

Internal Auditing Functions at Ultra Tech Cement Ltd.

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Abstract:

The purpose of internal audit, according to the Institute of Internal Auditors (IIA), is to evaluate and improve the effectiveness of an organization's risk management, control, and governance processes. Weaknesses in any of these areas pose a threat to the organization's legitimacy with its stakeholders. Many organizations worldwide are required to adopt internal audit. However, other institutions, like American municipalities, are not. Research into the Internal Audit Function was conducted in an effort to determine whether the work of this function is useful and effective in an External Audit Engagement. Expert information from relevant professional resources and regulatory agencies was reviewed to obtain viewpoints on whether or not using the Internal Audit Function is a benefit or a risk. What was found was that there are many valid arguments to both sides of the question. Improvements need to be made on the part of the Internal Audit Function; however, the overall benefits of utilizing this function in External Audits outweigh the risks when vetted appropriately. In this Dissertation we are trying to find out the internal audit function and their consequences for this purpose we prepared a questionnaire in which we asked 10 questions to the respondents and according to their

reply we analyze the internal function. 50 respondents answer the questions which were asked to them. After analyzing we found that internal audit department is an independent department. The quality of IA report can be rated as average and the executives of different departments have only little knowledge on the functions of Internal Audit Department.

Key words: Auditing, Auditor, Internal Audit, Organization

1. Introduction

1.1 Internal auditing

This is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

The scope of internal auditing within an organization is broad and may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations. Internal auditing involved measuring compliance with the entity's policies and procedures. However, internal auditors are not responsible for the execution of company activities; they advise management and the Board of Directors (or similar oversight body) regarding how to better execute

their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds. Developments in internal auditing have moved away from "compliance" which is a function of management control, towards Risk Based Internal Auditing (RBIA) which results in monitoring and evaluation of the risk based control framework to manage enterprise risk. The controls are instigated in a fit for purpose way to manage risk according to the risk appetite of the organization.

1.2. Role in internal control

The role of internal audit is to provide independent assurance that an organization's risk management, governance and internal control process are operating effectively. Internal auditor's deal with issues that is fundamentally important to the survival and prosperity of any organization. Unlike external auditors, the look beyond financial risks and statements to consider wider issues such as the organizations reputations, growth, its impact on the environment and the way it treats its employees. Internal auditors have to be independent people who are willing to stand up and be counted. Their employers value them because they provide an independent, objective and constructive view. To do this they need a remarkably varied mix of skills and knowledge. They might be advising the projective running a difficult change program one day, or investigating a complex overseas fraud the next.

2. Review of Literature

Raja and Raja (2003) studied the most important reasons of elongation of audit period of companies in stock market. Their research hypotheses tested the relation of eight independent variables (IAF quality, inherent risk level, objectivity, audit report, professional ability, audit plan, experience and professional work) with reporting period (dependent variable).

There were significant relations between all independent variables and the dependent variable (audit delay) except audit report.

Abdulrahman *et al.* (2004) studied relations between internal and independent auditors of companies listed in stock exchange of Saudi Arabia. They found that and professional qualification not only affected rate of communication of internal and external auditors but also the trust rate of independent auditors on internal auditors. However, internal auditors of joint stock companies of Saudi Arabia were not skillful enough.

Kashanipur *et al.* (2006) fulfilled a study titled “An analytical study of relation between items of financial statements and audit reporting period”. They found that variables such as current assets and current liabilities had the most correlation with the dependent variable.

Haslin Johari (2006) examined reasons for elongation of audit function period and financial reporting of companies listed Malaysian stock exchange. The results showed that reporting period closely related to the type of industry, news and sale as a criterion for a company size that had a negative relation with timeliness of reporting.

Arena and Azzone (2007) studied the effect of change of duties of staff of an audit firm, change of an audit firm change of an operation director on reporting period The results showed that changes of duties of audit firm and change of an audit firm with another equal firm had no significant effect on reporting period. But, change of an audit firm with a larger firm had a significant effect on reporting period.

Nikbakht (2009) studied effective factors on reliance of independent auditors on internal auditors. Their results showed that variables of professional qualification, function quality, professional care and inherent risk level of internal auditors had positive significant relations with of the trust.

Hasas Yeganeh and Alavi Tabari (2010). studied the relation of resources consumed for internal audit and

expenditures of independent audit. By examination of relations of objectivity, competence and IAF quality with independent audit expenditures, he found that existence of internal auditor decreased independent auditor fee equal because of its effect on effective examination scope and this effect would increase when management level of director of internal auditor was higher than administrative & financial deputy.

Pizzini *et al.* (2010) examined the impact of IAF on IAR period by Pearson and Spearman Correlation Coefficients. She found that using works of internal auditors decreased IAR period for 4 to 6 days. She also found that qualitative features such as objectivity, competence and IAS affect IAR period.

Objective of the Study

- To measure the overall performance of Internal Audit Department in Ultra Tech cement Ltd.
- To study the functions and roles of Internal Audit Department in Ultra Tech cement Ltd.

3. Research Methodology

The study is based on survey method. The primary data is collected by personal interviews through structured questionnaires to knowing the views, comments and confidence regarding the performance of Internal Audit functions in Ultra Tech cement Ltd. For the purpose of the study executives of different departments were selected and interviewed. The secondary data is collected from the books, magazines/ journals, websites and including Ultra Tech Internal Audit Department office.

Sample Size: 50

Data Analysis & Interpretation

Table 1: Details of Respondents

Sex	No. of respondent	%
Male	38	76
Female	12	24
Total	50	100

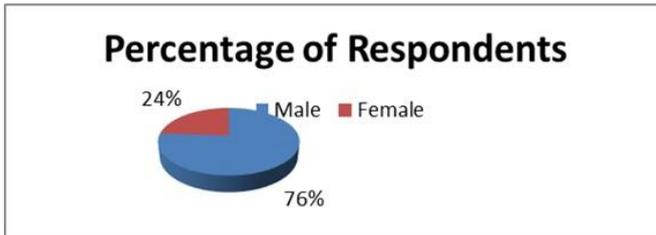


Figure 1. Details of Respondents

Interpretation

More than 75% were male.

Table 2: Length of Service in Ultra Tech cement Ltd.

Length of service in Ultra Tech Cement Ltd	No. of Respondents	%
1-5 year	13	26
5-10 year	12	24
More than 10 years	25	50
Total	50	100

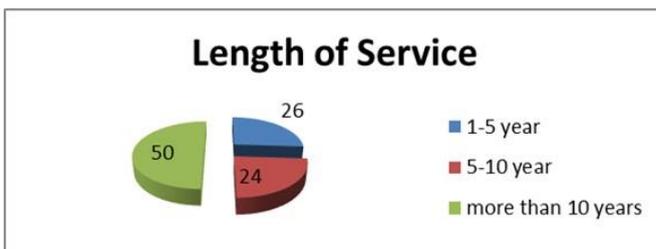


Figure 2. Length of Service in Ultra Tech cement Ltd.

Interpretation

50% of respondents have experience of more than 10 years.

Q.1. Have you ever requested specific services of Internal Audit Department?

Table 3

Option	No. of respondents	%
Yes	12	24
No	38	76
Total	50	100

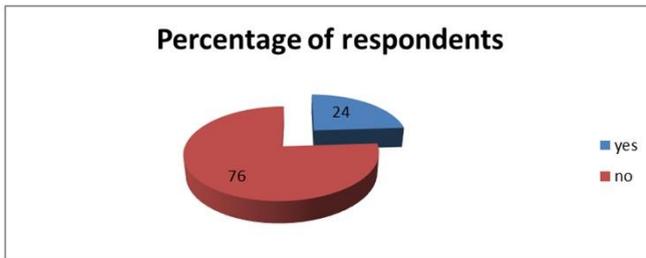


Figure3.

Interpretation

- 76% respondents say no.
- 24% respondents requested for internal audit function

Q.2 How will you judge Ultra Tech cement Ltd presents internal audit activities toward improving the function of the organization?

Table: 4

Option	No. of respondents	%
Good	12	24
Average	30	60
Poor	8	16
Total	50	100

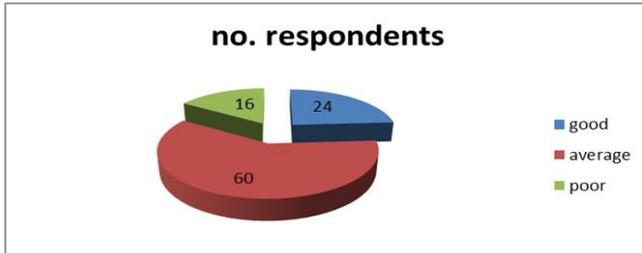


Figure: 4

Interpretation

- Only 24% of respondents said it is good.
- Nearly 60% of respondents said average.
- Only 16% of respondents said it is poor.

Q.3. Taking into consideration the scope / objectives / structure and responsibilities of the internal Audit functions, to what extent do you feel that Internal Audit meets expectations?

Table: 5

Option	No. of respondents	%
Meet expectation	32	64
Does not meet expectation	10	20
No comments	8	16
Total	50	100

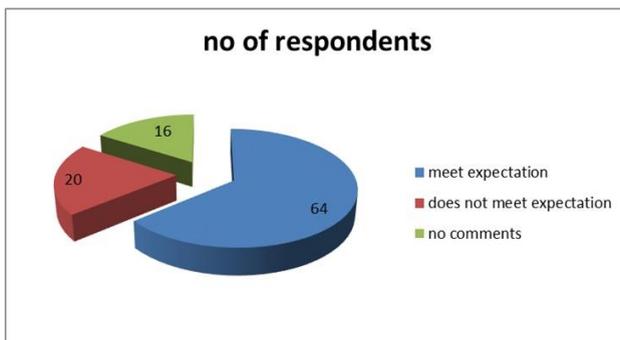


Figure:5

Interpretation

- 64% respondents said Internal audit meet expectations.
- 20% said it doesn't meet the expectation.
- 16% respondents did not comment.

Q.4. How confident are you relying on the conclusions reached or recommendations made by the Internal Audit function?

Table:6

Option	No. of respondents	%
Completely confident	2	4
Somewhat confident	40	80
Not confident	8	16
Total	50	100

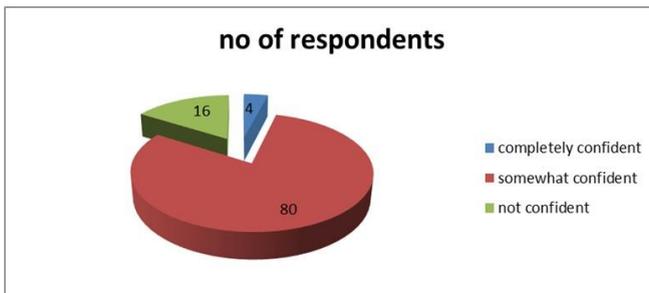


Figure: 6

Interpretation

- 4% respondents were confident.
- 80% respondents were somewhat confident.
- 16% respondents were not confident.

Q.5. To what extent do you believe that the work of internal Audit improves the overall internal control of the organization?

Table: 7

Option	No. of respondents	%
Greatly improve	0	0
Somewhat improve	30	60
Does not improve	12	24
Don't know	8	16
Total	50	100

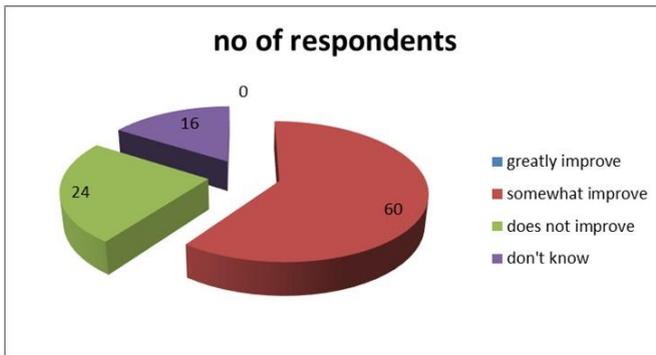


Figure: 7

Interpretation

- There is no single person who said it greatly improve.
- 60% respondents said somewhat improve.
- 24% said does not improve.
- 16% doesn't know.

Q.6. Do you believe that the work of Internal Audit helps in identifying and improving the overall risk of the organization?

Table: 8

Option	No. of respondents	%
Agree	13	26
Neutral	32	64
Disagree	5	10
Total	50	100

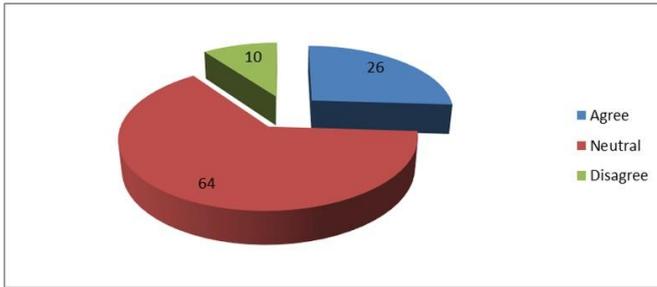


Figure: 8

Interpretation

- 26% respondents were agreed with the above statement.
- 64% were neutral.
- 10% were disagreed.

Q.7. Do you appreciate that internal audit team is proactive?

Table: 9

Option	No. of respondents	%
Agree	25	50
Neutral	16	32
Disagree	2	4
Not respond	7	14
Total	50	100

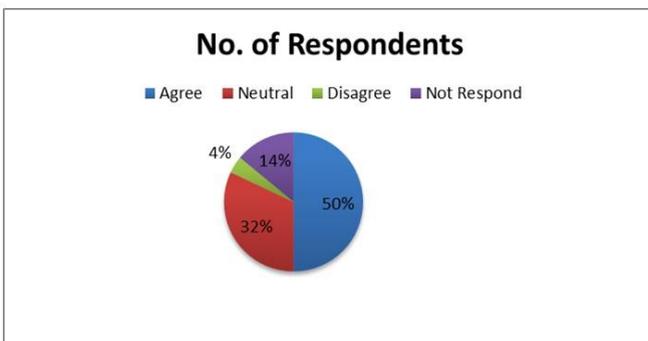


Figure: 9

Interpretation

- 50% respondents were agree.

- 32% were Neutral
- 4% were disagree.
- 14% were not responded.

Q.8. Do you feel that Audit report issued by internal audit department help the department to improve the work of department?

Table: 10

Option	No. of respondents	%
Agree	8	16
Neutral	36	72
Disagree	2	4
Not respond	4	8
Total	50	100

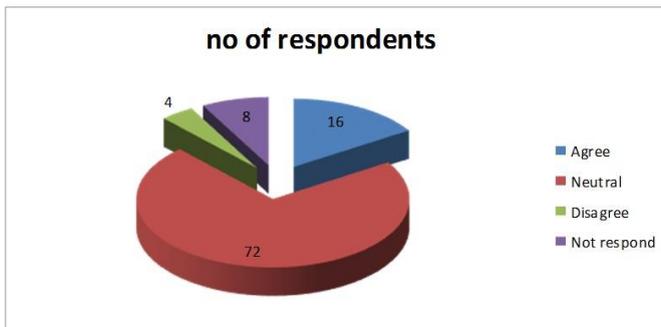


Figure: 10

Interpretation

- 16% respondents were agreed with the statement.
- 72% respondents were neutral.
- 4% were disagreed.
- 8% were not responding.

Q.9. How do you rate the quality of Internal Audit report issued by Internal Audit Department?

Table:11

Option	No. of respondents	%
Excellent	0	0
Good	15	30
Average	31	62
poor	4	8
Total	50	100

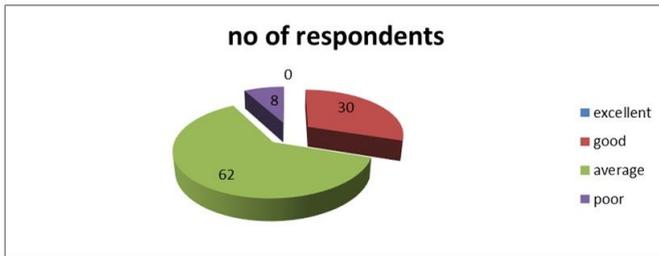


Figure: 11

Interpretation

- There were no respondent who said that report was excellent.
- 30% and 62% respondents found report good and average respectively.
- 8% respondents said reports were poor.

Q.10. Do you consider that internal audit report was issued in a useful time?

Table: 12

Option	No. of respondents	%
Neutral	36	72
Disagree	10	20
Not respond	4	8
Total	50	100

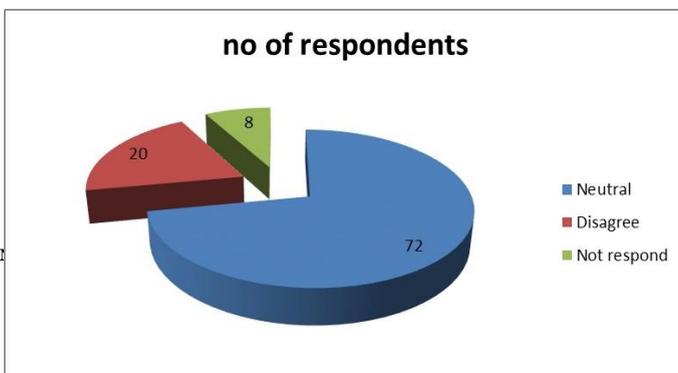


Figure: 12

Interpretation

- 72% respondents were neutral on this.
- 20% were disagreed.
- 8% respondents were not responding.

4. Findings

Major findings based on primary data collected from the respondents are stated as follows:

- Internal Audit Department is an independent department.
- Internal Audit activities averagely improve the performance of the organization.
- The expectations of the internal customers were meet by the internal audit functions.
- The quality of Internal Audit report can be rated as average.
- The executives of different departments have only little knowledge on the functions of Internal Audit Department.

5. Conclusion

After conducting this study we can be well identified that the organization has adopted a well and distinguish Internal Audit functions. The Internal Audit department working

independently and reporting to the Audit Committee in a regular basis. We have felt that the company has come forward to apply new skills and techniques in order to improve the Functions of Internal Audit.

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