- Concessional fee post IIA membership. 62% Reduction in CIA Application fees. 50% reduction in CIA Part 2 and 3 fees with Mandatory Guidance on CIA exams.
- Auditors are in high demand, and having the designation that the CIA exam provides is a major bonus when looking for jobs. Blogs and other social media channels such as LinkedIn, Facebook and Twitter give up to date with the current developments on the professional developments
- Your Career Compass is the newest IIA publication to support the career growth of our members through tools and resources.
- Inbuilt online Book store for all references. Books available at a discount of 85% providing indicative of a significant level of competence and career advantages in internal audit position.
- Complimentary Downloads for reference and records specialty webinars and self-study courses provide easy access to advance knowledge.
- Entitled for serving as a volunteer leader in the local chapter. IIA also provides various training opportunities for free or at discounted prices.
- Advice and resources geared to those looking for, or expanding on, careers in the internal audit profession is easily accessible.

- Professional Networking at IIA seminars and conferences. Helps to find out how the company’s internal audit shop is doing. One can compare one’s internal audit department easily and affordably in terms of size, experience, departmental staffing and costs, operational and performance measures, and other metrics with Gain Benchmarking tool.
- Discounted trainings on Risk based Internal Audits and Auditing standards for the on roll employees and department teams with Certifications
- Enables to make a repository of the Internal Audit guidelines and mechanism
- Encourage the existing employees to appear for CIA online exam with a minimum completion time of 1 year.
- Especially for Chief Audit Executives, the IIA has designed a CAE Suite with information and resources for audit leaders.
- The IIA Research Foundation as a research arm of the IIA which provides support through the research conducted annually by thought leaders in the profession.
- As an IIA member you can realize savings on services provided by IIA partners such as GEICO Auto Insurance, Budget Rent-a-Car, Red Roof Inn, Office Depot and others.
Dear Members,

It has been a year since we launched the “Internal Audit Quarterly” as the flagship magazine for IIA India. In the past year, the quality of content that people have contributed to the magazine has been world class. We have received positive feedback from our members on the value they get from the magazine. I am deeply grateful for the tremendous success and would like to thank everyone involved with the magazine.

The big event is here – IIA National Conference. A grand setting with over 300 delegates, speakers and participants at a great venue at the Taj West End in Bengaluru. A relevant theme on “Audit in Tune” that is bringing together over 30 eminent speakers from across the country.

One of the big push we have undertaken is to enhance our social media presence. In today's world where everyone is on social media, we believe it is a great opportunity to connect with our nearly 4000 members and thousands of other internal audit professionals. We have a small update on that in this edition.

I would like to thank my editorial board for putting together a wonderful set of articles that would enthuse you immensely. In this edition of the Quarterly, we are focusing on the theme of “Audit in Tune” and have a medley of interesting articles. We have a special note from Jenitha John, Senior Vice Chairman of IIA Global, a snapshot about QAIP, detailed article about Ind-AS 116 on leases, going beyond Travel & Expense audits and improving compliance with behavioural science.

Your support and encouragement gives us purpose and joy to create a better magazine each quarter. We would like to hear your feedback. It is the only way in which we can make this magazine evolve and be better. If you would like to share your feedback or contribute to the magazine, please feel free to write to me at jolyjoseph.joe@gmail.com.

Enjoy the magazine and happy reading.

Joly Joseph (Joe)
CA, CIA, CISA
President’s Communique

My dear fellow members and internal audit professionals,

I wish you well for 2020 and hope that the year takes you in your intended direction.

The October to December quarter was an action packed period for IIA across India.

Delhi, Bombay and Madras chapters held their respective annual conferences to gripping topics, choice speakers and discerning audiences. About 110 individuals provided insights on about 45 topics, in these fora and, collectively, about 700 internal audit professionals absorbed them.

Our webinars reached about 300 professionals during this quarter. In addition we ran round tables in Bengaluru, Chennai and Delhi. The willingness of CFOs and Internal Audit professionals to engage in matters of governance and risk / controls is encouraging.

An innocuous move to connect women professionals in the domain provided a snowballing effect. What started as a fitting idea in one lady’s mind, turned into a rage all over India. The Delhi Women’s circle heralded a new phase in IIA India with similar circles already announced in Chennai and Bengaluru and more to follow.

The CIA learning system, now available at a special price to members from India, is slowly but steadily gaining traction. CIA certification is a demonstration of the commitment and expertise and the learning system provides the reading materials, expert instruction and practice tests – all the ingredients for early success in the examinations.

I had asked earlier whether a President with such a talented team can aspire for more. It was a rhetorical question and answered resoundingly by those around me!

Each piece is a telling endorsement to the value IIA brings internal audit professionals; an affirmation that the voice of the profession – the voice of knowledge, in tune with times – will always be heard, understood and propagated. It is logical, therefore, that the theme of the National Conference to be held in Bengaluru on January 30 and 31 is ‘Audit in Tune’, aligned also with Michael Joyce, Chair, IIA Global Board. Preparations have touched the ‘frantic’ phase, for the National Conference to be held in Bengaluru on January 30 and 31. We, in IIA India, are excited to have Ms Jenitha John, Senior Vice-Chair, IIA Global Board, address us.

I will be there……will you?

R. Ramarao
President, IIA India
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Internal Audit
Perspectives

Recent years have seen organisations facing many new realities in the form of:

- Corporate scandals and governance failures
- Business model rethink against technology disruption (VUCA)
- Changing global economic & political conditions impacting strategies
- Cybersecurity threats and opportunities
- Competition for talent and workforce demographics
- Increased regulatory burden impacting costs
- Consumer spending and behavior impacting revenue models
- Investor activism
- Blended value proposition (economic value vs social value) and the sustainability imperative
- Public, private partnerships and the role of government

This has led to a dynamically - evolving environment in which organisations operate. In this data age where things move and change extremely fast, it is crucial for organisations to be acutely attuned to the needs of customers to remain competitive or even viable.

For internal auditors, it is also an opportunity to reflect and take stock, calibrate stakeholder expectations and to refresh its value proposition accordingly in order to be a trusted business advisor by creating and enhancing enterprise value.

Internal audit must stay close to business transformation imperatives – my formula to do so is: D2C5 – Auditors must remain aligned to the following:

- Data & Digital is reshaping business models, moulded and guided by Customer, Competition, Conduct & Culture, Compliance and Cyber.

Amidst the myriad of new regulations and technologies being adopted by organisations, concern over digital and data governance have surfaced, which is an area where internal audit can contribute valuable insights on risks, controls and governance.

Frequent stakeholder engagement is beneficial in more ways than one. Other than placing internal audit at a vantage position to offer timely advice to stakeholders on managing risks associated during the implementation phase (before they arise), involvement with business units during deployment of new practices and emerging technologies can simultaneously ramp up internal audit’s competencies and value add.

Such enablement can support internal audit in its ability to perform stronger assurance and move beyond assurance and the traditional scope of the audit plan. Consider another formula for moving beyond Assurance: A5 – Alignment to strategy + Independent Assurance + Advice and insights+ Anticipate emerging issues + Agile audit response

In a persisting climate of economic and geopolitical uncertainty, corporate governance is critical in anchoring confidence within our organisations, and this rests on having a strong corporate culture. The need for an audit of corporate culture has gained increasing attention of Boards and Senior Management, featuring more and more on internal audit’s agenda.

Once again, Internal audit is well-positioned to support good governance and it can do so by aligning its value proposition with the changing stakeholder expectations. This could necessarily involve maximising audit resources (people, process and platforms), focusing on stakeholder and service delivery excellence, harnessing new tools and techniques, leveraging the concept of Combined Assurance through collaborations with other lines of defence and external providers of assurance. Ultimately, nobody can stay at a standstill and this is particularly relevant for internal audit as it continuously evaluates and improves - one of the Core Principles of Internal Auditing.
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If you are interested in promoting Internal Audit through our magazine, please feel free to reach out to us.

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What is a Quality Assurance and Improvement Program (QAIP)?

A QAIP is an ongoing and periodic assessment of the entire spectrum of audit and consulting work performed by the internal audit activity. These ongoing and periodic

Quality in internal audit is guided by both an obligation to meet customer expectations, as well as professional responsibilities inherent in conforming to the Internal Standards for the Professional of Internal Auditing (Standards) and Institute of Internal Auditor's (IIA) Code of Ethics.
assessments are composed of rigorous, comprehensive processes; continuous supervision and testing of internal audit and consulting work; and periodic validations of conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. This also includes ongoing measurements and analyses of performance metrics (e.g., internal audit plan accomplishment, cycle time, recommendations accepted, and customer satisfaction). If the assessments' results indicate areas for improvement by the internal audit activity, the chief audit executive (CAE) will implement the improvements through the QAIP.

**Establishing a QAIP**

A QAIP should draw conclusions regarding the quality of the internal audit activity and lead to recommendations for appropriate improvements. All Chief Audit Executives (CAEs) are required to develop a QAIP that includes both internal and external assessments. The QAIP implementation Standards are:

- 1300 – QAIP
- 1310 – Requirements of QAIP
- 1311 – Internal Assessments
- 1312 – External Assessments
- 1320 – Reporting on QAIP
- 1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing.”
- 1322 – Disclosure of Non-conformance

**Common Elements of a QAIP**

- A scope that includes all aspects of internal audit activity
- An evaluation of conformance with the Standards and IIA’s Code of Ethics
- An appraisal of the efficiency and effectiveness of the internal audit activity
- The identification of opportunities for continuous improvement in internal audit activity
- Involvement by the Board/Audit Committee in oversight of the QAIP

The QAIP framework is generally used for development and implementation of QAIP but CAEs can develop their own QAIP framework in compliance with the Standards.

The IIA established the IPPF to guide the internal audit profession and the mandatory elements of IPPF and the recommended guidance are the foundation for development of internal audit activity's QAIP.

**Internal Assessments**

Internal assessments are divided into ongoing monitoring and periodic self-assessments.

**As per Standard 1311, Internal Assessments**:

“Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and Standards”

The Ongoing monitoring hence would primarily address conformance with the following Standards:

- 2200 : Engagement Planning
- 2300 : Performing the Engagement
- 2400 : Communicating Results
- 2500 : Monitoring Progress

**Implementation Guide 1311 – Internal Assessments** states,

“**Periodic self-assessment** have a different focus than ongoing monitoring in that they generally provide a more holistic comprehensive review of the Standards and the internal audit activity, in contrast, ongoing monitoring is generally focused on reviews conducted at the engagement level. Additionally, periodic self-assessments address conformance with every standard, whereas ongoing monitoring frequently is more focused on the performance standards at the engagement level”

The periodic self-assessment hence would primarily address conformance with the following Standards:

- 1000 : Purpose, Authority, and Responsibility
- 1100 : Independence and Objectivity
- 1200 : Proficiency and Due Professional Care
Disclosure should include:
- The scope and frequency of both the internal and external assessments
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest
- Conclusion of assessors
- Corrective action plans

To demonstrate conformance with Standards and Code of Ethics, the results of QAIP assessments shall be communicated on completion of such assessment and the results of ongoing monitoring shall be communicated at least annually.

Any non-conformance with the Code of Ethics or the Standards shall be explicitly communicated to the Senior Management and the board along with the impact of such non-conformance.

As per Standard 1312, External Assessments,

"External Assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The Chief Audit Executive must discuss with the board:

- The form and frequency of external assessments
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest."

As noted in the Standard, CAEs can choose from two methods for external assessments; full external assessment by an independent assessor or a self-assessment with independent external validation.

The external assessment is important from the perspective that what the CAE is measuring and documenting to evidence conformance with the Standards and the Code of Ethics through internal assessments is effective and supports the internal assessment results communicated by CAE to the Board or Audit Committee.

QAIP Results Communication

As per Standard 1320, Reporting in Quality Assurance and Improvement Program,

“The Chief Audit Executive must communicate the results of the quality assurance and improvement program to Senior Management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest
- Conclusion of assessors
- Corrective action plans”

To demonstrate conformance with Standards and Code of Ethics, the results of QAIP assessments shall be communicated on completion of such assessment and the results of ongoing monitoring shall be communicated at least annually.

Any non-conformance with the Code of Ethics or the Standards shall be explicitly communicated to the Senior Management and the board along with the impact of such non-conformance.

As per Standard 1321, Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing",

“Indicating that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing is appropriate only if supported by the results of the quality assurance and improvement program.”

For development of QAIP, CAEs shall refer to the IIA Standards for mandatory guidance. For each Standard, IIA has developed an 'Implementation Guide' which is supplemental guidance that offers insights into conformance and application of the individual Standard.

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Leverage Data Analytics for FRAUD DETECTION
A GUIDE FOR INTERNAL AUDITORS

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Ind AS 116 'Leases' – Opportunities for Internal Auditors

Background: The International Accounting Standards Board (IASB) issued IFRS 16 'Leases' which brings in a paradigm shift in the way leases, especially operating leases were being accounted hitherto. India adopted Ind AS 116 (which is built on IFRS 16) and is mandatory from 1st April 2019. Lease is a contract by which one party conveys an asset to another party for a period of time in return for a consideration. Ind AS 17 (erstwhile Standard) dealt with operating and finance lease. A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset, however title may or may not eventually be transferred. All other leases were being classified as operating lease.

Why the change: In case of operating leases, the right to use a facility or a resource and its corresponding future liability was not taken in the books; it was more of an off-balance sheet item. The new lease standard brings in the concept of eliminating the classification as 'operating lease', except for low value and less than one-year contracts; and classify all the leases as a 'finance lease'. In simple words, it's only finance lease all the way, unless otherwise exemptions apply.

Impact on Financial Statements: Entities would have to disclose Right of Use (ROU) of an Asset and corresponding financial liability representing the present value of unpaid lease rentals. Subsequently, the Statement of P&L would have Depreciation over ROU (over the lease term) and interest cost (representing the time value of money) to accrue the liability and then paid (akin to finance lease) instead of charging the payments as 'Rental Costs'. The EBITDA of the Companies would be strained because of operating cost being replaced by Depreciation and Interest (Finance) cost, which would not be symmetrical in a particular accounting period, would be nullified over the lease term. There are other host of disclosure requirement arising out of the new standard. Further, the ROU is a non-financial and non-current asset. Whereas, the lease liability is a financial liability split between current and non-current depending on the periodicity of payment. The key ratios of the company will significantly undergo a change, unless it is explained or disclosed in a manner that the reader of the financial statements understands it.

Is it all about calculations and accounting? Per IASB evaluation industries like Airlines, Retailers, Travel and Leisure, Banking and Insurance, Automobile, Transport, Telecommunications, Energy, Media, Information Technology, Healthcare are some of the industries which would be highly impacted by the adoption of the new standard. Many of the Companies are moved away from the concept of owning an asset to rather than taking it on hire, which makes business sense considering the uncertainties in scaling up the activity, budgetary constraints, change in technology etc., There is a thin line of difference between what is a lease as per Ind AS 116 and what is a service agreement. There could be host of service arrangements like renting out IT Assets, vehicles, etc., which could get into the gamut of Lease Accounting, which were just 'service charges' in the past. Many entities would also have the concept of centralizing or decentralizing the decision making of getting into contracts for various assets, this could bring in the challenge of how each one of them have interpreted the contracts, the typical clauses in each agreement etc., It is pertinent to note that what was considered as a lease till last year may or may not be a lease as per Ind AS 116 so with service arrangements as well. Therefore, one has to look into these arrangements in a holistic manner.

The process and controls: To identify, transition and implement a new standard calls for change in processes and controls as well. When there are processes there has to be control which is effective and efficient to mitigate any underlying risks. Further, is the complication of either to combine different arrangements (entered for legal purposes as different agreements) and treat them
in a unified manner, to make economic sense and substance over form these components could not have been used independently or in contrary having a single arrangement with different services/assets used which may or may not be a lease individually. In large organisations, it would require a specific team to go through these contracts/arrangements and map it to the requirements of Ind AS 116. We also have challenge of how the tax authorities would like to look at these transactions, since the tax laws have not been updated/amended to it.

Role of Internal Auditor– In specific to Ind AS 116:

Impact Assessment: The role of IA Team is very important at the time of assessing the impact of the new standard. IA can leverage the knowledge of business and operations in each of the department to ensure that the right information is collated to move towards the transition.

a. Evaluating the Business Model: IA with their knowledge of the business, can evaluate how the business is being managed and significant decisions like lease vs. buy the assets has been assessed. Where the business model is depending highly on hiring rather being an ‘asset heavy’; more likely that Ind AS 116 would affect.

b. Collating the information: Important for IA to check whether the database collated constitutes all the service orders which may or may not be classified as Lease.

c. Connecting to Business/Operations: Needless to business/operations are essential part of any organisation. The IA Team would have to interact with them to better understand how the procurement of services are structured, what benefits do they carry, how will the new standard impact their operations including costing, vendor relationship management, etc.,

d. Legal Aspects: In entities where the procurement of services is decentralised there is risk of the legal agreements not being in a specific format or language. There could also be instances where large vendors would have standardised language and the customers may not have choice to amend it. These agreements per se may indicate it is a lease, which may or may not be so under Ind AS 116 or vice-versa. In this case, it becomes imperative to interpret the contract from the accounting standard point of view (substance over form). One would also consider the legal environment in which the service is received, or asset resides (asset taken on lease in a foreign country or services used in a foreign country, would require knowledge of laws of the respective jurisdictions as well).

e. Reporting requirements: The principal numbers of reporting would be sourced from the books of accounts, but disclosures like the choice of transitional methodology, risk management, etc., would have to be confirmed by financial reporting team.

f. IA Team would also have the task on hand to ensure that the database collated is complete and accurate in all respects.

Pre-implementation Strategies:

a. Once the information is available, it is about identifying the methodology of transition to the new standard, which could be retrospective approach or prospective approach. Whichever transitionary approach the entity uses, the data needs to be fully validated; based on the agreements and interpretations of the standard.

b. Identifying possible exemption opportunities like low value assets or arrangements which lasts for less than a year. It is important to derive what a ‘low value asset’ is which is quite subjective to the size of business, the operations and complexities involved.

c. Determining the assumptions underlying the lease accounting including the following:

- Discount rate: Deriving IRR for the lease payments if readily available, or use of incremental borrowing rate – getting information from the bankers/lenders;
- Lease Term – Discussions with operations on business plan to continue to hire the asset in future or possible termination of contracts. The current standard also requires evaluation of similar contracts in the past where there is a high probability of short-term contracts being renewed over a period of time. In substance, where an entity has invested
significant resources say, building, plant and machinery and other infrastructure, it is highly unlikely that the operations would be for a short period of time as indicated in the agreement.

d. Tools for implementation: IA team can play a role in identifying vendors who normally provide various software applications to calculate the depreciation, interest and valuation of ROU and Financial Liabilities. IA Team would have to do an IT audit of the tool before it being implemented. The procurement of the tool could include obtaining information from various peers on possible vendors and evaluating the more appropriate one considering the volume of operations, budgetary challenges, time frame to provide the application, any customisation requirements etc.,

IA team would have an opportunity to challenge the option of methodology of the transition, assumptions, underlying assumptions for determining ‘low value asset’ and the calculations of ROU and Finance Liability.

Implementation:

a. Validating the calculations in the spreadsheets before the entries are being passed: The calculations can either be carried out in spreadsheets or in specific application tools.

b. Collating information for disclosure requirements – including risk management, payments to be made over a period of time, etc.,

c. Validating the reconciliation of profits between pre and post implementation of Standards;

Any error at this stage may impact the financials significantly. First part is ensuring the accuracy of the figures and the second part is on the quality of the disclosures given and its adequacy as per the Standard.

Things to Do

1. Transition Management including planning to transition to the new standard, imparting necessary education and training to the concerned staff;

2. A process to collect information scattered across the organisation in an organised format for decision making purpose. This could be achieved by using common templates circulated to different teams to have their inputs collated. There should also be a mechanism to capture any outliers, which the template would not have captured and consolidating the results.

3. Documentation:

a. Choice of implementation in the form of Statement of position;

b. Database of services/leases reviewed;

c. Significant management judgements and estimates on discount rate, low value assets, lease terms and their renewal, etc.,

d. MIS – impact on the operating profits and EBITDA

e. Vendor evaluation for new tool

4. IT General Control and Application Control Testing:

a. IT General Controls – To the extent it is applicable to procure new application or tool and choice. To also look into the utility aspects by different teams (segregation of duties) and its accessibility.

b. IT Application Controls:

- Audit of the results of the calculations ensuring its accuracy by having a sample calculation done without the tool and comparing the results or having an expert to validate the program.

- The integrity of the database of the lease agreements that have been entered should also be ensured. The update of the database should be a separate process. A specific template requesting for the change should be made available. The data in the template should then be validated by the respective process owners and then be shared with the IT team for updating. Once updated, the IA Team to validate the change and test its outcome.

- Where there is change in assumptions like the discount rate, lease term etc., there has to be a process to identify such change and then communicate to IT department to make these changes. IT department should also maintain a log of the changes to the database for future reference.

- Some applications also enable to generate and pass
journal entries automatically to the main accounting application. To ensure accuracy of the head of accounts being used.

5. Where there are international transactions, a need to have an advice from the local professionals to advice would be a better option; at least for critical assets.

6. Education and Training: Essential to say that at every level of organisation, the change in environment needs to be communicated. It is all the more important for the

Relationship with COSO 2013:

Control Environment: Principle 5: Accountability for internal control. Needless to say, a new standard would require significant change in the way the transactions are looked at and accounted. More important is how similar transactions would have to be dealt with in future.

Risk Assessment: Principle 6: There is significant risk of the standard not being complied with or critical transactions not being considered in transition; including incorrect application of the standard. This would call for specific risk assessments of the transactions.

Control Activities – Principle 10: Control Activities selected and developed: New control activities have to be developed to identify leases, recording under appropriate head of account, with accurate details. For example: Hitherto, the accounting of depreciation or amortization meant in relation to Property, Plant and Equipment or Intangible Assets; going forward there is a new class of asset (Right of Use Asset) which also has a depreciation component, which needs to be identified and accounted for. Further, there has to be change in job description of executives handling the specific account class.

Control Activities – Principle 11: Discussed above in point 4 ‘Things to Do’.

Control Activities – Principle 12: Need for specific policy document highlighting the change and procedural aspects also needs to be prepared. It is an essential document which indicates the entity’s position on specific transactions.

Information and Communication: Principal 14: Internal Communication to different teams including the operations, accounts and finance, legal, top management is essential to make them aware of the change and have their feedback for any improvements.

Monitoring Activities: Principle 16: Lease accounting is not a one-time exercise. It is an ongoing one, depending on how frequently the company chooses to decide to hire services / resources. At every instance, the way the transactions are structured, and its implications would have to be spelt out clearly.

Monitoring Activities: Principle 17: Internal Control Deficiencies evaluated and communicated: Pursuant to an audit or control testing, IA Team should identify the deficiencies and communicate this to the stakeholders to ensure corrective action is taken.
Stepping beyond traditional T&E audit and compliance reviews

Why companies must do more than receipt validation and policy compliance

With global business travel on the rise, organizations are struggling to keep track of employee spend. Travel and expense (T&E) costs represent between 6% and 12%¹ of a company’s annual spend. And it is one of the most complex operating expenses to manage and monitor, given that anyone in the organization can make transactions. It is therefore no surprise that T&E spend and compliance are under the spotlight.

T&E transactions are highly vulnerable to non-compliance and fraud. It’s not unheard of for employees to claim non-business-related expenses or claim a personal expense on their company card. And with high volumes of transactions and limited visibility at an organizational level, many companies struggle to maintain high levels of compliance with T&E policies and regulatory requirements.

Kept unchecked, incidents of non-compliance can increase cost substantially and potentially snowball into multimillion-dollar penalties. For example, a leading pharmaceutical company had to pay a penalty of $490 million on account of counterfeit fapiiao (an official invoice recognized by the Chinese tax authorities) submissions, in which bribes to doctors and healthcare professionals were routed through T&E claims.

How companies choose to manage their T&E audit and compliance process, and the solutions they implement, can prevent spend leakage and avoid significant damage to reputations in an environment where stakeholder trust is business critical.

Tackling the challenges

Despite the strategic, financial, and regulatory implications, many organizations are still unable to review T&E claims effectively or be sure of their authenticity and validity. There are varying degrees of maturity when it comes to auditing T&E expenses.

Some companies still manually check a sample of expense reports against policies or have static rule sets built into expense management platforms to highlight exceptions. More advanced organizations are adopting digital technologies, such as artificial intelligence (AI), machine learning, behavioral science, and language neutralization to address the challenge.

While there are a number of T&E audit applications that allow an organization to increase its overall transaction coverage and reduce manual effort to a certain extent, they struggle to provide a comprehensive approach to managing regulatory non-compliance or fraud.

In building a robust T&E audit program, there are key challenges to consider and overcome:

- **No single source of information**: It’s more than likely that your travel and expense data resides in different ERP systems, expense-management platforms, and even Excel spreadsheets. With disparate sources and inconsistent formats, building a centralized review mechanism is challenging for global companies, especially those that are growing organically or through M&As.

- **Unstructured receipt formats**: While technology creates value, it can’t fully replace people. For example, machine-vision processing can review printed and structured receipts, but you need to manually review receipts that are unstructured or handwritten.

- **Keeping up with global and local regulatory variations**: Multinational companies must factor in both local and global compliance requirements when designing T&E audit methods. For instance, a US organization that has significant presence in Europe and Latin America must comply with regulations such as the UK Bribery Act, French Sapin II, the Brazilian Clean Company Act, and more. These regulations frequently change, too.

- **Multilingual data sets**: Digital enablers for fraud and compliance programs need language neutralization capabilities to support data sets and receipts in local languages.

- **Lack of risk and compliance expertise**: Highlighting the exceptions from T&E data is not enough to identify potential fraud or regulatory non-compliance. Companies need deep regulatory domain and risk expertise to identify potential exposure and true cases of non-compliance.

Enhancing T&E audit programs with digital

Automation and analytics can transform existing T&E audit processes, enabling companies to enhance their risk and regulatory coverage while also generating efficiencies.

Advanced organizations use a variety of digital technologies to build a robust T&E audit program to drive greater compliance and address spend leakage. These technologies enable:

- **Data aggregation**: A single platform that spans multiple expense management and ERP systems allows
companies to automatically access data from disparate sources. This helps centralize and standardize data with pre-configured rules for validation and cleansing.

- **Language neutralization**: Language technologies work on multilingual data sets, so when employees around the world submit T&E expenses, the company can still report on expenses in one common language.

- **Advanced analytics**: AI-enabled algorithms can review 100% of T&E transactions and continuously learn and include the latest insights from the business environment. The algorithms focus on basic policy compliance and threshold checks, as well as regulatory and fraud elements. They identify scenarios such as unusual or repetitive payments, high-risk transactions, inconsistencies in travel, meals, or mileage claims, while also checking merchant category codes for fraudulent claims.

- **Access to external data**: Curating data from external sources, such as merchant databases, the US Office of Foreign Assets Control and list of Specially Designated Nationals, companies can, for example, identify transactions with suspicious or prohibited vendors and transactions in high-risk countries.

- **Pattern analysis**: By reviewing transactions against defined risk markers, behavioral science analyzes patterns and trends to identify high-risk employees, business units, or regions.

- **Continuous learning**: Applying machine-learning techniques to better understand exceptions helps audit teams improve their manual reviews. Over time, the system learns and helps reduce false exceptions.

- **Automated receipt review**: Digital technologies can validate receipts and supporting documents submitted by employees as part of their expense reports. While companies need manual reviews for unstructured and handwritten receipts, machine-vision processing can speed up the process and improve accuracy.

- **Workflows**: Case-management workflows for handling exceptions enhance audits, as they create an end-to-end trail and back-up review documentation. Workflow capabilities also allow you to automate follow-ups communications and escalations, enabling you to track each step and quickly close control gaps.

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**Balancing digital and domain expertise**

Automation and analytic technologies can improve efficiency, speed, and accuracy, but you still need a team of risk and compliance experts to analyze and review exceptions. An audit or review is only complete once you’ve performed substantive reviews, ie., validated the exceptions, completed a root-cause analysis of the final gaps, and defined a remedial action plan (figure 1). When organizations understand the source of non-compliance, they can act on it to minimize the possibility of it happening again, adjusting policies and encouraging behavioral change.

*Figure 1: The T&E audit lifecycle*

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**Delivering value with a digitally enabled T&E audit process**

By combining automation, analytics, and compliance expertise, companies can go beyond the capabilities of standard approaches and transform their T&E audit processes. This enables them to:
• **Reduce risk exposure** with 100% coverage of T&E transactions and the ability to detect all potential incidents of non-compliance, this enhances overall regulatory compliance and fraud detection.

• **Improve governance and transparency.** With near real-time visibility of non-compliance through interactive dashboards, companies can accelerate action and remediation, and boost compliance health.

• **Change employee behavior.** By using root-cause analysis to create remediation plans, and improving policies and procedures, you can prevent fraud and improve overall compliance health.

• **Enhance savings.** By identifying avoidable, duplicate, and policy-non-compliant expenses, organizations can prevent spend leakage of between 1-3% of the annual T&E spend.

• **Cut audit costs** by reducing the manual audit work required to review T&E transactions by around 80%. As a result, overall audit costs can drop by approximately 40%.

A data-driven, digitally enabled T&E audit program, supported by a team of risk and compliance experts, offers major advantages over standard methods. It can significantly increase your ability to monitor regulatory and fraud risk and de-risk your organization. By stepping beyond standard approaches with a complete user-friendly and industry-agnostic T&E monitoring solution, your company can benefit from actionable insights and feedback mechanisms that cut the time spent on expense reviews, deliver fewer errors, and reduce spend.
The social media initiatives are taking a new shape. At present, Delhi Chapter is operating LinkedIn Account most actively. YouTube Channel has also created. Videos are being prepared to upload on the same to gain more visibility of the activities done by us and helps in advocacy.

LinkedIn

The drastic increase in followers has been noticed. Through LinkedIn account leads for CIA and new members are generated. As of now, more than 2300 connects have been made on IIA Delhi Chapter LinkedIn account handle. And the post reach of more than 1700 was recorded.

IIA DC Women’s Circle is also active on LinkedIn. In less than 1 month, more than 700 connects were made. And the post reach of more than 5500 was recorded.

Ms. Jenitha John, Sr. Vice Chair of The IIA Global Board Directors, herself sent the connect request and following us on LinkedIn Account of IIA DC Women’s Circle.

Delhi Chapter also actively supported other chapters and IIA India in making their social media profiles more visible.

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YouTube

YouTube Channel has been created. We are in the process of editing videos to upload on the channel to increase the visibility.

Increase in Website Traffic and Ranking

Due to the activities on social media, website traffic has also increased. It will help in increasing our visibility. The website ranking has improved by 1.08 million in past 90 days.

At a later stage, we can also monetize this effort to generate an additional source of revenue.

Website Changes

Delhi Chapter also took the initiative to make the changes in the website to ease the membership registration. Also, changes in the website are proposed to make the website more useful to the users.
Improving compliance and controllership with behavioral science

It’s clear to many companies that traditional compliance approaches are no longer enough to drive compliant behavior. Now, with interest in a more proactive, real-time approach picking up, we explore why scaling a compliance program with embedded behavioral science and analytics can arm organizations with valuable intelligence.

An interesting insight emerged from a panel Genpact hosted at a recent Compliance Week conference in Amsterdam: though organizations recognize the need and importance of going beyond policies and procedures and embracing a data- and analytics-driven approach, they’ve not yet effectively integrated digital tools in their compliance programs. And from our audience at the event, we gathered that only 40% of organizations are using data analytics for compliance monitoring, and only 18% are using behavioral science to support compliance.

With more companies expanding into emerging markets in an environment of increasing regulatory enforcement and changing technology, they need to adopt a data-driven approach to compliance monitoring. Relying solely on the legal and compliance teams to deal with misconduct and noncompliance is not enough.

It’s time to evolve.
Enhancing controllership with a data-driven approach

Although compliance-monitoring approaches have evolved over time (from manual audits and Excel-based analysis to rules-based analytics and the adoption of digital technologies, such as artificial intelligence and data mining), different companies are at different levels of maturity. Indeed, fewer than 50% of companies have embraced digital technology in their compliance monitoring programs.

In addition, regulators have recognized the intensity and diligence of compliance and controllership programs to determine management’s role to drive compliance. These regulators determine how much credit an organization would get for its efforts to drive compliance with a robust design and monitoring mechanism should an incident occur.

For your compliance program to work effectively, risk and compliance leaders must first understand what’s working and what’s not. For this, enterprises need to develop a measure of effectiveness and understand the difference between required (by regulation or the company’s policy) and actual behavior within the organization. With a data-driven compliance-monitoring approach and capabilities such as behavioral science, organizations can not only assess the effectiveness of their programs and identify noncompliant behavior, but also demonstrate the management team’s intensity and diligence toward greater compliance to the regulators.

From identifying potential fraud scenarios and regulatory violations to preventing spend leakage, behavioral analytics can be applied across business processes, such as financial reporting (for example, checking for suspicious journal-entry-posting patterns), travel and expense (for example, identifying employees claiming repeated noncompliant expenses), and accounts payable (for example, looking for unusual orders with pricing aberrations).

Understanding influences driving noncompliant behavior

Identifying the difference between required and actual behavior will not reveal why people do not comply. Is it because they are not aware of the compliance requirement? Was the compliant choice too complex or were they deliberately noncompliant? This is where the real value of behavioral science kicks in as it uncovers behavioral insights into why noncompliance has occurred, allowing the organizations to learn more about users’ engagement and habits to adopt a more focused approach toward the behavior that is causing such disruptions.

The fundamental shift with this method is that it helps organizations take a more human-centered approach to compliance by analyzing trends and patterns in a specific country, business unit, or region and identifying high-risk teams, individuals, and business units. With the behavioral insights they’ve gathered, risk and compliance leaders can carefully craft interventions at different levels, i.e., policy, process, program, or population, to help the organization reduce liability and high fines.

For example, one of our clients identified suspicious behavior when analyzing patterns on six months of data. It noticed an employee was making facilitation payments to a government official on account of gifts given to third parties. This employee had claimed an allowable gift expense on a travel and expense card. Traditional data analytics did not flag this transaction as noncompliant, as it met the defined threshold and receipt requirements. By discerning trends and the sources of risk, our client could then focus on the right areas to prevent such behavior in the future.

The insights you get from behavioral science and analytics can be applied across the life cycle, right from policy design to enforcement and implementation, depending on what’s encouraging the noncompliant behavior (figure 1). These insights can help risk and compliance leaders design new practices, suggest improvements, and explain why people react in particular ways.
Behavioral insights should be integrated at all stages of the policymaking cycle

Adopting behavioral science for analytics

Leaders in risk and compliance have started their journey toward embracing digital technologies and advanced analytics, and driving increased compliance within their organizations while keeping it cost effective. Here are a few things to consider when building a behavioral-science capability and enhancing the value it delivers:

- **Resources**: Implementing behavioral science in a compliance program requires collaboration between different skill sets — mainly data scientists and regulatory experts, such as a data scientist to work and extract value from large, diverse data sets and a regulatory domain expert to understand and analyze the information and decide on meaningful action.

- **Data**: Sourcing the right data is one of the key elements that organizations need to focus on. Given the large volume and disparity of the available data sets, it becomes very important to understand how data can uncover relevant insights. You also need IT support to deal with legacy and disparate systems and integrate siloed information.

- **Third parties**: Every organization has varying competency levels across functions. Based on its current level and upcoming needs, an organization needs to establish whether it must hire people or look for external partners.

Applying a forward-looking lens on incipient risks

While there is still some way to go before organizations can completely embrace behavioral science in compliance, with better pattern analysis and insights, companies can build predictive models and prevent noncompliant behavior more effectively. By combining behavioral science with advanced analytics and digital capabilities, organizations can stay ahead of existing risks and boost their efforts to monitor, manage, and respond to potential infringements across areas such as financial reporting, accounts payable, and more. A robust, holistic compliance and controllership environment can be built once the whole approach matures in terms of quality of data, skill set, and technology.
Subsequent to the launch of Women’s Circle on the iconic date in 2019 (October 18, 2019) by ‘The Institute of Internal Auditors, Delhi Chapter’ (IIA DC), The Institute of Internal Auditors, Delhi Chapter Women’s Circle organized the first event (WOW Factor – Women of Worth) on 10 January 2020 at The India International Centre, Annexe Building, Max Mueller Marg, Lodhi Road, New Delhi. The evening seminar was attended by over 50 people, of which approx. 80% included women professionals. Step to achieve one of the key objectives in building a strong network of professional women in internal audit fraternity.

The seminar had galaxy of 10 eloquent speakers/panellists representing from corporate and professional bodies. The delegates were enlightened to hear ‘words of wisdom’ as the speakers encouraged rich deliberations on topics including ‘balancing acts of women in industry – career & family’, ‘emerging need of risk based audits and changing dynamics of audit profession’.
The Conference started with welcome address delivered by Ms. Sana Baqai (President IIA Delhi Chapter, Women’s Circle) and Ms. Kanwaljeet Kaur (Secretary IIA Delhi Chapter, Women’s Circle). This followed with Mr. Thiyagrajan Kumar (Sr. Vice President IIA India) talking about 'Women in Leadership Role'. The theme and special address were presented by Mr. Sumant Chadha (Sr. Partner TR Chadha & Co.) and Mr. Nikhel Kochhar (Chief Advisor IIA India) respectively. Amongst the distinguished speakers/panellists were Ms. Navita Srikant (International Expert Anti-Corruption & Forensics), Ms. Ritu Gupta (VP, MAS, Times Group), Ms. Jyoti Dua (Head IA, GAIL), Ms. Vaishali Mittal (Global Finance Process Owner, Large MNC).

The conference ended with a vote of thanks from Mr. Sidheshwar Bhalla (President IIA Delhi Chapter).
Theme of the Conference: “LEAN, MEAN, AGILE”

The Conference is a two-day mega event held on 13th & 14th December 2019. It had 12 Technical Sessions, 3 Keynote Sessions and 2 Panel Discussions touching the Theme of the Conference. It was attended by more than 200 participants coming from Industry and Practice from all over the Southern Cities. Sri Manoj Kumar Jain, Chapter President welcomed the gathering.

Sri K Vidyadaran, Past President of IIA India and Chairman of Conference Programs, addressed the gathering by explaining the role of Institute of Internal Auditors (IIA) globally and particularly in India. It has Chapters in Chennai, Mumbai, New Delhi, Kolkata, Bengaluru and Hyderabad. It has Audit Clubs in Pune, Vadodara, Bhilai, Kochi etc. IIA is the recognized authority, Global voice and the principal educator.

The Chief Guest Sri Bharath Krishna Sankar, Chairman of Audit Committee of Indian Bank and Chairman of Aparajitha Corporate Services Pvt Ltd, in his inaugural address set the right tone by elucidating the role of Internal Auditors to be lean, mean and agile while performing their duties.
The three keynote speakers are:

For “Lean” : Sri Amit Bajoria, Head of Internal Audit, Wipro Ltd

For “Mean” : Sri Ravi Veeraraghavan, Partner, Deloitte Touche Tomatsu LLP

For “Agile” : Sri Terry Thomas, Partner, Ernst & Young LLP

Another highlight of the day is that IIA Madras Women’s Forum was inaugurated by Smt Uma Prakash, Past Central Council Member and Past President of the Chapter. The Women’s Circle is meant for empowerment of women Internal Auditors in this part of the country. Similar Circles will be formed in other Chapters all over India in the near future. The Vote of thanks was given by Sri Sathyananda Prabhu, Chapter Vice President. Various tech sessions held for the rest of the day and in the 2nd day. There were two Panel Discussions;

One on the topic “Regulatory Framework for Internal Audit”, moderated by Sri Raman Krishnan, Chapter Governor and the panellists are: Smt Meenakshi, Joint Director, Ministry of Corporate Affairs, Sri K Raguram, Partner, BSR & Co LLP, Sri Balasubramanian TV, Partner, PKF Sridhar & Santhanam LLP.

Two on the topic “Can an Internal Auditor be a whistle blower ?” moderated by Sri S Bhaskar, Immediate Past President, IIA India and the panellists are: Sri Shyamak Tata, Chairman, Deloitte India, Sri MP Vijay Kumar, Chapter Governor & Central Council Member, ICAI, and Sri Satish Shenoy, Head of Corporate Mgt Audit, Aditya Birla Group.

The Conference feedback was very good and very encouraging and all the delegates received lot of take home points which they can implement in their organisations. Summing up and vote of thanks was given by Sri PR Loganathan, Past Director of IIA Global and senior Advisor to the Chapter.
### Latest Internal Audit Jobs

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Loyal readers of “Chambers on the Profession” know that the first blog post of the year traditionally offers five New Year’s resolutions for internal auditors. This year’s list leverages heavily what we learned in 2019 to better position internal audit and our organizations to succeed.

The IIA published two landmark reports in 2019 that offered new and unique insights about risk management and sound organizational governance — and the role internal audit should play in supporting both. OnRisk 2020: A Guide to Understanding, Aligning, and Optimizing Risk presented a singular look at how the board, executive management, and internal audit align on managing key risks. The American Corporate Governance Index (ACGI) provided a governance report card on publicly traded U.S. companies. While The IIA prepared both reports primarily for its members in America, I am confident that the themes that emerged have global applicability.

These reports offer a wealth of data that supports audit planning and effective risk management. They also helped shape my thoughts about resolutions for the New Year. Therefore, without further ado, here are five internal audit resolutions for 2020 and beyond.

1. **Speak candidly with the Board about the organization’s true capacity to manage risks.** I believe one of the most valuable findings of the OnRisk 2020 report is that boards are overconfident and generally perceive higher levels of maturity in risk management practices in the organizations they oversee. This should raise serious questions about whether boards have realistic views on key risks and the organization’s ability to manage them.

   Internal audit cannot defer to others the need to correct any misperceptions that may exist. Whether speaking through the audit committee chair or directly to the...
board, chief audit executives should begin a dialogue on this issue. It is important to position this conversation as one where internal audit offers its insights and advice about the organization’s risk management alignment, and not point fingers at those to blame for any misalignment.

2. **Assess the organization’s sustainability risks, and discuss with management and the board.** The publication of the ACGI in December by The IIA and the University of Tennessee’s Neel Corporate Governance Center was long overdue. I have come to believe that corporate America’s indifference to sustainability is itself not sustainable. However, there is room for optimism.

There is growing realization among corporations about the importance of sustainability, especially as investors increasingly tie their financial support to organizations that can show long-term value creation, and not just short-term gains. Internal audit must take advantage of this by understanding and assessing sustainability risks, including the accuracy of sustainability reports that address an organization’s economic, environmental, and social impacts.

3. **Enhance how we tell internal audit’s story.** One of the biggest challenges practitioners face is showing stakeholders how internal audit adds value. As discussed in the previous resolution, corporate leaders often focus on short-term goals and immediate risks. They may not appreciate the value that independent assurance and an organization wide perspective offer over the longterm.

As we head into the new decade, recession is the No. 1 risk concern cited by CEOs globally, according to the Conference Board’s 2020 CEO Challenge survey. If there is an economic downturn, executive management undoubtedly will look for ways to cut costs. This is why we must show internal audit’s value before the belt tightening begins. There is no downside to being more articulate about how internal audit adds value.

Therefore, our goal must be to improve how we tell our story. Two quotes are appropriate here. Harvard University professor Howard Gardner calls stories “the single most powerful weapon in a leader’s arsenal.” This means we need to be clear and compelling in how we make the case for internal audit adding value. The second quote comes from entrepreneur and marketer Seth Godin who says, “Marketing is no longer about the stuff that you make, but about the stories you tell.” Ultimately, the “stuff” internal audit makes improves organizations, but that won’t matter if we don’t enhance how we tell our story.

4. **Improve our use of and credibility around RPA and AI.** Corporate boards and executive management that understand technology can improve operations, provide a competitive edge, and influence strategy. Internal auditors must show our stakeholders we can adopt and adapt technology to improve the work we do, as well.

Robotic process automation (RPA) and artificial intelligence (AI) are working their way into internal audit processes, but the pace has been slow. Just 19% of functions report using RPA and 17% use AI, according to Protiviti’s 2019 report, Embracing the Next Generation of Internal Audit. What’s more, no other next-generation technology, including continuous monitoring, Agile auditing, and advanced analytics, top 30% adoption rates. Simply put, we must do better.

5. **Hone in on risks related to data ethics.** As the use of data by organizations increases, so will the risks associated with how it is gathered, managed, used, and protected. It is inevitable that regulation on data will evolve. Indeed, public scrutiny on organizational conduct relating to data is increasing.

For these reasons, internal audit must step into a leadership role in educating stakeholders on risks related to data ethics. We can start by encouraging management to develop guideposts that measure whether the organization’s use of data aligns with risk tolerance, and then provide assurance around adherence to those guideposts.

The new year offers significant opportunities, as outlined in these five resolutions. If we can embrace them and make steady progress, our 2030 vision of becoming universally recognized as indispensable to effective governance, risk management, and control can be attained.
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