

Conducting an Independent/Internal Audit

What is an Independent/Internal Audit?

An Independent/Internal Audit is an objective assessment of the operations of a regulated business to determine the effectiveness of its internal controls and the level of adherence to regulatory requirements. By conducting an independent audit, a regulated business can improve its processes and operations by identifying weaknesses in its internal systems and controls which would in turn assist the Management of the regulated business in developing suitable policies and procedures or enhancing existing mechanisms.

Key Stages of the Independent/Internal Audit

- 1. Preparation and Planning:** The auditor gains a deep understanding of the business, its operations, and its industry. They identify key areas of risk that might require extra scrutiny.
- 2. Internal Control Review:** Auditors evaluate the effectiveness of the company's internal safeguards—such as segregation of duties and access controls—to determine how much they can rely on the company's own records.
- 3. Fieldwork (Execution):** This is the most intensive phase. Auditors review documentation, verify transactions, test and observe systems, conduct interviews and perform analytical procedures.
- 4. Evaluation of Findings:** The audit team analyzes the gathered findings and evidence to determine if it supports management's assertions. They assess whether any identified errors are "material" (significant enough to change a stakeholder's decision or require an improvement to a policy, procedure or system).

Reporting: The auditor issues a final report containing an **official opinion** or **rating**. The report findings are discussed with Management and timelines for implementation of remedial actions are confirmed.



Benefits of Conducting Independent/Internal Audits

An independent/internal audit provides credibility, transparency and assurance that a company's financial or operational claims are accurate and unbiased.

The audit fosters trust among individuals or organizations who do not have direct access to a company's financial records or daily operations. These include investors, donors, shareholders, regulators and lenders.

Accurate, audited data provides a solid foundation for management to plan future growth or resource allocation.

Key Differences Between Compliance and Internal Audit

Function	Compliance	Internal Audit
Function	Prevent regulatory violations	Provide independent assurance
Focus	Laws, regs, ethics, controls	Governance, risk control effectiveness
Timing	Ongoing and proactive	Retrospective and periodic
Role Type	Advisory and oversight	Independent evaluation
Reports To	Risk Committee	Audit Committee Board of Directors

COMPLIANCE prevents problems. AUDIT detects and corrects them.

Independent/Audit Function At Work



The Issue: In 2002, WorldCom, a large telecommunications company, inflated its assets by roughly US\$11 billion using a simple trick: capitalizing ordinary operating expenses (treating daily costs as long-term investments) to make the company appear more profitable.

The Audit Role: While executive leadership pressured the finance staff to "hit the numbers," the **internal audit team**, led by Cynthia Cooper, discovered \$3.8 billion in fraudulent entries during a routine review.

Outcome: The audit triggered a full investigation that led to the company's bankruptcy and the passage of the Sarbanes-Oxley Act (SOX), which now mandates stricter auditor independence and personal liability for CEOs/CFOs regarding financial accuracy.

Useful Tips



1. Choose the right auditor.

Your auditor should be truly independent — not involved in daily operations — and experienced in AML/CFT/CPF frameworks.

2. Prepare documentation early.

Ensure policies, procedures, risk assessments, training records, and compliance manuals are up to date and easily accessible.

3. Engage key stakeholders.

Involve compliance officers, senior management, and internal audit or risk teams to support a thorough review.

4. Act on the findings.

An audit is only valuable if you act on its insights. Use audit recommendations and action plans to strengthen systems and reporting mechanisms.

Principles and Procedures

Paragraph 28A of the *The Financial Services (Implementation of Industry Standards) (Amendment) Regulations, 2020*, provide a detailed outline of the assessment areas for an Independent/Internal Audit. These include the following:

- ⇒ Board of Director Oversight of Internal Controls;
- ⇒ Implementation of the Compliance Procedure Systems by Senior Management;
- ⇒ Compliance Oversight Function;
- ⇒ AML/CFT/CPF Manual to determine any breaches in internal controls;
- ⇒ Know Your Customer Procedures;
- ⇒ Know Your Employee Procedures;
- ⇒ Risk Management Procedures including customer, product and enterprise-wide risk assessments;
- ⇒ Record Keeping Procedures;
- ⇒ AML/CFT/CPF Monitoring Procedures and Systems;
- ⇒ Reporting Procedures and Maintenance of Registers; and
- ⇒ AML/CFT/CPF Training Program.

The auditor should determine and provide a rating for each area reviewed and assessed as well as an overall rating of the entity within the final report. All approved Independent/Internal Audit Reports should be submitted to the Financial Services Regulatory Commission (FSRC).

Kindly refer to the following Newsletters for more information on conducting an Independent Audit:

April 2020 Newsletter—Conducting a Compliance Audit

April 2016 Newsletter—Independent/Internal Audit Function

References:

The Financial Services (Implementation of Industry Standards) (Amendment) Regulations, 2020.