* in the organization should be a strong focus. The right reporting structure, private meetings with the C-suite and audit committee, being part of strategic discussions, are all vital.
- *Be transparent* and involve process owners in the decision making process.
- *Have the right skill sets* within the team - business, operations and technical skills. It is a good practice to use guest auditors from the business.
- *Encourage rotation* both inwards and outwards between the internal audit team and business.
- *Retain flexibility in the audit plan* to include special requests for “deep dive” reviews based on current needs of business.
- *Improve showcasing skills* to better package reports and demonstrate value addition.



Role of Internal Audit in Addressing Fraud Risk

Sixth Round Table Conference –
December 10, 2010

An Overview

As of December 2010, economic crime and fraud, remained one of the most problematic issues for Indian businesses.

Given the nature of fraud and the cross-border implications, it was not surprising that enforcement of anti- fraud measures was increasingly global in its nature and regulators were cooperating with each other to prosecute perpetrators of fraud.

Keeping this in mind, the forum wanted to discuss how internal audit could help in keeping a check on such activities and implement adequate safeguards against such events, for future.

Key Pointers

Some of the key points deliberated in the forum were as follows:

- In most organizations, the “whistle blower” process is not yet a stable or well established mechanism.
- While regular fraud risk assessments are a common practice used by organizations to identify key anti- fraud controls, however organizations need a much deeper understanding of these controls to be able to effectively combat fraud.
- As a practice, any red flags which the management comes across must be brought to the knowledge of the IA team, so that they can look into the same and also look out for similar symptoms in the organization.
- The tone at the top makes a lot of difference in such events. The management needs to be united and take strict action against perpetrators to set an example before others.

Identifying and responding to incidents of fraud continue to be a challenge for even the most sophisticated organizations.

List of Attendees in the Round Table Conferences

Attendees

Mr. Amit Roy
Mr. Anuj Mathur
Mr. Arvind Vats
Mr. D.D. Goyal
Mr. Dinesh K. Taneja
Mr. Girraj Bansal
Mr. Harish Dua
Mr. Jagdish Kapoor
Mr. John Mathew
Ms. Jyoti Ruparel
Mr. Kamal Hingorani
Mr. Manoj Chigal
Mr. N.G. Shanker
Ms. Nupur Ray Chaudhuri

Group/ Organisation

NIIT
Uninor
Jubilant Foodworks
Maruti
VE Commercial Vehicles
Dabur India
SRF
Videocon Mobile services
Coca Cola
Genpact
Bharti Airtel
Steria
Aditya Birla
Schneider Electric

Attendees

Mr. R.S. Dani
Mr. Raj K. Kapoor
Mr. Ravi Mohan
Mr. Sanjay Ahuja
Mr. Sanjay Baweja
Mr. Sanjeev Singhal
Mr. Sanjeev Sood
Ms. Shamini Ramalingam
Ms. Sheila Sarkar
Mr. Sunil Kumar
Mr. Thiyagarajan Kumar
Ms. Tina Garewal
Mr. Vineet Singhal

Group/ Organisation

Dabur India
Jubilant Organosys
Bharti Infratel
General Motors
Convergys
Spice Global
Max New York Life Insurance Company
Bharti Airtel
Nokia Siemens Networks
Ranbaxy
Times of India
DuPont
DCM Shriram



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