

## INDEPENDENT/INTERNAL AUDIT FUNCTION

### What is Independent/Internal Auditing?

The Independent/Internal Audit Function provides an assessment of internal controls and a source of independent and objective assurance designed to add value to and improve an organisation's operations. Independent/Internal Auditors evaluate and contribute to the improvement of the governance, risk management and control processes in place using a systematic and disciplined approach.

### Independent Audit vs. Internal Audit

The terms '*independent audit*' and '*internal audit*' can be used interchangeably. The ultimate objective of this function is to provide an independent analysis of the operations of an organisation. However, it is not obligatory for an independent audit to be provided by an organisation's own employees. The organisation may choose to have the service provided fully from within, they may outsource it entirely to an external provider or may consider a mixture of internal and external sourcing.

Nonetheless, the audit function needs to fit into the overall scope that has been set and its effectiveness needs to be monitored and reviewed on a regular basis by the audit committee or management. The key to the independence of this function is to ensure that all persons involved in this function are independent in '*fact*'. Therefore, these individuals should not be involved in the day-to-day operations of the organisation.

### Topics Discussed:

- ⇒ **What is Independent/Internal Auditing**
- ⇒ **Independent Audit vs. Internal Audit**
- ⇒ **The Importance of an Independent Audit Function**
- ⇒ **The Scope of Independent Audit**
- ⇒ **Key Features of the Independent Audit Function**
- ⇒ **The Audit Charter**
- ⇒ **Scope of Risk Management**
- ⇒ **Internal Audit and Anti-Money Laundering**

### The Importance of an Independent Audit Function

Risk is inherent in the decisions that an organisation takes to manage and run its business and in the business processes established to achieve its objectives. Consequently, implementing and embedding effective risk and control elements are of fundamental importance to all organisations.

Independent audit can play an important assurance role in an organisation's governance processes, particularly in the area of risk management and control. The overall aim of the independent audit function is to improve the organisation's processes and operations.



## The Scope of Independent Audit

The scope of the independent audit embraces the wider concept of corporate governance and risk, recognises that controls exist in organisations to manage risks and promotes effective and efficient governance and performance. The types of independent audit would generally encompass:

- \* Assurance services – objective examination of the business' internal controls.
- \* Consulting services – advisory activities to add value and improve business operations.
- \* Value-added services – focusing on efficiency and effectiveness to improve processes and the economical use of finances and resources.



## Key Features of the Independent Audit Function

The key features described below are essential for the effective operation of an independent audit function.

1. Independence and objectivity—The independent audit function must be independent of the activities being assessed, which requires the function to have sufficient autonomy and authority within the institution, thereby enabling the auditors to carry out their assignments with objectivity.
2. Professional competence—The knowledge and experience of the auditors are essential components to ensure the effectiveness of the independent audit function.
3. Professional ethics—Independent auditors must act with integrity.
4. The independent audit charter—The institution should have an independent audit charter that articulates the purpose, standing and authority of the independent audit function.

## The Audit Charter

The Independent Audit's Charter should provide clarity about its:

- \* strategy and objectives;
- \* role and responsibilities within the organisation;
- \* scope of work;
- \* accountability to the audit committee/management;
- \* reporting lines for line management purposes; and
- \* unfettered access to all information, people and records across the organisation.

The audit charter should also make it clear that the independent audit function should not be put in a position where it has to review its own work.

## Scope of Risk Management

The independent audit function must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the following:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets;
- Compliance with laws, regulations, policies, procedures and contracts.; and
- Potential for the occurrence of money laundering and how the organisation manages this risk.



## Independent Audit and Anti Money Laundering

Some entities, especially small businesses, do not have an independent audit function because they are of the view that they already gain sufficient assurance on risk and control through self-monitoring, or from their external auditors. However, small businesses are not exempted from financial crime activities, and are therefore required to establish an independent audit function.

Regulation 3(8) of the AMLR and ATR speaks to the development of independent internal audit programmes to test and validate activities associated with mitigating money laundering and terrorist financing risks, including processes for

1. identifying trends in criminal activity and other areas of vulnerability;
2. monitoring of transactions and reporting of suspicious activities;
3. maintaining ongoing staff training programmes;
4. implementing adequate screening procedures to ensure high standards when hiring employees;
5. testing and improving internal systems .

### **Legislative References:**

- *Anti-Terrorism (Prevention of Terrorist Financing) Regulations (ATR), No. 47 of 2011.*
- *Anti-Money Laundering Regulations (AMLR), No. 46 of 2011.*