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INTERNAL AUDIT : From Risk Assessment to Value Creation

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If we completed every planned audit but the business remained exposed to its most significant risks, would we call that a successful year…?

Why would a company pay someone to find its own mistakes?

Because having controls is not the same as knowing they work.

? WHAT IS INTERNAL AUDIT?

Independent, objective, risk-based assurance and advice on governance, risk management and controls.

₹ WHY INVEST IN IT?

To identify significant exposures, strengthen confidence and support better business decisions.

THE BIG IDEA

Internal audit helps organizations create, protect and sustain value.

Traditional Internal Audit

A transaction- and compliance-focused approach



VOUCHERS • RECORDS • CHECKLISTS

01

VERIFY TRANSACTIONS

Check vouchers, invoices, entries and supporting records.

02

TEST COMPLIANCE

Compare transactions with policies, approvals and procedures.

03

REPORT EXCEPTIONS

Document deviations and recommend corrective action.

THE CENTRAL QUESTION: “Were the rules and procedures followed?”

What if all the 100 Purchase Orders were properly approved, yet the company is purchasing materials it didn’t need…?

Or the inventory count continued increasing…?

Modern Internal Audit

From checking transactions to understanding business risks

THE QUESTION WE LEFT OPEN

Every purchase order is approved. But inventory keeps rising.

Are we purchasing based on Actual demand?
Are inventory levels monitored?
Are slow-moving materials being reviewed?
Is working capital unnecessarily blocked?

01

START WITH THE RISK

Whether control exists or not?

02

TEST CONTROL EFFECTIVENESS

Whether controls are effectively managing the risks?

03

DELIVER ACTIONABLE INSIGHT

Data Analytics, technology and professional judgement to identify and understand root causes and recommend sustainable improvements

The objective is not to produce more observations, it is to provide more meaningful assurance and insights that adds value to the business

What Does Value Creation Mean?

The value of internal audit goes far beyond identifying cost savings.

01

PROTECT

Safeguard the business

Identify critical exposures before they become losses or failures.

Example: weak vendor bank-change controls

02

IMPROVE

Strengthen performance

Highlight root causes, process gaps and inefficient controls.

Example: excess inventory despite approvals

03

ENABLE

Support better decisions

Provide risk insight and credible assurance to management and the board.

Example: insight into cash tied up in stock

04

SUSTAIN

Make improvements stick

Follow up on actions and verify that redesigned controls work.

Example: review stock norms after 90 days

THE REAL MEASURE: **Did the organization become better protected, better informed, or better controlled?**

THE PROFESSIONAL FRAMEWORK

Two frameworks. One professional objective.

How standards translate into trustworthy assurance and business value

INDIA

ICAI

Standards on Internal Audit (SIAs)

Indian professional guidance on planning, performing, documenting and reporting audits

GLOBAL

IIA

Global Internal Audit Standards

COMMON OUTCOME **Independent assurance → Stronger controls → Better decisions → Sustainable value**

Sources: ICAI Internal Audit Standards Board (Feb 2026 Compendium) | IIA Global Internal Audit Standards (2024)

The Internal Audit Lifecycle

How actually do we conduct Internal Audit that creates value for the organization?



↺ Reassess as the business changes

A report is not the finish line.

Risk Assessment: Start With the Business Objective

Don’t begin with the checklist. Begin with what could stop the business.

THE SCENARIO — **A manufacturing company promises 98% on-time delivery to its customers.**

01 **BUSINESS OBJECTIVE**

Deliver on time

Meet the 98% on-time delivery target

›

02 **WHAT COULD GO WRONG?**

Material shortage

A critical raw material is unavailable when needed

›

03 **WHERE SHOULD IA LOOK?**

Controls & causes

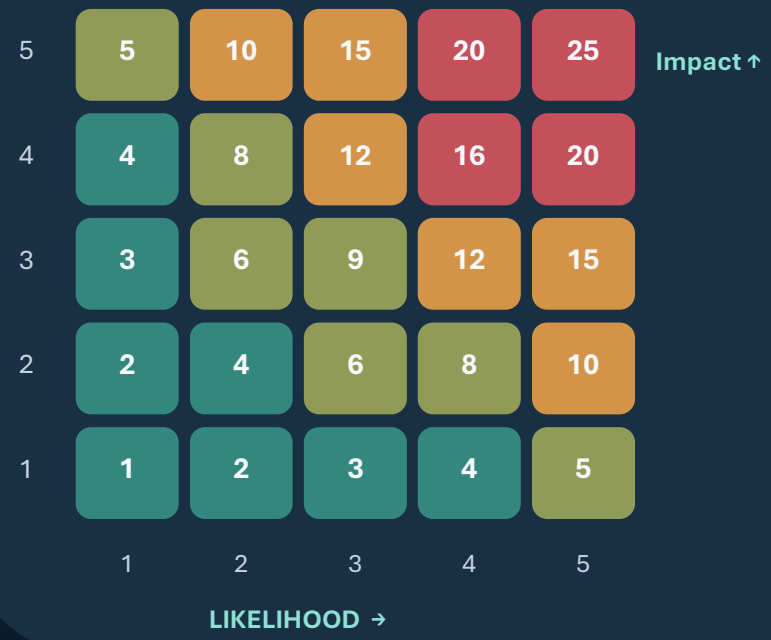
Demand forecasts · Reorder levels · Supplier dependency

THE AUDITOR’S QUESTION — **Are the controls managing the risk—or merely documenting the process?**

Risk Prioritization: Which Risk Comes First?

Risk score = Likelihood × Impact | Scores guide discussion; judgment guides the audit plan.

Illustrative 5 × 5 Risk Heat Map



Procurement Examples

A **Critical raw material shortage**
4 × 5 = 20 • HIGH
Could stop production and customer deliveries

B **Uncompetitive purchase prices**
3 × 3 = 9 • MEDIUM
May cause avoidable cost and margin erosion

C **Incomplete PO documentation**
2 × 2 = 4 • LOW
May weaken transaction evidence and audit trail

Lower Moderate Elevated Higher

Important - Which risk would you prioritize and what controls might change your answer? --- Inherent Risk and Residual Risk

Inherent Risk vs Residual Risk

A high inherent score does not automatically mean controls are ineffective.

EXAMPLE A • CRITICAL RAW MATERIAL SHORTAGE

INHERENT RISK

20 / 25

→

MANAGEMENT CONTROLS

Alternate suppliers • Safety stock

Reorder alerts • Forecast reviews

→

RESIDUAL RISK

5 / 25

WHAT SHOULD INTERNAL AUDIT TEST?

- Supplier dependency and alternate-source readiness
- Safety stock adequacy and stock accuracy
- Reorder alerts, overrides and response time

WHERE IS THE VALUE ADDITION?

- Focus audit effort on significant residual exposure
- Strengthen supply continuity and controls
- Support more reliable customer deliveries

ILLUSTRATIVE ONLY: Residual risk is assessed and not calculated by automatically subtracting control scores.

RACM: Turning Risks into Audit Evidence

A practical P2P example — from what could go wrong to how we test it

01 RISK

Unapproved purchases

Purchases bypass authority limits

→

02 KEY CONTROL

Approval workflow

ERP enforces delegated limits

→

03 AUDIT TEST

Test PO approvals

Scan overrides; inspect samples

→

04 EVIDENCE

PO + approval logs

Authority matrix and audit trail

THE RACM LOGIC

A test is useful only when it addresses a defined risk and produces reliable evidence.

What does an actual RACM look like?

Illustrative Procure-to-Pay (P2P) working paper • Risk → Control → Procedure → Evidence

RISK / WHAT CAN GO WRONG?	KEY CONTROL	AUDIT PROCEDURE	EVIDENCE TO RETAIN
Unauthorized or fictitious vendor created	Independent approval of new vendors; bank details verified before activation	Review vendor creation logs; inspect approval and bank verification for selected changes	Vendor master log; onboarding documents; approval trail
Purchase orders split to bypass approval limits	Delegation of Authority (DoA) workflow; review of orders near limits	Scan POs by vendor, requester and date for threshold patterns; investigate exceptions	PO extract; DoA; workflow logs; exception review
Payment made against invalid or unmatched invoice	PO–GRN–invoice matching before payment; controlled exception approvals	Test sample of paid invoices and matching records; review override population	PO; GRN; invoices; payment and override logs
Duplicate supplier payment	System duplicate-invoice checks plus periodic AP exception review	Analyze vendor, invoice reference and amount combinations; validate potential duplicates	AP ledger; invoice images; duplicate exception report

Think and Research **If the approval exists on paper, how do we prove it operated effectively?**

WHO OWNS THE RISK?

The IIA Three Lines Model



KEY MESSAGE **Management owns risks and controls. Internal audit provides independent assurance and advice.**

Source: The IIA's Three Lines Model (2020; updated 2024) · Simplified illustration

AUDIT EXECUTION

From RACM to Testing & Evidence

P2P example · Were purchase orders approved within the delegated authority?

01
RACM TEST
Identify approval risk and expected control

02
GET THE DATA
PO register, DoA, workflow logs

03
TEST CONTROLS
Check approvals; scan for split PO patterns

04
VALIDATE FLAGS
Inspect documents; obtain explanations

05
CONCLUDE
Evaluate exceptions, causes and impact

ILLUSTRATIVE EXCEPTION TRAIL

DATA FLAG	RULE TRIGGER	AUDIT VALIDATION	AUDIT DECISION
2 POs · same vendor	Below approval threshold	Same requirement? Same day?	Potential split order; not yet a finding

KEY PRINCIPLE **An analytics flag is a lead—not an audit finding until evidence supports the conclusion.**

From Finding Exceptions to Business Insights

P2P example • Purchase-order approval controls

SAMPLE TESTING

Check selected POs against the delegation of authority

Inspect approvals, dates, approver roles and supporting documents.

Identify control deviations

POPULATION ANALYTICS

Scan all available PO records for patterns that deserve investigation

Split orders • repeated overrides
threshold clustering • unusual trends

Identify possible systemic exposure

WHERE IS THE VALUE ADDITION?

Validate flagged cases → identify root cause → assess business exposure → propose preventive controls

ILLUSTRATION: 40 flagged POs are leads to investigate, not 40 proven control failures.

From Audit Observation to Root Cause

BASIC OBSERVATION

“40 purchase orders were flagged as potentially split below approval limits.”

INVESTIGATE → VALIDATE → EXPLAIN THE BUSINESS RISK

01

CONDITION

Validated orders were split for the same requirement, bypassing higher approval.

02

ROOT CAUSE

ERP approval limits apply per PO; no cumulative-order exception review.

03

BUSINESS IMPACT

Unauthorized commitments and weaker oversight of procurement spend.

04

RECOMMENDATION

Aggregate related orders, flag patterns and assign management review.

A good audit finding explains what happened. A valuable audit finding also explains why it happened, why it matters and what needs to be changed.

Illustrative P2P example · Only validated exceptions become audit findings

From Findings to Management Decisions

A good report does more than describe deviations. It makes the risk and required action clear.

BEFORE • EXCEPTION REPORTING

“40 POs potentially split to avoid approval limits.”

Counts exceptions. Leaves the business question unanswered.

AFTER • DECISION-READY AUDIT INSIGHT

Control gap	Validated splitting of related POs bypassed delegated authority.
Exposure	Risk of unauthorized procurement commitments; quantify only where supported.
Root cause	Approval checks apply PO by PO, with no review of linked orders.

MANAGEMENT ACTION **Control redesign + exception review** Owner: Procurement + IT Due: 60 days*

WHERE IS THE VALUE ADDITION? **We move from documenting problems to enabling informed management decisions**

Fictional P2P illustration • *Illustrative management target; not an audit fact • Risk rating requires agreed criteria

AUDIT FOLLOW-UP

Did our recommendations actually reduce the risk?

COMPLETED

Action implemented

ERP workflow updated; cumulative PO checks enabled.

EFFECTIVE?

Control independently retested

Review subsequent transactions, overrides and exception follow-up.

The value addition is measurable now – We can evaluate whether the risks of unauthorized purchases has reduced and management now has better visibility over exceptions

FOLLOW-UP ≠ STATUS TRACKING | Verify implementation AND operating effectiveness

TECHNOLOGY & AI IN INTERNAL AUDIT

From manual checking to smarter, risk-focused assurance

01

DATA ANALYTICS

See patterns at scale

Scan purchase orders for split orders, duplicate payments and unusual pricing.

02

AUTOMATION

Test more consistently

Run repeatable exception checks and flag control deviations for review.

03

AI-ASSISTED AUDIT

Turn data into hypotheses

Summarize policies, suggest audit tests and support report drafting—with validation.

P2P EXAMPLE • HOW TECHNOLOGY ADDS VALUE

ERP purchase-order data → **40 potential split-PO flags** → **Validated risks + control fixes**

VALUE ADDITION: Wider coverage • Earlier risk signals • Better insights — Not a substitute for evidence or judgment

A REAL AUDIT. A SMARTER APPROACH.

Automating discount validation with Python

BEFORE | MANUAL TESTING

Lakhs of invoice line items

Sample selection • Scheme lookup • Recalculation

AFTER | PYTHON AUTOMATION

Scheme master + Invoice data

Apply approved scheme rules → Recalculate discount → Flag variances

UPLOAD → MATCH SCHEME → CHECK DISCOUNT → EXCEPTION REPORT

THE VALUE ADD — **Full-population rule testing • Less manual checking • More time for root causes & revenue-leakage insights**

Auditor still validates source completeness, scheme logic and flagged exceptions.

Slide 20 | From Excel to Audit Insights

Example: An O2C receivables audit using a structured AI prompt

01 UPLOAD
Invoice-level AR data

→

02 ASK AI
Structured audit prompt

→

03 VALIDATE
Reconcile & investigate

→

04 CREATE VALUE
Target credit-control risks

Illustrative Prompt

"Act as an internal auditor. Analyze the attached AR Invoice Data as of 30 September 2026. Quantify overdue balances and ageing, identify concentrated or recurring overdue customers, and suggest audit procedures. Reconcile your calculations to the data. Separate risk indicators from confirmed control failures; do not invent missing information."

VALUE ADDITION Less time preparing ageing → More time investigating collections, credit controls and working capital

FICTIONAL DEMONSTRATION • AI OUTPUT MUST BE CHECKED AGAINST COMPLETE, RELIABLE SOURCE DATA

The Value Creation Journey

How internal audit converts business risks into assurance, action and sustainable outcomes

THE AUDIT JOURNEY

01
Understand
Business goals, KPIs & what could go wrong

02
Prioritize
Risk assessment & audit focus

03
Design
RACM, key controls & test plan

04
Validate
Data analytics, evidence & exceptions

05
Influence
Root causes, impact & agreed action

06
Verify
Follow-up & control effectiveness

VALUE IS NOT THE NUMBER OF FINDINGS

It is the quality of assurance and the improvement in how risks are managed.

WHAT THE BUSINESS GAINS

RISK PROTECTION
Prevent losses, failures and non-compliance

PROCESS EFFICIENCY
Reduce delays, waste and repetitive checks

BETTER DECISIONS
Convert reliable evidence into actionable insights

SUSTAINABLE CHANGE
Validate implemented controls and outcomes

Thank You

Questions & Discussion

“The true value of internal audit lies not in how many issues we find, but in how effectively we help organizations manage what matters.”



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