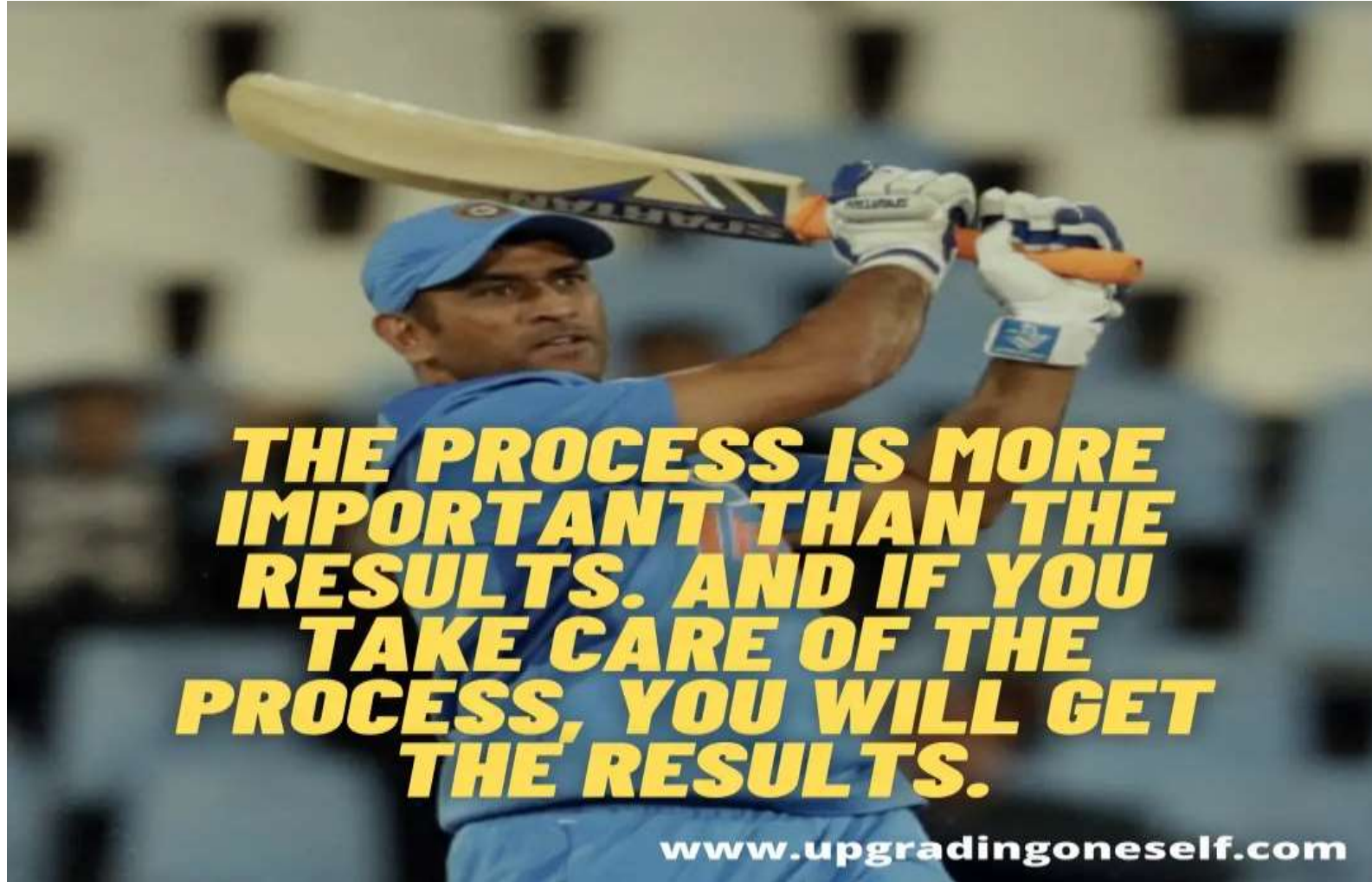


End to end process audit

CA Prashant Daftary

Internal Audit Refresher Course organised by Pune Branch of WIRC
Presentation on 9th May 2023



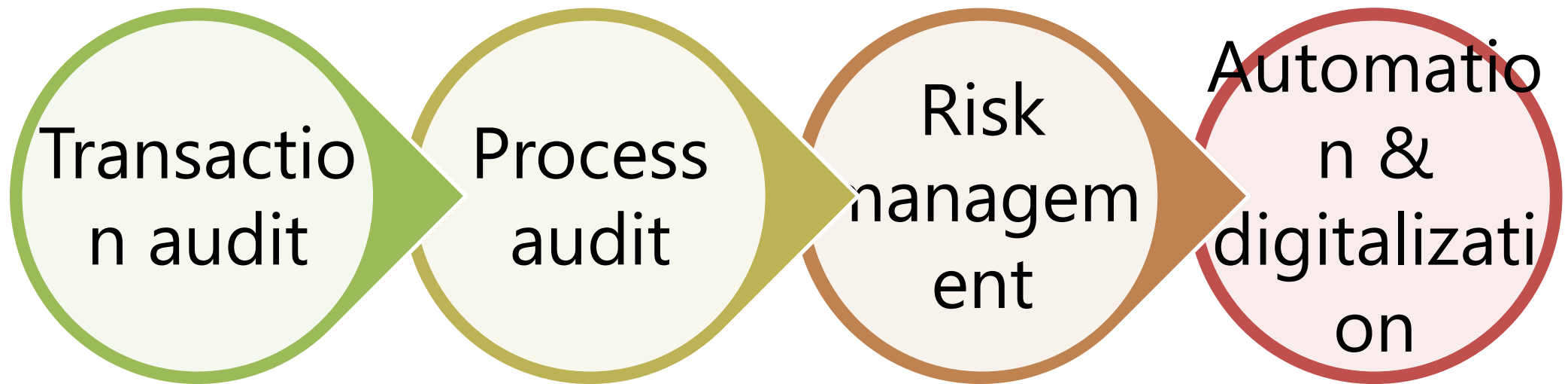
**THE PROCESS IS MORE
IMPORTANT THAN THE
RESULTS. AND IF YOU
TAKE CARE OF THE
PROCESS, YOU WILL GET
THE RESULTS.**

www.upgradingoneself.com

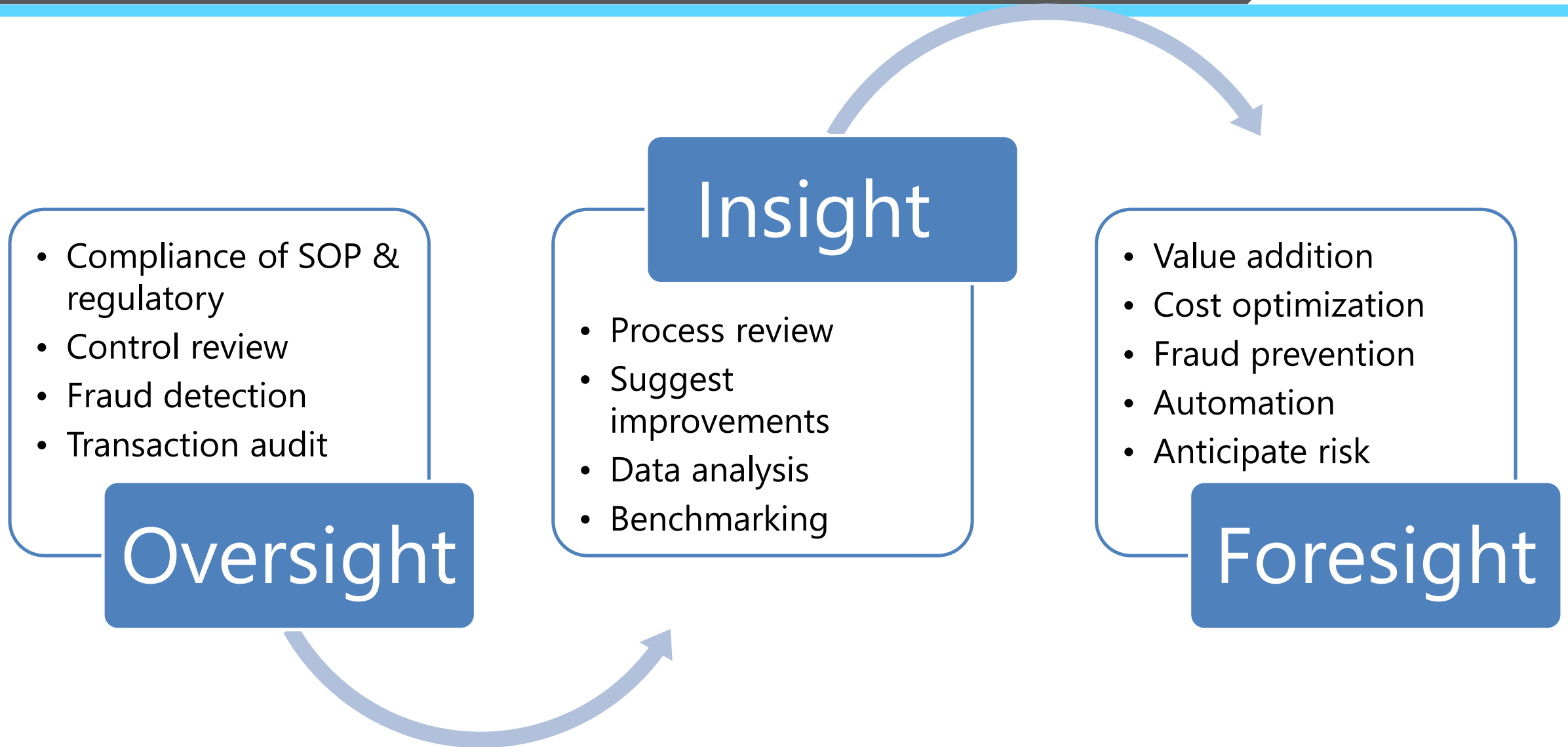
Changes in Definition of Internal Audit

1947	1981	1999
<p>Independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for protective and constructive service to management.</p>	<p>An independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.</p>	<p>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.</p>

Changing landscape of internal audit



Changing expectations from Internal Audit



Why are processes important

- They describe how things are done
- Provides focus on making them better
- How they are done determines how successful will the outcome be

What is a process audit



What is a process audit

Process audit is focused on:

- Systems
- Processes
- Work instructions defined by the management
- How to make them more efficient
- Identifies gaps and provides suggestions to fix the same

It encompasses various activities, steps taken by the organization in achieving the process objective

Benefits of process review

Provides clarity on audit steps to be undertaken

Helps in sample selection

Provides clarity while discussing issues with client and team

Helps identify opportunities for valuation addition

Identification of risk which are not addressed / mitigated

How to do a process audit

Understand the objective

Read the existing SOP/ Guidelines etc.

Discuss with the process owners

Make a flow chart to understand the flow of activities / steps

"As is" Vs Best practices

Process walk through

Identify gaps

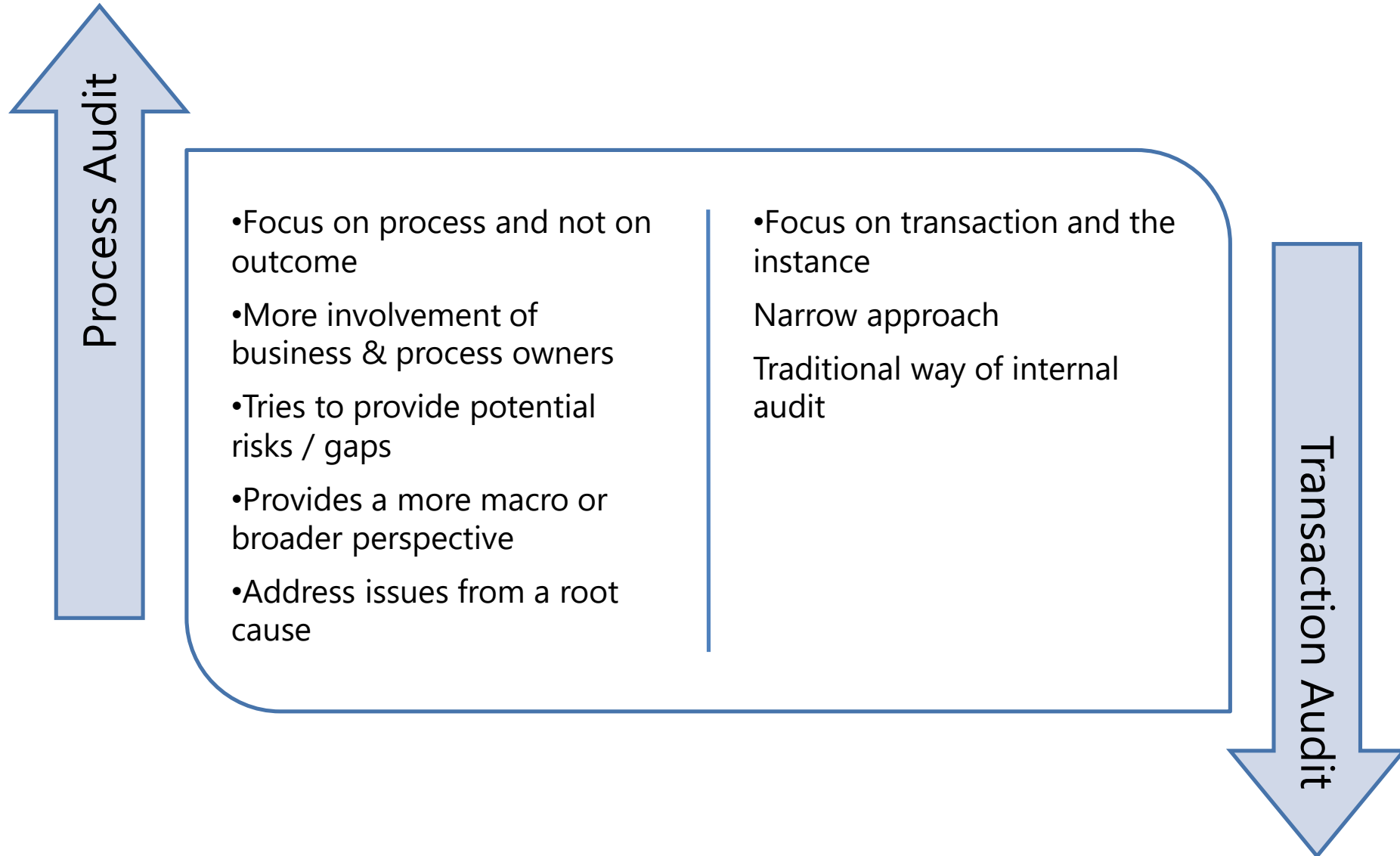
Identify areas which needs human intervention

Discuss outcome with process owners & suggest improvements

Key aspect to be kept in mind

Segregation of duties	Conflict of interest	Concentration of power
Internal checks & balances	Manual Vs automation	Fraud risk
Relevance	Documentation	criticality

Process audit Vs transaction audit



Reporting perspective

Brief description of the process

- AS is process

What is the gap

- Provide illustrations (if available)

Root Cause & Implications

- Provide risk rating
- Potential impact

Recommendation

- Preventive
- Corrective

Reporting perspective – examples

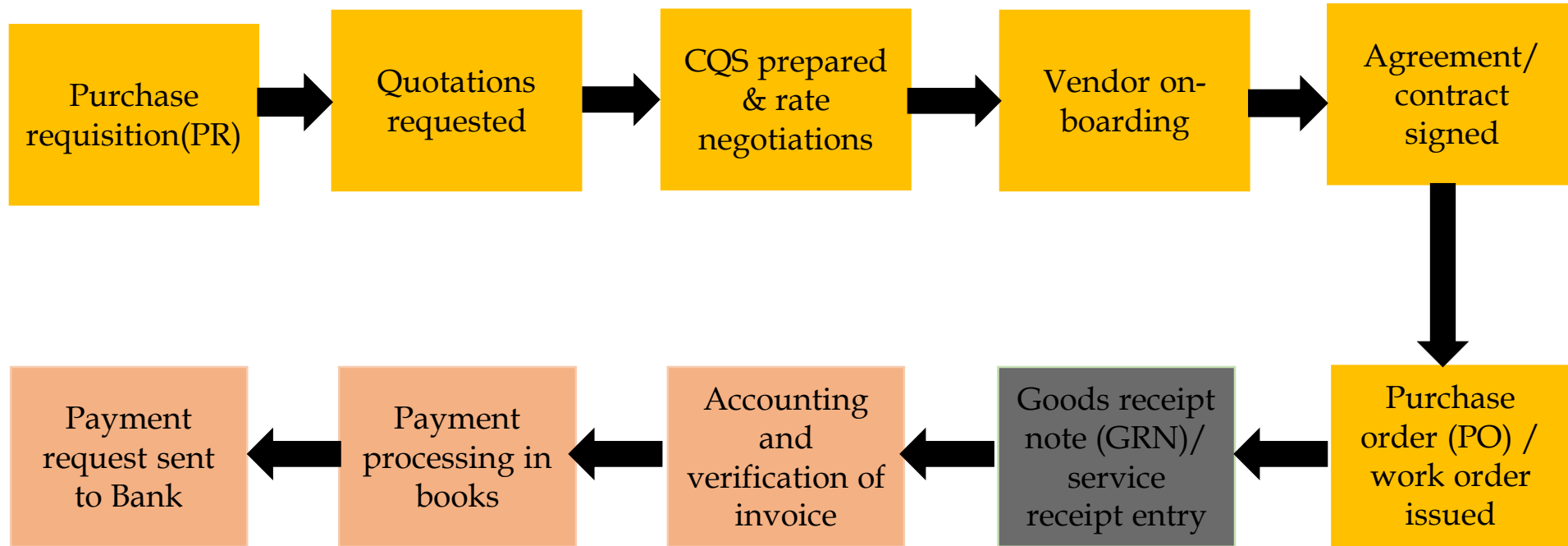
Traditional approach

2 instances on expense vouchers without supporting

Process oriented approach

Maker – checker system over verification of expense vouchers not functioning effectively leading to risk of expenses being accounted without adequate supporting. Illustrative instances are as per annexure 1

Example 1: The Procurement cycle

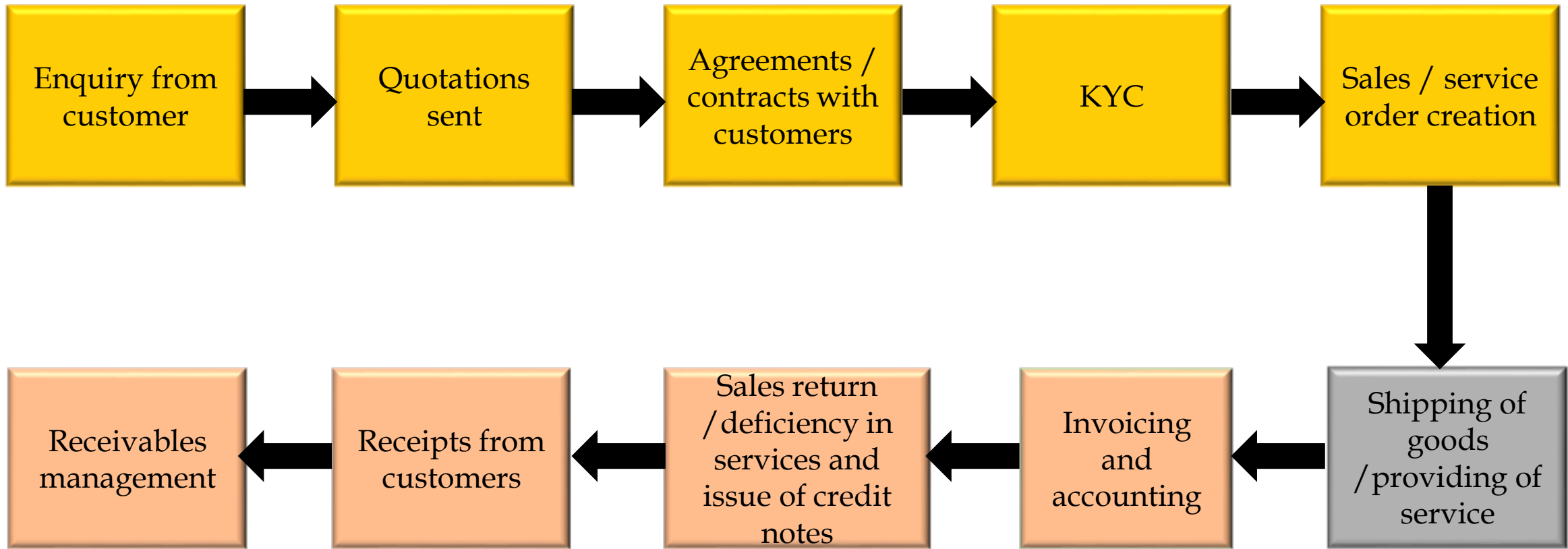


	User department, Purchase team & Procurement team involved
	Stores & user department involved
	Finance team involved

- Vendor onboarding & KYC, new product or service acquired
- Purchases from new vendors (master creation etc.)
- Purchases from one-time vendors & emergency purchases
- Material requirement planning
- Price discovery mechanism
- Centralized control Vs decentralized controls
- Purchases made at year end and purchases in cash, etc.
- Related party transactions
- Payment process & risk of double payments



Example 2: Revenue Cycle



	Sales department & Marketing team involved
	Stores department / operational department involved
	Accounts / Finance team involved

- Customer KYC, onboarding & credit worthiness assessment
- Arrangements with customer (commercial understanding, pricing, discounts etc.)
- Contractual obligations and its monitoring mechanism
- Billing systems
- Credit notes / debit notes
- Review of outstanding and follow-up
- Customer feedback & compliant resolution
- Related party transactions

- Need of the hour to move away from transaction audit & focus on process audit
- Resolve an issue from root cause & makes internal audit more effective
- Helps develop a connect with the auditee & process owners
- Facilitates identification of potential risk and enables preventive controls
- Provides a more comprehensive outlook to the audit approach
- Helps in providing effective and implementable suggestions
- Provides an overall assessment of systems & controls

We should work on our processes not the outcome
of our processes

