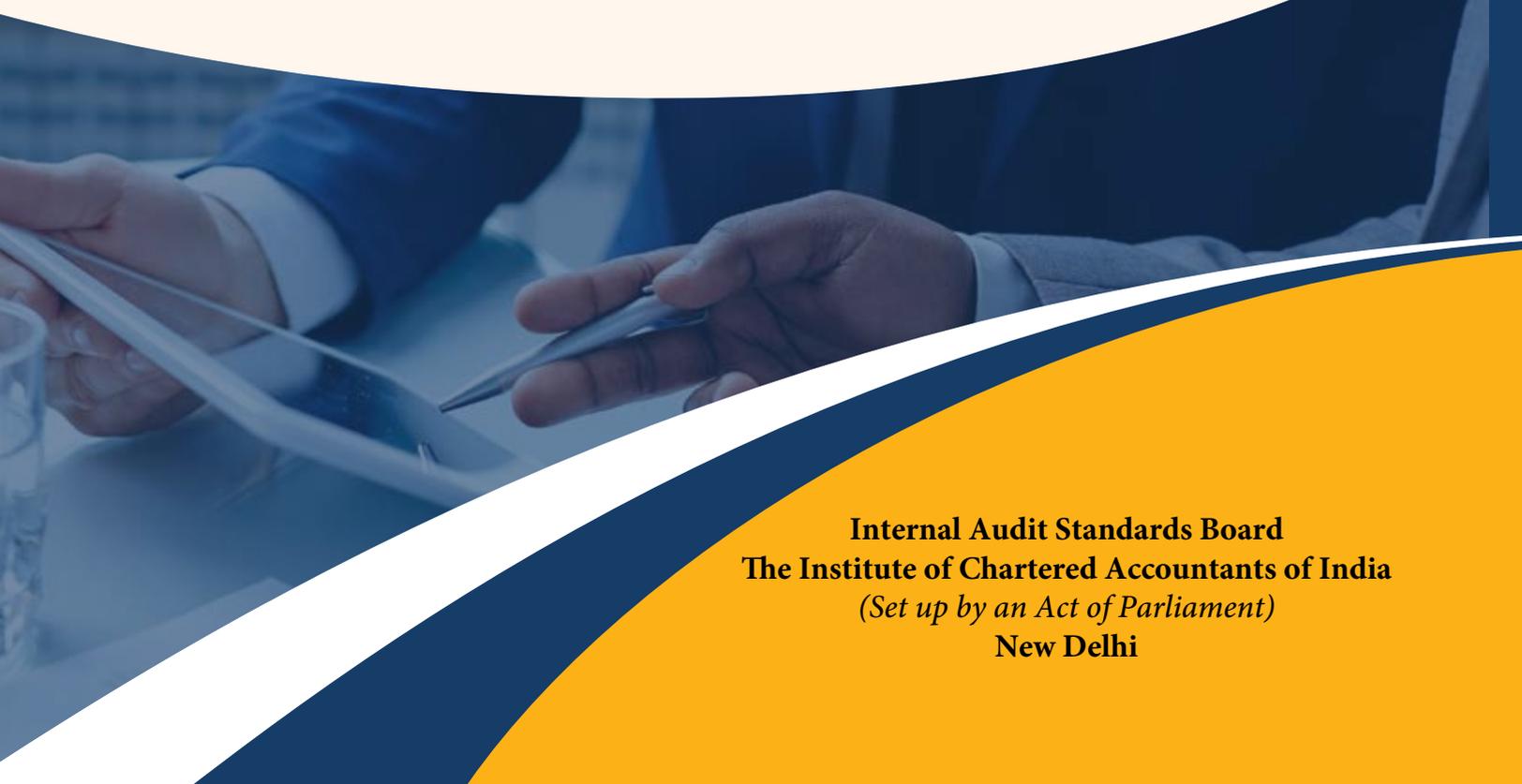




# **Survey Report on the State of Internal Audit Profession in India 2019**



**Internal Audit Standards Board**  
**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
New Delhi

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Request for permission should be sent to [secretary@icai.in](mailto:secretary@icai.in) or at The Secretary, The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, Post Box no. 7100, New Delhi 110 002

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## ABOUT THE SURVEY

This is first comprehensive survey commissioned by the Institute of Chartered Accountants of India (ICAI) on the Internal Audit profession in India and conducted under the aegis of the Internal Audit Standards Board (“Board”). The survey polled 406 participants, mostly including members of ICAI, both from the industry (44%), and in practice (56%) and others, covering a broad range of topics through 27 questions, during November and December 2018.

This report is an outcome of this exercise and is designed to gauge the current pulse, and future prospects, of the Internal Audit profession in India based on quantitative, as well as qualitative inputs of the participants. After making an evaluation of the current scenario, (i.e., the current issues and challenges), and how things are likely to evolve in the future, an action plan is being drawn-up by the Board for moving the Internal Audit profession forward in a highly focused and effective manner.

# KEY COMPONENTS OF INTERNAL AUDIT



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## INTRODUCTION

### THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

The Institute of Chartered Accountants of India (ICAI) is a statutory body established by an Act of Parliament, viz., The Chartered Accountants Act, 1949 (Act No. XXXVIII of 1949) for regulating the profession of Chartered Accountancy in the country. ICAI is the second largest professional body of Chartered Accountants in the world, with a strong tradition of service to the Indian economy in public interest.

Over a period of time, ICAI has achieved recognition as a premier accounting body not only in the country but also globally, for maintaining highest standards in technical, ethical areas and for sustaining stringent examination and education standards. Since 1949, the Chartered Accountancy profession in India has grown leaps and bounds in terms of members and students base.

### INTERNAL AUDIT STANDARDS BOARD, ICAI

The primary objective of the Board is to review existing internal audit practices in India and to formulate Standards on Internal Audit, which would be issued under the authority of the Council.

## TERMS OF REFERENCE

- ◆ To review existing and emerging internal audit practices worldwide and identify areas in which Standards on Internal Audit (SIAs) need to be developed.
  - ❖ to formulate Standards on Internal Audit (SIAs) which may be issued under the authority of the Council of the Institute.
  - ❖ to formulate Guidance Notes on issues relating to internal audit, including those arising from the SIAs, or pertaining to any specific industry, which may be issued under the authority of the Council of the Institute.
  - ❖ to continuously review the existing Standards and Guidance on Internal Audit and to undertake their revision, if necessary.
  - ❖ to formulate and review Implementation Guides, Technical Guides, Practice Manuals, Studies and other papers, which may be issued under its own authority for guidance of the members, as felt appropriate by the Board.
- ◆ To undertake research and promote knowledge dissemination in the field of internal audit.
  - ❖ To organize conferences, seminars, training programmes, workshops, webinars, e-learning programs, surveys, etc., on the topics related to internal audit, including risk management and governance.
  - ❖ To conduct Certificate Courses/Diploma programs, etc. on topics related to internal audit.



**CA. Naveen N. D. Gupta**  
President, ICAI



**CA. Prafulla Premsukh Chhajed**  
Vice-President, ICAI

## MESSAGE

Internal Audit is one of the most important pillars of the governance framework in any organisation. The Institute of Chartered Accountants of India foresightedly realised the growing importance of the Internal Audit in profession, and 15 years ago in February 2004 constituted the “Committee for Internal Audit”. This Committee was subsequently, in November 2008, renamed as “Internal Audit Standards Board”, when the importance of issuing Internal Audit Standards was recognised.

Since then, the Board has been doing exemplary work in the Internal Audit Profession and, in addition, overseeing the whole Concurrent Bank Audit agenda. A total of 18 Standards have been issued so far, along with more than 40 Technical and Generic Guides on Internal Audit covering various topics and industries. Certificate Courses on Concurrent Audit, Internal Audit and Risk Management have also been commended by the Board over a period of time.

Recently, a renewed program has been undertaken by the Board to revise and upgrade the Standards, the guidelines and also the Certificate Courses. In addition, there is now a new initiative to connect with the members who are pursuing expertise in this area as well as to better support members in Industry conducting Internal Audits. This Survey on the State of the Internal Audit Profession in India is a step in that direction. Through direct inputs from members (and also others), the Board is focused on getting a better pulse of the profession in India.

The Institute has always prided itself in being a torch bearer in all aspects of auditing, including internal auditing. With all the changes currently taking place, it is incumbent upon the Institute and the Board to better serve its members in a highly effective manner. The Institute will therefore continue to equip its members and firms to the evolving dynamics of the profession by getting a better appreciation of their needs and requirements, some of which will be collected through this survey.

We take this opportunity to congratulate CA. Anil Bhandari, Chairman, CA. Mukesh Singh Kushwah, Vice Chairman, and other members of the Internal Audit Standards Board of ICAI, for undertaking the initiative to conduct this Survey.

We look forward to continuing our service to the nation by capacity building of our members in the Internal Audit profession.



**CA. Anil Bhandari**  
Chairman, Internal Audit  
Standards Board



**CA. Mukesh Singh Kushwah**  
Vice-Chairman, Internal Audit  
Standards Board

## MESSAGE

It is a well acknowledged fact that the Internal Audit profession in India is undergoing a major transformation, partly driven by the various pulls and pushes it has been facing recently. The pulls of emerging risks and technology on the one hand, and the pushes of compliance and governance failures on the other hand, have all ensured that the state of the profession of the future is going to have little resemblance to the state of the profession of the past, or even the current.

The Internal Audit Standards Board (the “Board”) of the Institute of Chartered Accountants of India recently embarked on a transformation of its own. In order to ensure that the initiatives of the Board are in harmony with the transformation of the profession underway, the Board decided to have a stronger connect with its members, both practicing as well as those in the industry. In line with this intent, the need emerged for a comprehensive Survey of the state of the profession. Hence this survey was launched in November 2018, with the objectives:

- to gauge the current pulse of the Internal Audit profession in India by taking direct inputs from its members.
- to reach out to all the members of the Institute, both in industry and practice, (and also others in the profession), so as to fully understand the state of the profession from all perspectives.
- make an evaluation of the current scenario, (i.e., the current issues and challenges), and how things are likely to evolve in the future.
- draw up an action plan for moving the Internal Audit profession forward in a highly focused and effective manner, and thereby better serve the needs of the members and all other stakeholders.

Keeping this in mind, this survey was developed and conducted by the Board over a period of approximately seven weeks in November and December, 2018.

The inputs and feedback received through the Survey has been very insightful and we hope that the reader will find it very valuable. We are very grateful to participants who took time out from their busy schedule to provide their inputs through the survey. Inputs were both quantitative, in the nature of ratings, as well as qualitative, in the nature of written comments.



At this juncture, we wish to place on record our sincere thanks to members of the Delhi-based study group, viz., CA. Anuj Mathur, CA. Surath Mukherjee, CA. Sidheshwar Bhalla, CA. Sanjeev Sood, CA. Saket Mehra, CA. Sivaram Subramoniam, CA. Madhur Gogia, CA. Naval Bajaj, CA. N. G Shankar, CA. Deepika Lubdani, Shri VGVS Sharma, CA. Gautam Chandra, CA. Anil Sharma, CA. Avineesh Matta, CA. Anil Gupta, and CA. Visha Kirti for providing inputs while drafting the Survey Report.

We would like to thank to CA. Naveen N D Gupta, President and CA. Prafulla Premsukh Chhajed, Vice President for their continuous support and encouragement to the initiatives of the Board.

A special thanks is also due to our colleagues from the Council at the Internal Audit Standards Board, viz., CA. Nihar Niranjana Jambusaria, CA. Dhiraj Kumar Khandelwal, CA. Dhinal Ashvinbhai Shah, CA. Madhukar Narayan Hiregange, CA. K Sripriya, CA. M P Vijay Kumar, CA. Ranjeet Kumar Agarwal, CA. (Dr.) Debashis Mitra, CA. Manu Agrawal, CA. Prakash Sharma, CA. Sanjiv Kumar Chaudhary, CA. Vijay Kumar Gupta, CA. Sanjay Vasudeva, Ms. Ritika Bhatia and Shri Sunil Kanoria for their vision and support. We also wish to place on record our gratitude for the co-opted members on the Board viz., CA. M Srinivasan, CA. Satish Shanbhag, CA. Mihir Kumar Sahu, CA. Nirmal Kumar Kotecha, CA. Kailash Agarwal, CA. Sanjay Agarwal, CA. Dilip Vasant Rao Satbhai and special invitees viz., CA. Sumant Chadha, CA. Sameer Mittal, CA. Ajeet Jalan, CA. Kaushal Kishore Kaushik, CA. Vikram Kapoor and CA. Pankaj Gupta for their invaluable guidance as also their dedication and support to the various initiatives of the Board. I also wish to express my sincere appreciation to Mr. Harish Dua, Advisor-Internal Audit, CA. Arti Bansal, Secretary, Internal Audit Standards Board and their team for untiring efforts in drafting, analysing and giving final shape to the Survey Report.

Finally, the Board thanks all the members and other Internal Audit professionals for their time, and sharing their candid views by participating in the survey.



### **Dr. Bhaskar Chatterjee**

**Director General & Ex-CEO, Indian Institute of Corporate Affairs**

“Today, the Boards of companies are increasingly reaching out to internal auditors to help them get a 360 Degree view of the company. Since the tasks and responsibilities of Board members have become increasingly onerous, particularly in the light of the newly passed Companies Act of 2013, Board Members are seeking the help of Internal Audit professionals to fully comprehend not only compliance issue but also issues relating to internal efficiencies, risk management and even operational methodologies.”



### **Sanjay Kapoor**

**Business Leader & Entrepreneur**  
**Independent Director on Board of leading Companies**  
**Ex-CEO, Bharti Airtel and Ex-Chairman, Micromax**

“Despite all the overwhelming technology changes, and despite whatever is being said about the auditors job being wiped out, or not being as prominent the right spirit to take these changes is that we have to adapt ourselves, re-skill ourselves, reposition ourselves, and these changes in no way mean that our jobs will be wiped out. Never forget we as humans are amongst the most resilient species!”

## EXECUTIVE SUMMARY

This survey reveals that while the participants view the current state of the Internal Audit Profession in India to be quite disappointing, the future is never-the-less, very bright. The respondents in industry are slightly more optimistic than their counterparts in practice. There are of course, various reasons for this overall view, but the most notable concern are as follows:

- The role and responsibility of the Internal Auditor is undergoing a major change and a clear and distinct opportunity exists to move up the value chain from basic control & compliance (value preservation) to system & process improvement (value addition) and finally to governance & strategy (value maximisation).
- The priorities of the internal auditors are being recalibrated to become well aligned with the above-mentioned upward movement, since a greater percentage of time is being devoted to high-value activities and this is anticipated to go up further in the future.
- The reliability and credibility of the assurance being provided through quality audits is set for a change and hence, the possibility of closing the expectation gap with key stakeholders is quite promising. The manner with which the audit activities are being conducted is set to get more formalized through more mature and reliable audit processes.
- While the current extent of technology deployment is somewhat low, this is going to change significantly with greater infusion of technology into the audit process in the future, which is bound to make the internal audits more efficient and effective.
- The independence of the internal auditor is perceived to be somewhat of an issue, since a significant number of participants indicated ineffective implementation of the law which mandates the appointments and objective setting of the internal auditor to be done by the Board of Directors. However, two third of participants did indicate the appointment of the Internal Auditor involved the Board in some way.

The only dampener to the afore-mentioned positive sentiments is that the participants expressed a somewhat dim view of the pace of change, and felt that speed of progress can be accelerated significantly. They expressed a desire to see the ICAI play a more active role as a catalyst of change, and assume a leadership position in this regard. Some of the initiatives which need to be driven by the ICAI are along the lines of mandatory Standards on Internal Audit, more education and training initiatives and a stronger disciplinary mechanism.

The credibility of the survey can be gauged from more than 400 participants, who were also quite vocal in the qualitative inputs and gave specific suggestions (some of which are included in this report), and all of which are planned to be thoroughly evaluated for implementation.

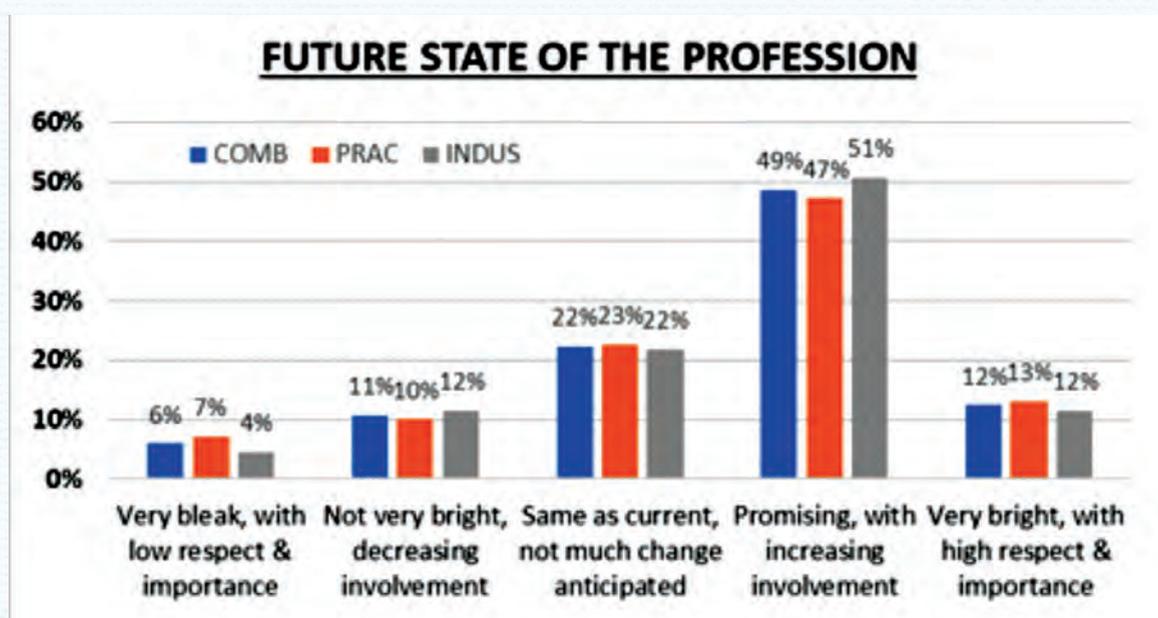
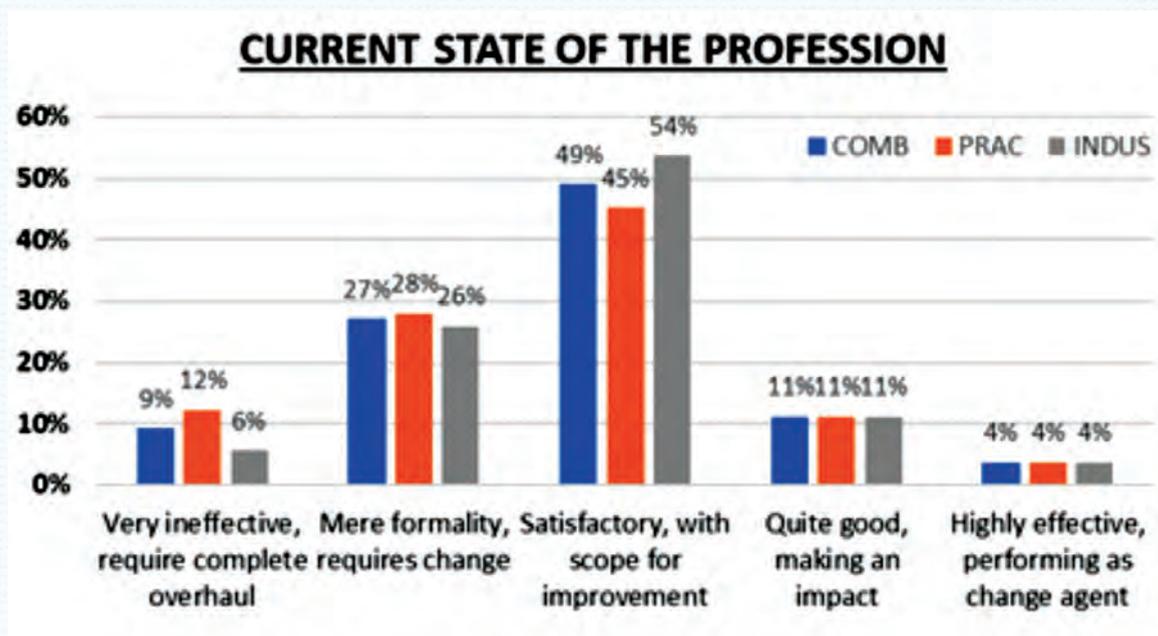
Finally, a caveat: This Survey has been a quite demanding exercise given that such a comprehensive survey has not been undertaken by the Board before and was being done in-house, as opposed to an out-sourced project as originally conceived. Hence, some scope for improvement was assured for next time.

Since one of the objectives of the exercise was to develop a concrete action plan going forward, there was a slight inclination to pre-identify a number of areas as possible answers to some of the questions so as to get a ranking through inputs from the participants. While this manner of prioritisation of the areas has its merits, it probably came at the cost of closing out some other options which the participants wanted to indicate. Keeping this limitation in mind, a review of the qualitative inputs was undertaken to ensure that no major area is being omitted.

### OVERALL STATE OF THE INTERNAL AUDIT PROFESSION IN INDIA

To begin with the outcome of the two key questions which were posted on the Overall State of the Internal Audit profession, now and in the future are being shared. The response to these is as follows:

(PRAC – Practice, INDUS – Industry and COMB – Combined)



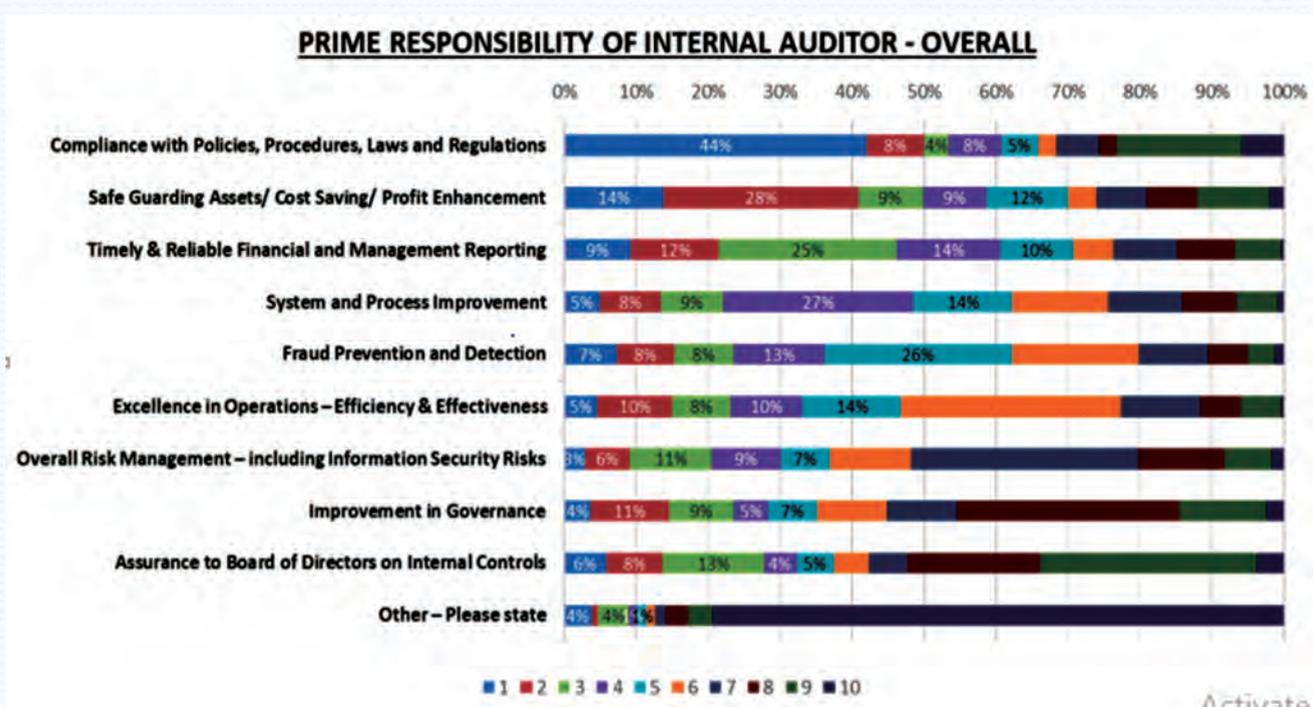
As can be seen from the above, while the current state is viewed to be somewhat dismal, the future never-the-less is quite optimistic. More than a third of the survey respondents (36%), rate the current status to be below the desired level – Very ineffective (9%) and mere formality (27%). Those in practice are in fact more discouraged since as many as 40% have this view (12% + 28%), while those in industry (31%) are somewhat more optimistic.

Despite this low rating of the current state, almost all have never-the-less, rated the future to be much brighter. Those who view the future state of the profession to remain below the desired level drops down to 17% (from 36%), while those who view the situation to improve from the current state increases from 15% to 61% - a jump of 45% points! This appears partly to be a testament to the various initiatives already underway in the profession as a whole – most of which are covered in other parts of the Survey report.

**The most notable aspect is the 49% Combined, who currently rate the profession to be Satisfactory, but who all seem to shift to the next level of Promising (49%) in the future!**

**PRIME RESPONSIBILITY OF THE INTERNAL AUDITOR**

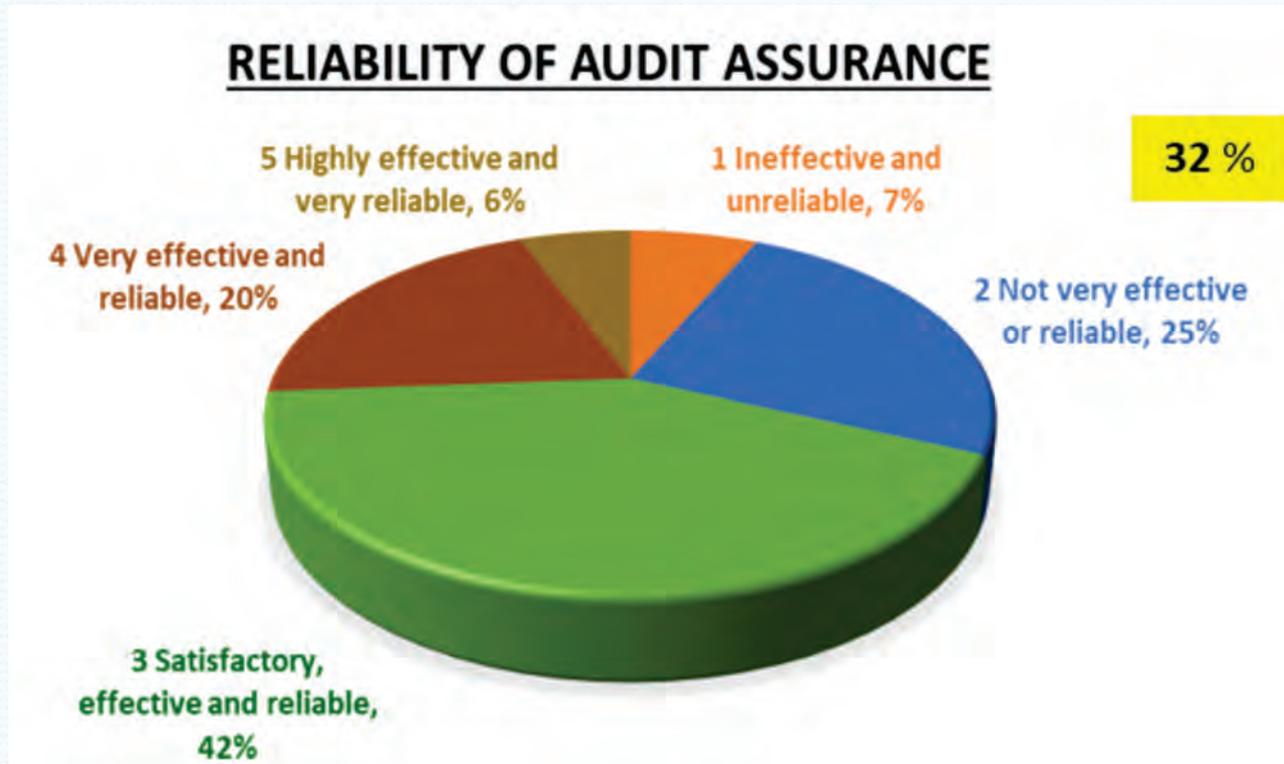
One of the key questions included in the survey concerned what the participants viewed as the prime responsibility of the internal auditor. The participants were quite clear in terms of assigning prime responsibility to the basic and fundamental duties of Compliance, Asset safeguarding, Financial and Management Reporting and Process improvement and rated them as the top four areas (in that order).



Activate

## RELIABILITY OF AUDIT ASSURANCE

With the background of the new definition of Internal Audit, recently released by the Board, and which requires the provision of an independent assurance, the participants were asked to rate the effectiveness and reliability of the independent assurance being provided currently. In this regard, 32% participants gave a below average (unreliable) rating, confirming the need for significant work required in this area.



## PRIORITIES OF THE INTERNAL AUDITOR

The Survey was designed to understand the current and future areas of focus and priority of the internal auditor, and how this may change over time.

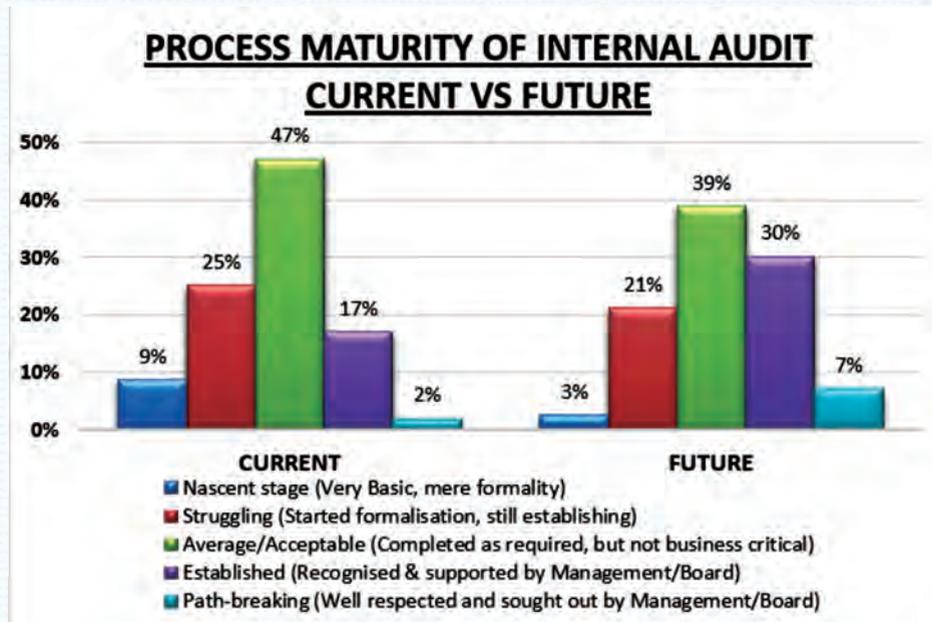
The responses of the participants can be summarised into three categories:

- 1) Fundamental and basic areas of priority - Legal compliance, Internal controls and System & Process areas. These are like the “bread and butter” of internal audit and need to be addressed, no matter what.
- 2) Emerging areas of focus – IT and Security, Operational aspects, Risk Management and Fraud Risk in particular. These need to address the ever-increasing expectation of demanding stakeholders.
- 3) Aspirational areas of focus – Governance, Strategic and Business support. These are more in the nature of advisory services.



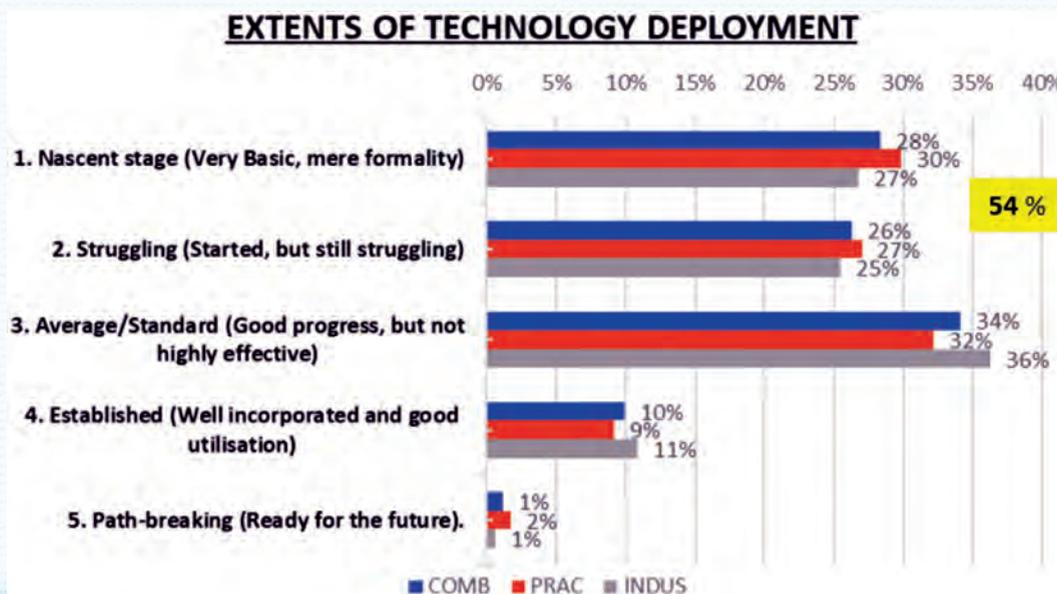
### PROCESS MATURITY OF INTERNAL AUDIT

In order to understand to what extent Internal Audit follows a robust and methodical process, the survey tried to identify the process maturity level, both current and in the future. Currently, 34% of respondents give a nascent/struggling maturity rating, they were quite optimistic and anticipate a large improvement from the current 19% to 37% in the Above Average ratings.

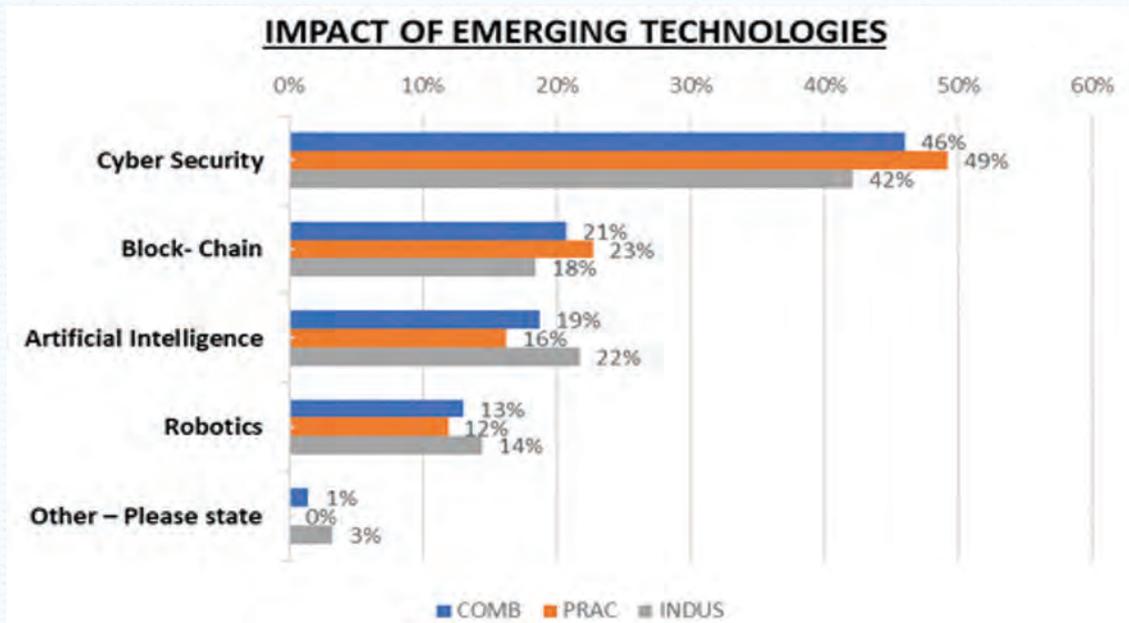


### TECHNOLOGY DEPLOYMENT

Participants to the survey were also asked to rate the current level of technology deployment within their internal audit process to make it more efficient and effective. A significant number (54%) rated the current status to be at a nascent/struggling level – or below average, and the rating were quite similar for both for those in practice (PRAC) and industry (INDUS).

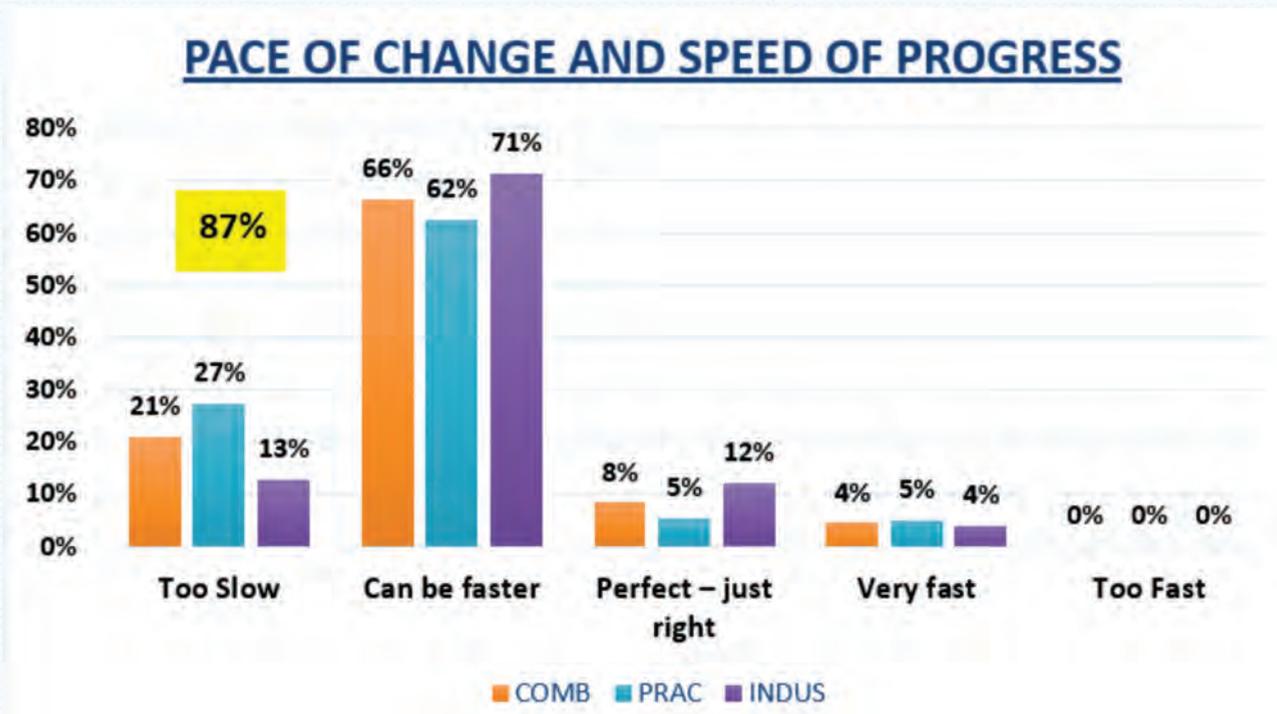


In order to evaluate the impact which emerging technologies are having on the Internal Audit profession, most rated Cyber Security as having a very high impact (46%), followed by Block-Chain and Artificial Intelligence. Robotics was rated quite low.



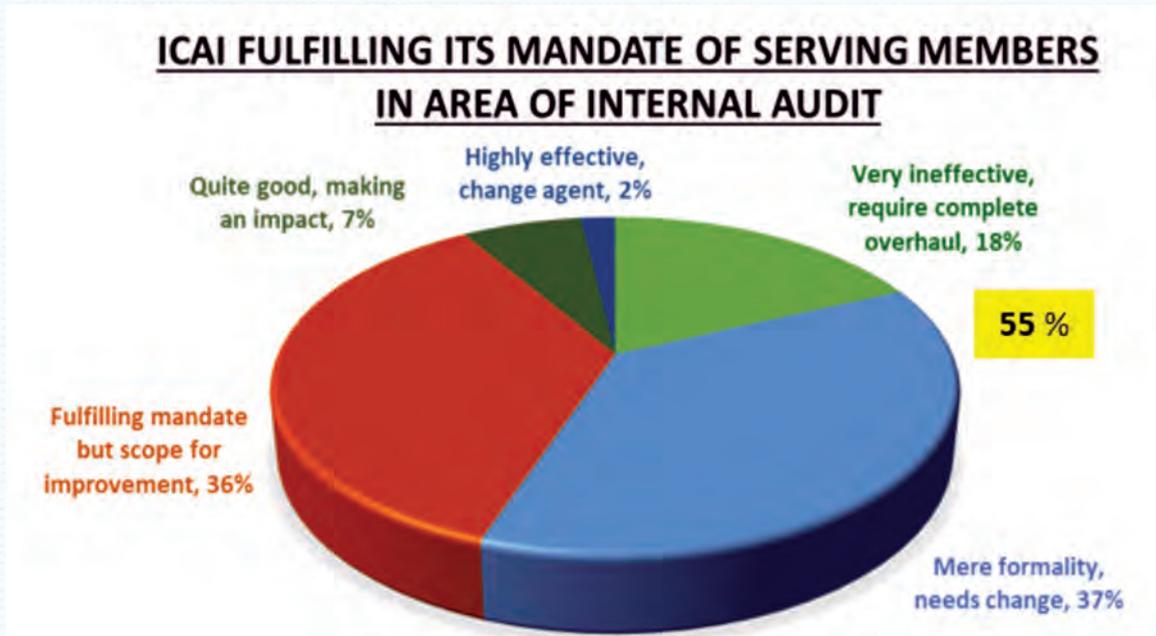
**PACE OF CHANGE**

Regarding speed at which progress is being made in the Internal Audit Profession, the participants were quite unanimous (87%) that change is too slow and could be much faster.

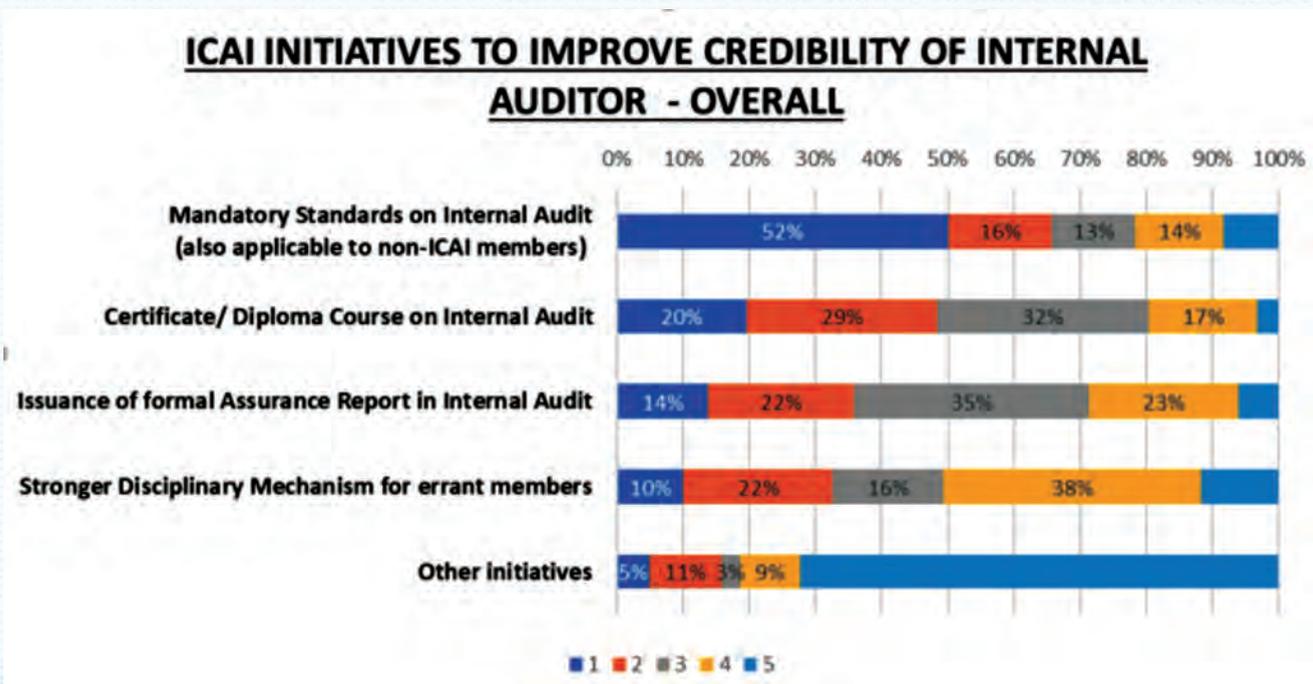


### EXPECTATIONS FROM ICAI

On the question of how well is the ICAI fulfilling the needs of serving its member in the area of Internal Audit, 55% of the participants expressed a certain degree of disappointment by giving a rating of below average. This was more so in the case of respondents from the Industry where this rating (below average) was 60%. This presents an opportunity for the Board to take some concrete actions and correct the situation.

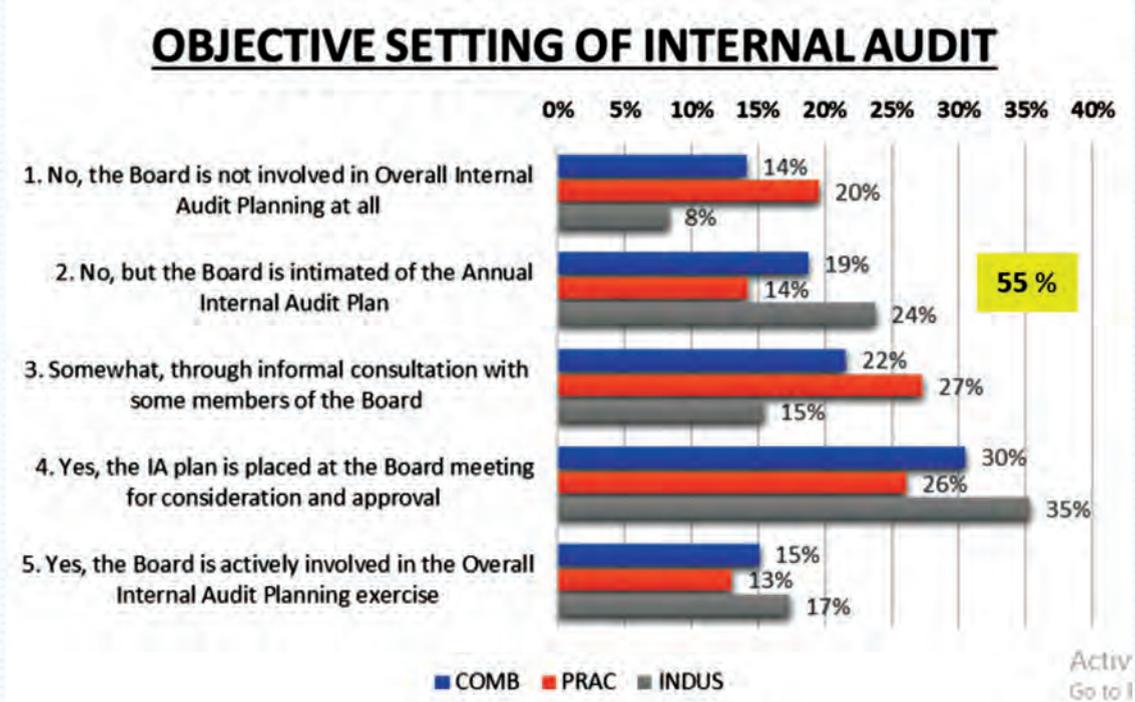
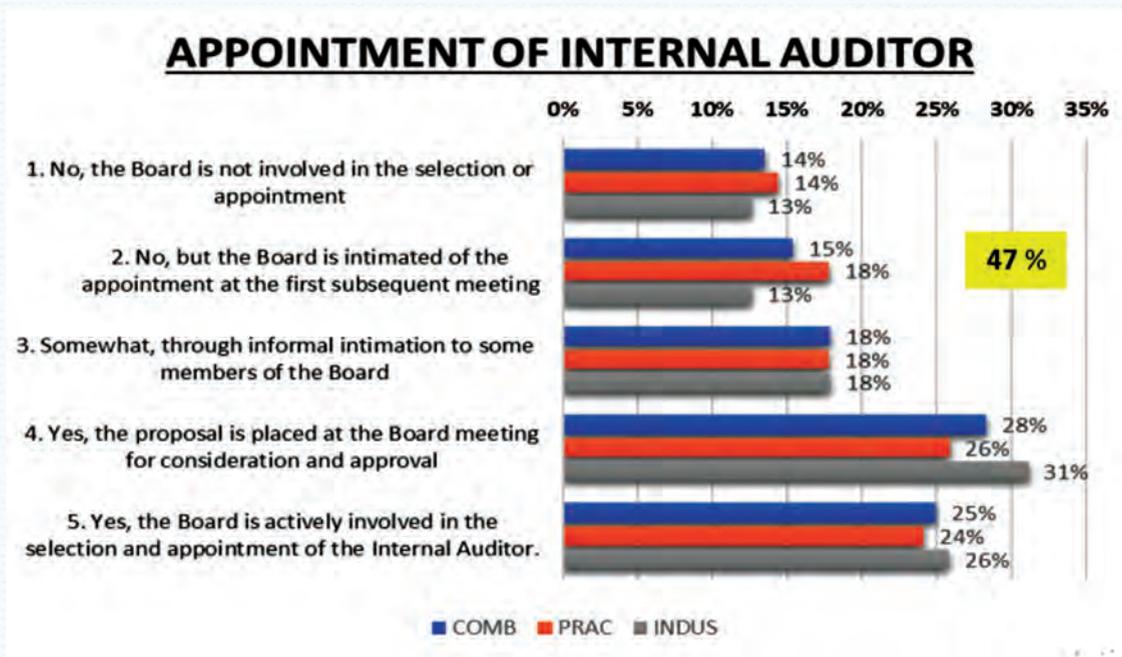


Respondents were also quite clear on the initiatives to be taken by the ICAI to improve the credibility of the Internal Auditor by rating very high the need for mandatory Standards on Internal Audit.



### APPOINTMENT AND OBJECTIVES OF INTERNAL AUDITOR

Two new legal mandates were introduced in the Companies Act, 2013 concerning the Internal Auditor. One of them pertains to the appointment of the Internal Auditor and the other concerns the setting of the objective of Internal Audits (both of these exercises are required to be done by the Board of Directors, as per the new law). Since, they also have a significant impact on the independence and empowerment of the Internal Auditor, survey questions were posed to gather the extent of their implementation. The response was quite discouraging, showing a high rating for non/partial compliance on both counts, as follows:



Activ  
Go to I

## PROFILE OF PARTICIPANTS

In this section, an overview of the profile of the participants has been provided.

### OVERALL SUMMARY OF RESPONSES

The overall response to the survey has been quite encouraging, especially given the first-time nature of this exercise and the short time frame within which it was conducted. It was particularly heartening to note the participation of members in Industry. The overall response rate has been as follows:

	Members	Others	TOTAL
Industry	165	14	<b>179</b>
	92%	8%	<b>44%</b>
Practice	218	9	<b>227</b>
	96%	4%	<b>56%</b>
Total	383	23	<b>406</b>
	94%	6%	<b>100%</b>

### LOCATION OF PARTICIPANTS

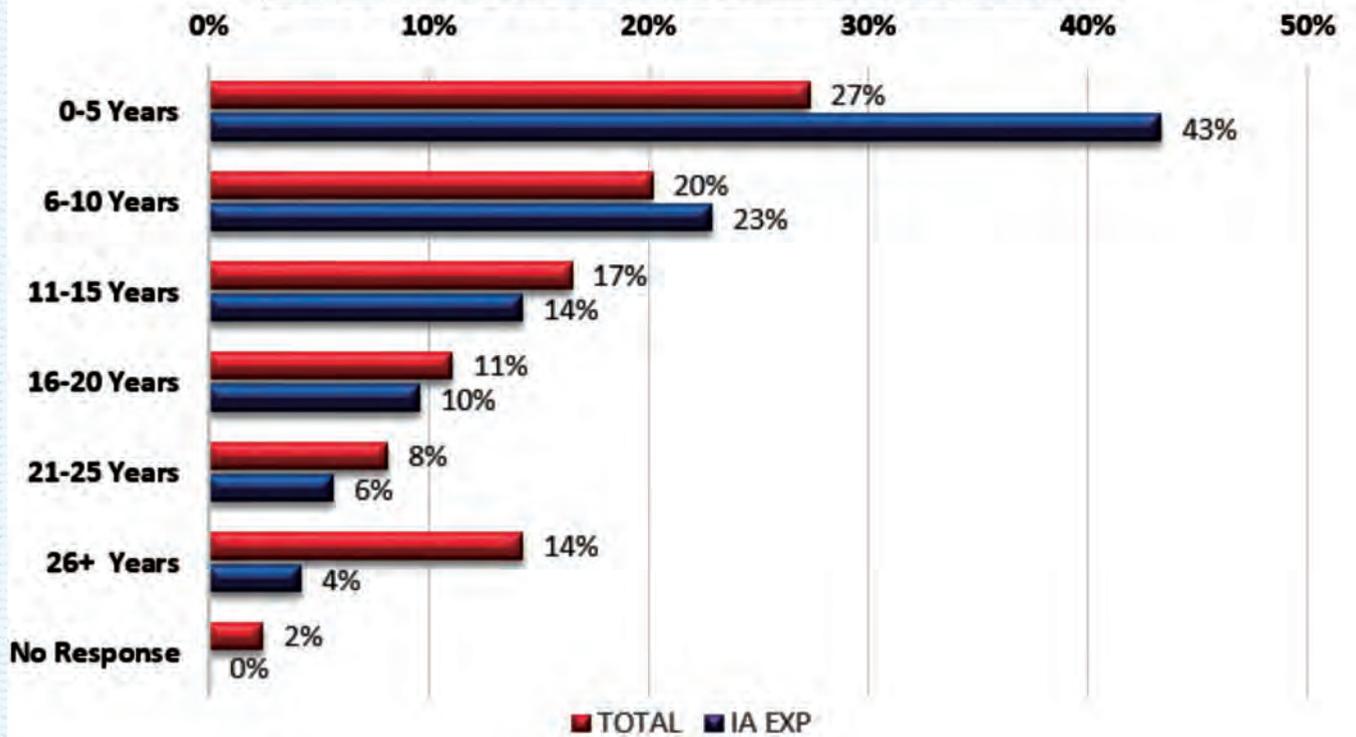
While we reached out to all members of ICAI and others, the participation level of those from the metros has been very commendable with almost two-third of the response from the top-8 metros, as follows:

Location of Responses	Number	%
Delhi/NCR	69	17%
Mumbai	63	16%
Chennai	33	8%
Bangalore	29	7%
Hyderabad	19	5%
Kolkata	17	4%
Pune	17	4%
Ahmedabad	14	3%
Abroad	4	1%
Rest of India	141	35%
<b>TOTAL</b>	<b>406</b>	<b>100%</b>

### EXPERIENCE LEVEL OF PARTICIPANTS

Most of the participants (64%) are young members with experience level of 15 years or less, and 80% of the participants have Internal Audit experience of 15 years or less. This validates the young nature of the Internal Audit profession in India and a gradual shift of more members into the profession.

## EXPERIENCE LEVEL OF PARTICIPANTS



Experience Level	TOTAL EXPERIENCE					
	INDUSTRY	%	PRACTICE	%	TOTAL	%
0-5 Years	48	27%	63	28%	111	27%
6-10 Years	29	16%	53	23%	82	20%
11-15 Years	35	20%	32	14%	67	17%
16-20 Years	20	11%	25	11%	45	11%
21-25 Years	15	8%	18	8%	33	8%
26+ Years	27	15%	31	14%	58	14%
No Response	5	3%	5	2%	10	2%
<b>TOTAL</b>	<b>179</b>	<b>100%</b>	<b>227</b>	<b>100%</b>	<b>406</b>	<b>100%</b>

Experience Level	INTERNAL AUDIT EXPERIENCE					
	INDUSTRY	%	PRACTICE	%	TOTAL	%
0-5 Years	74	41%	102	45%	176	43%
6-10 Years	38	21%	55	24%	93	23%
11-15 Years	33	18%	25	11%	58	14%
16-20 Years	19	11%	20	9%	39	10%
21-25 Years	12	7%	11	5%	23	6%

Experience Level	INTERNAL AUDIT EXPERIENCE					
	INDUSTRY	%	PRACTICE	%	TOTAL	%
26+ Years	3	2%	14	6%	17	4%
No Response	0	0%	0	0%	0	0%
<b>TOTAL</b>	<b>179</b>	<b>100%</b>	<b>227</b>	<b>100%</b>	<b>406</b>	<b>100%</b>

### REPORTING RESPONSIBILITY OF RESPONDENTS

With the growing need of independence, to whom the Internal Auditor reports has become a very important topic. The survey was designed to capture this aspect from both, members in Industry and Practice. Given that in most organisations, there is multitudes of reporting, the survey, quite pleasantly highlighted a very high 65% where the Internal Auditor has direct access to the Promoters and/or the Board of Directors. This is quite contrary to the general perception that Internal Auditors are not recognised well in terms of their importance.

More than two-third of the participants in practice (68%) indicated the reporting of the Internal Auditor directly to the Promotor/BOD. Conversely, participants in Industry reported a high number (18%) of those where the reporting of the Internal Auditor is to the CFO or Head of Finance.

Reporting TO	Industry	%	Practice	%	TOTAL	%
Promotor/BOD	210	62%	154	68%	364	65%
CEO/MD	52	15%	37	16%	89	16%
CFO/HoF	61	18%	21	9%	82	15%
CAE		0%	5	2%	5	1%
Other	14	4%	10	4%	24	4%
<b>TOTAL</b>	<b>337</b>	<b>100%</b>	<b>227</b>	<b>100%</b>	<b>564</b>	<b>100%</b>

NOTE: Numbers Include multiple reporting



#### Prof. Vinayshil Gautam

**Snr. Advisor, TRIFED**  
**Chairman, DK International Foundation**

"An auditor's craft gleams even brighter when he pours and re-pours the numbers and the columns; reviews the data multiple times; reflects thoughtfully on the notes of the conversations over and over again. This could make the numbers, columns, data, notes all come alive and give their message. Under these conditions, insights are deeper and business analysis sharper."

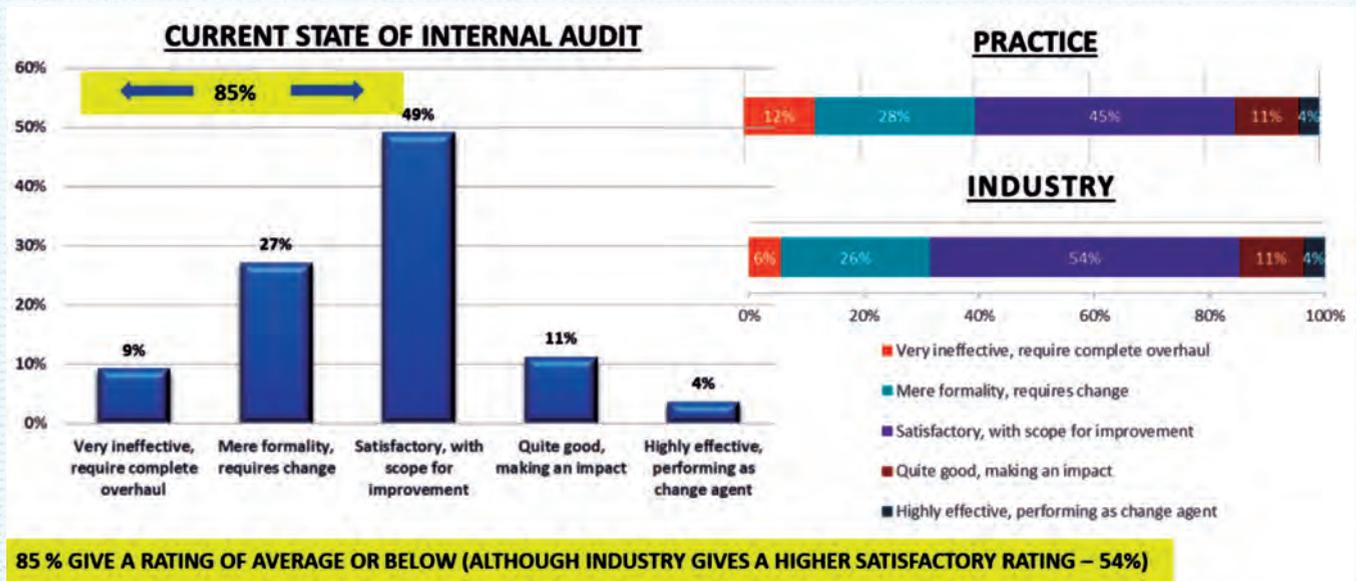
## DETAILED RESPONSES TO QUESTIONS

In this section, details of specific responses received to the actual questions posed to the participants have been provided.

### CURRENT SCENARIO

#### 1. The first, and main, question:

**Q: Based on your experience, how effective is the current state of Internal Audit being conducted in India:**



This response can be seen to be quite discouraging. While overall only 15% of the participants rated the current state to be above average (11% + 4%), the participants from the industry are more optimistic as 54% gave an average rating, compared to 45% from practice who gave an average rating, hence an overall composite 49% which gave an average rating to this question. As many as 12% of members in practice gave a very low rating of 1 (Very Ineffective).



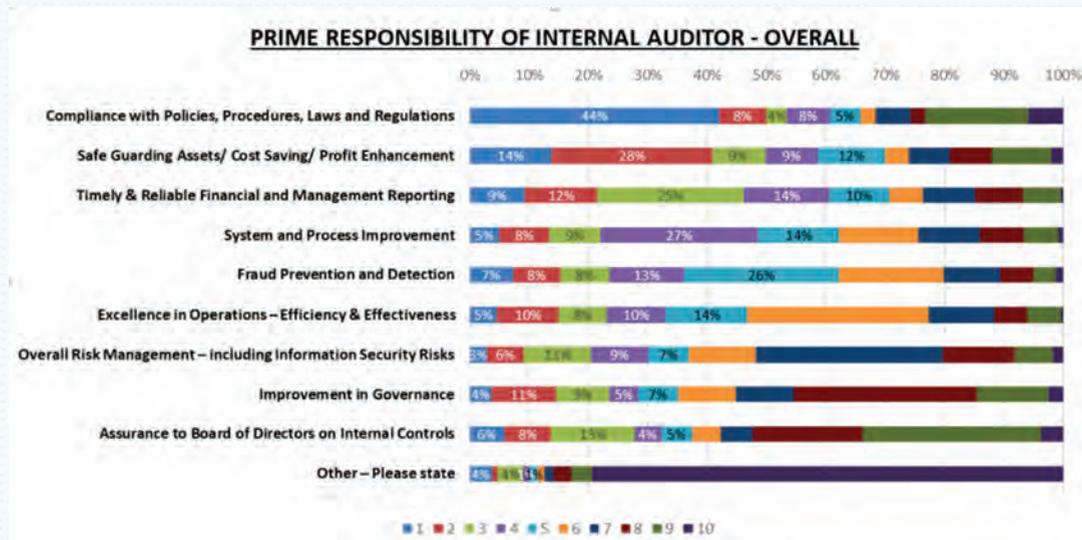
#### CA. Nagesh Pinge

Independent Director—NKGSB Bank & Arvind Fashions Limited

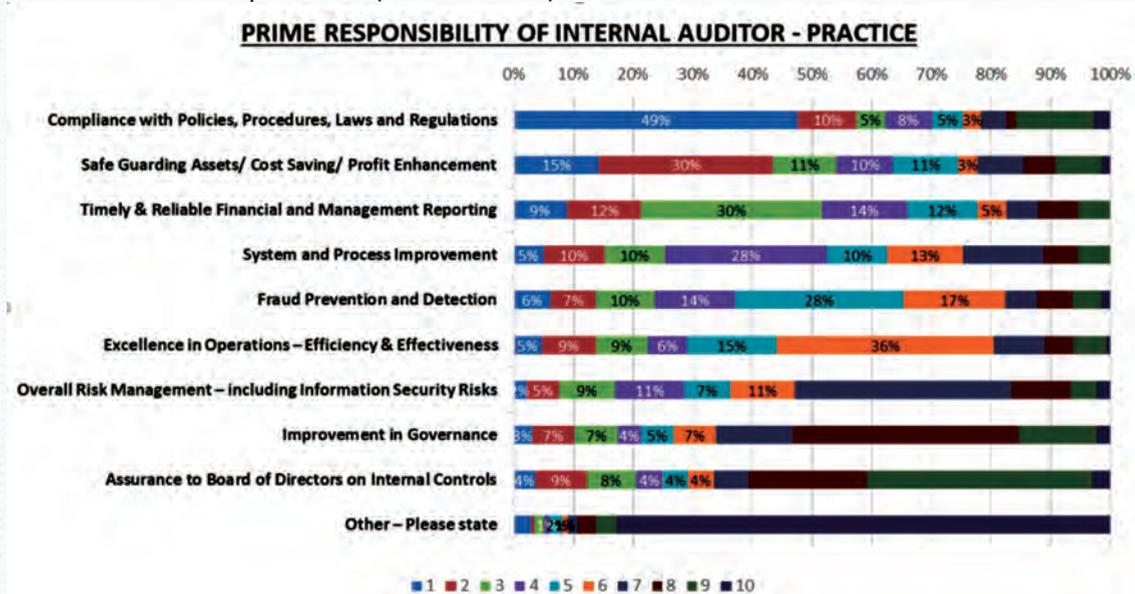
“Assurance by Internal Audit was always an Integrated part of Corporate Governance, but somehow not visible. But thanks to the Regulators & the Independent Directors, Internal Audit is now playing a prominent role not only in Value Preservation but also in Value Addition. Internal Auditing has, thus, reached an Inflection Point from where it can only grow in stature. Now, it is for the Internal Audit fraternity to ensure that it stays relevant through the adoption of state-of-the-art technology and by using Real as well as ‘Artificial’ Intelligence to give credible Internal Audit Assurance.”

2. The next question required the participants to provide their inputs on the Current Prime Responsibility of the Internal Auditor:

**Q: What is the prime responsibility of Internal Auditor (Rank in order of importance, with 1 as the most important and 10 as the least):**



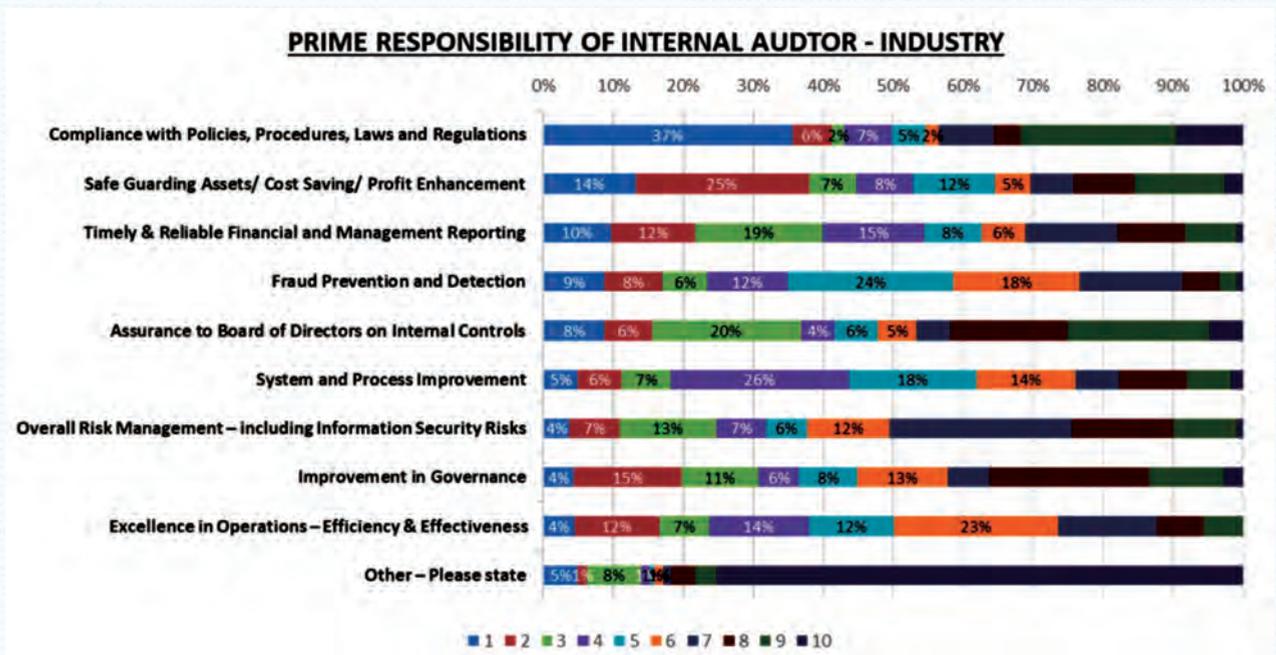
The response was quite clear in terms of assigning prime responsibility to the basic and fundamental duties of Compliance, Asset safeguarding, Financial/Management reporting and Process improvement as these are rated as the top 4 areas (in that order).



**CA. Sumant Chadha**  
Sr. Partner T.R. Chadha & Co.

“From an Assurance Provider towards a Trusted Advisor, the profession of an Internal Auditor today is at a crossroad. As we accelerate along this path, we need to constantly not only meet, but also exceed expectations of the various stakeholders. Accordingly, the key challenge is to balance the expectations, (which could appear conflicting at times), between that of the Management, the Audit Committee and of the Regulators.”

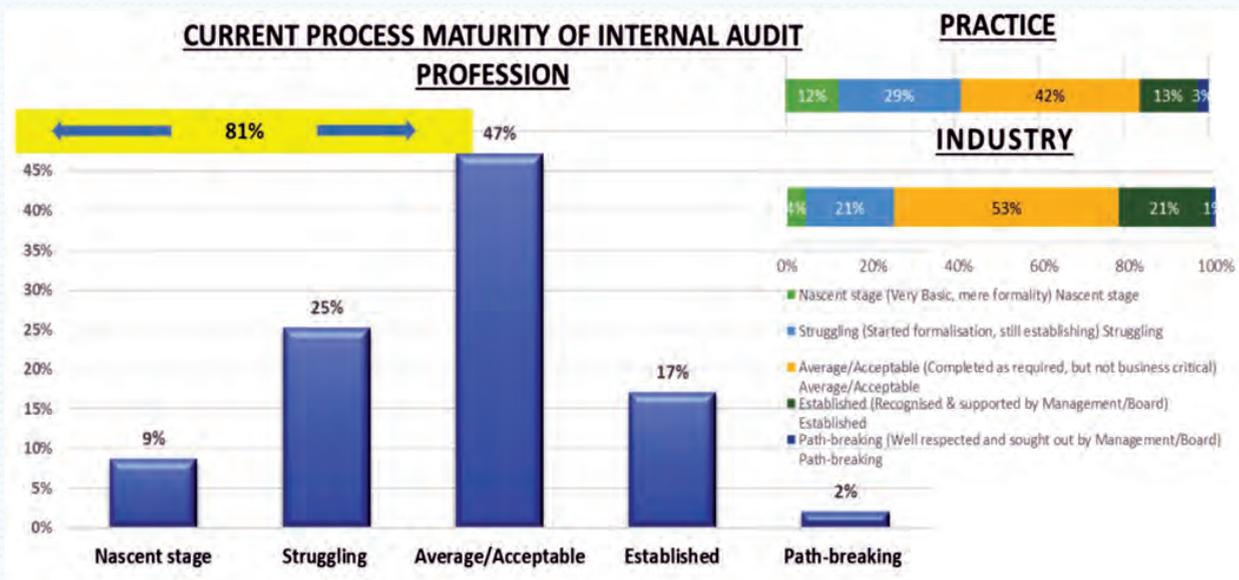
For those in Practice, they seem to have influenced the overall scores and assigning the basic and fundamental duties of Compliance, Asset safeguarding, Financial/Management reporting and Process improvements as greater number of participants rated these as the top 4 areas (in that order).



Conversely, those in Industry have rated some other areas much higher, areas such as Improvement in governance, Excellence in operations etc. Hence they have displayed a more progressive and holistic outlook to the prime responsibility of the auditor.

**3. The next question asked the participants to rate the process maturity level of the profession in order to gauge the manner in which the internal audit work is carried out:**

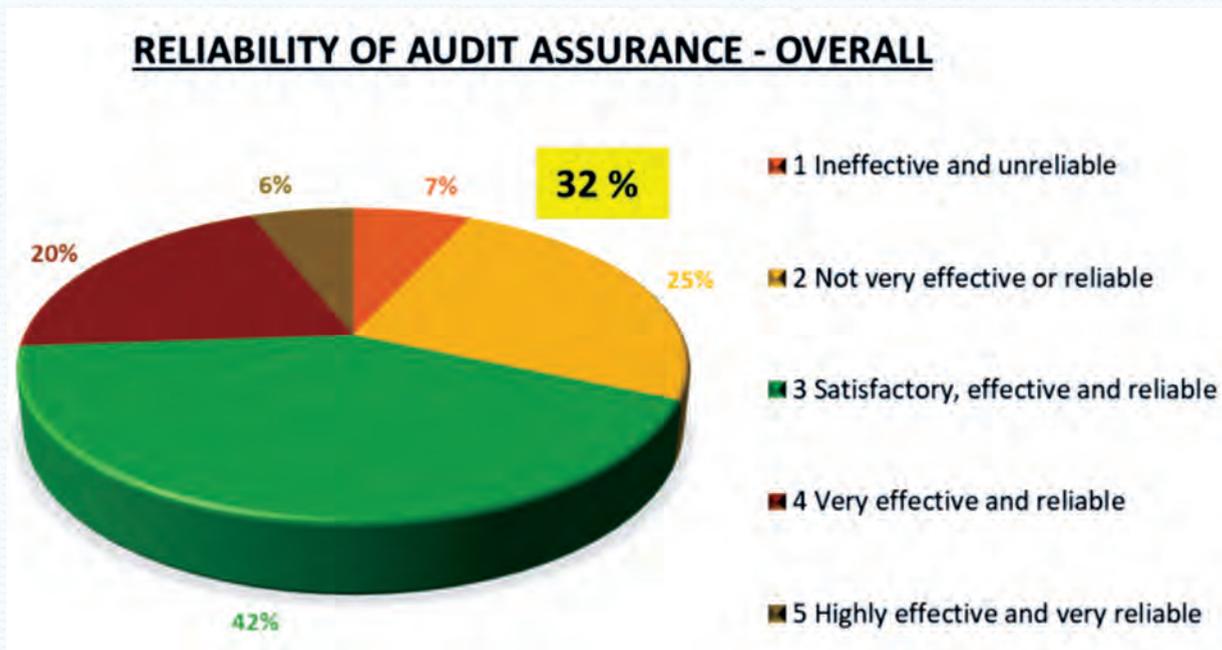
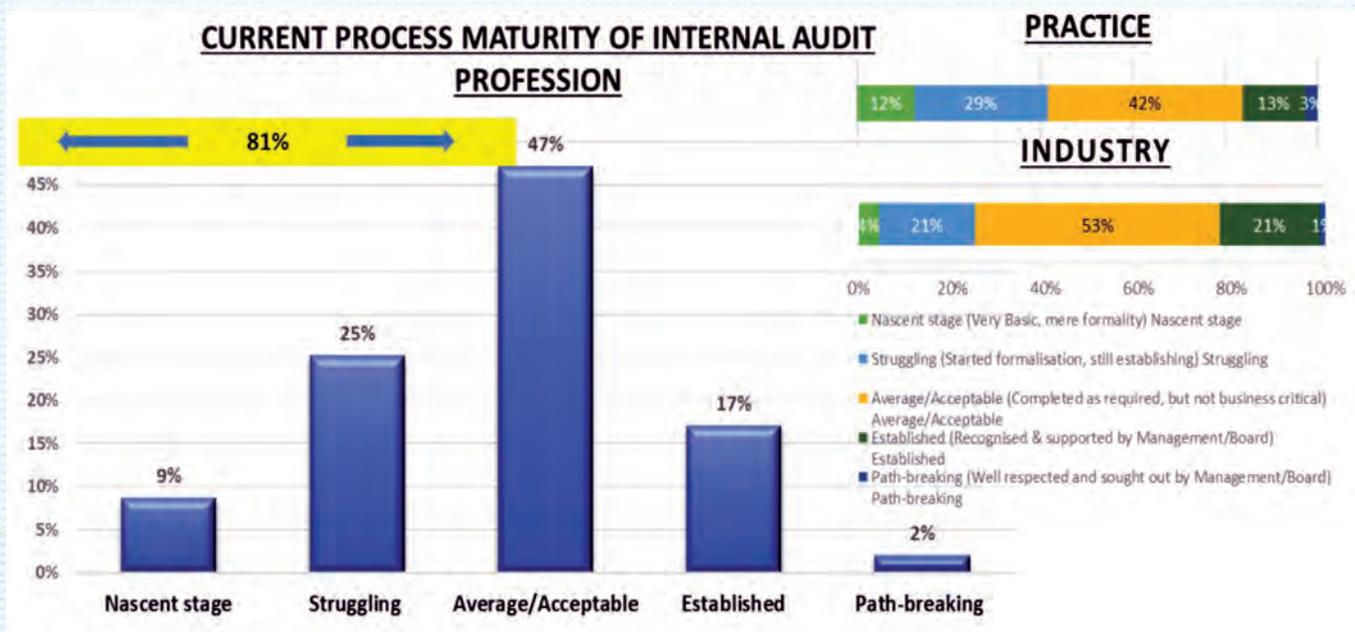
**Q: What is the current OVERALL process maturity of the Internal Audit profession in India (the quality and manner in which internal audits are carried out):**



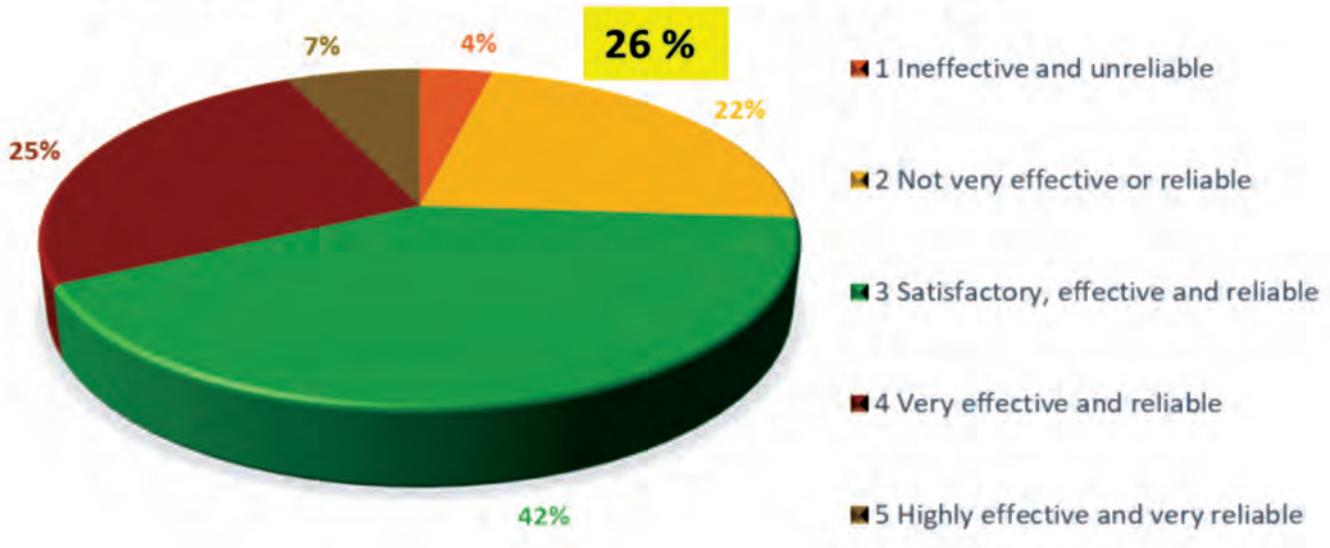
The vast majority (81%) of the respondents believe that the maturity level of the internal audit activity is quite basic (average or below), the views between those in practice and industry do vary, in that this figure is a weighted average of 83% (in practice) and 78% (in industry), the latter being more optimistic in this regard and give a 53% rating to the average/acceptable category, vs. 42% for those in practice.

**4. The next question on independent assurance was asked in the background of the new definition of Internal Audit. The participants were asked to rate the effectiveness and reliability of the independent assurance being provided currently:**

**Q: As per the revised definition of Internal Audit, it provides independent assurance. Currently, how effective and reliable is this assurance?:**



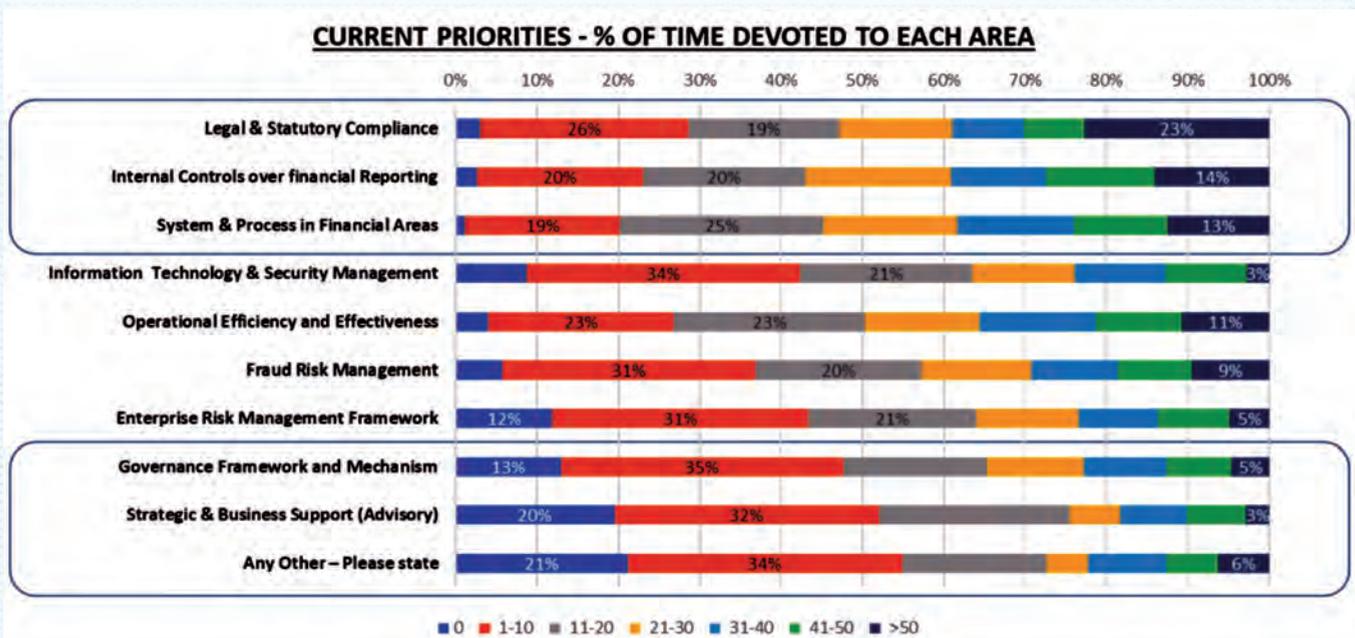
### RELIABILITY OF AUDIT ASSURANCE - INDUSTRY



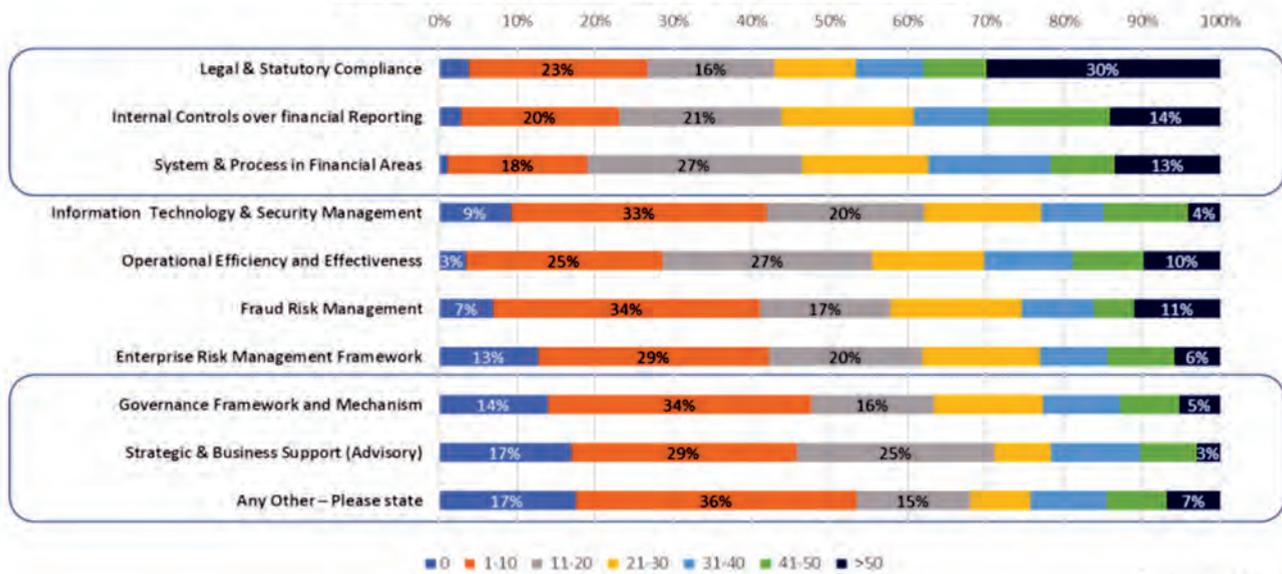
The reliability of audit assurance is viewed to be quite good with only 32% rating it as below average. Here also, the views between those in practice and industry varied with greater optimism being displayed by those in industry (only 26% below average), vs. 38% for those in practice.

5. As regards the question on the current priorities, the participants were asked to estimate the percentage of time, they devote to a selected list of 10 areas:

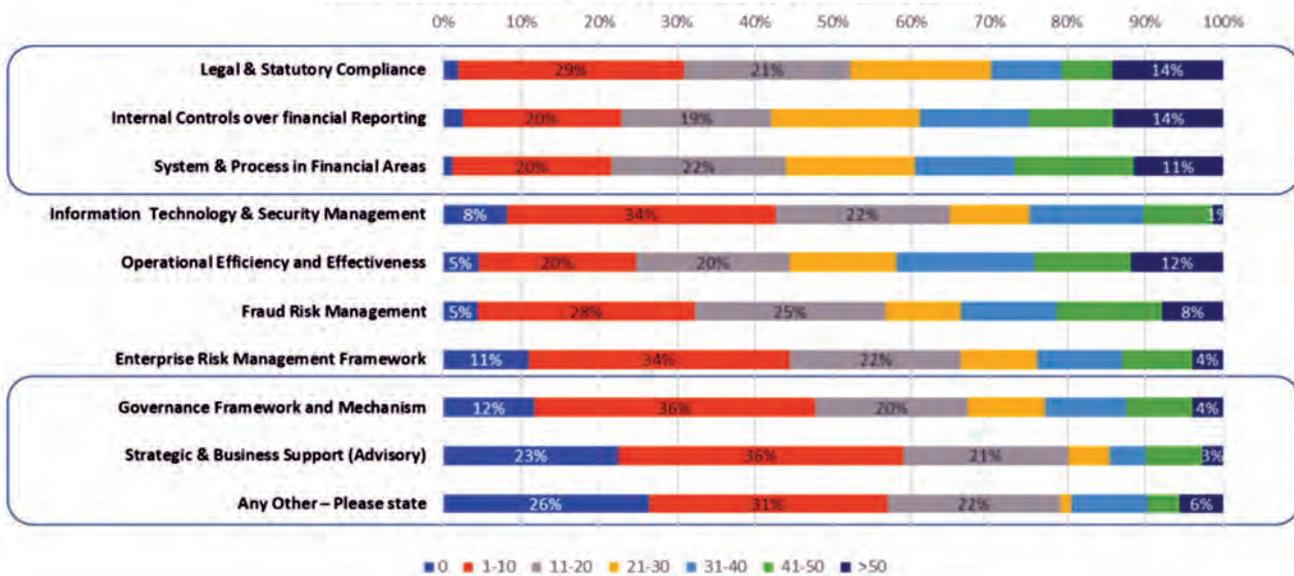
**Q: Current Priorities (area of focus) of Internal Audit in India (Indicate approx. % of time being devoted to each area):**



**CURRENT PRIORITIES - % OF TIME DEVOTED : PRACTICE**



**CURRENT PRIORITIES - % OF TIME DEVOTED - INDUSTRY**



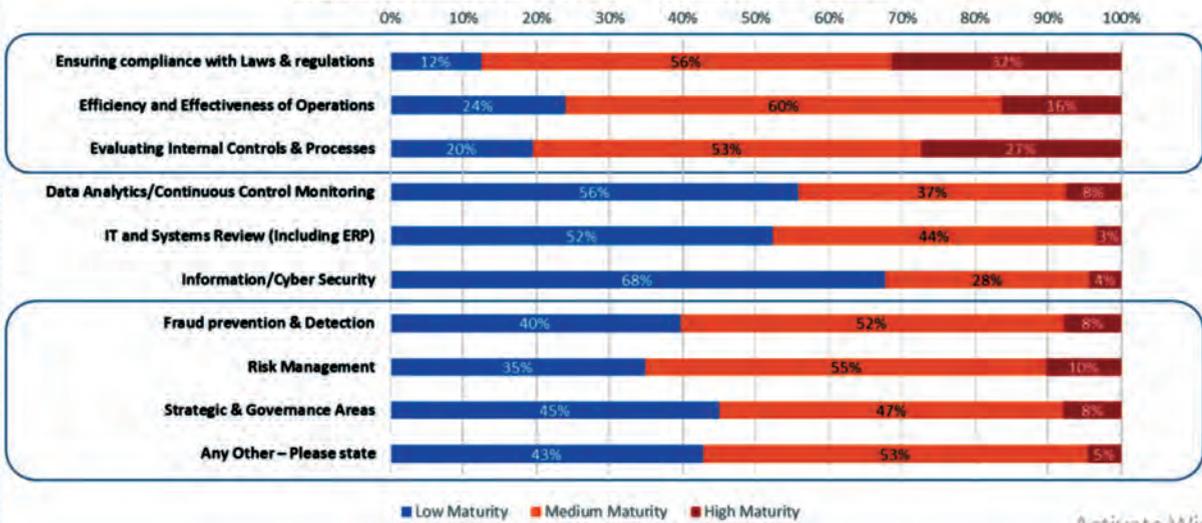
The responses are very much in line with prime areas of responsibility reported earlier.

**6. In order to get an understanding of how far various audit activities have become prevalent in the profession, the participants were asked to provide their input on a selected list of 10 areas:**

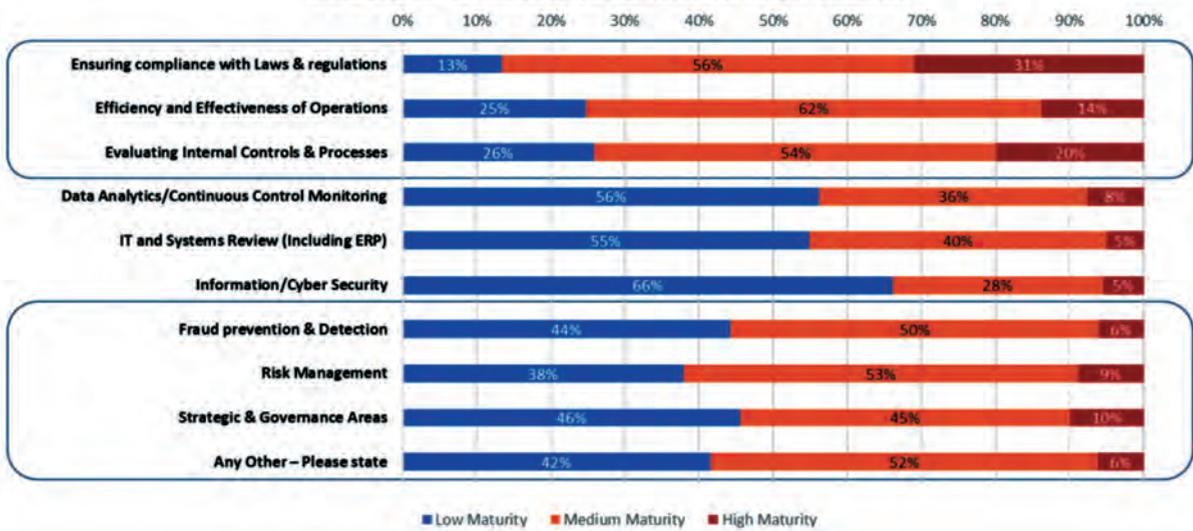
**Q: What is the current maturity level of the following Internal Audit activities being conducted in India?:**

The participants gave high maturity ratings to the basic and fundamental duties of Compliance, Efficiency and effectiveness of operations and Internal Controls over Financial reporting (in that order) and conversely all three IT areas (Cyber Security, Data Analytics and Systems Review (in that order). There was no disparity of thought between those in Practice vs those in Industry in this area.

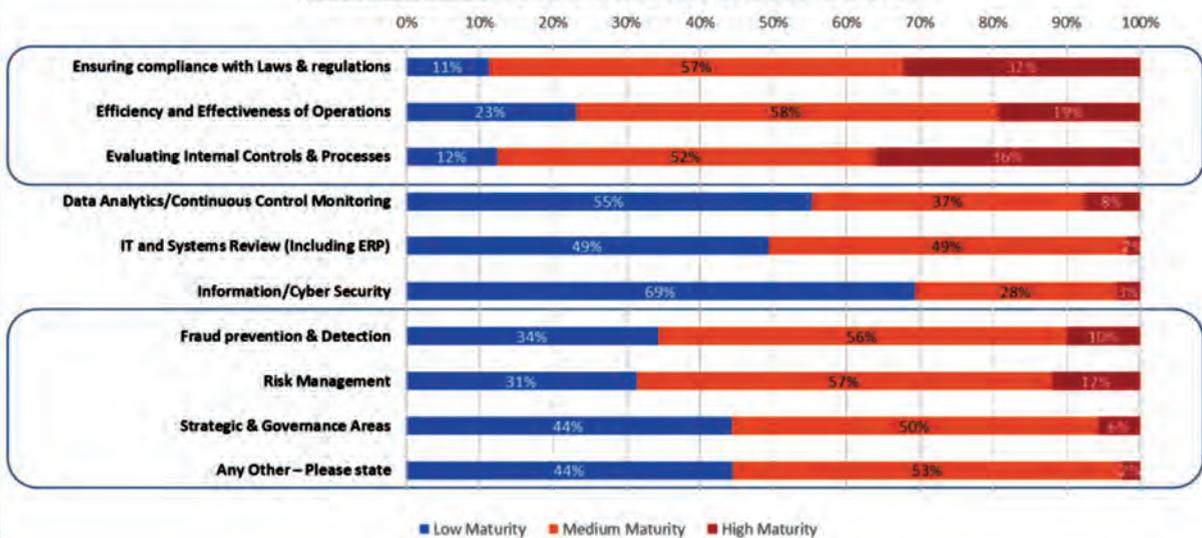
**CURRENT MATURITY LEVEL OF IA ACTIVITIES - OVERALL**



**CURRENT MATURITY LEVEL OF IA ACTIVITIES - PRACTICE**

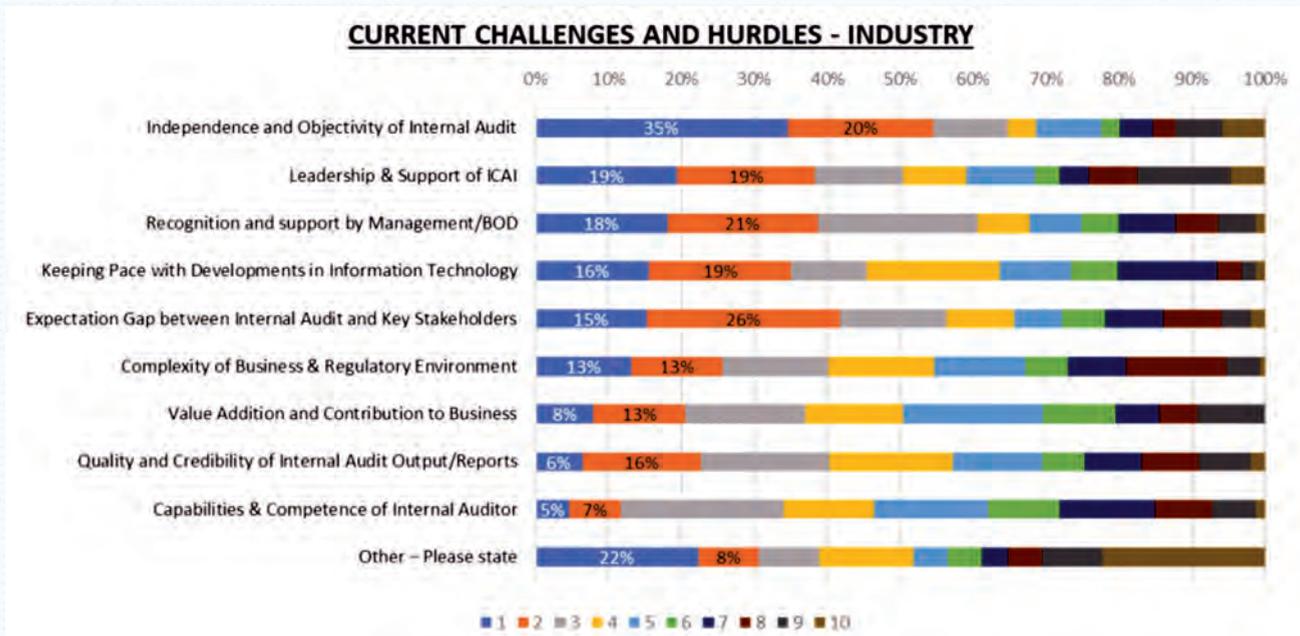


**CURRENT MATURITY LEVEL OF IA ACTIVITIES - INDUSTRY**





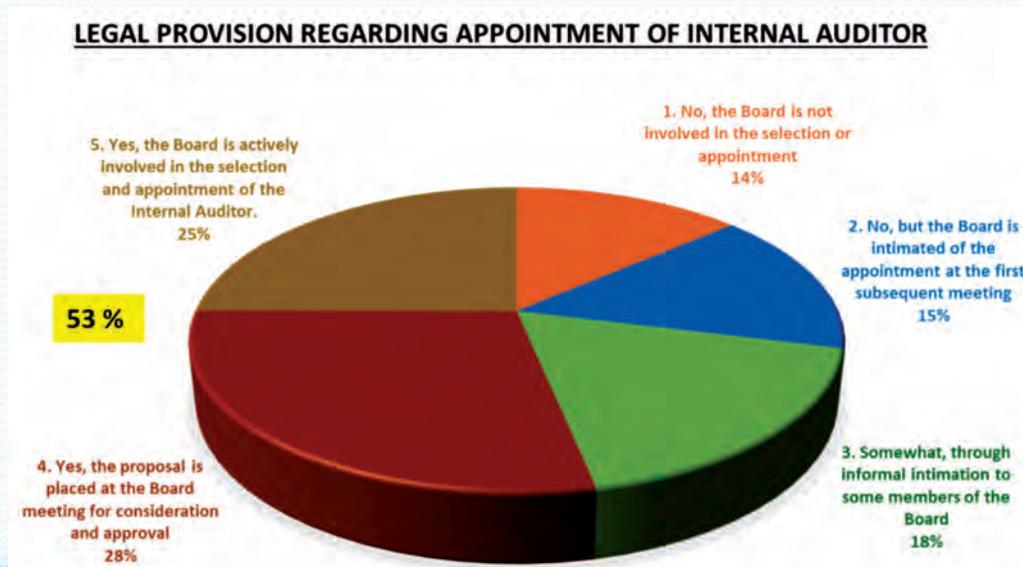
Members in Industry rated Leadership and support as the second challenge, followed by support of management/BOD as the third. They also ranked keeping pace with IT developments and the expectation gap as the next few challenges.



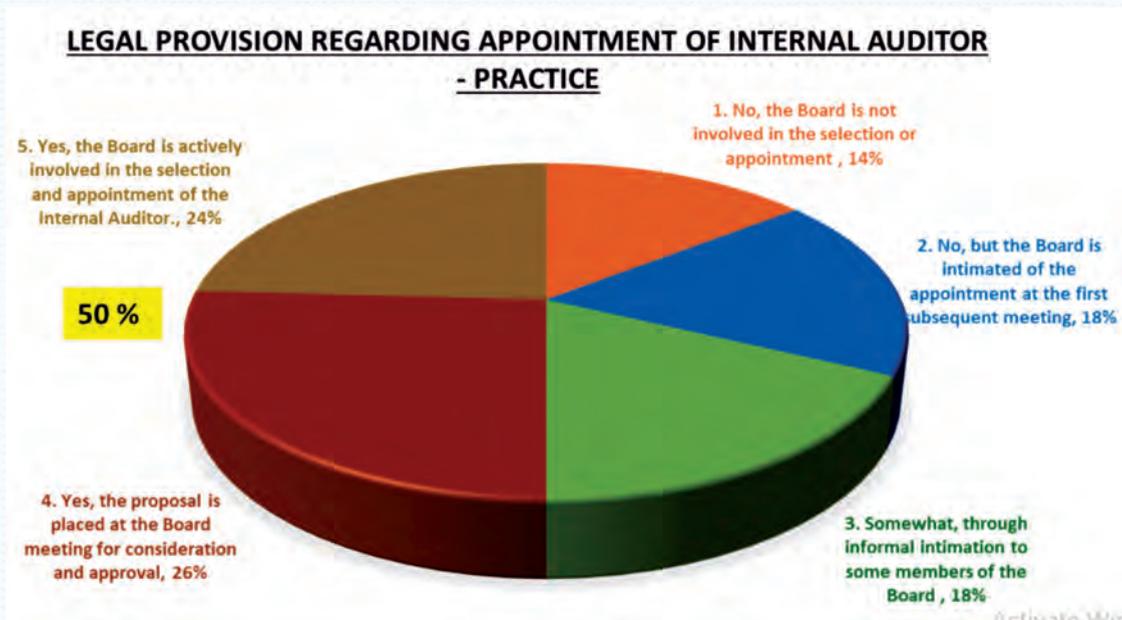
8. The next two question concerned the recent changes in the Companies Act, 2013. The first pertained to the requirement where the Board of Directors are mandated to appoint the internal auditor. Input was sought on the effectiveness of the implementation of this provision.

**Q: How effective is the implementation of the Companies Act, 2013 provision regarding BOD to appoint the Internal Auditor - in your company or client companies?**

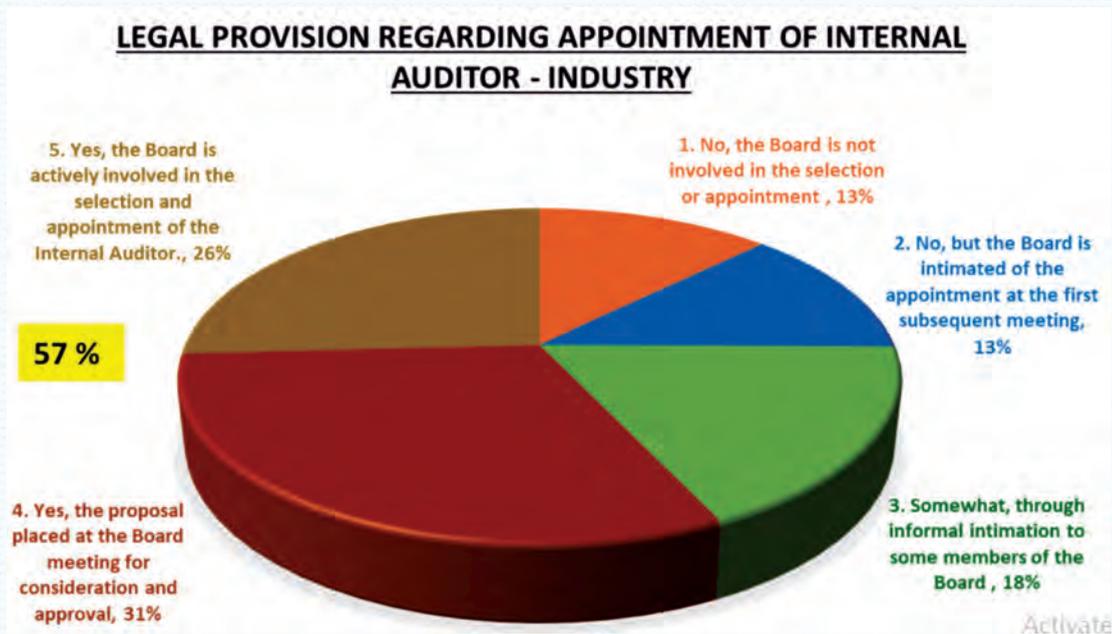
Overall, a good 53% endorsed the effective implementation of the provision as follows, however, 29% rated this below the requirements:



The provision is less effectively implemented as per those in Practice -50%.



The provision is more effectively implemented as per those in Industry -57%.



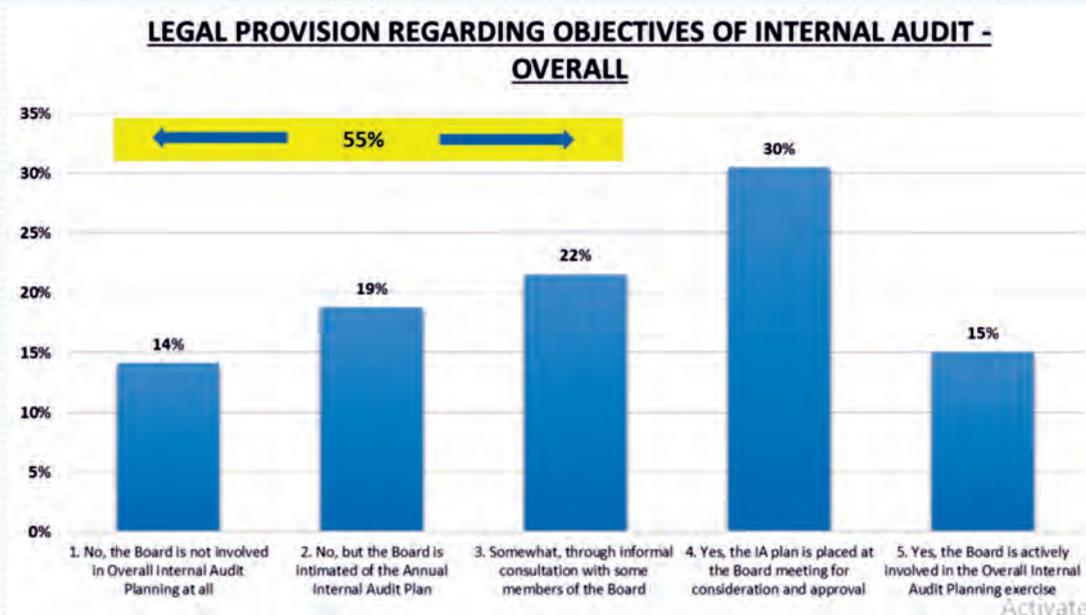
**CA. Surath Mukherjee**  
 Executive Director  
 Head Risk Assurance – Dalmia Bharat Group

“The Internal Audit professional should be like a lighthouse in the turbulent ocean of ever-changing risk waves showing right path to the corporate world and guide them to safety, thereby protecting the interest of all the stakeholders.”

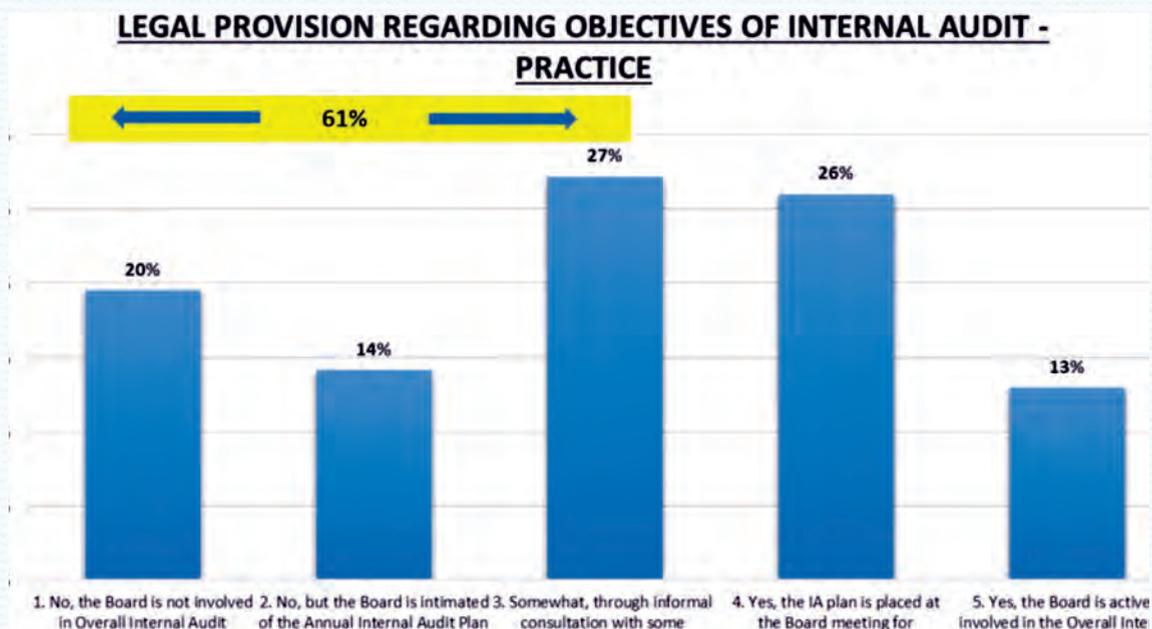
9. The next question concerning the Companies Act, 2013 provision pertained to the requirement where the Board of Directors are mandated to formulate the objectives of internal audit. Input was sought on the effectiveness of the implementation of this provision.

**Q: How effective is the implementation of the Companies Act, 2013 provision regarding IA Objectives to be formulated by the Board - in your company or client companies?**

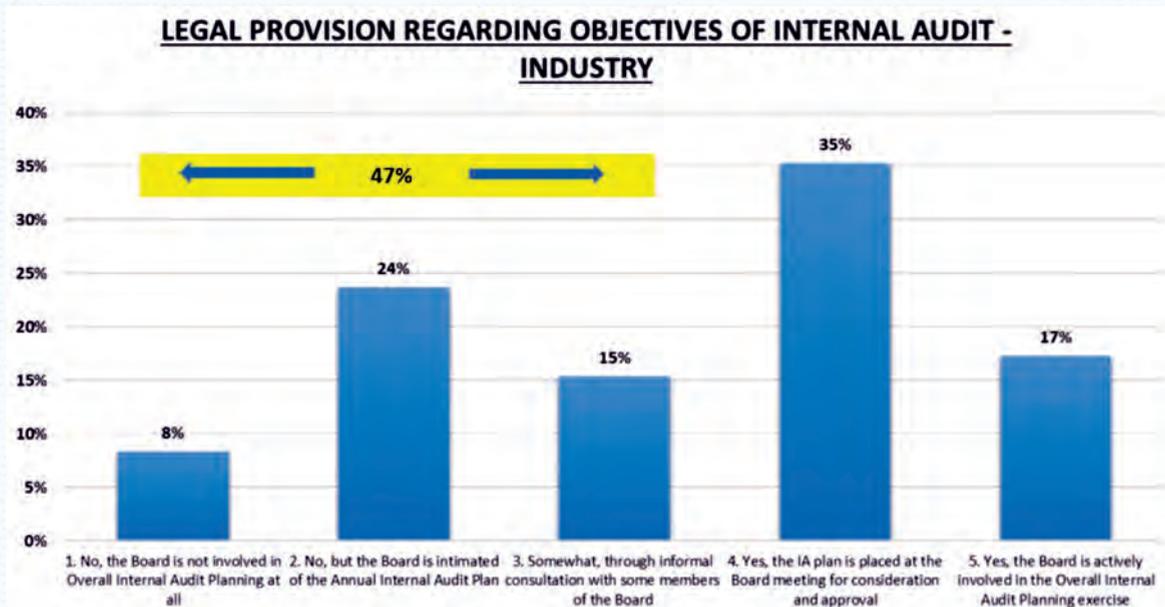
Overall, 55% expressed a somewhat ineffective implementation of the provision as follows:



In this regard, input from those in Practice was quite discouraging with 61% reporting an ineffective implementation of the provisions.



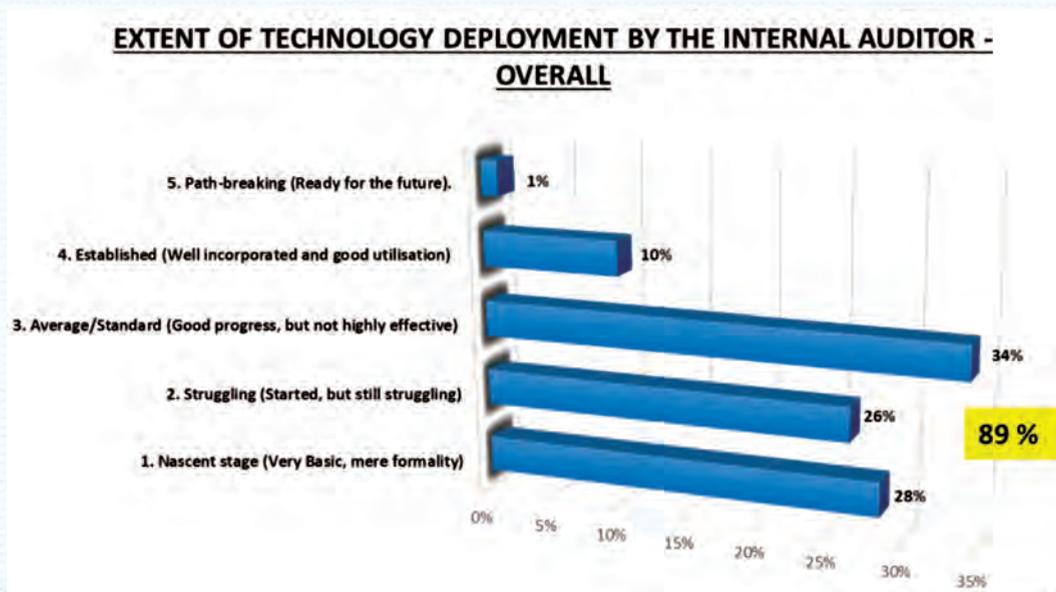
Input from those in Industry was, however more encouraging with only 47% reporting an ineffective implementation of the provisions. In fact, 35% reported that the plan is placed at the Board meeting for consideration and approval.



10. The final question under the “Current Scenario” category concerned the extent to which there has been technology deployment within the Internal Audit process to make it highly efficient and effective.

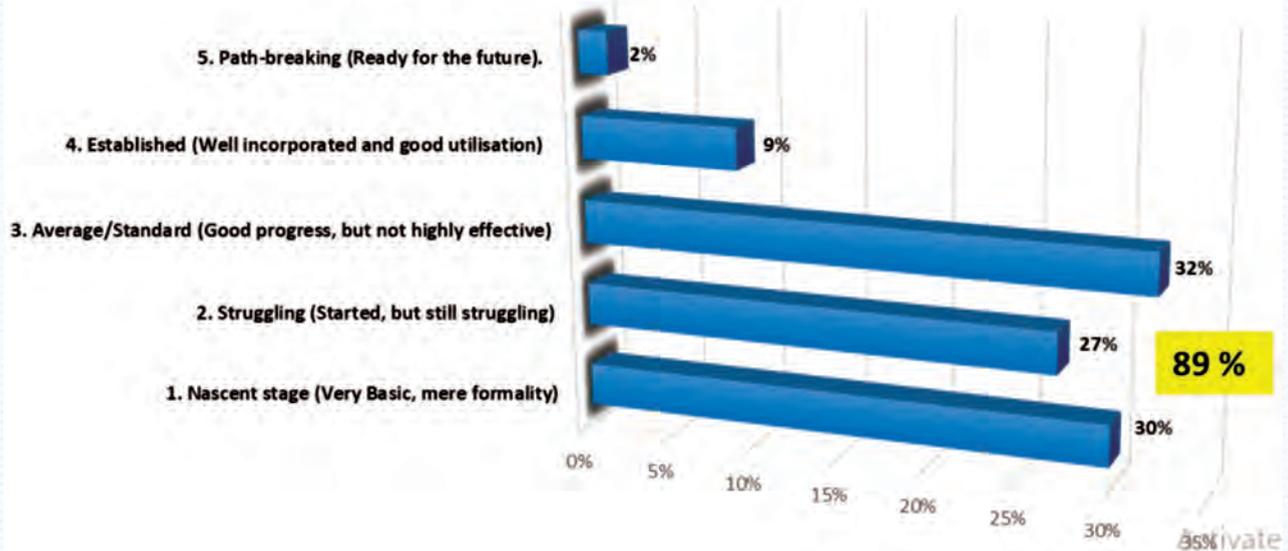
**Q: What is the extent of technology deployment by the Internal Auditor to make the internal audit process highly efficient and effective?**

Overall, 89% rated technology deployment as an average or below, with as much as 28% rating it at a very nascent stage:

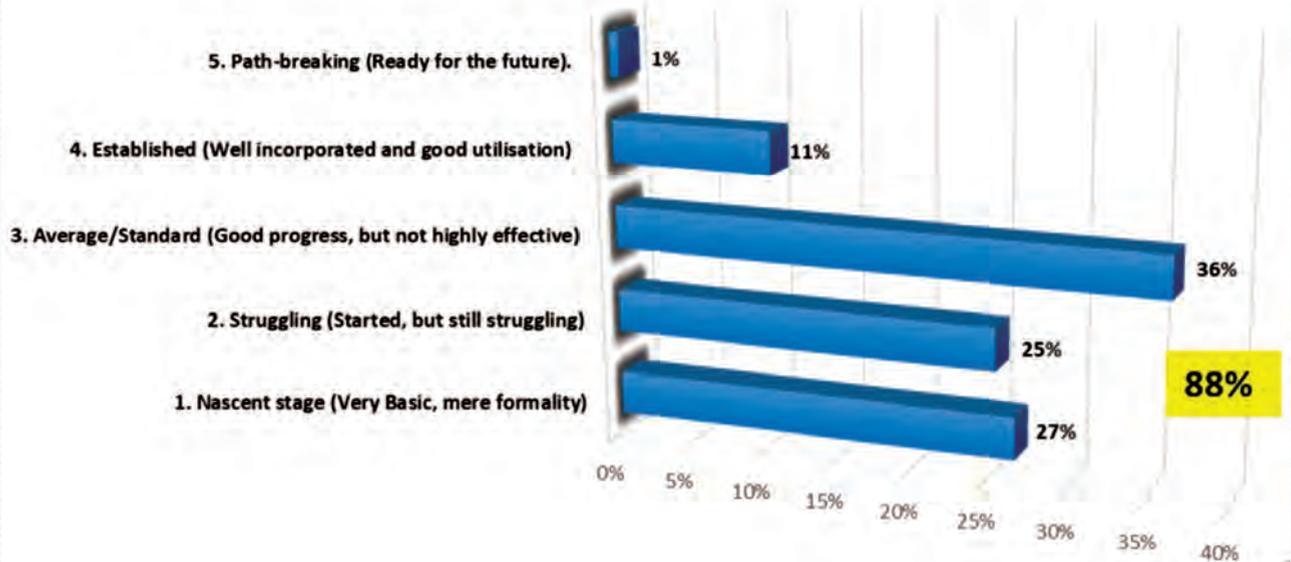


There is not much diversion in thought in this area between those from Practice and Industry.

### EXTENT OF TECHNOLOGY DEPLOYMENT BY THE INTERNAL AUDITOR - PRACTICE



### EXTENT OF TECHNOLOGY DEPLOYMENT BY THE INTERNAL AUDITOR - INDUSTRY



### Selected Verbatims - Current Scenario (from those in Practice)

Qualitative inputs received in the form of written comments were captured and are reproduced for a few selected participants for each of the main areas.

REF No.	4.11 Any other inputs/ remarks pertaining to this section (CURRENT SCENARIO).
34	There must be a specific cell/contact division which deals with the issues pertinent internal audit. Tenders though allowable to exercise at a minimum audit fee, that base price should not be less than the last internal audit fee quoted. Like statutory audit, public companies internal audit must have through board and not through tender. The fee set for such audit must be in accordance with the fee structure set by our alma mater.
46	ICAI has to take initiation to empower members through effective and meaningful training sessions and PQC
47	ICAI is poor in conducting QUALITY training programs for members. They are not practical oriented. Post qualification courses are a mere money-making business for ICAI. No benefit is there in these courses for members. Courses should be practical oriented and faculties should be good. ICAI material is also very poor. Technical guides and guidance notes are not updated. Main fault is of ICAI. Only the big 4 are capable as they have might. Small and medium firms are badly hit by poor quality and poor guidance by ICAI.
99	All the companies falling under the purview of IA should file a return with ICAI or other governing authorities where in the Internal auditor should sign off where in S/he/they are appointed as an Internal auditor. (There is a risk that many companies are escaping without adequately following the Internal audit norms)
142	The scope should be widened to include more industries across sectors and audit should be more rigorous and compulsion. There can be a panel of like bank audit appointment, to maintain independence and not bargain too much on fees.
146	Another challenge is the capacity building for doing internal audits - lot of young chartered accountants and article trainees do not get the requisite exposure and knowledge to cut out the basic differences between statutory and internal audits - it ends up in lot of valuable time going into on job trainings which eventually cuts down the time available for value addition within the given time and money on audit engagements
159	There exists very less formal interaction or discussion between IA and Board or Audit Committee, not even for the report discussion.
203	The integration of a CA student to the IT world is IMPERATIVE today
205	Non-financial managers/executives/board members are not sufficiently aware of the importance of internal audit across all types of corporate in India.
222	Low maturity of IA professionals in audit execution and reporting. Lack of industry knowledge/ best practices while providing recommendations to client. Poor quality of IA reports in correctness and does not identify root cause of the observation. Lack use of technology
263	Strengthen the Internal Audit System with Quality of Work with appropriate fees, since mere appointment and least fees would bring poor quality of work and report about the organisation
355	Need more support from ICAI and practicing members in usage of data analytics and CAATs in internal audit including training, purchase of proprietary software and tools at discounted prices for members to provide them a level field with other professionals etc.

### Selected Verbatims - Current Scenario (from those in Industry)

Qualitative inputs received in the form of written comments were captured and are reproduced for a few selected participants for each of the main areas.

REF No.	4.11 Any other inputs/ remarks pertaining to this section (CURRENT SCENARIO).
68	Management & Operational audit are not given due importance. Most of the focus lies on ancestral approach with very less changes being made to basic areas that will be audited
81	Audit Committee should regularly interact with the CIA without the management for independent assessments.
87	Companies (i.e. India Universe) are still hesitant in investing on IA tools, technology and resources. Its more by requirement rather choice.
96	The difference between large companies and small ones are very wide leading to Audit being just a legal requirement in smaller companies to in big companies the chief Internal Auditor reporting to the Audit committee and the Board and every report being discussed in detailed with corrective actions being implemented and confirmed back to the Board
153	The scope of Internal Audit requires a paradigms shift. As the nature if operations, activities in an industry is complex and is rapidly changing, the internal auditor and his team should get an induction training at least for two weeks. Moreover, the quality of service of audit assistants should also be improved. A constant up-dation of their skill is a need of the day
182	CFO and CIA should be considered equal. Board must repose confidence on internal audit, involve them in strategy setting process, review the performance of chief internal auditor. CFO must not influence internal audit.
230	Internal Auditors appointed by board in these industries applies pre-audit concept also and take it in preventive measure rather than reactive.
318	ICAI has not done enough to support the IA fraternity which finds itself isolated and fighting its battles all alone
397	Lack of commitment as profitability from assignment is considered low. Focus is more on easy pickings in Financial Reporting rather than concrete suggestions for mature process development across functions in companies that in different stages of growth curves. Imbibe responsibility attached to function and deliver substantive reports that can be acted upon which will happen only when professionals are through in operations relating to varied industries.

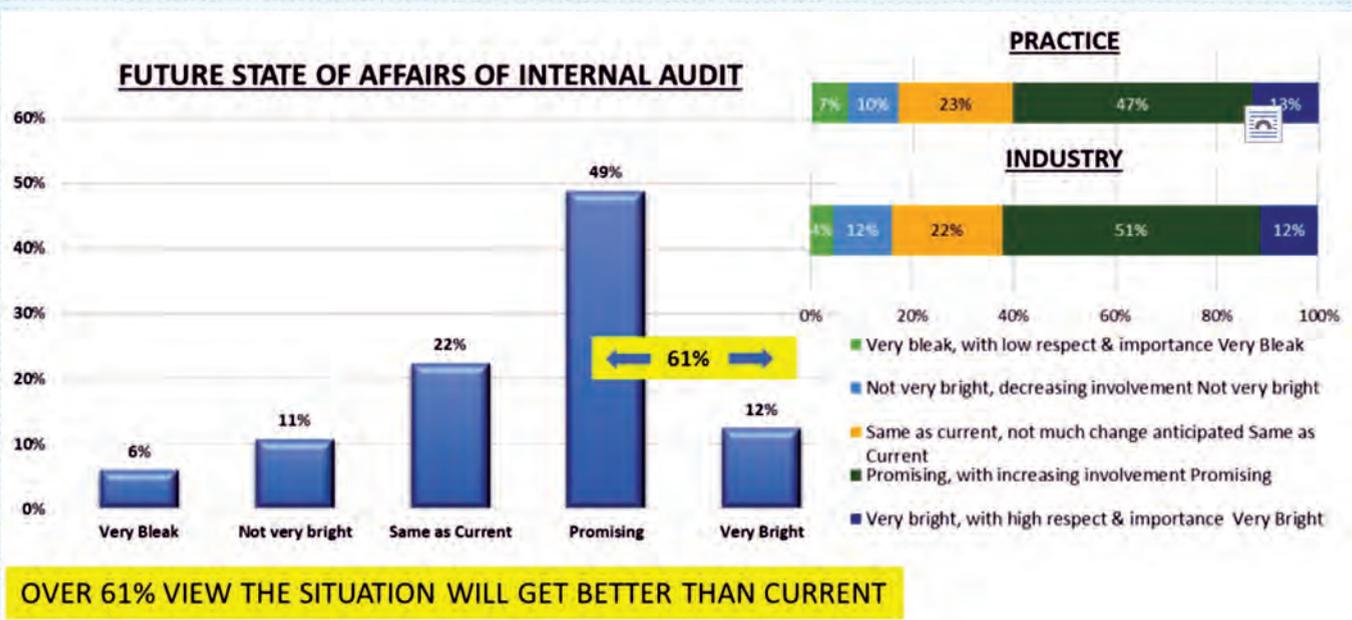
Note: Each respondent was assigned a reference member.

### FUTURE SCENARIO

#### 1. The first, and main question:

**Q: How is the future state of affairs of Internal Audits anticipated in India?**

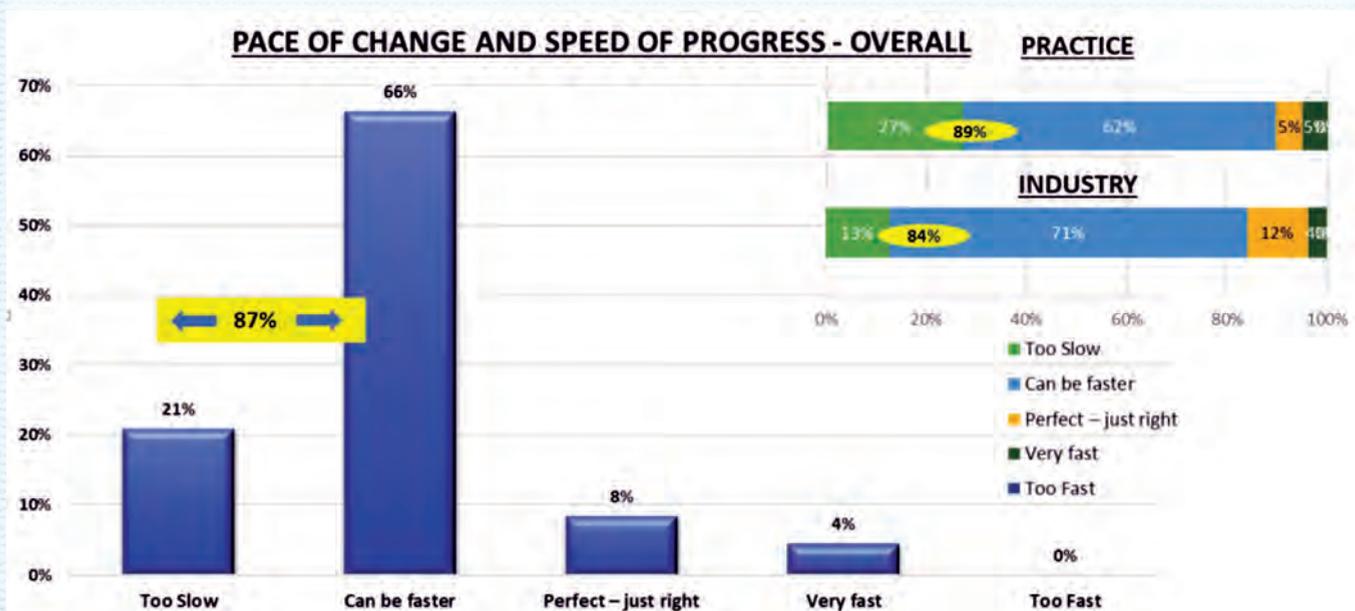
The response to the future outlook question is very encouraging. As many as 61% of the participants rated the future scenario to be better (49% + 12%) than the current scenario. Participants from the industry were slightly more optimistic at 63%, compared to 60% from practice. However, as many as 7% of members in practice gave a very low rating of 1 (Very Bleak).



2. The next question probed deeper into the future aspect, by trying to understand the pace of change and speed of progress of the profession.

**Q: How is the pace of change and speed of progress of the Internal Audit profession in India?**

The response to pace of change question were quite discouraging. As many as 87% of the participants rated the pace of change to be too slow (21%) or with some scope for improvement (66% - could be faster), with only 8% rating the speed of progress to be just right. Participants from the industry were slightly more optimistic where 12% found the pace to be just right, compared to 5% from practice.



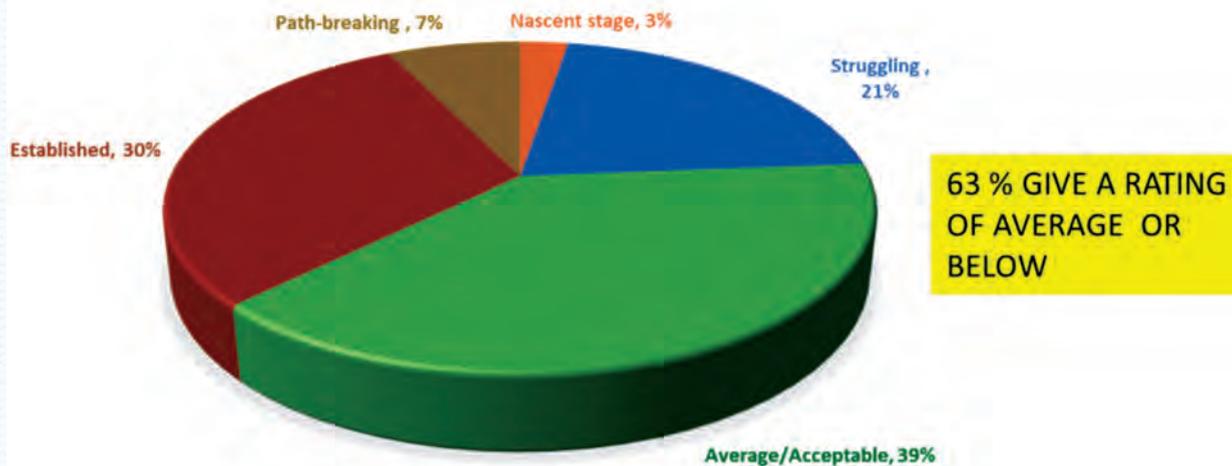
3. The next question was related to process maturity similar to this question posed in the earlier section, but with a future outlook and how do they anticipate the maturity level to change.

**Q: What is the future OVERALL process maturity level of the Internal Audit Profession anticipated to be in India:**

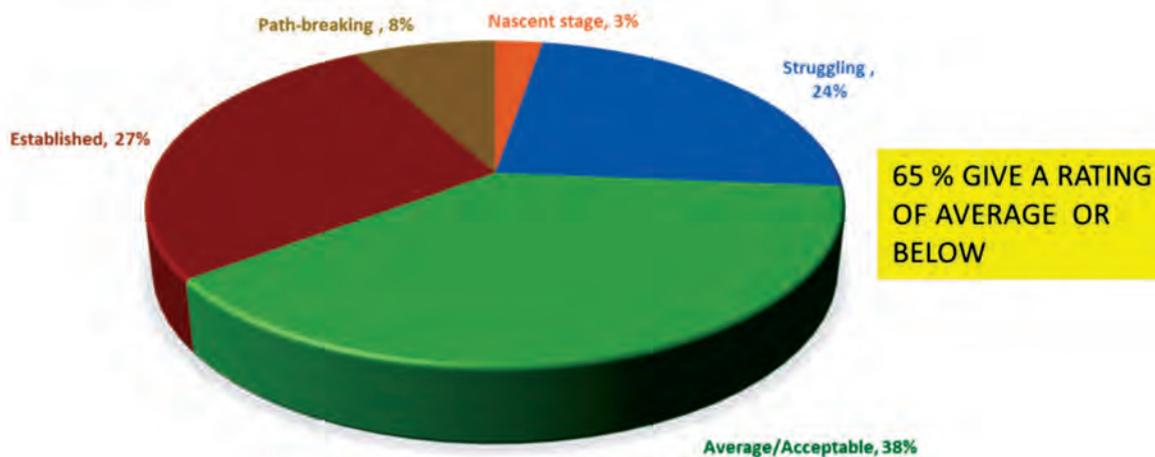
The response to the anticipated maturity level was also discouraging. As many as 63% of the participants rated the future scenario to be average (39%) or below average (21% + 3%), with only 30% rating the maturity to be well established. However, this presents a great opportunity for the Board to take up initiatives in this area.

The answer to this question varied only slightly for the groups, with both those in Practice and Industry giving a similar Average ranking of 28/39%.

### FUTURE PROCESS MATURITY OF INTERNAL AUDIT PROFESSION - OVERALL

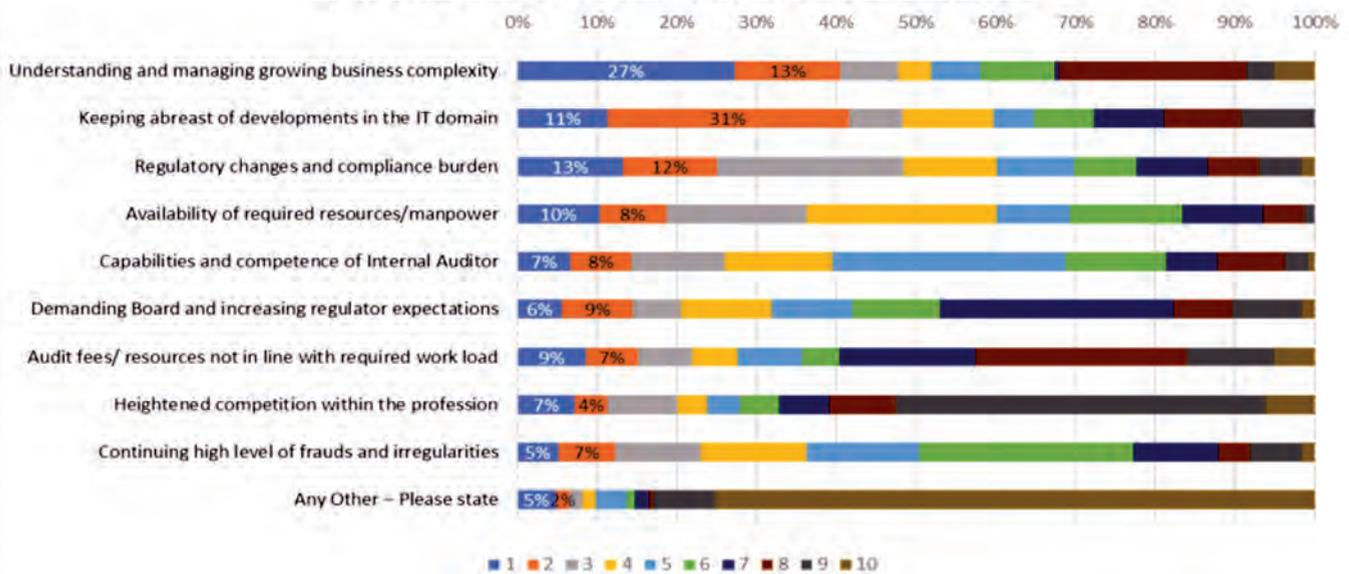


### FUTURE PROCESS MATURITY OF INTERNAL AUDIT PROFESSION - PRACTICE

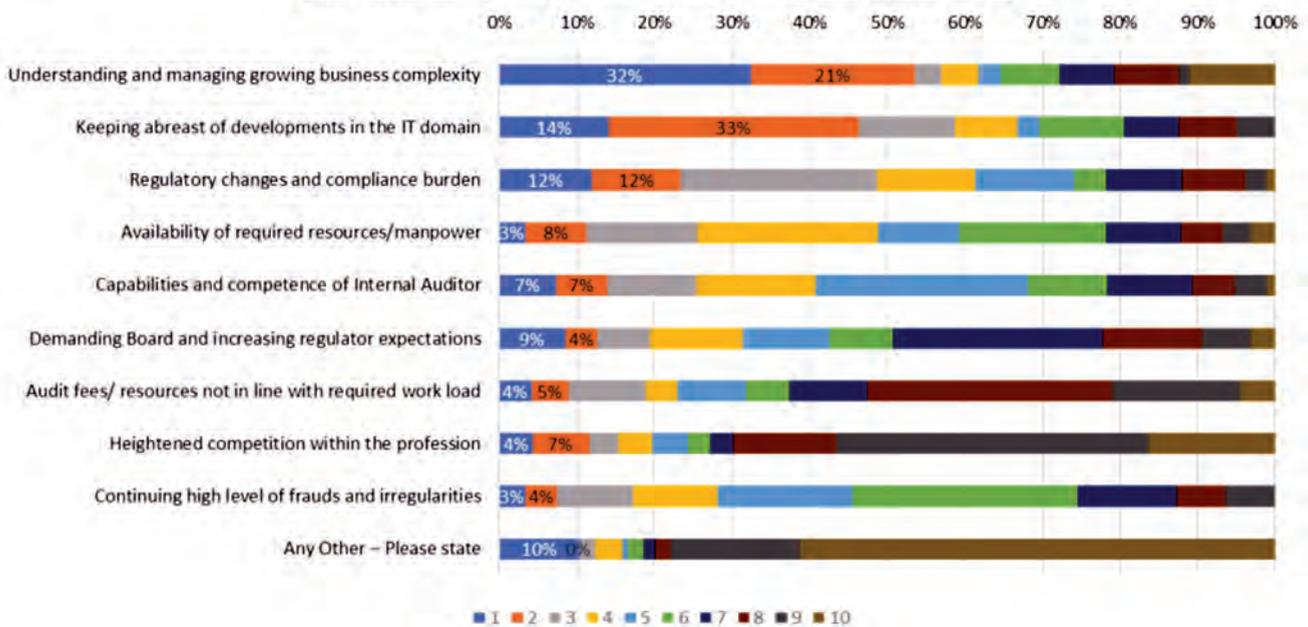




### FUTURE CHALLENGES AND HURDLES - PRACTICE



### FUTURE CHALLENGES AND HURDLES - INDUSTRY

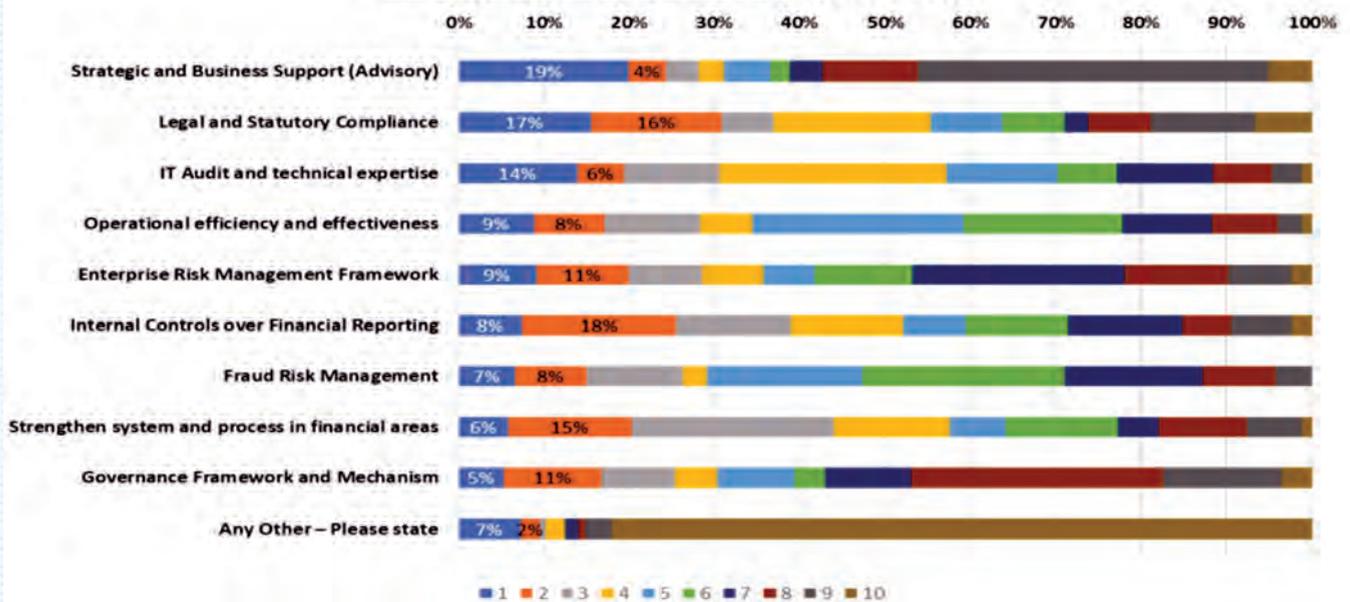


**CA. Nikhel Kochhar, CIA**  
 CEO, Institute of Internal Auditors India  
 Managing Partner, N. Kochhar & Co.  
 Independent Director and Audit Committee Chair

“The Internal Audit profession has an impactful role to perform in the areas of governance, risk and controls. This value addition is best delivered by ensuring possession of the required skillsets and knowledge of the organisation’s business.”



### FUTURE AREAS OF FOCUS - INDUSTRY

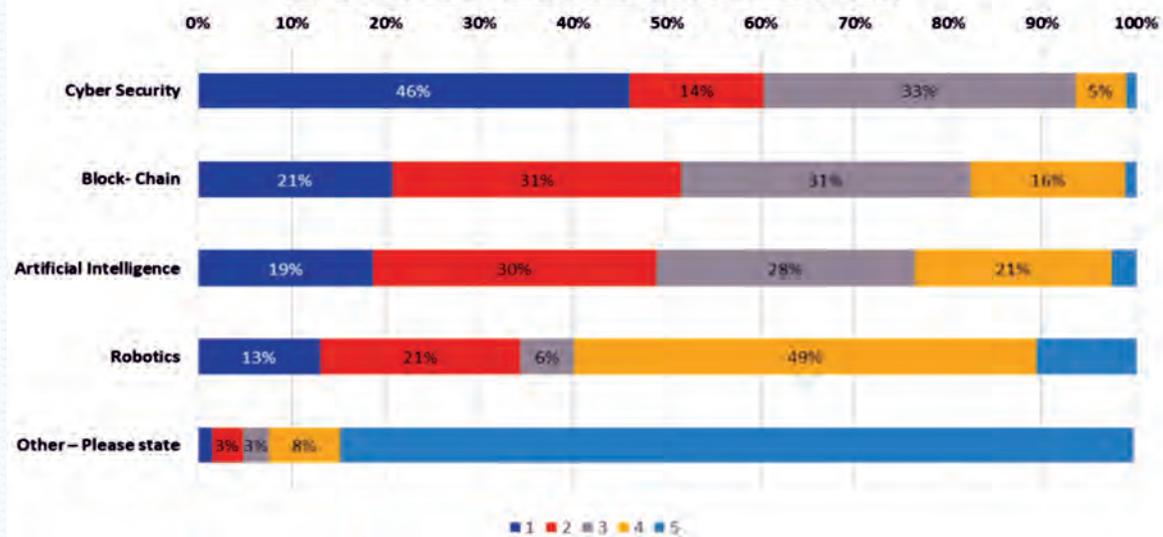


6. The final question under the “Future Scenario” category concerned the anticipated impact of emerging technologies on the future of Internal Audit.

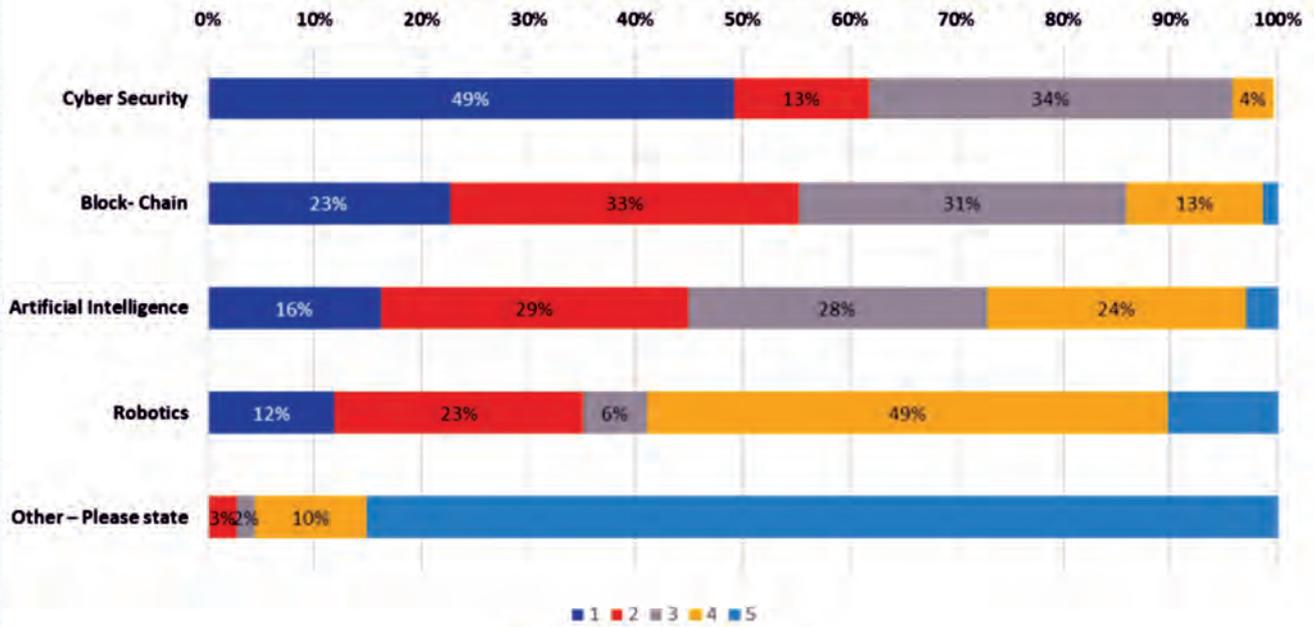
**Q: Which of the following emerging technologies will have a significant impact on the future of the Internal Audit? (Rank in order of impact, with 1 as with the most impact and 5 as the least):**

Cybersecurity was by far the most highly ranked area with 46% ranking it at number one. It was following by Block-chain and Artificial Intelligence, both closely together. Robotics and some other areas were ranked much below.

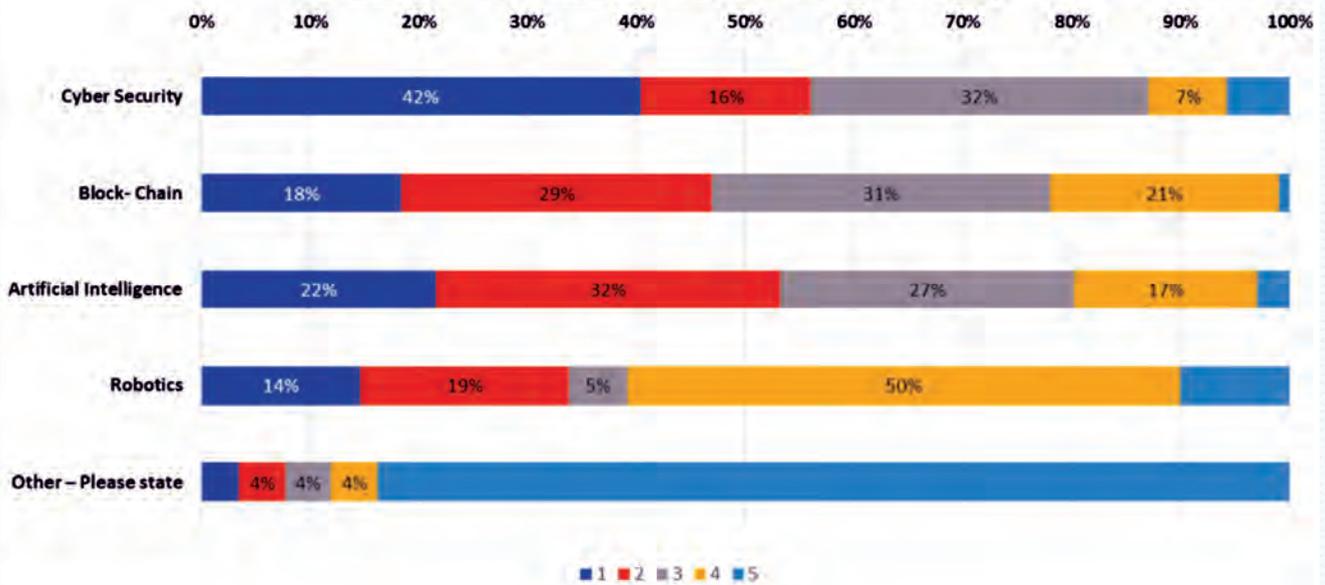
### IMPACT OF EMERGING TECHNOLOGIES - OVERALL



**IMPACT OF EMERGING TECHNOLOGIES - PRACTICE**



**IMPACT OF EMERGING TECHNOLOGIES - INDUSTRY**



**CA. N G Shankar**  
Consultant

“Internal audit is emerging as a separate profession in India consequent to legal requirements. Internal auditors have to seize the moment, raise effectiveness and exceed expectations of all stakeholders. They must provide independent and relevant assurance and act with integrity. They must demonstrate courage when faced with difficult circumstances or while communicating significant risk exposures.”

### Selected Verbatims - Future Scenario (from those in Practice)

Qualitative inputs received in the form of written comments were captured and are reproduced for a few selected participants for each of the main areas.

REF No.	5.7 Any other inputs/ remarks pertaining to this section. (FUTURE SCENARIO)
34	While technology will always be required, as long as the human element of auditors is involved. The auditor's mechanism and procedures to be implemented ethically with the development of technology is the key are to concentrate upon. Believe it or not, in India the technological development is not uniformly happening in all backward areas, were the human element and issues might change the dynamics of /with the technological advancement.
52	In most of the cases Internal Audit is conducted by staff only due to over work allotted to a particular firm. So, involvement of competent staff and CAs are very least in many assignments. This is the main reason of least importance of internal audit in India.
142	The scope and importance given to Internal audit is narrow/ low, as compared to Statutory Auditor. That kind of hurdles and mind set leads to less/ no importance to internal auditor and his report. Regulatory should also give more importance and scope to Internal audit.
203	The very perception of Internal Audit as a management tool needs a major change
205	ICAI should cover more industries with Guidance Notes, update the age-old industry specific Guidance Notes, provide a platform of sharing professional (internal audit specific) experiences, interactions with queries etc. on a continuous basis.
212	ICAATs software and Analytics software Visualisation data should be available to CAs
222	Internal audit professionals have to be trained to perform IA audits. Mindset has to change from Statutory audit to IA audit for an IA professional.  No recognition to IA auditors from the management, looks the entire function as a speed breaker and formality.
250	Internal Auditors should be appointed by independently or make single panel by MCA like Audit panel by RBI
275	Practical exposure and proper practical training system shall be required to equipped the professionals.
352	With respect to anticipated challenges the biggest challenge is the way the owner looks at internal audit function, all are concerned about the cost savings that we provide to them as internal auditor and are not at all interested in knowing where the business is going wrong or improve operational efficiency
355	Need a good platform for networking for our professionals with peers, industries and other professionals in areas of IT&IS, Data Analytics, System developers etc.
378	<ol style="list-style-type: none"> <li>1. Audit Firms should be divided into Categories I to IV based on their size and experience.</li> <li>2. Rules shall be prescribed for appointment of Auditor Firms of particular category based on turnover of the company with minimum fee criteria.</li> <li>3. Fees should be prescribed by the entities upfront and tendering process should be abolished to stop under cutting practice</li> <li>4. Periodical rotation should be there to make it meaningful.</li> </ol>

### Selected Verbatims - Future Scenario (from those in Industry)

Qualitative inputs received in the form of written comments were captured and are reproduced for a few selected participants for each of the main areas.

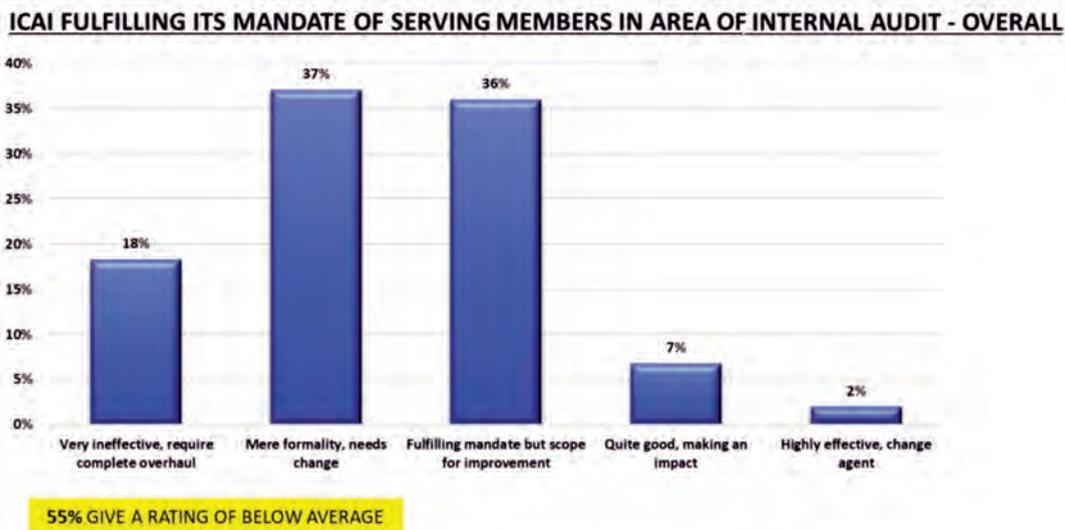
REF No.	5.7 Any other inputs/ remarks pertaining to this section (FUTURE SCENARIO).
39	The function of internal audit has been mainly on complying with internal policies. So what effectively comes out of internal audit is explainable and can be ignored. But on the other hand, on against what the internal audit has checked is question at hand. Whether the guiding principle is sacrosanct and that is what the Government, Stakeholders, Auditors are expecting the internal audit to check is a billion-dollar question. I mean there are no guidelines statutorily to check against something. There are provisions to implement internal audit in every company but what has to be done and what needs to be reported are not there statutorily.
87	Continuous Control Monitoring and Foresight Data Analytics can be big tool going forward
107	HR Auditing and capability assessment would be next demanding field from management
182	Data analytics and data security would have significant impact on audit
279	Emerging technologies would need to embed new codes of professional values. Anticipated challenge defines the risk of exposure by values-respected professionals.
358	Internal Audit mind-set should recognize business acumen and become a key enabler for ethical business for sustainable growth.

### EXPECTATIONS FROM ICAI

- The first question in this section concerned the current status of ICAI and how well it is serving the needs of its members in the area of Internal Audit.

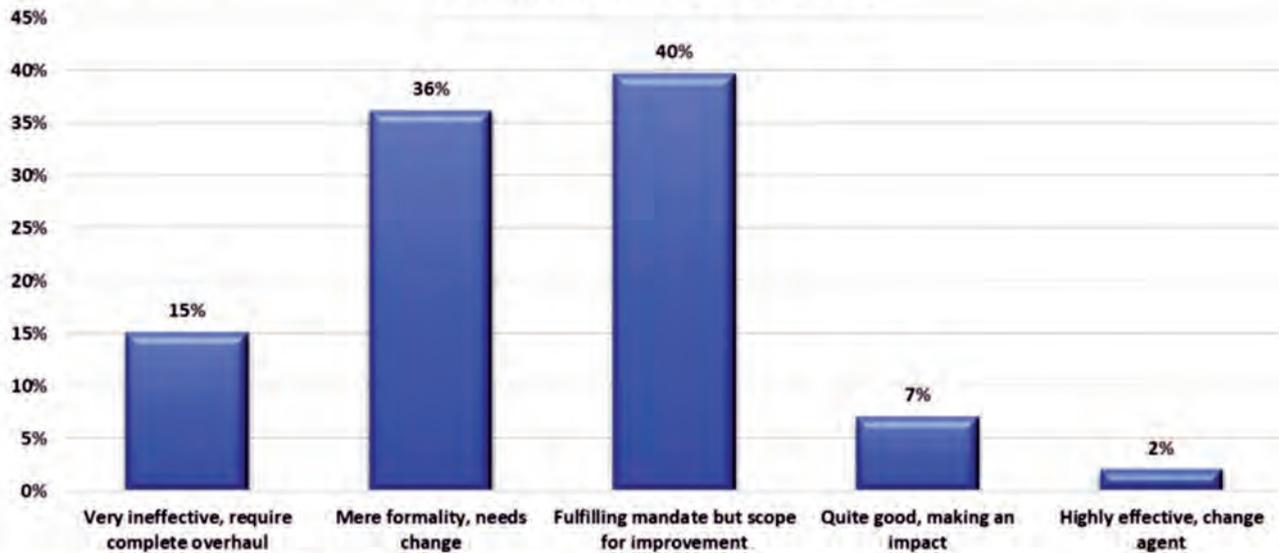
**Q: How well is the ICAI fulfilling its mandate of serving the needs of its members in the area of Internal Audit?**

The response to the level of service being received from ICAI showed significant scope for improvement as 55% members gave the current support to be below average.



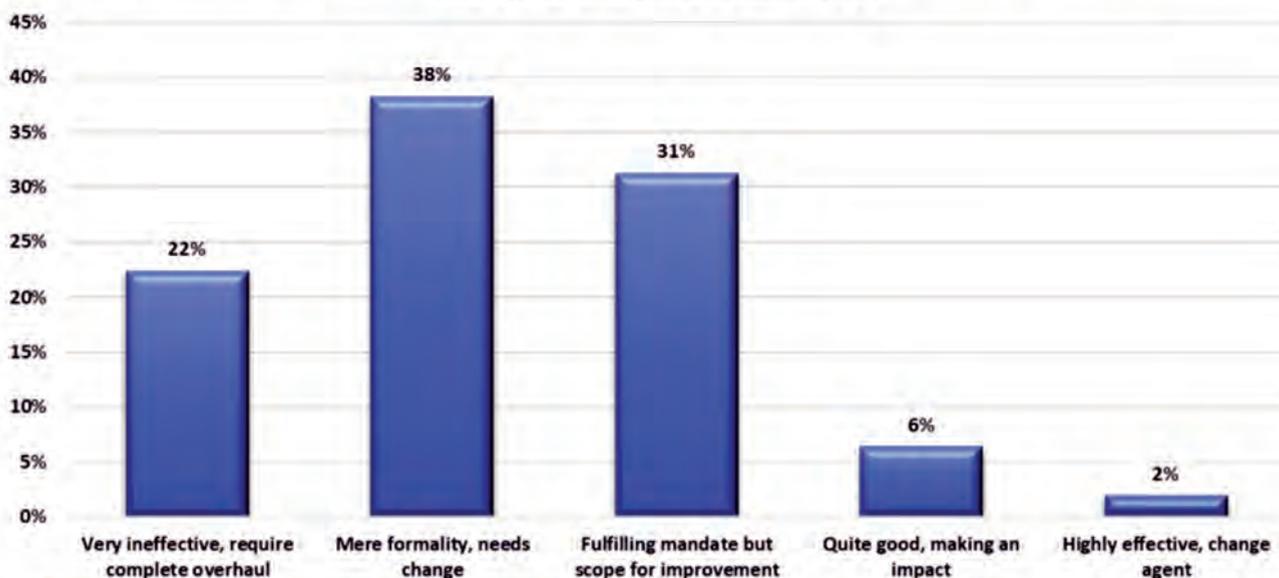
Members in Practice were comparatively more content and only 51% who gave a below average rating, whereas those in Industry, 60% gave a below average rating.

### **ICAI FULFILLING ITS MANDATE OF SERVING MEMBERS IN AREA OF INTERNAL AUDIT - PRACTICE**



**51% GIVE A RATING OF BELOW AVERAGE**

### **ICAI FULFILLING ITS MANDATE OF SERVING MEMBERS IN AREA OF INTERNAL AUDIT - INDUSTRY**



**60% GIVE A RATING OF BELOW AVERAGE**

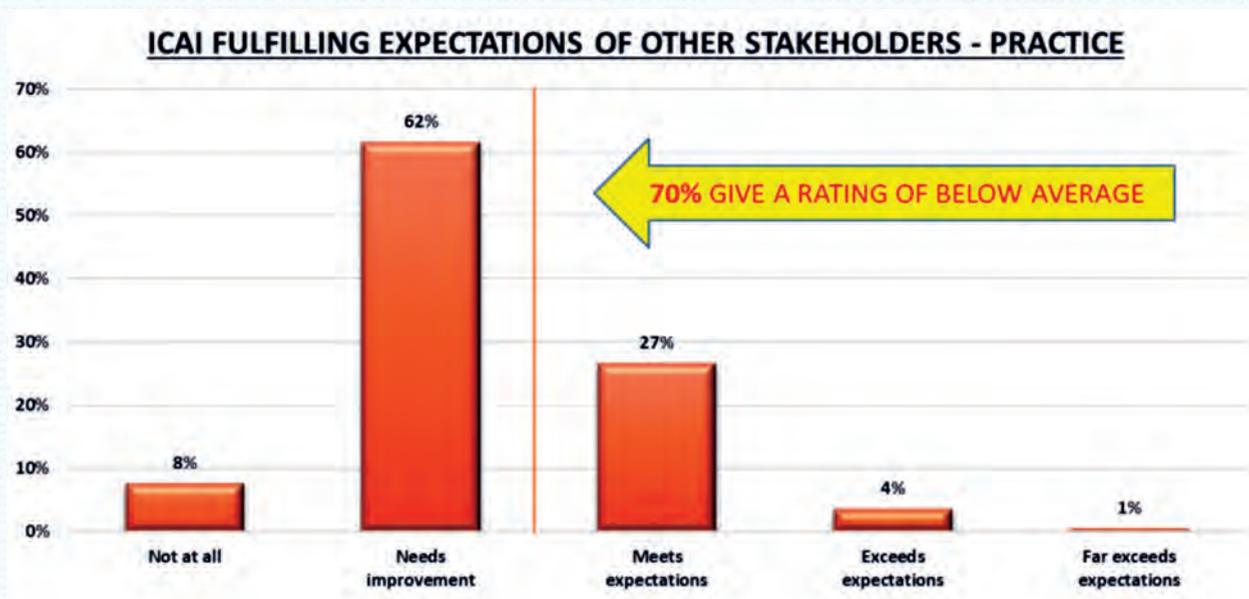
2. In the second question in this section, members were asked to rate how ICAI was meeting the expectations of its other stakeholders, as some of these bodies have an active involvement with the internal audit professionals.

**Q: How well is the Institute fulfilling the expectations of its other stakeholders (Government, Investors, Regulators, etc.)?**

The response to this question was quite discouraging, as 69% of members gave a rating of below average indicating a fair amount of work required in this area.



This feedback was quite unanimous as both members in Practice and Industry echoed the same sentiments.

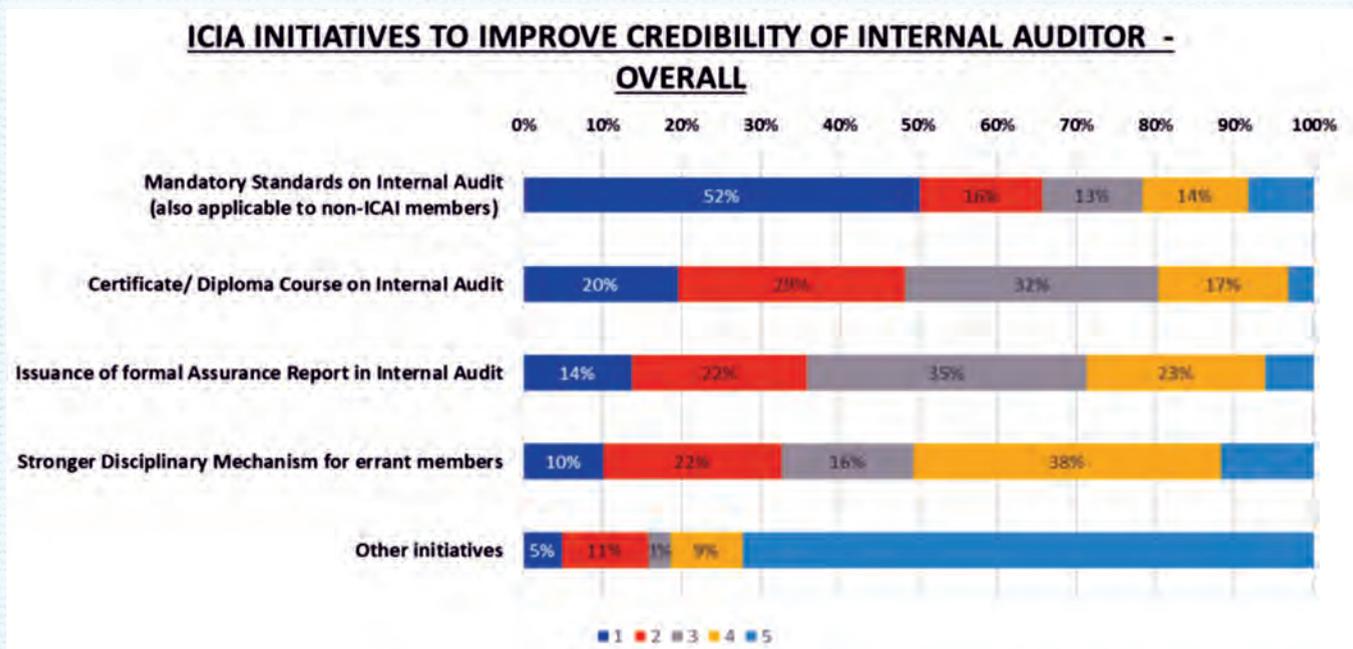




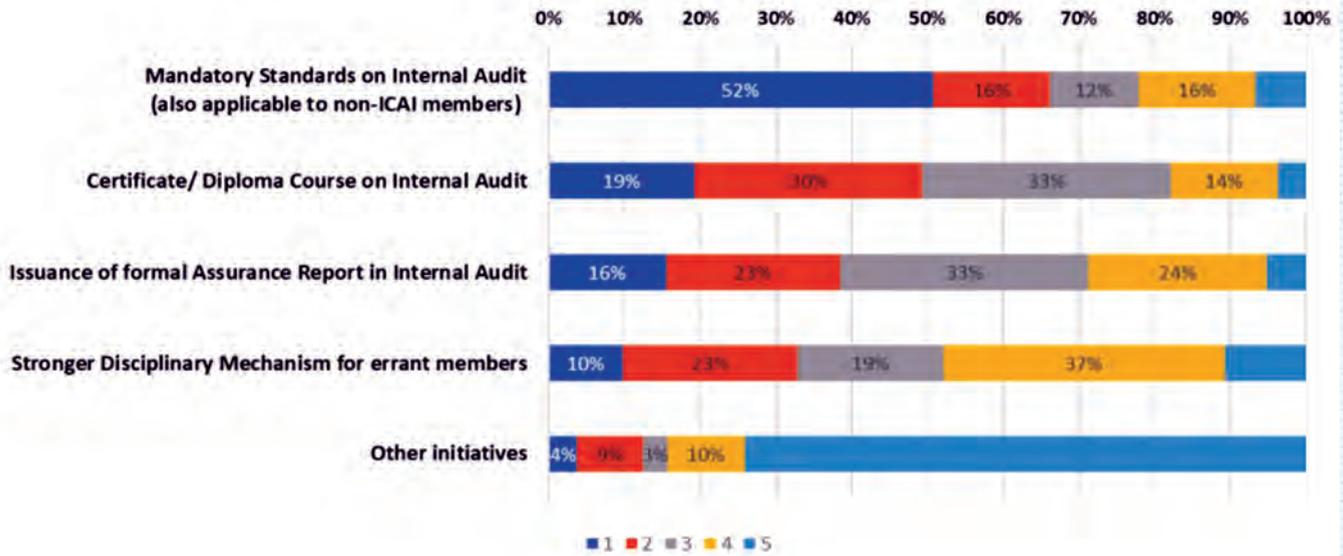
3. Finally, participants were asked to provide their inputs on how the ICAI could improve the credibility of the Internal Auditor. Participants were asked to rate a few important chosen initiatives and to rank them in order of importance.

**Q: Which are some of the areas where ICAI initiatives can help improve credibility of the Internal Auditor? (Rank in order of importance, with 1 as the most important and 5 as the least):**

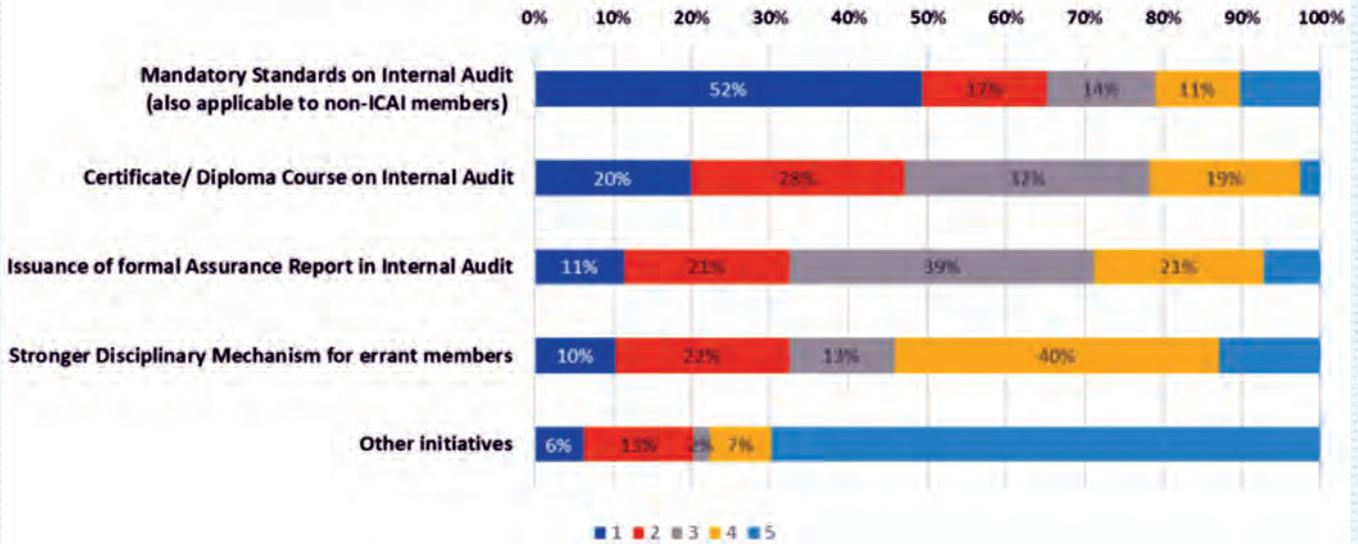
More than half the respondents (52%) overwhelmingly picked mandatory Standards on Internal Auditing as the primary initiative to help improve the credibility of the Internal Audit profession. Slight variations in percentages are there between those in Practice and Industry, but overall the choice of the four initiatives was same.



### ICIA INITIATIVES TO IMPROVE CREDIBILITY OF INTERNAL AUDITOR - PRACTICE



### ICIA INITIATIVES TO IMPROVE CREDIBILITY OF INTERNAL AUDITOR - INDUSTRY



**CA. Thiyagrajan Kumar**

Chief Audit Executive  
Times Group

“Internal Audit can add very high value through constructive engagement on strategic issues facing the business. This will be highly challenging and rewarding as well.”

### Selected Verbatims - Expectations from ICAI (from those in Practice)

Qualitative inputs received in the form of written comments were captured and are reproduced for a few selected participants for each of the main areas.

REF No.	6.5 Any other inputs/ remarks pertaining to this section. (ICAI)
25	<p>Multinationals normally go for Big 4, ICAI must contemplate some remedial measures as this gives rise to nepotism.</p> <p>Further, Big 4 many a time announces awards and confer the same with much fanfare to CFOs/CEOs, which are nothing but surrogate business development activities. This must be banned, there are occasions where incompetent CFOs of PSUs have cornered such awards resulting in significant career progression in one part and compensating business opportunities on the other.</p>
46	There shall be effective sessions by ICAI in association with other reputed associations like IIA
69	Reports of IAs must be considered by Boards for proper Governance
142	Regulatory should be more rigorous on compliance with the internal audit, including independence in appointment, reporting mechanism.
203	The profession has to be made more answerable to the society at large
205	Suggest for more independence measures, empanelment and appointment in the Public Sector, Rotation in Private Sector.
252	Strong participation of the ICAI for further developments
369	Even Internal Audit is done by non- CA professional how to set a common standard or convince the management. I think only any regulation can draw a standard procedure to regulate it and then ICAI can create standards. Also, it is suggested that ICAI should start making its own panel of auditors as most of such assignments are be give through tender system which is not rational/respectable for CA profession and also they take services on tender basis but when any fault comes they blame the CA whether CA is responsible or not. So ICAI must take the authority in own hand and control such activities like it does for Bank Audit.
378	After prescribing standards and conducting courses, ICAI shall move from the role of formulation of policy/mechanism to see that the opportunities shall flow across the country and across the members not available in a particular region or for particular class of members.
391	online assistance needed and expert CA contacts to be shared by ICAI
400	Respectability of members doing I A work needs assurance

### Selected Verbatims - Expectations from ICAI (from those in Industry)

Qualitative inputs received in the form of written comments were captured and are reproduced for a few selected participants for each of the main areas.

REF No.	6.5 Any other inputs/ remarks pertaining to this section. (ICAI)
39	<p>The following are highly requested</p> <ol style="list-style-type: none"> <li>1. Internal audit should be reporting to external reporting agencies and shareholders on a timely basis.</li> <li>2. Structured plan, procedure, reporting formats for internal audit to be issued by NFRA and MCA.</li> <li>3. Penal provisions to be mandated.</li> <li>4. Statutory auditor should be given freedom to audit the work of internal audit including inquiries, reporting, calling for data, involve in their appointment, removal etc.</li> <li>5. Standards for internal audit to be issued by NFRA and MCA.</li> <li>6. Disciplinary proceedings to be initiated against the internal auditor and company for non-compliance under NFRA rules as well by MCA.</li> <li>7. Past scams to be re-verified and identify the internal audit personnel responsible for non-compliance with the Statutes should be punished.</li> </ol>
82	<p>ICAI needs to again bring the CA professionals' Audit skills as Important Factor in Internal Audit professionals. Special knowledge with ICAI members requires clear branding and acceptance with the Company Boards, Government and other bodies. ICAI members as an expert for Auditing role needs recognition wherein the CIA (by IIA) and other certifications requirements can be clearly liaison internationally.</p>
107	<p>Separate Monthly Journal on latest trends and highlights of internal auditing profession would help member in industry a lot.</p>
182	<p>Reduce the influence of NFRA. Increase confidence of MCA on ICAI</p>
225	<p>Enterprise Risk Management and Forensic audit workshop should be conducted on regular intervals.</p>
279	<ol style="list-style-type: none"> <li>1. A written Assurance by the Head of Internal Audit on the compliance of Audit Standards and Code of Ethics should be submitted to BLAC/Board and Statutory Auditors. This needs to be included in the statutory auditors' report to the stakeholders.</li> <li>2. There is a fair amount of degradation in professional values in the internal audit function of many organisations. The member of Institute if harassed/ punished for standing up or raising voice against CAO, blowing the whistle against the management for prevailing corrupt practice, or raising the issue of misconduct of some seniors to Board Level Audit Committee should have a liberty to bring the fact of deplorable state of internal audit to the notice of Institute just for information in the interest of profession. Most of the Internal Auditors are members of the Institute, yet the performance of Corporates in India is sub-optimal not fulfilling the expectations of society. The conduct of CFO and CEO plays a big role in the smooth functioning of internal audit staff.</li> <li>3. The Institute may issue a "spiritual booklet" to its members both in practice and in service to explain on what "Professional" means, what "Independent" means; and how and why to respect these two words for the sustainability of profession.</li> </ol>

REF No.	6.5 Any other inputs/ remarks pertaining to this section. (ICAI)
315	Similar to IFRS, the ICAI must issue standards which are in convergence with Global IIA Standards
316	ICAI must work with the Global IIA, adopt International standards and jointly develop guidance for local context
365	It will be very helpful, if we get the journals same like Chartered Institute of Internal Audit, U.K. providing to their members.
383	No need to start any new course for internal audit etc, but short-term training to be given by experts who has been in the field for more than 10 years
408	Map the IIS with IPPF of IIA

## OTHER OBSERVATIONS

1. The first question under general observations concerned the extent to which various factors influenced the expectation gap which exists between the Internal Auditor and its various stakeholders. Participants were asked to rate each area as a low, medium or high level of influence.

**Q: To what extent do the following factors influence the expectation gap between the Internal Auditor and its key stakeholders?**

The ranking are along the expected lines where almost everyone ranked areas like lack of attention, management conflict of interest, credibility of the function etc on a high scale.

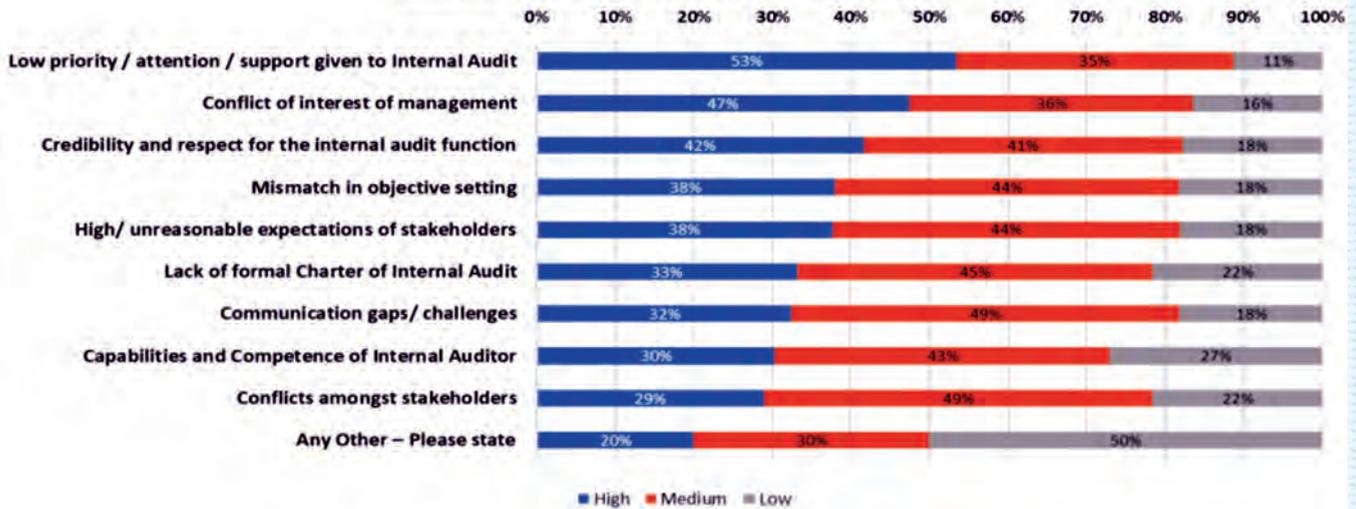


### CA. Durgesh Pandey

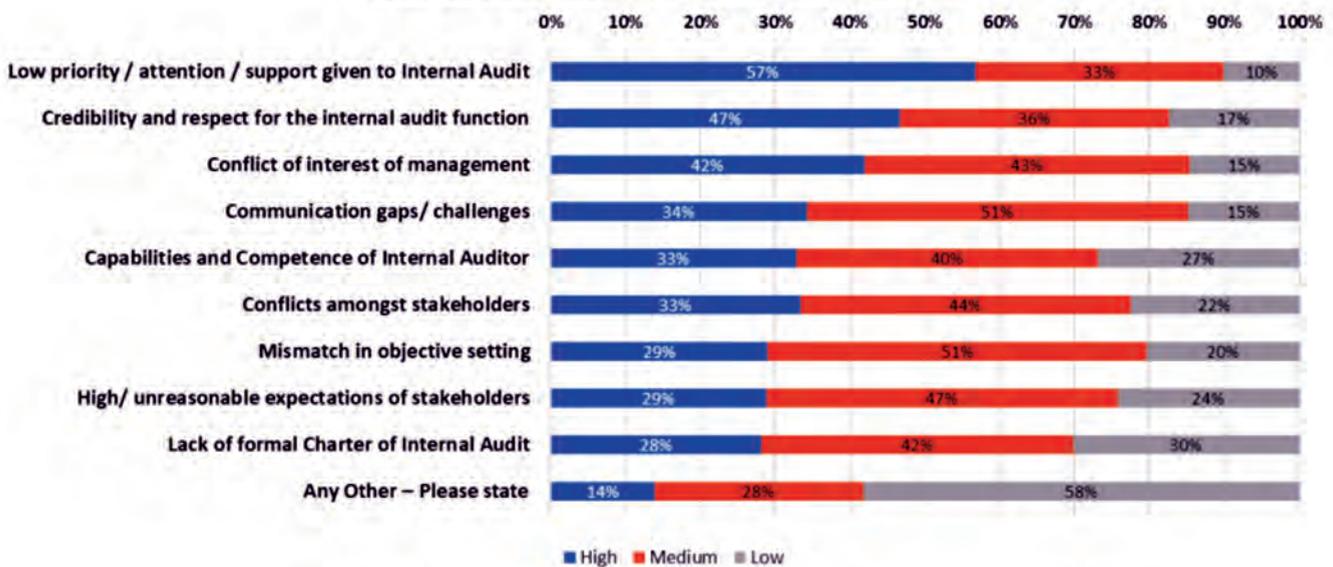
Partner, D K M S & Associates, Chartered Accountants

“The Internal Audit Profession has seen a sea change in recent times. From being compliance enforcers, IA has emerged as an integral part of the business value chain. Emergence of Technology has posed new challenge for IA professionals however, these challenges can be turned to opportunities with developing new skill sets. Its envisaged IA will play a far greater role in time to come and business owners will seriously count on the IA function.”

### REASONS FOR EXPECTATIONS GAP - PRACTICE



### REASONS FOR EXPECTATIONS GAP - INDUSTRY



**CA. Sidheshwar Bhalla**  
Partner (Risk Advisory), BDO India LLP

“In today’s complex business risk environment, Companies are moving towards a more proactive, strategically aligned internal audit function to achieve greater organizational resiliency and growth. By striking a balance between risk resilience and risk agility companies reliably achieve its objectives, addresses uncertainty, inculcate and acts with integrity, whilst attaining utmost compliance level.”

2. Finally, inputs were sought on the perennial question of factors which affect "In vs. Out" Sourcing of Internal Audit Services. Participants were asked to rate a few important chosen initiatives and to rank them in order of importance.

**Q: In-Sourcing Vs. Out-sourcing: To what extent do the following factors influence the decision to "In or Outsource" Internal Audit activities?**

Technical expertise, the credibility of the external service provider and the independence & objectivity of the audit firm were rated as the top three reasons for out sourcing.

### "IN vs OUT SOURCING" FACTORS - OVERALL



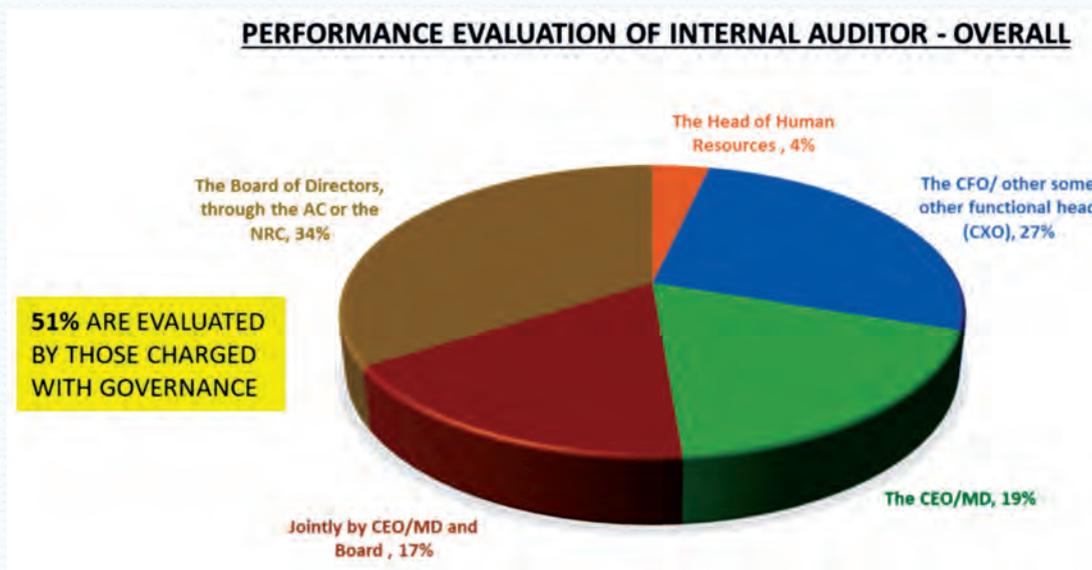
### "IN vs OUT SOURCING" FACTORS - PRACTICE



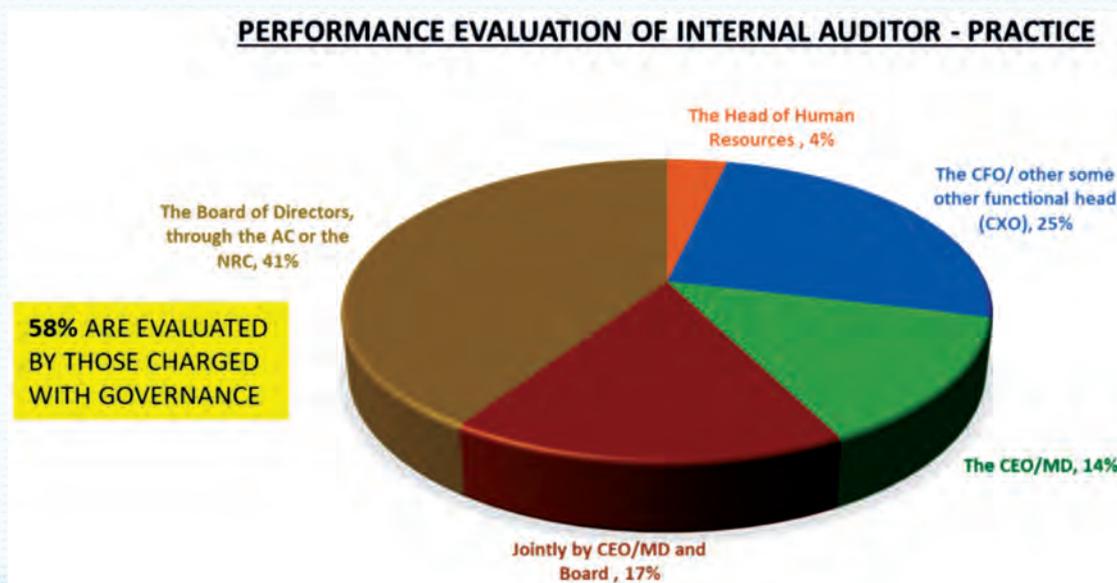
3. Finally, a question was posed on the performance evaluation of the Internal Auditor. Participants were asked to provide their inputs on who undertook this important responsibility to evaluate performance of the Internal Auditor.

**Q: Who conducts the performance evaluation of the Internal Auditor in your company (or client companies)?**

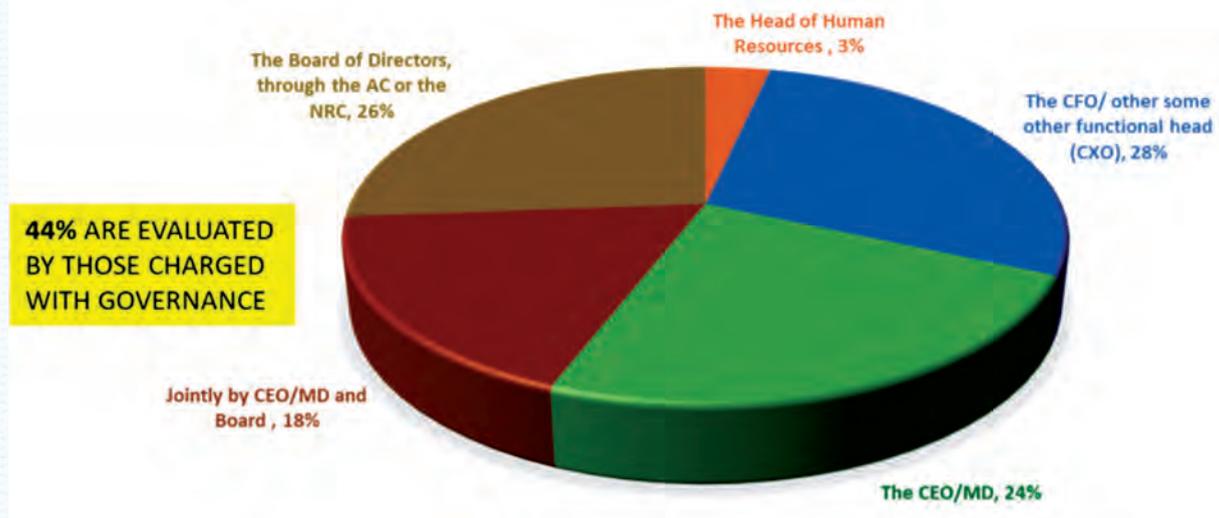
More than half the respondents (51%) reported that the performance evaluation of the Internal Auditor was undertaken by those charged with governance (Board of Directors/Committee of the Board/ or jointly with the CEO/MD). However, conversely, there were 31% of respondents where this activity was conducted by either HR or CFO, raising some doubts over the independence of the Internal Auditor.



It was heartening to note that this response from the Practicing community was more encouraging, who gave much better ratings.



### PERFORMANCE EVALUATION OF INTERNAL AUDITOR - INDUSTRY



#### Selected Verbatims - Other Observations (from those in Practice)

Qualitative inputs received in the form of written comments were captured and are reproduced for a few selected participants for each of the main areas.

REF No.	7.4 Any other inputs/ remarks pertaining to this section. (MISC)
25	ICAI should have a full-fledged and active division to oversee the nurturing and growth of Internal audit in India. Internal audit is still perceived to be a “tool in the hands of management”. But given the stake of general public in Public limited companies and in PSUs, internal audit has a different role to play now as the guardian and change agent representing all other stake holders apart from promoters or the so called “management.” Given their continuous association and greater presence, internal auditors are in a better position to unearth mistakes and take remedial actions vis-a-vis statutory auditors.
106	One of the factors influencing the appointment of internal auditor in a company is lack of source available to the companies for searching internal audit firm to outsource its internal audit function. Also, because of this, only well-established firms are able to get the internal audit work creating a big hurdle for new firms to grow.



#### **CA. Ram Mohan Nagoji**

Sr. GM Head – Management Audit & Taxation; Amara Raja Batteries Limited

“Internal Auditor should be agents of change, must embrace change when warranted. Time to move out of comfort zone!”

REF No.	7.4 Any other inputs/ remarks pertaining to this section. (MISC)
127	<p>In public sector undertaking the selection is done based on the lowest fee quoted , followed by years of experience in internal audit of the firm ,the no of partners and the audit staff ,the gross fee earned in the last 3 years</p> <p>All these are not sound basis for selection .</p> <p>The selection should be done based on the experience of partners in Internal Audit or experience in the industry which is totally ignored.</p> <p>A CA who has worked in the Industry for more than 10 years ,his experience is not taken into account to decide his eligibility to act as an internal auditor while a junior member who has taken COP before him is considered senior over this member.</p> <p>Due weightage for Industry experience of members should be given in deciding their eligibility.</p>
159	Most of the IA works are granted to firms having brand value and are actually performed or executed by sub-contracting.
212	Dual reporting to CFO & MD makes it difficult for the IA to efficiently perform audit.
263	Out sourcing is mere legal compliance and they are not interested in internal audit report and hence fees also very small and this will lead to many auditors not involved the internal audit work and treat just like one of wage source to their employees and meet out from these small fees and others
275	An Independent Regulator should be formed in whose supervision whole process of allotment of assignment shall be implemented to each member irrespective of size and category of firms with specific scope of work and strict adherence to performance of quality.
332	proactive leadership must be provided by ICAI
391	The risk level should be attached to the disciplinary mechanism

#### Selected Verbatims - Other Observations (from those in Industry)

Qualitative inputs received in the form of written comments were captured and are reproduced for a few selected participants for each of the main areas.

REF No.	7.4 Any other inputs/ remarks pertaining to this section. (MISC)
39	<p>Performance of internal auditor is dependent on his capabilities. Rotation is also important to avoid conflict of interest in sensitive posts. Selection of internal auditors should be governed by a Statute and should be tested for compliance and form part of Directors' Report on the compliance of the same. Cost/Expenses should be a concern where small companies to engage internal auditor. However, where general stakeholders are involved like Banks then the function of internal auditor should not be weighed against costs. Also, all listed companies should be required to comply with mandatory internal audit selection, procedure, reporting, standards and compliance with statutes etc</p>

REF No.	7.4 Any other inputs/ remarks pertaining to this section. (MISC)
100	ICAI need to educate internal auditors with basic mandate that audit needs to provide value addition and it should not be fault finding mechanism. Young fresher CA to be trained for auditing accordingly. Also, ICAI to promote Indian Firms, so that preference for audits will be given to Indian Firms than big international firms. Certification Courses to be introduced for use of block chain, robotics, AI etc in auditing
149	The ACB in most cases do not ensure independence. So called administrative reporting to the MD or CEO impacts independence adversely. We need to look at ways to ensure independence. ACBs are least concerned about such independence. Expect only a goody goody certification by the IA so that the ACB is absolved of their responsibility
182	Internal auditors should be known as business process controllers, analysts. CAs must improve their convincing and ability to influence on the operating management. more rotation from in house audit function to other functional area like sales, purchase, logistics area.
279	In-sourcing or outsourcing of internal audit activity is basically influenced by the values practiced by the governance body. The relationship with the outside internal auditor is established to get the Tops interest served.
318	If the CEO/MD is responsible for the appraisal of the CAE, then there is no reason why the CAE should stick his neck out and report all the issues to the Audit Committee. It makes sense to align with the CEO/MD rather than the Audit Committee, under these circumstances.
326	Expectation gap is due to lack of clarity of Internal auditors' role in Rules under companies act
397	It may sound outrageous but considering Indian scene, a rating system for firms can be thought about. Stakeholders including public can understand who has performed audit of an enterprise. Independent rating for Internal or statutory auditor will shift competition to be performance oriented.

## SURVEY METHODOLOGY

### THE SURVEY PROCESS

In completing this survey exercise, the following approach and process was followed:

1. Design the Survey Form with a combination of Quantitative and Qualitative questions.
2. Make this Survey Form available on "Google Forms" to be completed and submitted on-line by the participants (members of ICAI and others).



#### CA. Neeraj Gupta

Partner, Risk Assurance Services, Pricewaterhouse Coopers, India

"In India, the internal audit profession has not really received its due. This is due to a variety of reasons, the more important ones being the expectation gap between management on one side and the Audit Committee on the other side. The current digital disruption which is presently underway presents a great opportunity for internal auditors to embrace technology and remain relevant, both to businesses and also to society at large."

3. Encourage maximum participation by sharing the “Google Link” through various ICAI communication channels.
4. Collect and gather responses received.
5. Create database of submissions and perform objective analysis.
6. Compile findings and prepare report.

### OVERVIEW OF THE QUESTIONNAIRE

The survey form was designed to capture key information pertaining to both, the participant (their profile), as well as the subject matter under study (Internal Audit).

The Form was divided into 7 Sections as follows:

Section	Area	No. of Questions
1	Respondent profile – General	11
2	Respondent profile – In Practice	9
3	Respondent profile – In Industry	11
4	Current Scenario	11
5	Future Scenario	7
6	Expectations from ICAI	5
7	Miscellaneous / Other	4
<b>TOTAL</b>		<b>58</b>

A total of 31 questions were regarding the profile of the participants and remaining 27 questions regarding the state of the profession.

### RATING SCALE

Most quantitative inputs were sought through a 5-point rating scale as follows (words changed/ elaborated, if necessary):

1. Not at all
2. Needs improvement
3. Meets expectations
4. Exceeds expectations
5. Far exceeds expectations

Alternatively, in some questions, participants were also asked to rate 10 subjects/areas on a scale of 1 to 10 (high importance to low importance).

## TIMELINE

- The form was drafted by the Board in October and inputs were taken from the Study Group of the Board (and some other external experts) in November, 2018.
- After due approvals by the Board, the Survey was formally launched on 20th November 2018, with a deadline of receiving responses of 15th December, 2018.
- There was continuous communication through various channels to promote maximum participation:
  - ❖ ICAI websites and Social Media
  - ❖ December 2018 Issue of ICAI Journal
  - ❖ Direct Email and SMS
  - ❖ Word of mouth.
- Subsequently, there was an extension of the original deadline by one week to 23rd December, 2018 - partly due to ICAI election falling in between.
- Final closure of Survey took place on 24th December, 2018.

## LOOK & FEEL

Attempt was made to keep the look and feel as simple and user friendly as possible.

# Survey on the State of the Internal Audit Profession in India by Internal Audit Standards Board, ICAI

The Board wishes to measure the pulse of the Internal Audit profession in India. Hence, it seeks to reach out to all professionals serving in both, industry and practice, so as to fully understand the current and anticipated future state of the profession from all perspectives.

\*Required



**The Institute of Chartered Accountants of India**

(A statutory body established under an Act of Parliament)



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SMALL PAYROLL INCOME  
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RESULTS OFFERING  
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Internal Audit Standards Board  
The Institute of Chartered Accountants of India  
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