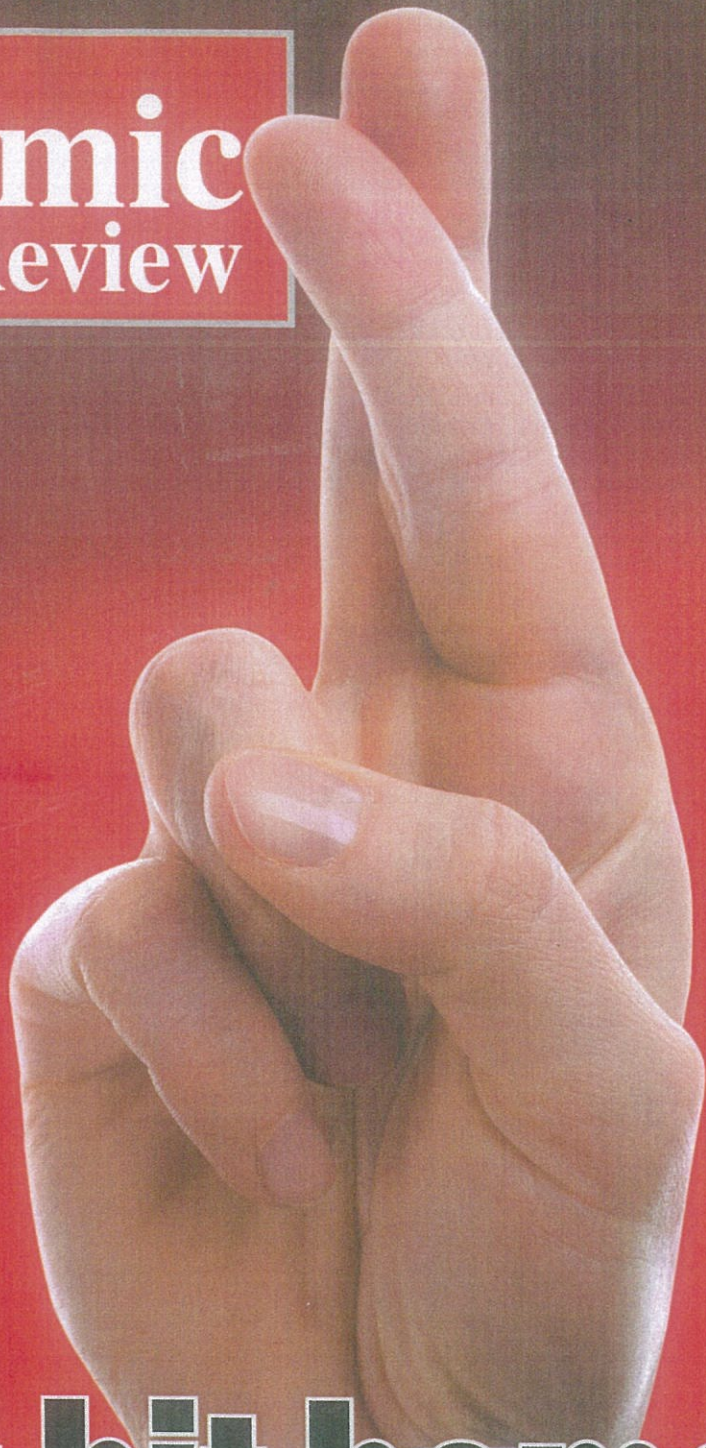


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International US\$ 3.0



### PERSONALITY

Usama Barwani,  
Director, MB Holding Co.

### TELECOM

The impact of  
basic resellers

### FACE2FACE

Malcolm Brinded, Executive Director,  
Exploration & Production, Royal Dutch Shell

# THE CHANGING FACE OF INTERNAL AUDIT

THE ROLE OF AN INTERNAL AUDITOR HAS CHANGED FROM DOING A POST FACTO ANALYSIS TO BEING PROACTIVELY INVOLVED IN BUSINESS PROCESSES TO PREVENT ANY ADVERSE SETBACKS TO AN ORGANISATION



By Rajesh Kumar Saraogi

“Business process audit is one of the means of achieving a business turnaround, which many organisations give as an assignment to outside professional consultants”

The rapid increase in globalisation, volatile changes in world economies, inflationary trends, rising oil and commodity prices, fluctuation in markets and currencies and uncertainty in the business environment has increased the complexities of the business world leading to a greater focus on internal audit of the business processes and risk management.

Cost rationalisation and optimisation has become one of the key parameters to be monitored and achieved by any business organisation vis-a-vis the competitive advantage, which has led to substantial increase in the scope of internal audit as a monitoring process for internal control systems in almost every sphere of business activity.

The dynamic business scenario has resulted in major changes in the field of internal audit with the involvement of the internal auditor in decision making process, rather than merely doing a post mortem review, thereby adopting a preventive approach as against a corrective one to avoid the impact of any adverse setbacks.

## An advisory role

Worldover all large industrial and business groups have established their own internal audit departments and SME's carry out their internal audit through external professional audit firms/consultants. The management of every professional business organisation has realised the need to have an effective “internal audit department” as an inbuilt part of their organisation structure in line with their size and business volume, headed by a well qualified and experienced individual at the helm of it, at par with the finance and operations head, with reporting relationships to the board and the chairman.

## Importance of internal controls

Internal controls in any business process are the key drivers to meet the changing competitive nature of any business and unless they are self driven, no amount of audit reports can give the desired results. In normal circumstances any future adverse financial impact can only be known during the post mortem review, after the event has actually occurred. However, if timely actions are taken by the business drivers through the internal audit

mechanism at the very inception, the impact of such events could be minimised or altogether avoided.

Business process audit is one of the means of achieving a business turnaround, which many organisations give as an assignment to outside professional consultants. In a number of companies such core areas are becoming a part of the internal audit process, as many of the solutions of a successful turnaround are found within the organisation itself, with a detailed study and review of the organisational structure and activities.

The role of an internal auditor to assist the organisation in identifying, mapping and analysing the key business processes in detail and then suggesting modifications to them, to achieve a turnaround, can hardly be over emphasised. The business process audit approach, instead of focusing on just one or a few processes, provides a more comprehensive view of all the key processes of the organisation and optimises the same to improve the productivity and efficiency.

Focus based management is the key to the success of any organisation, and hence it is extremely important for the management to concentrate on the core areas of revenue and cost in any business to achieve a complete turnaround. Working with a task force approach has been found to be very successful in most organisations, by spreading the scope of internal audit through a team of professionals to assist the management by providing them value added information to meet their goals and navigate them on core issues of business such as product mix formulation, investment analysis, joint venture agreements, commercial contracts, etc.

### Risk assessment

Expansion and growth today is the need of any business to meet the ever increasing race for survival and competition and the management of every organisation has to spend substantial time in the detailed risk as-

## Internal auditor's role

- Cost rationalisation and optimisation
- Monitoring of internal control systems
- Helping in turning around businesses
- Identifying, mapping and analysing key business processes
- Helps in identifying an organizational focus
- Risk analysis
- Internal audit helps to increase security of data

essment of large value proposals/commitments. The detailed evaluation, analysis and assessment by an internal audit of such proposals has increased significantly as a third party risk assessor.

Today, internal audit in areas such as data storage, data back-up, security and reliability are the most important factors responsible for successful running of the organisation. With the increase of Internet usage and introduction of E-commerce, internal audit of the systems of any company have become very important to ensure that the internal controls and standard processes are followed in the networking and software being used, to avoid any risks associated with the data.

### Audit as a profession

With changing times, unlike in the past where the internal auditor was an isolated individual with limited interaction, his position has become more 'recognised, trusted and valued' with

a user friendly approach, assisting the management in monitoring systems, evaluating risks and implementing policies and procedures in all large professional groups.

The enactment of Sarbanes-Oxley (SOX) Act, 2002 has drastically increased the role and responsibility of internal audit, to assist major corporations to effectively develop, document, test and evaluate key controls to meet this new requirement. Further with other major initiatives on the financial horizon such as "International Financial Reporting Standards" and extensive use of 'business reporting language' the advisory role of internal audit would continue to climb up in the high profile management corridors where decisions are made.

### Internal audit, a global recognition

Specialisation in the internal audit field has now reached new heights with internationally recognised qualifications and certifications such as CIA, CISA, SOX etc. These are adding new dimensions to the already multifaceted internal audit professionals to meet their ever challenging advisory role and enhanced scope in the current changing business world.

The new role of internal audit is highly sensitive and proactive by being in the field where the action is to get first hand information, through close interaction with the organisation and assisting them during audit reviews. Auditors also keep the board well informed on core issues and policy deviations, by suggesting business solutions and keep business risks well covered.

World over, it is being increasingly felt that the profession of internal audit has become extremely challenging adding substantial value to an individual's experience in almost every area of business management, leading to better opportunities for taking up a larger role and responsibility by individuals. **OER**

The author is the chief internal auditor of the Shanfari Group of Companies