

INTERNAL AUDIT NEWSLETTER

ISSUE #RRCO-IA09

COMPLIANCE BEYOND CHECKLISTS: INSIGHTS FROM INTERNAL AUDIT



RRCO

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Let's take a brief introduction of the topic:

Compliance management refers to the systematic and structured implementation of organizational policies and procedures to ensure adherence to all relevant legal, regulatory, and information security standards.

Compliance management is not a one-time activity, but a continuous process.

Internal auditors play a critical role in evaluating compliance, identifying gaps, and recommending improvements to reinforce and embed a compliance culture across the organization.

WHAT IS THE NEED?

- Proactive adherence to regulations reduces the risk of legal penalties.
- Helps mitigate operational vulnerabilities and enhances controls.
- Facilitates uniform compliance practices across departments.
- A strong compliance culture enhances public trust and brand reputation. This boosts employee morale, as staff take pride in working for an ethical and respected organization.
- Reinforces accountability through systematic reporting and monitoring.

Compliance Management Process and Role of Internal Auditors



Identify Applicable Regulations

Objective: Understand relevant laws and regulations that apply to the organization.

Auditor's Role: Evaluate regulation tracking systems, spot compliance gaps, and suggest improvements.

Develop Internal Policies & Procedures

Objective: Translate external regulations into Internal Controls & Standard Operating Procedures (SOPs).

Auditor's Role: Review policy clarity, regulatory alignment and robustness of control design.

Monitor Compliance Activities

Objective: Track compliance via monitoring systems and regular reports.

Auditor's Role: Review the reliability of monitoring systems and identify gaps in oversight.

Test and Audit Compliance Controls

Objective: Ensure compliance controls are functioning effectively and consistently.

Auditor's Role: Conduct independent audits to validate control execution and suggest improvements.

Report and Remediate Non-Compliance

Objective: Escalate compliance issues promptly and drive timely corrections.

Auditor's Role: Report breaches, monitor corrective actions, and ensure effective remediation.

Review and Update Compliance Programs

Objective: Ensure policies remain current with evolving regulations and organizational feedback.

Auditor's Role: Provide insights from audits to encourage proactive updates.

Overcoming Compliance Risks: How Internal Auditors Strengthen the Process



Lack of Centralized Compliance Framework

Evaluate the overall design of compliance frameworks; recommend integration and consistency improvements.

Data Privacy & Cybersecurity Risks

Audit data protection measures and cybersecurity frameworks, validate readiness against privacy regulations.

Third-Party & Supply Chain Risks

Evaluate third-party contract compliance processes and recommend enhanced vendor monitoring practices to strengthen oversight.

Risk of Incorrect Interpretation of Law

Internal auditors can play a proactive role in mitigating risk by facilitating legal consultations, reviewing compliance interpretations during audits.

Inconsistent Global Compliance Standards

Review harmonization efforts across regions, suggest policies that align global operations with local laws.



Understanding Roles of Auditors in Compliance

Internal auditors have a broad, continuous scope, they review operations, risk management, compliance processes, and governance structures across all departments.

Statutory auditors have financial-focused scope, primarily concerned with the accuracy of financial statements and related compliance disclosures.

Internal Auditors collaborate with management to enhance processes and ensure ongoing compliance.

Statutory Auditors, being independent, focus strictly on financial reporting and interact with management only within the scope of the audit.

Internal Auditors are embedded within the organization to improve processes and compliance culture proactively.

Statutory Auditors are independent external reviewers who certify historical compliance with statutory financial requirements.

Internal auditors work from an operational and risk-based perspective, embedding compliance culture organization-wide.

Statutory auditors work from a financial reporting perspective, ensuring compliance that affects financial integrity.

Internal auditors take a preventive and advisory approach, identifying compliance risks early, recommending improvements, and monitoring adherence to regulations.

Statutory auditors take a retrospective and independent approach, detecting material non-compliance only if it impacts the financial statements.

Audit Observations: Compliance Lapses & Consequences



Compliance is not just a regulatory obligation — it is a commitment to operational excellence and trust.

Together, through continuous improvement and collaboration, we can build a resilient and compliant organization.

AUDIT OBSERVATIONS

GST Implications on Unreported Invoices and Penalty Treatment:

As per the policy of Alpha Ltd, invoices not reflected in GSTR-2B are charged to a GST Loss Ledger with a 10% penalty on the GST amount to the respective vendors.

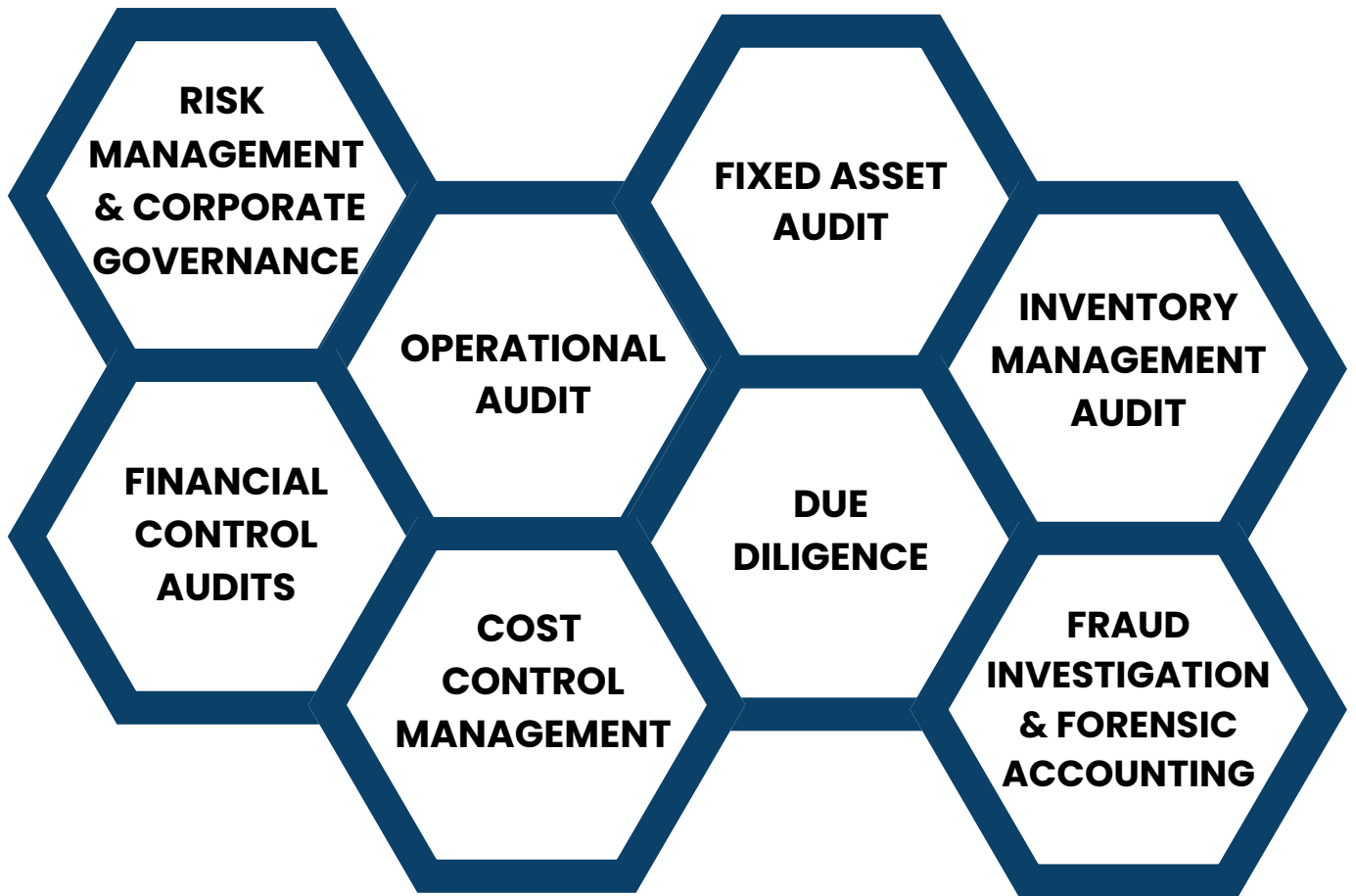
While the compliance team treats this as exempt liquidated damages, such exemption applies only if contractually defined. Since vendor agreements lack this clause, the penalty may attract GST as part of a composite supply, posing a compliance risk.

Missed Relief Under GST Amnesty Scheme:

During the audit of XYZ Ltd, it was observed that the company received a GST notice requiring payment of interest and penalty. The company, unaware of available relief options, paid the full amount as demanded in the notice.

However, further review revealed that the GST Amnesty Scheme, which was active at the time, provided for waiver of interest and penalty for eligible taxpayers. Had the company applied under this scheme, it could have availed significant relief, leading to substantial cost savings.

INTERNAL AUDIT & RISK ADVISORY SERVICES



OTHER SERVICES AT RRCO



Meet our new team member

Bhagyashri Lunge is a Chartered Accountant with experience in Statutory Audit and Direct Taxation. She has an overall experience of auditing clients across industries such as Manufacturing, Real Estate, Engineering & Automation, etc.



CA. Bhagyashri Lunge
Audit Manager

Proficient in ensuring compliance with regulatory frameworks, analyzing financial statements, and providing strategic tax planning solutions.

Having built a solid foundation in audit and taxation, now seeking to leverage analytical acumen and process-oriented mindset in the Internal Audit domain.

**A special mention to Ms. Charu Somani for
compilation and drafting of this month's Newsletter**



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