



# Role of Internal Auditing and Risk Management Practices: A Survey on Audit Firms in Bangalore

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## INTRODUCTION-

### Background of the topic-

The history of auditing extends back to Kautilya's acceptance of accounting principles in the fourth century BCE, during the Mauryan Empire. The first mandate for internal audits was established by the Manufactured and Other Organizations (Auditor Report) Order (MAOCARO) of 1975. The Companies Act of 2013 has increased the authority, skill, and integrity requirements for auditing. Around 4000 BCE, the Near East saw the emergence of early record-keeping systems, which subsequently spread to China during the Zhao dynasty. These methods had an impact on accounting in Europe and America. The official role of internal auditors was established in the twentieth century. It was noted how crucial fraud prevention is and that enforcing laws alone won't cut it.

### Theoretical implication-

- This research paper examines the crucial role played by internal auditing and risk management practices in audit firms based in Bangalore, without delving into theoretical frameworks.
- The study aims to provide a practical understanding of how these practices contribute to corporate governance, transparency, and value creation within the context of the auditing industry.
- By exploring the practical aspects of reducing information asymmetry, addressing conflicts of interest, and fulfilling stakeholder obligations, the paper sheds light on the tangible impacts of these practices on the efficiency and credibility of audit processes.

## **Literature review –**

**"The Impact of Internal Audit on Risk Management in Indian Audit Firms" Author Rajesh Kumar 2018, Journal: Journal of Accounting Research, Vol. 15, Issue 2, pp. 45-62**

The Journal of Accounting Analysis distributed an article by Rajesh Kumar in 2018 that addresses the critical relationship between the operations of internal auditing and the growth of risk management tactics in Indian audit employers. Kumar's study of the research clarifies a number of important facets of this dynamic connection.

First, the author examines the complex function of internal audit in the unique setting of Indian audit companies.

**Author Priya Sharma 2016 Journal: Indian Journal of Accounting, Vol. 12, Issue 3, pp. 78-91**

The paper delves into the challenges faced by these firms and identifies best practices to achieve effective integration. One of the central themes of the review is the identification and analysis of challenges faced by Indian audit firms in integrating internal audit and risk management. Sharma highlights issues such as siloed organizational structures, communication gaps, and differing objectives between these two functions.

**"Enhancing Audit Quality through Effective Internal Controls: Insights from India" Author Anil Gupta Year: 2020 Journal: International Journal of Auditing, Vol. 25, Issue 4, pp. 223-240**

The literature review begins by acknowledging the vital importance of audit quality in ensuring the reliability and credibility of financial reporting. Gupta argues that the effectiveness of internal controls serves as a cornerstone for audit quality, emphasizing their role in providing a strong foundation for the external audit process.

**"Role of Internal Audit in Mitigating Risks: A Case Study Approach in the Indian Context" Author Neha Singh Year: 2017 Journal: Journal of Risk Management in India, Vol. 8, and Issue 1, pp. 102-115**

The study begins by emphasizing the critical role of internal audit functions in the broader risk management landscape. Singh argues that internal audit teams serve as frontline guardians, responsible for identifying, assessing, and addressing various risks faced by audit firms. The case study methodology is employed to provide a nuanced understanding of how these functions manifest in real-world scenarios within the Indian business environment.

**"Emerging Trends in Internal Audit and Risk Management: Perspectives from India" Author: Rahul Kapoor ,2019 Journal: Indian Accounting Review, Vol. 20, Issue 2, pp. 55-68**

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provide a nuanced understanding of how these functions manifest in real-world scenarios within the Indian business environment

### **Internal audit nature of work Author A. B. Reffett (2010) Vol: 25**

Reffett's research suggests a complex connection between an auditor's felt duty and the degree of attention they take during audits. The concept that meticulous audits could result in a decrease in perceived accountability presents an intriguing dynamic. From this angle, it could be inferred that auditors who work meticulously and thoroughly investigate fraud may feel more confidence in their capacity to find fraudulent activity, which could lessen their feeling of accountability

### **"Internal Audit Effectiveness and Risk Management in Indian Audit Firms: A Systematic Review" Author Sunita Verma, 2015 Journal: Journal of Finance and Accounting in India, Vol. 7, and Issue 4, pp. 123-136**

The primary emphasis of the review is expected to be on assessing how well internal audit processes contribute to identifying, evaluating, and mitigating risks within Indian audit firms. Verma likely considers factors such as the regulatory framework, cultural aspects, and the evolving economic landscape of India to provide a context-specific analysis. The insights offered by the paper are likely to extend beyond academic discussions, providing practical recommendations for audit firms, professionals, and policymakers. This may include suggestions for refining internal audit methodologies, improving risk assessment practices, and fostering a more integrated approach to risk management within Indian audit firms.

### **"The Role of Internal Audit in Strengthening Risk Management Practices: Perspectives from Indian Auditors" Author Aarav Mittal, 2019 Journal of Risk and Control, Vol. 8, Issue 3, pp. 78-94**

The review probably starts out by pointing out how closely internal audit and risk management are related, while also highlighting how particular the Indian business environment is. By including the perspectives of Indian auditors who are at the forefront of managing the difficulties and seizing opportunities in risk management, Mittal hopes to provide insightful analysis. The review's viewpoints could cover a variety of subjects, such as proactively identifying risks, evaluating risk-reduction tactics, and incorporating internal audit results into comprehensive risk management frameworks.

### **"Internal Audit Quality and Risk Management: A Review of Evidence from Indian Audit Firms" Author Aditi Verma, 2016 Journal: Indian Journal of Risk and Insurance, Vol. 14, Issue 4, pp. 102-118**

It is expected that the literature study will begin by outlining the basic relationship between the efficacy of risk management and internal audit quality. Verma is anticipated to highlight the vital role internal audit plays in detecting, evaluating, and reducing risks. She will also likely to highlight the possible influence of audit

quality on the overall risk management system in Indian audit businesses. Most likely compiles empirical data from a range of surveys, studies, and case studies conducted on the Indian audit industry. It is expected that the evaluation would examine important factors that affect the quality of internal audits and how those factors affect the results of risk management.

## **Research methodology**

### **Statement of the Problem-**

Research in Bangalore examines internal audit and risk management in audit firms. Professionals struggle with translating theory to practice amid evolving regulations and technology. Adapting to technological advancements while balancing compliance and strategic contribution poses challenges. The study aims to understand how practitioners navigate these dynamics for enhanced professional preparedness and audit efficacy.

### **Research Gap-**

The research gap in the role of internal audit and risk management practices for audit firms centres around the need for more specific insights into how these practices operate, especially in diverse contexts. There is a vivid gap when it comes to practical implication and real world implications In Indian audit context. It revolves around the need for a deeper understanding of how auditors in Indian companies adapt to changing risks, utilize data analytics, enforce regulatory compliance post-pandemic, and integrate new technologies like Industry 4.0 In the present world.

### **Data Collection-**

#### **a. Method of Data Collection:**

- i. Primary data- The information is collected through a survey Questionnaire considering the basis of sample respondents.
- ii. Secondary data- Information collected through secondary source of information such as journals, publications, articles.
- iii. Sample design- The sample respondents altogether include 100 of them for this research project.
- iv. Population- CA practitioners, auditors and their colleagues working in firms in and around Bangalore make up majority of the responses.
- v. Sample Size – A sample of 100 respondents from the survey questionnaire is taken.

Expected: 150 responses

Received: 100 responses

- vi. Sampling Unit- Chosen based on their understanding and working in audit firms.
- vii. Sampling method- A random classified sampling process is used. The sample includes responses collected across the Bangalore city. Respondents having knowledge or experience of working in audit firms.
  
- b. **Tools for data collection** –  
I will be using Chi- square inferential statistical tool for the survey. The implication of the data will be depicted through the use of statistical graphs and charts for a better and clear view of the analysis.
  
- c. **Data Analysis Plan** –  
Both Qualitative and descriptive approach is used for the study. The information will be obtained from the same respondents and secondary source of data. The analysis will be based on the type of responses. Using this the conclusion will be given on each analysis depicting its show.
  
- d. **Statistical tool for analysis** –
- e. I will be using Chi- square inferential statistical tool for the survey. This involves lot of detailing and aspects to be considered. The implication of the data will be depicted through the use of statistical graphs and charts for a better and clear view of the analysis.

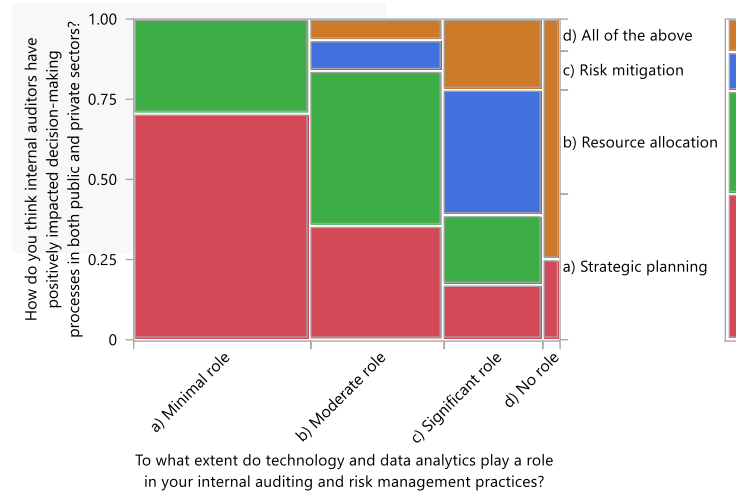
## Hypothesis of the Study-

### HYPOTHESIS 1

HO: Internal auditors have no significant impact on decision making processes, and technology is not crucial for their auditing practices

HA: Internal auditors have a significant impact on decision making processes, and technology is not crucial for their auditing practices

### Mosaic Plot



### Contingency Table

To what extent do technology and data analytics play a role in your internal auditing and risk management practices? By How do you think internal auditors have positively impacted decision-making processes in both public and private sectors?

Count Expected	a) Strategic planning	b) Resource allocation	c) Risk mitigation	d) All of the above	Total
a) Minimal role	29 18.63636	12 13.25253	0 4.969697	0 4.141414	41
b) Moderate role	11 14.09091	15 10.0202	3 3.757576	2 3.131313	31
c) Significant role	4 10.45455	5 7.434343	9 2.787879	5 2.323232	23
d) No role	1 1.818182	0 1.292929	0 0.484848	3 0.40404	4
Total	45	32	12	10	99

### Tests

N	DF	-LogLike	RSquare (U)
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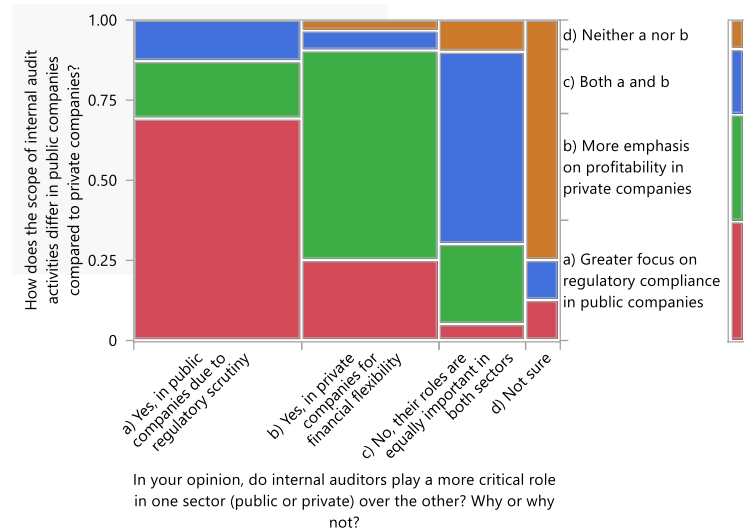
Test	ChiSquare	Prob>ChiSq
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## HYPOTHESIS 2

HO: The scope of internal audit activities is not similar between public and private companies, internal auditors' roles are equally critical in both sectors.

HA: The scope of internal audit activities is similar between public and private companies, internal auditors' roles are equally critical in both sectors.

### Mosaic Plot



### Contingency Table

In your opinion, do internal auditors play a more critical role in one sector (public or private) over the other? Why or why not? By How does the scope of internal audit activities differ in public companies compared to private companies?

Count Expected	a) Greater focus on regulatory compliance in public companies	b) More emphasis on profitability in private companies	c) Both a and b	d) Neither a nor b	Total
a) Yes, in public companies due to regulatory scrutiny	27 14.57576	7 13	5 7.878788	0 3.545455	39
b) Yes, in private companies for financial flexibility	8 11.9596	21 10.66667	2 6.464646	1 2.909091	32
c) No, their roles are equally important in both sectors	1 7.474747	5 6.66667	12 4.040404	2 1.818182	20
d) Not sure	1 2.989899	0 2.66667	1 1.616162	6 0.727273	8
Total	37	33	20	9	99

**Tests**

N	DF	-LogLike	RSquare (U)
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Test	ChiSquare	Prob>ChiSq
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**Objectives of the study-**

- To analyze the strategies adopted for Internal Audit in public sector companies.
- To analyze the strategies adopted for Internal Audit in private sector companies.
- To analyze the impact of internal auditing on risk management practices.

**Scope of the study-**

- The importance of Auditors role in risk management practices will be understood through the study.
- The Internal Auditing in Public and Private Companies Strategies adopted.
- The Internal Auditing and its limitations.
- Detecting and preventing financial irregularities, internal audit supports the organization's financial stability and transparency.

**Data Analysis-**

<b><u>Questions</u></b>		<b><u>Frequency</u></b>	<b><u>Percentage</u></b>
Age Group	18-25	28	28%
	25-35	32	32%
	35-45	29	29%
	45 & above	11	11%
Gender	Male	46.5	46.5%
	female	53.5	53.5%
the primary role of internal auditing within your audit firm in Bangalore	Ensuring Financial Compliance	34.3	34.3%
	Enhancing operational efficiency	37.4	37.4%
	both a& b	19.2	19.2%
	Neither a nor b	9.1	9.1%



Specific responsibilities that internal auditors have in maintaining transparency and accountability in public companies	Financial reporting & compliance	45	45%
	Operational efficiency	29	29%
	Risk assessment and management	17	17%
	All of the above	9	9%
In private companies internal auditors effective contribution towards risk management and financial controls	Conducting regular audits	40	40%
	Implementing internal controls	32	32%
	Identifying Potential fraud	19	19%
	All of the above	9	9%
The key differences in role of internal auditors between public and private entities	Scope of regulatory compliance	46.4	46.4%
	Focus on shareholder interests	24.7	24.7%
	Emphasis on profitability	17.5	17.5%
	All of the above	11,3	11,3%
Internal auditors assist public companies with regulatory requirements and standards	Conducting external audits	38	38%
	Reviewing financial statements	27	27%
	Ensuring adherence to legal regulations	20	20%
	All of the above	15	15%
Internal auditors have positively impacted decision-making processes in public and private sectors	Strategic Planning	44.9	44.9
	Resource Allocation	32.7	32.7%
	Risk Mitigation	12.2	12.2%
	All of the Above	10.2	10.2%
Internal audit practice differ in	Greater focus on regulatory compliance in public companies	37	37%

public and private companies	More emphasis on profitability in private companies	33	33%
	Both a & b	21	21%
	Neither a nor b	9	9%
Internal auditors play a critical in one sector over the other	Yes, in public companies due to regulatory scrutiny	39.8	39.8%
	Yes, in private companies for financial flexibility.	31.6	31.6%
	No their roles are equally important in both sectors	20.4	20.4%
	Not sure	8.2	8.2%
Collaboration between internal auditors and management enhance overall corporate governance in both public and private companies	Regular communication and feedback	41	41%
	Providing adequate resources for audits	30	30%
	Promoting a culture of transparency	22	22%
	All of the above	7	7%
Firm prioritizes and address emerging risks in dynamic business environment of Bangalore	Regular risk workshops and brainstorming sessions	42.4	42.4%
	Utilizing data analytics for risk prediction	34.3	34.3%
	Establishing a dedicated risk management team	18.2	18.2%
	All of the above	5.1	5.1%
Technology and Data Analytics play an important role in internal auditing and risk management practices	Minimal Role	41	41%
	Moderate Role	31	31%
	Significant Role	24	24%
	No Role	4	4%

## **Limitations of the Study-**

- The rapid evolution of technology may outpace the study's examination of internal audit practices. Emerging technologies, such as AI and block chain, could introduce new risks and challenges not covered in the study.
- Study might be influenced by the non-willingness of audit firms to share information and cooperate.
- Non accurate information on practical implications and challenges faced by Internal Auditors.
- Difficulty in obtaining responses and feedbacks due to lack of surveys and questionnaire related to this topic.

## **Summary of findings**

The survey revealed insights into the perceptions and practices surrounding internal auditing across different demographics and sectors. Overall, respondents identified enhancing operational efficiency and ensuring financial compliance as primary roles of internal auditing, with a notable emphasis on regulatory compliance in public companies. Key responsibilities for internal auditors included financial reporting and compliance, operational efficiency, and risk management. Collaboration between internal auditors and management was deemed crucial for effective corporate governance, with regular communication highlighted as essential. Additionally, addressing emerging risks through risk workshops and data analytics was seen as important.

## **Conclusion**

The survey highlights the vital role of internal auditing and risk management practices for audit firms in Bangalore. Ensuring financial compliance and enhancing operational efficiency are key priorities, with differences observed between public and private entities regarding regulatory compliance and profitability. Collaboration between auditors and management is crucial for effective governance, with a focus on regular communication and proactive risk management strategies like workshops and data analytics. Despite recognizing the potential of technology, there's room for improvement in its utilization. These insights emphasize the need for ongoing adaptation and innovation in auditing practices to meet the dynamic challenges of Bangalore's business landscape.

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