

FROM CONTROL TO CONCLUSION

Borrowing Internal Audit Depth for External Assurance

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Internal audit & statutory audit – mindsets & methods



How Internal Audit and Statutory Audit Merge



Demonstrate through **case studies** how those techniques apply to statutory audit scenarios



Encourage deeper, risk-based testing even during limited statutory reviews

SESSION OBJECTIVES

Clear goals is to share Internal Audit Insights

INTERNAL AUDIT & STATUTORY AUDIT – MINDSETS & METHODS

Detailed comparison highlighting the distinct focus, nature, tools, depth, and examples of both audit types

Aspect	Internal Audit	Statutory Audit
Focus	Risk, controls, process improvement	Financial statement accuracy and compliance
Nature	Continuous, Preventive	Periodic, Detective
Tools & Techniques	Operational & control-oriented	Accounting and compliance-driven
Depth of Review	Granular process walkthroughs	Financial assertions-based
Example	Testing control design & operation	Vouching & verification

How Internal Audit and Statutory Audit Merge

Aspect	Common Ground / How It Merges
Risk Assessment	Shared use of risk registers and process-level risk maps
Fraud Risk Management	Common fraud detection techniques (e.g., duplicate checks, conflict-of-interest analysis)
Journal Entry & Transaction Testing	Same sample logic: high-value, period-end, manual entries
Governance & Compliance	Use of internal audit reports to evaluate violations
Internal Controls (ICFR/IFC)	Use internal audit documentation for ICFR walkthroughs and control testing

TECHNIQUES USED DURING INTERNAL AUDIT



Control Walkthroughs –
Not just documentation, but system + process observation



Data Analytics / Exception Reports –
Noticing the outliers



System Audit Trails Review –
Looking at change logs, master data edits



Root Cause Analysis – For control failures and repeated exceptions



Trend Analysis Beyond Numbers –
Behavior, timing, and operational trends



Process Mining Techniques –
Mapping actual process vs. intended



User Role & Access Reviews –
Risk-based review of ERP controls



Review of Policy-Process Gaps – Control design effectiveness



Cross-functional Interviews –
Beyond finance – operations, HR, procurement



Use of Control Matrices –
Linking risks to actual checks performed

CASE STUDY 1: Duplicate detection



Using ERP Controls to restrict double booking of invoices



- System walkthrough revealed Invoice Date, Invoice Number, Vendor Name and Invoice amount was the mandatory check to restrict duplicate payments. Internal Audit identified duplicate payments in the Accounts Payable process by applying multiple matching logics on over 1 Lakh+ invoices. These included:
 - Exact match (same Vendor Code, Invoice Number, Date, Amount),
 - Partial match (same Vendor + Amount, but slightly different dates),
 - PAN-based match (same PAN across different vendor codes), and
 - Fuzzy logic for near-duplicates (typo errors in invoice numbers).
- This analysis uncovered 100+ potential duplicate invoices totaling ₹2 Cr+, with key lapses like disabled ERP controls and poor vendor master validation

CASE STUDY 2: Invoice booking in incorrect vendor account



Usage of AI to verify invoice attached with the vendor invoice is correct and pertaining to that vendor



- As part of a process control audit over Accounts Payable, the internal audit team leveraged an Altool to extract vendor names from PDF invoices uploaded in the ERP system.
- These extracted names were then matched against the vendor master records using data analytics. Out of invoices reviewed, cases were noted where mismatch between the vendor's name on the invoice file and the ERP vendor selected during booking was observed.

CASE STUDY 3: Undisclosed conflict of interest detected in vendor master



Compare the service provider name with the insurance records having employee family's details



- Internal audit performed a forensic analysis by comparing vendor master data with insurance records of employees and their family members.
- As part of the analysis, names from the insurance nominee records were matched against the legal names of vendors as per their GST registration (rather than display names in ERP), to ensure more accurate detection. This helped identify cases where vendors were indirectly related to employees but masked through informal or abbreviated vendor names in the system.

CASE STUDY 4: Undisclosed conflict of interest detected



Reverse auction data with IP address



- One entity submitting multiple bids under different identities to manipulate competitive pricing and secure the award unfairly.
- During a routine internal audit of the **vendor quotation and procurement process**, a suspicious pattern was identified. Multiple quotations for the same tender appeared to come from different entities — each with distinct names, emails, GST numbers, and contact details. However, the **IP addresses** were same.

CASE STUDY 5: Booking of invoices against Old POs



Analyze purchases where invoices are booked using Purchase orders greater than 1 year (except Capex POs)



- During an internal audit, it was observed that multiple invoices were being booked using Purchase Orders (POs) older than 1 year. These POs had long been inactive, with no recent goods or service receipts linked to them.
- On further deep dive, it revealed, accounts person was using old open POs to book fictitious invoice and get payments.

CASE STUDY 6: Changes in bank account details of Vendor



Frequent Changes in Vendor Bank Account Details



- During a routine internal audit of vendor master controls, it was found that one vendor had changed their bank account details five times in six months.
- Further deep dive, revealed that bank accounts were getting modified right before payments which further raised concerns, and it was noted that all payments were routed to employee's own bank account.
- Here, one can focus on:
 - Vendors with high-value payments
 - Changes made outside business hours or without dual approval
 - Vendors with frequent changes close to payment dates

CASE STUDY 7:

Credit Notes Issued Without Matching Returns



Compared credit notes to logistics return logs



- During an internal audit of the sales and returns process, the audit team identified a potential revenue leakage wherein sales credit notes were issued, but no corresponding physical stock returns were recorded in the system.
- In several cases, sales heads manually approved credit notes citing "relationship management" or "logistics disputes", without proper documentation or approval flow..

CASE STUDY 8 : Inactive Vendors Receiving Payments



Vendor master status vs payment logs



- Out of 1,145 vendors marked as "Inactive," the audit identified 83 vendors who received payments totaling ₹3.67 Crores after their deactivation. Notably, only 21 of these had proper reactivation justifications or approvals. In several instances, vendors were previously deactivated due to KYC or compliance issues but were manually reactivated or bypassed by finance teams without formal approval.
- The audit revealed a critical control gap in the ERP system, which allowed payments to be processed despite inactive status

CASE STUDY 9 : System Walkthrough for GRN reversal



Internal audit did system walkthrough to validate whether ERP allows posting of GRN reversal without invoice reversal



- The internal audit team conducted a system walkthrough of the ERP's procure-to-pay (P2P) module.
- They discovered that the system configuration allowed Goods Receipt Note (GRN) reversals to be posted even when the corresponding invoice had already been posted and not reversed leading to recovery of Rs.1 crores.

CASE STUDY 10 :

Payment Walkthrough – changes in beneficiary a/c



Process walkthrough to validate whether bank portal allows changing bank account other than the once mentioned in ERP



- During a process walkthrough of the payment cycle, the internal audit team observed that the bank portal allowed manual editing or overriding of vendor bank account details at the time of payment initiation — without requiring it to match the ERP-stored bank details.
- A payment of Rs. 24.6 Lakhs was made to a vendor for facility management services. While the ERP reflected the vendor's registered account at Bank A, the payment was manually processed to an account at Bank B, with no workflow or system validation to flag the mismatch. There was no dual authorization required for bank detail changes within the portal, and no audit trail capturing who modified the beneficiary details. This posed a high fraud risk, especially in the absence of maker-checker controls or bank detail validation protocols

CASE STUDY 11: Vendor mismatch between PO and invoice



Invoices were posted using different vendor codes from those in the original PO



- During a review of procurement documentation, the internal audit team observed that several invoices were recorded and paid against valid Purchase Orders (POs), but the vendor's name or code on the invoice did not match the vendor details in the corresponding PO. This revealed incorrect booking amounting to Rs.10 lakhs.

CASE STUDY 12: Dummy Freight invoice



Dummy Freight invoice



- In one of the company, in absence of direct linkage between dispatch and freight charged, reconciliation was performed on overall basis for dispatches of a sample month.
- Analysis revealed freight charges calculated independently with freight charges booked had huge variances. Further, deep dive revealed same sales invoice reference were used twice against different freight invoices.

CASE STUDY 13 : Weighment bridge operation



Manipulation in weighment



- System walkthrough: Weighbridge operator had rights to edit the formula for weighment (increment / decrement could be added to final weight).
- Very less time between successive weighments: It was observed that time difference between weighment of consecutive trucks was less than 1 minute (as less as 10 secs) in multiple instances

CASE STUDY 14 :

Weighment dump vis-à-vis vehicle image stored on cloud



Detection of vehicle number discrepancy during weighment using AI



- As part of the internal audit of the logistics function, a data analytics and AI-based image recognition tool was deployed to cross-verify transactional and security data. The objective was to enhance fraud detection and identify operational control gaps across the weighment and gate-entry processes.
- During the audit, the AI tool identified multiple instances where the vehicle number manually entered by the security personnel did not match the license plate number captured via weighbridge CCTV. Further, investigation revealed shortages after considering revised tare weight of the vehicle.

CASE STUDY 15 : Identifying over charging of freight using mParivahan app



Freight overcharged by billing for higher-capacity trucks than actually used



- At LMN Industries, a logistics audit revealed that some shipments were consistently billed as 32-ft container loads, while actual material loaded was much lower. Cross-checking vehicle registration numbers on the mParivahan portal confirmed that mini trucks were used instead

CASE STUDY 16 : Payment authorization



Internal audit compared Board authorization for payment vis-à-vis authority matrix of bank portal



- During an internal audit of treasury and banking controls, the audit team conducted a control validation exercise comparing the Board-approved payment authorization matrix with the actual user limits configured in the bank portal. The review, covering payments made between Jan–Jul 2024, revealed that in 6 out of 8 bank accounts, users had approval limits exceeding those sanctioned by the Board — in some cases, by Rs. 50 lakhs to Rs. 2 crores.
- A Finance Manager was configured in the portal to approve payments up to Rs.1.5 Cr, while the Board resolution limited this role to ₹50 Lakhs. This discrepancy had not been flagged, as the bank portal access and limits had not been periodically reconciled with internal governance documents.

CASE STUDY 17: Various Procurement checks



Procurement checks



- During a procurement audit revealed various system & process lapses several vendor invoices were being paid even though the quantity on
 - Invoice exceeded the quantity received per GRN
 - PO rate / quantity changed at the time of invoice booking to match with invoice received
 - PO deleted post GRN / invoice booking
 - Creator and approver of Purchase order being same the person

CASE STUDY 18:

Sales order creation and changes in sales price



ERP allowing overriding of sales price while creating SO by changing condition type



- Internal audit identified that during sales order (SO) creation, the ERP system allowed users to manually override the default sales price by modifying or inserting a different condition type, effectively bypassing the standard pricing logic.
- This led to revealing that a sales-person was amending the sales rates at lower rate to achieve the target of sales. This led to revenue loss of Rs.32 lakhs

CASE STUDY 19:

Sales invoice vis-à-vis sales return rate



Difference in rate of sales invoice and sales return



- Internal audit identified instances where the rate applied on sales return credit notes did not match the original sales invoice rate, leading to discrepancies in revenue recognition and margin calculations.
- This also led to cases wherein sales return was made at rate higher than sales despite quantity being same.

CASE STUDY 20: Irregularities in attendance



Various irregularities noted during attendance recording



- During the internal audit of human resource and doing walk through of attendance / biometrics system following anomalies have been noted :
 - System allows registration of a single ID with the face of one person and fingerprints of another
 - Photo / Video used for face recognition and marking attendance
 - Different finger print for biometric records

CASE STUDY 21: Material transferred entries leading to incorrect inventory valuation



Transfer of materials from one code to another code leading to incorrect valuation



- During the internal audit , it was noted that transfer entries were posted between different material codes having different per unit price.
- This resulted in increasing the inventory valuation to Rs.50 lakhs .

CASE STUDY 22:

Material log changes to identify anomalies



Changes made in expiry date of material to avoid provisioning of expired products



- During the internal audit , it was noted that expiry date of materials were amended which impacted the provisioning process.



THANK YOU

Thank You

Mahajan & Aibara