

National Conference on Internal Audit
Jointly Hosted by CPE Committee and Internal Audit Standards Board



Conference Theme: KNOW RISK. KNOW REWARD

**CLICK & MORTAR –
CASE STUDIES AND EXPERIENCES
IN AN INTERNAL AUDITOR’S JOURNEY
ACROSS DIFFERENT INDUSTRY SPECTRUMS**

**PRESENTATION BY
T.V.VENKATARAMAN
14TH MAY, 2018; CHENNAI**

DISCLAIMER

- *The views and opinions expressed in this session, are those of the presenter, and do not necessarily reflect the views and opinions of Ashok Leyland Limited, or that of any professional body.*

SESSION OUTLINE

- Setting the context
- Part – A | Internal Auditor's role
- Experiences from various Industries (Brick & Mortar to Click & Mortar)
- Part – B | Increasing expectations from Internal Audit profession
- A few Internal audit case studies (Click & Mortar)

CONFERENCE THEME

KNOW RISK. KNOW REWARD

INTERNAL AUDITOR'S THEME!

❑ **NO RISK. NO CONTROLS!!!**

❑ **KNOW RISK. KNOW CONTROLS!!!**



DEFINITION OF INTERNAL AUDIT

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.

The Institute of Internal Auditors, USA

CIRCA 1990 ~ 2002

- Role of Internal audit – Transaction driven, focus on Financial reporting
- Vouching
- Manual records
- Compliance driven efforts (MAOCARO / CARO)
- Voluminous reports; risks, cause and effect, not clearly articulated
- Auditor - Auditee relationship lacked “trust”
- Absence of focus on CAAT..... and the list goes on

Applied largely to “Brick & Mortar” businesses! Do you agree???

MY EXPERIENCES | 1997 - 2001

- Adhoc Audit planning process
- Check list driven audits
- Audits viewed as a pain by process owners
- Transaction driven audits
- Focus on audits within Finance & Commercial functions
- No formal audit engagement closure
- Voluminous audit reports without highlighting the 5 C's
- Absence of structured discussions and follow-up on residual risks



EVENTS THAT SHAPED OUR PROFESSION



tyco



 *WORLD*COM

ARTHUR
ANDERSEN

SO WHAT'S CHANGED IN MODERN INTERNAL AUDITING?

- Primary focus remains on Assurance
- Consulting or Advisory role also enhanced
- Risk based Internal auditing
- Sharper focus on Risks across domains (Operational, Financial Reporting, Compliance)
- Focus on Governance & Ethics
- Use of Technology, Levers, structured data analytics and continuous controls monitoring
- Moving away from Hindsight, Insights and now Foresights
- Internal Audit seen as “Trusted business partners”

Emergence of Digital economies, Service sectors, B2B, B2C, C2C sectors, disruptors include Internet, seamless communication – making the world truly flat!!!

NEWER RISKS ON THE RISE!!!

MY EXPERIENCES | 2002 - 2014

- Focus on Information Technology audits; ERP reviews were the norm
- Focus on the 5 Cs
- Risk and Control matrices became the fulcrum of the audit efforts
- Global experience, brought in global perspectives
- Transformation from transaction driven audits, to risk based Internal Audit reviews
- Structured audit processes, healthier auditor – auditee relationships; Internal Auditors viewed as “Change catalysts”



One size
does NOT fit all



WHAT DOES IT TAKE TO BE A SUCCESSFUL INTERNAL AUDITOR?

- Audience participation (5 minutes!)

MY

- ❖ Know the business
- ❖ Know risks, know (relevant) controls
- ❖ Be a true business partner
- ❖ Internal controls to be business enablers, not speed breakers
- ❖ Technical skills important
- ❖ Behavioural skills and having the right attitude, even more important
- ❖ One size does not fit all - What works in one company, may not work in another!



LEADING GLOBAL IA TEAMS

- ❖ Understanding cultural nuances between geographies
- ❖ Being sensitive to culture, customs and traditions
- ❖ Professional etiquette
- ❖ Respect Individual space and privacy





INTERNAL AUDITORS WEAR MULTIPLE HATS

- Being fearless, assertive, and having an independent bent of mind, while providing Assurance
- Being a trusted business advisor, so as to work with business in providing solutions (let's not become post mortem experts!)
- Adoption of tact in communication with different stakeholders (Board, Leadership team, Process owners); but impel positive change
- Being the Brand ambassador of the organisation
- Walk the talk, but still be able to Socialise & Have fun! 😊 (Internal auditing is a serious profession, but we shouldn't take life too seriously!)

CHALLENGES FOR IA IN DIGITAL ECONOMY

- Increasingly complex risk landscape
 - Cyber risks on the rise
 - Changing regulatory landscape – both locally and globally (GST, GDPR)
- World moving to Blockchain; Artificial Intelligence
- **How do we stay relevant?**

Answer - Keep learning!!! There are no short-cuts!!!

CORE COMPETENCIES FOR INTERNAL AUDITORS



WHAT BUSINESSES REALLY WANT FROM INTERNAL AUDIT

- ☞ Fundamental role – Assurance
- ☞ Value - protection, preservation & enhancement
- ☞ Help businesses identify and manage Risks
- ☞ Provide Insights and Foresights (example – Executive summary in IA reports)
- ☞ Change agent, to foster a culture of Ethics and Integrity (example – Communication across the organisation) & drive rigour in Processes; Bring in Technology to eliminate redundant manual controls
- ☞ Focus on Process (Modern approach), and not People (maybe Historical approach)
- ☞ Staying Agile (Remember - Flipkart example!)

IA TRENDS IN DISRUPTIVE ENVIRONMENTS – STAYING RELEVANT, AND STAYING AHEAD!!!

- Periodic Risk assessment, at minimum every quarter
- Being agile, high degree of responsiveness
- Substance over form
- Challenging and dynamic work environment
- Selling “what’s in it for me” to the stakeholders, through assurance and advisory
- Challenging “status quo”, what’s relevant today, will be redundant tomorrow
- Ideation & Innovation!!!

CASE STUDY-1 | TEEMING & LADING OF CASH

- **Cash on delivery receipts, not remitted on time; shipments shown as undelivered**

Solution?

- Day end undelivered shipments tracked; verified by Security
- Cash collections recorded at POS terminals, reconciled with backend systems receipts recorded
- Cashiers at Delivery Hubs made accountable for cash shortages

CASE STUDY-2 | USAGE OF DATA ANALYTICS

- **High incidence of Seller protection fund being misutilised for wrongful claims (by sellers)**
- Product returns not backed by proof of delivery
- Claims made by Sellers not genuine

Solution?

- Reconciliation of proof of delivery before settlement
- Product returns process streamlined

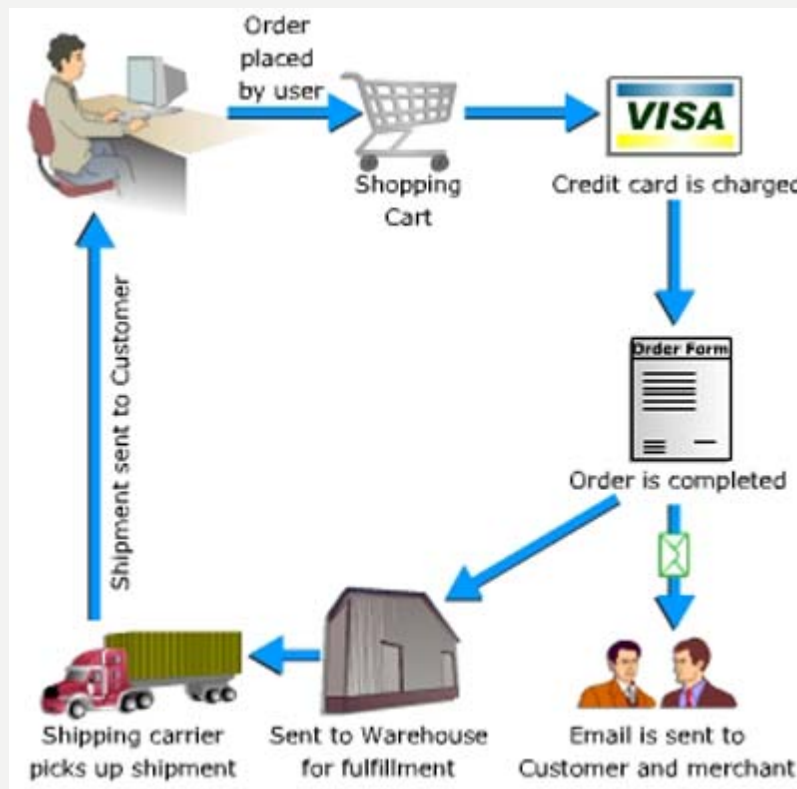


RISKS IN E-COMMERCE



THE RISK LANDSCAPE

- Various elements of operational risks are embedded within the e-com enterprise. These include:



- ❑ Technology
- ❑ People
- ❑ Customers
- ❑ Vendor ecosystem
- ❑ Supply Chain (Warehousing, Logistics, Inventory)
- ❑ Regulatory
- ❑ Brand reputation
- ❑ Strategy

TECHNOLOGY RISKS

- Internet companies are Tech driven! **No brainer, right?**
- Change in Tech landscape at the speed of light!
- Multiple applications catering to different business needs
- Imperative to have strong change management processes, access management processes, data privacy and information security measures
- Decision making based on “data” analytics!!! **Are you sure of the quality of data?**

PEOPLE RISKS

- Onboarding processes for customer facing contract / on-roll staff; **How robust is the background verification process? Uber incident, Last mile frauds**
- High attrition rates; Employee engagement and retention?
- Code of conduct & Information security violations

CUSTOMER CENTRIC RISKS

- Customer loyalty, enhancing overall customer experience
- Managing customer complaints, negative publicity on social media
- Building a large catalogue and product availability to meet customer requirements
- **Customer frauds**

VENDOR / SELLER ECOSYSTEM (MARKET PLACE)

- Quality of vendors / sellers; are they fly by night operators?
- Cataloguing of merchandise, knowing what can be sold
- Packaging, compliance with packing & labelling norms
- Seller settlement & reconciliation processes; Revenue recognition

SUPPLY CHAIN RISKS

- Availability of right merchandise for the customer, at the right price & right time
- Shrinkage, Damages and Expiries
- Inventory recording, handling and storage norms at the Warehouse and Delivery hubs
- Management of customer returns
- In-house logistics capabilities v/s 3rd party logistics
- Receipt and recording of cash collections

REGULATORY COMPLIANCE

- Understanding and interpretation of various state VAT rules
- Compliance by the company / by the vendors / sellers

**Experience is
the hardest kind of
teacher. It gives you
the test first and the
lesson afterward.**

Oscar Wilde



Civil Science



*Thank
You*