***INTERNAL AUDIT - TRANSFORMATION FROM PERSONAL INFORMATION TO A BUSINESS ADVISORY SERVICE***

If one has to dig out the origin of Internal audit as to when it evolved – may be it would synchronise with the evolution of trade and commerce in the universe. Needless to state, be it, a small time business man of the yesteryears or a multinational conglomerate of today, the service of an internal audit had always remained. Various changes that have taken place over the centuries have been on its transition from providing of personal information (to the owner) to rendering of professional business service to various stakeholders.

In either of the forms stated above, it had its own meaning and relevance for its existence. The one big difference has been on the evaluation of the Internal Audit function. Earlier, it had rested with only one person while in today’s universe; there are as many customers to internal audit (as the number of auditees) who demand wide variety of deliverables in all dimensions of length, breadth and depth in dealing with a subject. This poses a very big challenge to the internal audit function and drives the professionals engaged in this function to constantly engage them in learning more effective methods of carrying out the audit, constantly updating their industry and business knowledge and also upgrade their relationship management, IT and communication skills.

The result is that the Internal Auditor of today happens to wear different hats. The challenge lies in his ability to adapt himself to the different hats that he wears in such a manner that neither the hat nor the auditor is considered a misfit.

Despite the fact that IA has evolved over the period and the ever increasing demands from the stake holders, the gene of the Internal Audit function should remain unaltered and they should continue to do the basic audits that brought them into existence. Let us discuss their roles in brief

***Microscopic evaluation of proprietary of transactions***

With the advent of computers which have become inevitable for the functioning of an enterprise, most of the audits happen through and around systems. With the If one has to dig out the origin of Internal audit as to when it evolved – may be it would synchronise with the evolution of trade and commerce in the universe. Needless to state, be it, a small time business man of the yesteryears or a multinational conglomerate of today, the service of an internal audit had always remained. Various changes that have taken place over the centuries have been on its transition from providing of personal information (to the owner) to rendering of professional business service to various stakeholders. In either of the forms stated above, it had its own meaning and relevance for its existence. The one big difference has been on the evaluation of the Internal Audit function. Earlier, it had rested with only one person while in today’s universe; there are as many customers to internal audit (as the number of auditees) who demand wide variety of deliverables in all dimensions of length, breadth and depth in dealing with a subject. This poses a very big challenge to the internal audit function and drives the professionals engaged in this function to ever increasing volume of business and the geographical (domestic and global) and the IT system, very little emphasis is given today for the physical audits. It is necessary therefore for the Internal Auditors to walk through the physical transactions and documentation along the lines of the IT system process and controls. This is essential to understand the design of controls and comment on the effectiveness of controls.

***Continuous monitoring and assurance***

Being an independent function, internal auditors are also expected to do the function of monitoring and assurance on whether the actions committed for resolving the observations are carried out and also on the sustainment of the actions in such a manner that the same points are not repeated. It is also expected of them to state whether the exceptions identified and actions committed are applied across the organisation towards horizontal deployment.

***Provide facilitation on risk management***

It is very well decided that Internal auditors should not be involved in the process of risk assessment and risk mitigation. However, it is important for the internal auditors to play the role of facilitation in the risk management function. It is appropriate for them to play the anchor role in spreading the concept of risk management, provide the benchmark practices, populate the risks identified in the form of exceptions in the previous reports, provide necessary tools in the performance of risk assessment, articulation of risks and when the risk mitigation plans are drawn by an agency to validate their implementation efforts.

***Value add recommendations for business performance/efficiencies***

It is extremely important for the internal auditors to move away from the statement of fact to go further and identify the root cause to recommend possible means of resolution that results in improved business performance and efficiency. This goes with the famous proverb “if you cannot be a part of the solution, don’t be a part of the problem”. If one has to live up to this proverb, then it is essential that the internal auditors get a good grasp over the business, industry to which it belongs to, the understanding of operations, benchmarks on performance,etc.

***Maintain Independence***

A very important quality of an internal auditor is the independence and the objectivity with which he performs. He has to function without bias and prejudice and not be subjected to hear-say based observations. The internal audit function is a combination of observation, data, analysis, trend, environment and enquiry – just short of saying that the observation should be a fact – there can be discussion only on the quantification of the impact and the probability of frequency of occurrence – the very fact of the observation should not be capable of being repudiated.

The Internal auditor in this process would elevate from an auditor to the role of advisor. He would then be a partner in the progress and business leaders would definitely look for the support of internal auditors in their strategic business initiatives and risk assessments. The internal auditor in the performance of his duties should also definitely consider the involvement of subject matter experts, especially when it comes to the audit of areas viz., Forensic audits, Information Technology audits, Operation audits, review of marketing and sales promotion activities etc.,

***Source: SIRC Newsletter***