



**TO STUDY IMPORTANCE OF INTERNAL AUDIT PLANNING FOR
PROCESS BASED MSME**

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Abstract

For successful completion of audit assignment, one of the basic need is proper audit planning. A detailed audit plan would cut the time in field work and reporting. Due to a well thought out plan, the Internal Auditor knows which areas are more risks to be concentrated in audit and also have a subject expert to guide the team. This adds value to the audit assignment and would immensely beneficial for both the auditor as well as the audit customer. In this article, it is explained the need for process based internal audit, importance of audit planning and the steps of planning process

DEFINITION OF INTERNAL AUDIT

As per Institute of Internal Auditors (IIA), 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.

NEED FOR PROCESS BASED INTERNAL AUDIT

With the opening of economy in late 1990s and early 2k years, the business size, operations and structure of the organisations become complex. Many organisations have different business verticals and units in different parts of our country and even some have transnational branches. They also have foreign investors to report. Most organisations felt that they did not have adequate and appropriate controls in place to achieve in full their strategic objectives. The management of these businesses found it impossible to visually supervise all of the operating areas in their respective field of responsibility or to have sufficient personal contact with individuals, who directly or indirectly reported to them. Therefore, to alleviate, these new problems, managements are appointing special staff/ professionals to review and report on what is happening and to probe for the "why" it was happening. These persons are called 'Internal Auditors.' Most of these internal auditors were not employees of the organisations but external accounting professionals. Most of these professionals though have adequate knowledge on financial matters, may not possess the required adequate knowledge on the domain which they have to audit. Therefore it is suggested that they should have adequate domain expert or subject matter expert to guide them for successful conduct of audit and report. For successful conduct of audit, the planning



for it, is a primary step. In this article, it is stressed how the planning from beginning is more important for a successful audit.

PLANNING FOR AN INTERNAL AUDIT

The modern outlook of Internal audit is not just doing compliance auditing at stores, consumption, contracts, productivity, capacity utilization, efficiency in utilization of resources, wastages, pilferages, thefts, frauds etc., but also aimed on performance based audit. For any successful audit, there should be a successful planning. How the audit plan to start from scratch? Apart from assurance on financial statements, the Internal Audit team has to check the functional areas which often include processes that support an organisation's strategy and key objectives. Many times, the internal audit teams neither have the domain knowledge of the subject matter to which they have to handle during the course of audit nor have a subject matter expert in their team to oversee their work to provide assurance for areas that never before audited. Usually in such scenario, the audit team would search for the items to be checked from Web. This is a normal approach. But, what is required in such a situation would be to test several controls. Therefore, this normal approach not only affects the internal audit performance and reputation but also not useful to the audited organisation. Hence, the following is the solution in the audit planning i.e. planning from the beginning. An internal audit program from the beginning is better equipped to perform audits over areas that are not routinely audited. When Internal Audit can spend more of its time and resources aligned with the organisation's strategy and key objectives, the benefits can multiply. The procedure or steps to be taken for an effective audit plan is explained below

A. INITIAL PLANNING –

The Audit team should have adequate knowledge of the areas to be audited in any Internal Audit assignment. The team should understand the purpose for which that particular process/activity/department was to be audited. Hence the team should address the following issues before starting the field work and get reasonable answers and they should be documented.

- The reasons or purpose for which particular processes/ activities/units/ departments were approved to be audited
- How they support the organisation in achieving its goals and objectives
- What are the enterprise risks the audit should address
- Whether this particular issue was previously audited and if so what are the findings? Whether those findings were addressed?
- Whether there was any significant recent changes in the processes/activities of that particular department/ unit to be audited

B. RISK ASSESSMENT AND APPOINTMENT OF EXPERT:-

Performing an audit based on the organisations internal documents, data and information are helpful to assess the operating effectiveness of the processes controls to the internal audit team. However, the team has to keep players with the businesses changing landscape and to ensure key processes and controls are also designed correctively by seeking



external information collected from the media on the publications about the business, industry in which the organisation functions, blogs and posts by key personal, industry norms and information from trade association, etc., to have a detailed risk profile of the organisation and the subject process/ product/ business vertical/unit/branch etc., Apart from this, the audit team should seek the assistance from a subject matter expert who he is possessing a vast experience in the field. Once the internal audit team leverage both internal and external resources to identify the risk areas then the team can build up a suitable audit program to test the risks.

C. ASSESSING INTERNAL CONTROL FRAMEWORK:-

The internal audit team has to assess the effectiveness of the internal control systems established in the organisation. For this it is to test the control activities to identify and test the effectiveness of the well-controlled process. For this, the team can adopt COSO's internal control components, principles and points of focus.

D. INITIAL DOCUMENT REQUEST LIST.

On acceptance of audit assignment, the audit team should make the following requests before commencement of audit planning in order to gain an understanding of the process/unit/the areas to be audited.

- All policies, procedures, documents and organisation charts
- Key reports use to manage efficiency and effectiveness and process success
- Access to key applications used in the process
- Description and inventory of master data for the process being audited, including all data fields and attributes. After gaining an understanding of the process to be audited through the initial document request, the audit team should request access to master data for the process to be audited to analyse the trends before making sample selections

E. PREPARING FOR A PLANNING MEETING:-

The following steps should be performed to prepare a planning meeting business stakeholders.

- Outline key process steps, highlighting information flows and internal control components.
- Validate draft narratives and flowcharts with subject matter experts within bracket, if any.
- Create an initial pre-planned questioner with internal audits wrapped answers to facilitate a preplanning meeting with the chaotic customers. Preparing the questioner after performing the initial research sets a positive tone for the audit and illustrates that the internal audit is adequately informed and prepared. Once this research is completed. The internal audit team should meet with their key business stakeholders to conform their understanding of the process to be audited.

F. PREPARING THE AUDIT PROGRAM.

Once internal audit team had confirmed their understanding of the process on the risks involved in the process, they would prepare to create an audit program, which should detail the following information.



- Process objectives.
- Process risks.
- Controls mitigating process risks.
- Control attributes, including
 - » Whether the control preventing or detecting a risk event
 - » Control frequency
 - » Whether the control mitigate a fraud risk
 - » Whether the control is performed by manually, or application or both
 - » An initial assessment of risk.
- Testing procedure for controls to be tested during the audit, which include
 - » Inquiring how the control was performing
 - » Testing the control performance
 - » Review the documentation of the performance
 - » Independently performing the controls to validate the outcome.

G. AUDIT PROGRAM REVIEW:-

The audit program, especially those for processors that have never been audited before or audited long before should have multiple levels of review and buy in before should have multiple levels of review before finalised and allowing fieldwork to begin. The following individuals should review and approve the audit program before commencement of fieldwork.

- » Team leader.
- » Subject matter experts.
- » Management's main person of contact for the audit (audit customer)

CRITICAL AREAS TO BE INCLUDED IN THE AUDIT PLAN

A good audit plan would not only meet the transparency in governance or other compliances requirements, but also reflect an enterprise-wide scope and coverage of risks. Therefore, the following five important risk areas to be considered for inclusion in the audit plan so that the internal audit would become effective.

A. CYBER SECURITY:- The Audit plan should include verification of organisation's data encryption, Access management policies and controls, data penetration testing with vendors, business continuity plans, employee information security training.

B. CULTURE AND ETHICS:- The organisation's gender and racial discrimination, succession planning and digital ethics like how the customer/ consumer information was managed and protected across the enterprise.

C. DATA PRIVACY:- which include the General Data Protection regulation and Consumer consent

D. DATA GOVERNANCE:- which include data quality, data migration procedure, data management procedure, and data quality standards and data analytics which include policies and procedures of data analytic functions, proper storage and ownership, controls around data repositories and data access controls.



E. THIRD PARTY RISKS:- Which include background checks, third party risk management, contract management, right to audit clause of these contracts, monitoring and compliance issues.

SETTING AUDIT OBJECTIVES AND CRITERIA:-

After charting out the critical areas to be audited, Audit objectives to be framed with the assistance of the subject expert and the criteria or standards to which these audit objectives are to be tested. Audit objective is nothing but some questions to be raised on the risk mitigation against the standards prescribed. This would enable in the field audit to find results for the questions raised and drafting the report on the economy, efficiency and effectiveness of the resources utilised by the organisation as well as how they had mitigated the risks associated with the business process.

CONCLUSION:

Planning takes into account both external as well as internal factors of an audited entity, internal control systems in place, risks involved and associated with the process to be audited and also the guidance of the subject expert. Since the plan zeros on the areas to be audited, less time would be taken in field work than planned. In summing up, for any successful audit, a well-planned process is very important.