

EBOOK

Internal Audit

A Collaborative Process

**By Peter Ritchie, CPA, CA, CVB
Chief Financial Officer and Chief Risk
Officer**

MAY 2023



Contents

2	Introduction	9	Conclusion
3	Internal Audit Process		
4	Planning		
5	Fieldwork		
6	Reporting		
7	Follow up Review		
8	Phundex Platform		



Introduction

In this e-book, we focus on the collaborative approach to successfully managing Internal audit reviews.

The Internal Audit Process - a Collaborative Approach

Every successful audit is based on sound planning and an atmosphere of constructive involvement and communication between the client and the audit team.

There is no doubt that the process works best when client management and the Internal audit team have a solid working relationship based on clear and continuous communication. We are seeing a strong progression towards using technology to make the internal audit process more effective, as these platforms facilitate communications and the flow of information during the audit process.

The Internal Audit Process

Although every internal audit is unique, the process is similar for most audits and usually consists of four stages:



Planning



Fieldwork



Reporting



Follow-up

Client involvement is critical at each stage of the audit process. As in any special project, an audit results in a certain amount of time being diverted from the unit's usual routine. One of the key objectives is to minimize this time and avoid disrupting ongoing activities. However, at an organizational level, it is hoped that the benefits of the audit will outweigh the various costs.

Planning

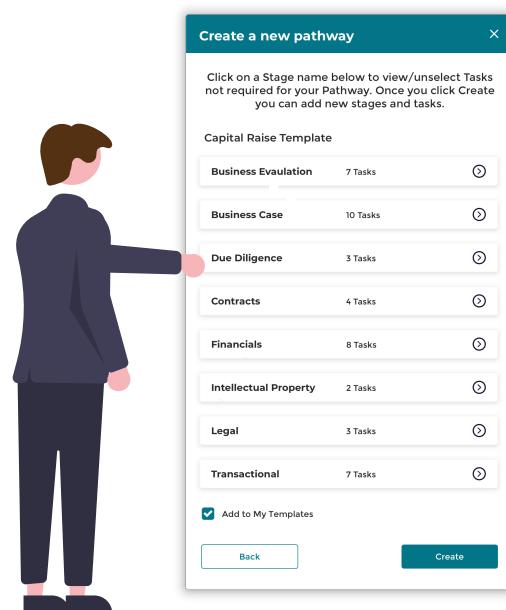
The internal audit planning process is a critical part of the process.

The internal audit group will typically develop an annual plan identifying which business units to review over the next 12 months.

The annual audit plan is based on the following considerations:

- assessment of risk and control of the various units;
- the relative importance of the various units;
- the need to visit all units regularly;
- availability of resources; and
- special projects that may require internal audit involvement.

During the planning portion of the audit for a particular unit, the auditor reviews past internal audit files to identify the critical key risk issues and implications for the business. They also identify the audit personnel with the most relevant skill sets to conduct the audit.



Fieldwork

Fieldwork involves several steps and is critical to the success of the audit.

1

Announcement Letter - The client is informed of the audit through an announcement or engagement letter from the internal audit director. This letter communicates the scope and objectives of the audit, the auditors assigned to the project and other relevant information.

2

The Initial Meeting - The internal auditor meets with the senior officer directly responsible for the unit under review and any staff members s/he wishes to include. During the initial meeting, the client describes the unit or system to be reviewed, the organization, available resources (personnel, facilities, etc.), and other relevant information. The auditor must identify issues or areas of special concern that will be addressed during the audit so that the client does not get surprised during the audit.

3

Preliminary Survey - In this phase, the auditor gathers high-level information about the unit to obtain a general overview of operations and risk issues. Data is collected through discussions with key personnel, reports, reviews, and other information sources.

4

Internal Control Review - The auditor will review the unit's internal control structure, which is usually time-consuming. The auditor uses various tools and techniques to gather and analyze information about the operation. Reviewing internal controls helps the auditor determine the areas of highest risk and design tests to be performed in the fieldwork section.

For many organizations, there is a pre-existing generic internal audit programme for the unit, but this will be refined and focused based on the initial information gathered.

During this phase, the auditor usually tests the major internal controls. Various techniques, including sampling, are used during the fieldwork phase. The auditor uses the test results to determine whether the controls identified during the preliminary review exist and operate as described by the client. The fieldwork stage concludes with developing a list of major and minor findings.

Fieldwork (continued)

5

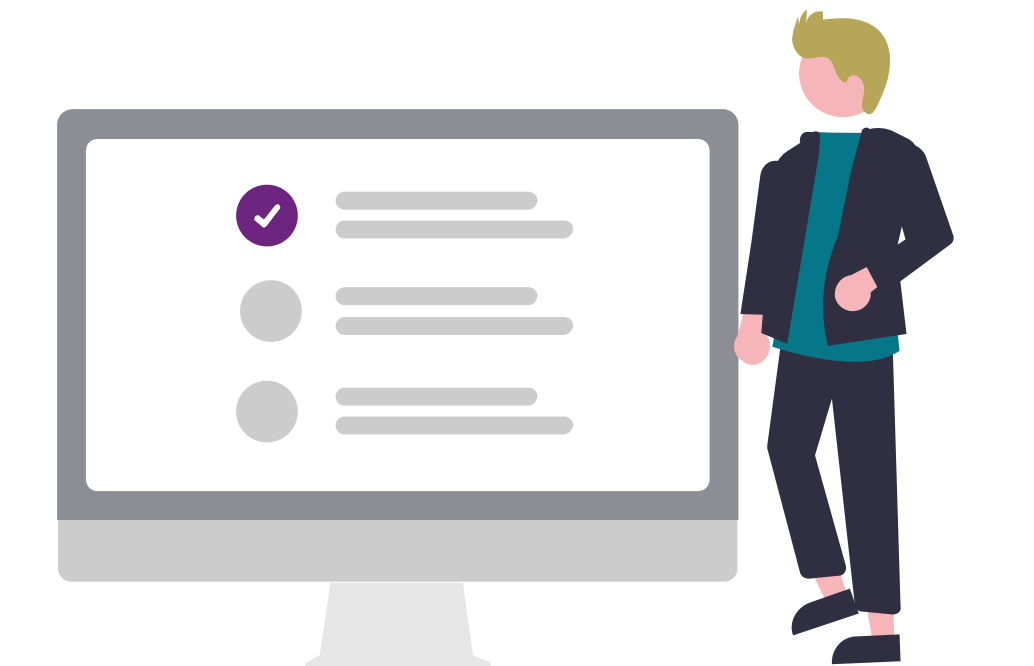
Advice & Informal Communications

As the fieldwork progresses, the auditor discusses any significant findings with the client. Usually, these communications are oral. However, in more complex situations, memos and/or e-mails are written to ensure complete understanding by the client and the auditor of the risk issues and the agreed resolutions. Hopefully, the client can offer insights and work with the auditor to determine the best method of resolving the finding.

6

Audit Summary

Upon completion of the fieldwork, the auditor summarizes the audit findings, conclusions, and recommendations necessary for the audit report.



Audit Reporting

The four audit reporting stages

1

Draft Report - After the fieldwork is concluded, the auditor drafts the report. Audit management thoroughly reviews the audit working papers and the discussion draft before it is presented to the client for comment. This draft report is prepared for the unit's operational management and is submitted for the client's review before the exit conference.

2

Exit Conference - During the exit conference, the internal audit team representatives meet with the unit's management team to discuss the draft report's findings, recommendations, and text. At this meeting, the client comments on the draft and the group works to agree on the wording of the draft report.

3

Final Report - The auditor then prepares a final report, considering any revisions resulting from the exit conference and other discussions. The final report is issued when the changes have been reviewed by audit management and the client.

Internal audit prints and distributes the final report to the unit's management team and to senior management.

Internal audit usually reports to the Board of Directors in most organizations. Accordingly, the Board of Directors typically receives final audit reports, at least in summary form.

4

Client Response - The client has the opportunity to respond to the audit findings prior to the issuance of the final report. That response is generally included or attached to the final report. However, if the client is unable to respond prior to the issuance of the final report, the first page of the final report is a letter requesting the client's written response to the report recommendations. In either case, the client explains how report findings will be resolved and include an implementation timetable.

Client responses to audit reports are usually reported to the Board of Directors at least in summary form.

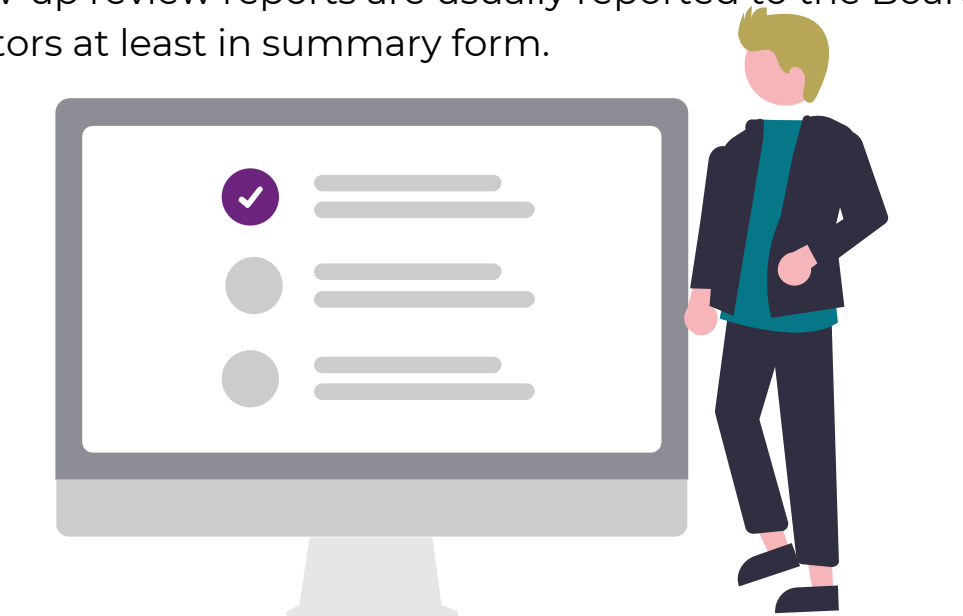
Audit Follow-up Review

Within approximately one year of the final report, Internal Audit will perform a follow-up review to verify the resolution of the report findings. The client response letter is reviewed and the actions taken to resolve the audit report findings may be tested to ensure that the desired results were achieved. All unresolved findings will be discussed in the follow-up report.

The review will conclude with a follow-up report which lists the actions taken by the client to resolve the original report findings. Unresolved findings will also appear in the follow-up report and will include a brief description of the finding, the original audit recommendation, the client response, the current condition, and the continued exposure.

A discussion draft of each report with unresolved findings is circulated to the client before the report is issued. The follow-up review results will be circulated to the original report recipients.

Follow-up review reports are usually reported to the Board of Directors at least in summary form.

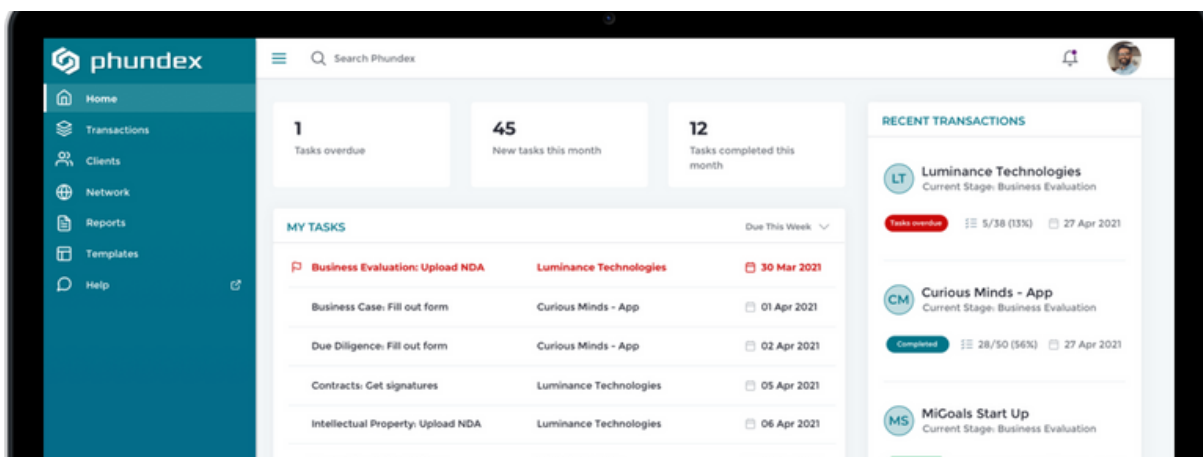


The Phundex platform

Phundex can create a digital investment pathway that can be used by issuers, advisors, administrators, and investors alike.

- House data and documents in a central platform with full permissioning capabilities, version control and audit trail
- Streamline and simplify transactions and processes with configurable pathways, capturing each step
- Supports task management with robust built-in workflow capabilities, including automated alerts
- Delivers team management, so that team members can be assigned their specific responsibilities
- Provides personalised dashboards so each team member can understand what they need to deliver

Companies can ensure that the appropriate individual performs all required steps by creating a structured approach to functional processes. In addition, the platform enhances communication and collaboration so that if operational processes encounter difficulties, such issues can be rapidly identified and rectified, reducing operational risk.



The Phundex platform

By digitising manual processes through Phundex, organisations can:

- Reduce mistakes and omissions by automating transaction and process management for individual projects through digital pathways
- Improve data governance around documents by storing them in a project's data room, with the right permissions to support confidentiality, transparent version control and an audit trail
- Support regulatory obligations by ensuring materials required for compliance are kept in a single location, and that compliance processes are completed through an automated digital pathway. Digital pathways – which capture processes – make regulatory change easier, too.
- Collaborate better across geographies and time zones by making responsibilities clear within an individual's dashboard, and by assigning tasks, and automating alerts and follow-ups.
- Manage contractual relationships transparency and effectively. Integrate third parties more effectively into the team by providing them with their own dashboard, alerts, and tasks. House all third party materials, such as contracts, in a single location.

In summary, by adopting Phundex, issuers, advisors, administrators, and investors can improve the audit process by improving collaboration, accountability, and transparency. At the same time, these organisations can enhance data governance, document security and compliance.

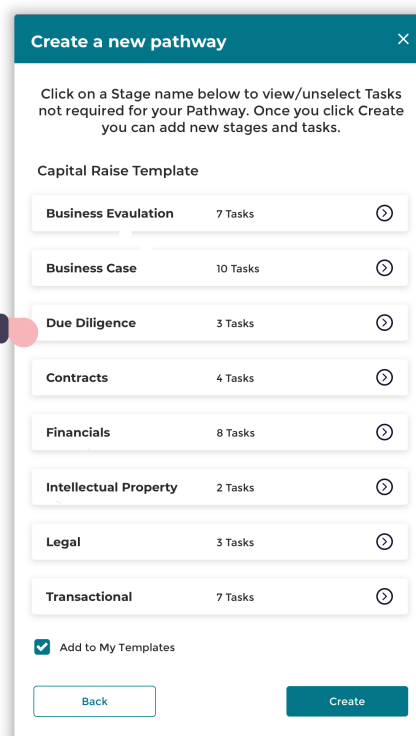
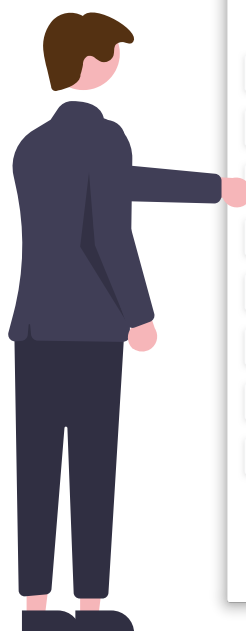
Conclusion

Given the steps required to complete and report on an audit, and the volume of material reviewed during the process, leveraging technology to improve communications and the flow of information can help streamline and simplify the audit process.

Using a standardized process gives transparency and control over the process. A clear plan and collaborative team approach enable a more constructive internal audit process and outcome.

To effectively carry out its mandate, the internal audit team requires robust communication processes with the other functional areas in the organisation. Given its strong focus on collaboration and communications, the Phundex platform can significantly enhance the efficiency and effectiveness of the audit function.

Phundex allows issuers, advisors, administrators, and investors to digitally transform processes and transaction management by creating data rooms, digital pathways, and individual dashboards. These reduce operational risk by greatly enhancing collaboration, accountability, and transparency. This means teams have more time to focus on the activities that generate value for the organisation and get to market sooner



To learn more about Phundex, [contact us.](#)

FIND OUT MORE

For a free demo of Phundex, please
email: support@phundex.com

For a free trial, click the
button below:

[START FREE TRIAL](#)

