

# Programmatic Portfolio Company Reporting

Access Holdings

5/1/2024

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## **Access Holdings – Internal Audit Best Practices**

*(Version 16 March 11, 2024 Produced by JLD Woodruff Access Advisory Board Member)*

This is a documentation of best practices for the internal audit for the Access Holdings family of companies. Companies to which this applies will be small to medium sized enterprises (SME's) in the service and manufacturing sectors.

### **Why Internal Audit?**

If you are a CEO or CFO of a private or public company, you will be personally responsible for providing assurance to third parties on financial statements and the details and assertions that underlie them, including the company's system of internal controls in some cases. If you are part of the management of the company, you will be personally responsible for ensuring that operations under your direction are conducted in accordance with company policy. If you are an employee of the company, you will be personally responsible for carrying out all aspects of your work as directed in accordance with company procedures.

The most onerous personal responsibility falls on the CEO and CFO.

The second paragraph in the independent auditor's report entitled Management's Responsibility for the Financial Statements reads:

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

and applies to audits of private as well as public companies.

The CEO and CFO of private and public companies also sign a management representation letter addressed to the auditors of their financial statements in which they provide many assertions about the system of internal controls, specific transactions, their responsibility for the assertions and assumptions underlying the financial statements, among others. Under Sarbanes-Oxley and related legislation, the CEO and CFO of public companies must certify the appropriateness of their financial statements and disclosures and to certify that they fairly present, in all material respects, the operations and financial condition of the company.

For larger public companies the CEO and CFO must certify that they: Are responsible for establishing and maintaining an internal control system; have designed the system to ensure material information is made known to them; have personally evaluated the effectiveness of the system within the previous 90 days; have set forth the results of their personal evaluation in a written report; have reported any deficiencies or weaknesses in the system to the audit committee and the company's auditors; and have disclosed if there have been any changes to the system, including corrective changes, made after the date of their evaluation. Severe penalties are provided for certifications which turn out to be false.

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If you are the CEO, CFO, part of management, or an employee of the company you are reliant on the policies, procedures and system of internal controls to ensure that you are protected from loss of your job or financial or other penalties. How do you know that all these systems are working effectively?

That is the job of internal audit.

At the heart of the basic role of internal audit is the system of internal controls. The system of internal controls at a company are those procedures and activities designed to ensure the integrity of accounting and financial reporting, prevent and detect fraud, ensure operations are conducted in an approved manner and safeguard the company's assets. While the external auditor may rely on some parts of the system of internal control, they only do so to help form their opinion on the financial statements. They may make internal control recommendations where they observe deficiencies, but they do not provide assurance over the design or operating effectiveness of the system of internal controls. The internal auditor does provide such assurance.

In order to provide this assurance, the internal auditor must have a thorough understanding of all internal controls and the risks the company faces. The work done by the internal auditor focusses on key controls that address key risks and the testing methods chosen reflect their judgement on the most efficient way to obtain assurance about the operation of the controls.

The role of internal audit has evolved, and it now addresses many other areas of the company's operations. This is discussed at the end of this material and the main part is focussed on the traditional basic role of internal audit.

### **The Internal Audit Charter**

The internal audit charter is a formal document setting out the responsibilities of the internal audit function as defined by the audit committee (typically) and management. It should be reviewed and approved by the audit committee annually.

Appendix 1 Example Internal Audit Charter provides a model internal audit charter produced by The Institute of Internal Auditors. The example is generic and must be customized to the needs of the company.

There are seven sections to the charter, summarized briefly:

#### **1) Purpose and Mission**

The purpose of [Company Name]'s internal audit is to provide independent, objective assurance and consulting services designed to add value and improve [Company Name]'s operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit department helps [Company Name] accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and internal control processes.

#### **2) Standards for the Professional Practice of Internal Auditing**

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This section addresses the professional obligation of internal auditors to adhere to guidance provided by The Institute of Internal Auditors, a global standard setting organization.

### **3) Authority**

This section defines the relationship between internal audit and the audit committee and CEO (reporting to the former and administrated day to day by the latter). It also outlines the duties of the audit committee in managing the internal audit function and grants specific authorities to the internal auditor.

### **4) Independence and Objectivity**

The requirement for the internal auditor to be independent of management and to exercise their authority in an objective manner is discussed in detail here.

### **5) Scope of Internal Audit Activities**

The scope of the work of the internal auditor varies significantly from company to company. Included here are requirements to provide assurance on compliance with various policies and procedures; provide assurance on the system of internal control; assess regulatory compliance; address fraud risk; operational auditing (of non-financial areas such as production planning); monitor the company's risk management processes; special investigative reviews of suspected fraud or unusual large transactions and so on. This section also discusses the requirements for reporting by the internal auditor to the audit committee.

### **6) Responsibility**

A detailed list of the responsibilities of the internal auditor is set out here.

### **7) Quality Assurance and Improvement Program**

This section discusses the requirement for the internal audit department to maintain a program of quality insurance and improvement of its activities.

## **Internal Audit Plan and Calendar**

An internal audit plan should be prepared annually and presented to the audit committee for review and approval.

Elements of a good internal audit plan include:

### **The Approach**

- An inventory of risks addressed by the system of internal controls classified as High/Medium/Low is identified through discussions with management, external auditors and key staff in various business units sorted by business unit and accounting process (e.g. revenue receivables receipts, purchases and payables, inventory and cost of sales).

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- Regularly, the inventory of risks should be re-evaluated and updated for changes in the business (such as new revenue streams, new processes or changes in personnel) and with consideration for areas that were determined to be deficient during the prior year. Internal controls that were either designed inappropriately or failed to operate as intended, should generally be considered High risk due to the susceptibility to failure.
- Documentation of controls is updated through inquiry, observation and control walkthroughs. Testing will be focussed on key controls in high and medium risk areas.
- Proper considerations for the system of internal controls over IT applications should be included and evaluated during the development of the planned approach.
- Other activities included in the scope of internal audit work include for example, operational reviews such as mergers and acquisitions processes, review of the company's process for identifying enterprise risk management, assurance on the adequacy of account reconciliations, special investigations of unusual or risky transactions or suspected fraud, assurance with respect to contract compliance.

### **Reporting**

- Reporting covers when internal audit will produce the annual plan, attend quarterly audit committee meetings to provide an update on progress against the plan and the status of internal audit recommendations, and produce an annual summary of the results of internal audit work compared to plan.

### **Internal audit team**

- The plan should include an organization chart and descriptions of team member qualifications and experience.

### **Internal audit budget**

- A budget of hours planned by activity should be reconciled to total available hours from internal audit staff and there should be an amount of time not committed so that there is flexibility to address issues arising during the year.
- To the extent that internal audit intends to rely on engaging third party experts to assist with its work, a budget for third party fees should be included.

### **Annual and Three-Year Calendar of Controls Testing**

- The plan should include calendars for controls testing for the current year by month and for three years by quarter. See Appendix 2 Controls Testing Calendar.

### **Assessing Internal Audit's Performance**

- Tools for assessing internal audit's performance should be included in the plan. See Appendix 3 KPIs and Checklist for Assessing Internal Audit.

## **Internal Control Testing – The Traditional Role of Internal Audit**

Using the risk-based approach to testing internal controls, the internal auditor focuses on areas where risk is higher and identifies issues and make recommendations on how to improve the effectiveness of controls.

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### **Internal Control Testing Process**

There are five stages to the testing of internal controls.

(From <https://reciprocity.com/internal-audit-control-testing/>, amended)

Stage 1: Planning  
Discussed above.

Stage 2: Scoping

The internal auditor meets with management, department heads, or supervisors to discuss the scope of audit procedures, relay audit timelines, and to gather all necessary background information, including findings from the prior-year internal audit.

Stage 3: Fieldwork

Fieldwork is the physical on-site audit work. The internal auditor may:

- Investigate the overall control environment
- Interview random employees and managers
- Review financial information
- Inspect legal and other documents
- Review policies and procedures manuals
- Examine information technology systems
- Perform walkthroughs
- Perform tests of controls

Throughout the entire phase, the internal auditor stays in communication with management to relay preliminary findings.

Stage 4: Reporting

The internal auditor compiles all observations and findings, including recommendations of methods to improve the operating effectiveness of controls. Management reviews the conclusions and is asked to respond to recommendations in the form of an action plan. These responses are included in the internal audit reports.

Stage 5: Follow-up

After issuing the internal audit report, the auditor conducts a follow-up audit to determine progress made on the action plan. If necessary, additional internal audit control testing is completed.

### **Types of Internal Controls**

There are three types of internal controls.

Preventive internal controls are designed to prevent adverse events from occurring. Segregation of duties are a preventive control. An example of segregation of duties is giving responsibility to one person to authorize payments and a different person to prepare checks, and a third person produces the positive pay report for the bank. This control addresses the risk of unauthorized payments being made.

Detective internal controls are designed to detect an error after it has occurred. Bank reconciliations are a detective control addressing the risk that the company has incorrectly recorded payments or deposits made.

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Corrective internal controls are controls put in place after detective internal controls have identified a problem. If an inventory count (a detective internal control) identifies the loss of some high value items a physical cage added to the warehouse where high value items are held would be an example of a corrective internal control. And of course, once implemented this physical safeguarding of assets becomes a preventative control.

### **Key Controls**

Key controls are those internal controls which address high risk areas or are those internal controls that might be the only preventative controls within a low-risk area. Management produces an inventory of strategic risks and evaluates them as part of an enterprise risk management process (separately discussed in the finance playbook). Finance management also produces an inventory of risks oriented around the systems of internal control over accounting and financial reporting. Internal audit uses the inventory of internal control risks to devise its plans for testing controls and focuses attention on key controls that address high and medium internal control risks, sorted by both business unit and accounting process.

Controls are necessary but they introduce additional work to all processes. One of the objectives of internal audit should be to look for key controls that overlap each other or compensating controls that eliminate the need for other key controls. Reduction in the number of key controls is an important task for internal audit.

### **Types of Internal Control Tests Performed by the Internal Auditor**

- Inquiry, internal auditors ask managers and employees about the controls they are implementing. Inquiry generally provides the least amount of evidence and therefore is usually combined with more reliable testing methods.
- Observation, internal auditors observe activities and operations to see how controls are implemented. Observation generally requires the internal auditors to be present at the time the control occurs.
- Examination or inspection, internal auditors determine if controls are actually operating, using existing documentation and logs.
- Re-performance involves the internal auditors actually trying to perform the control to see if it is effective. In certain scenarios, re-performance alone as a way of testing internal controls can be insufficient without proper evidence that the instance of the control actually occurred.
- Computer-aided audit tools (CAATs), internal auditors use technology to analyze large amounts of data automatically. A simple CAAT can be a spreadsheet, but there are specialized tools available that can test various types of internal controls. Most CAAT solutions are based on a complete list of all transactions of a particular type.

### **Testing and Documentation**

With an inventory of risks, an understanding of the system of internal control, a decision on which are the key controls addressing the higher risks setting the scope of their planned work, the

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internal auditor carries out fieldwork. The most common fieldwork process is examination or inspection.

For a given accounting cycle e.g., payroll, the internal auditor will first perform a walkthrough. In a walkthrough the internal auditor takes one transaction for the process under review and follows it from start to finish. In the payroll cycle a high risk would be adding unauthorized or fictitious employees to the payroll system. A series of controls should surround the activity of adding a new employee and the internal auditor will follow the processing of one new employee from letter of offer to first payment from the payroll system. This will give the internal auditor a deep understanding of the risks, process and controls.

During the walkthrough the internal auditor will assess the process and controls:

- Are the controls designed appropriately to either prevent or detect any errors, omissions or fraud?
- Have the controls been sufficiently implemented?
- Is there appropriate segregation of duties?
- Do the people performing the task have the appropriate skills and experience?
- Are the controls manual or automated?
- Are there any gaps in current controls?
- Is the process aligned to the documented procedure or policy?
- Are the controls commensurate with the level of risk?
- Is there an opportunity to streamline the process and maintain the current level of risk?

Generally, during the walkthrough the internal auditor should consistently ask themselves, and the individual providing the walkthrough to them “what could go wrong at this step of the process?”. If a scenario is identified where there is no control in place, this could be indication of a control gap or a process gap.

And from this walkthrough the internal auditor will update or create documentation of the process.

Documentation will take the form of process narratives, process flowcharts and risk and controls matrices, or some combination thereof. Examples of each type of documentation are included in Appendix 4 Documentation of the System of Internal Controls.

With the process documented the internal auditor may choose to carry out detailed internal control testing. Continuing the example of the process of adding a new employee, the internal auditor will identify the population to be tested (all new employees added during the testing period), choose which key controls identified addressed the highest risks or were deficient or missing (e.g. segregation of duties between the person who hired the new employee and the person entering data into the payroll system) select a subset of the population to be tested randomly or by statistical sampling, and review the evidence available as to whether the key controls functioned consistently and effectively.

Where the auditor identifies a deficiency in either the design or application of the internal controls, they will produce internal control recommendations. In the payroll example if the internal auditor discovered that the payroll system did not restrict access to updating individual payroll records to authorized individuals and that a number of people had access to the payroll system, the recommendation might be to modify the payroll system rules so that only the data entry person could update payroll records.



### **Reporting to the Audit Committee**

In addition to ad hoc reports to the audit committee regarding issues requiring immediate attention, internal audit reports to the audit committee at the beginning of the year with its plan, at each quarterly audit committee meeting with the results of its work to date, and at year end summarizing work done and outcomes compared to plan.

Internal audit's report on its plan for the year is discussed above.

Appendix 5 Internal Audit Quarterly Report to the Audit Committee gives an example of the information internal audit should produce for the audit committee as the year progresses. This report example is just a partial example extracted from an actual quarterly internal audit report to the audit committee and is not a prescribed format. Internal audit reports come in all shapes and sizes.

Elements of the quarterly report include: reports on the results of key controls testing; reports on the results of other testing, status of work compared to the calendar laid out in the internal audit plan, a summary of the internal audit mandate and approach; reports on the results of other parts of the internal audit mandate (in the example internal audit has been charged with reducing the number of key controls and reports on the results of that initiative), report on the status of all internal control recommendations not yet implemented; and report on internal control recommendations implemented in the reporting period.

Internal audit's year end report to the audit committee is similar to the quarterly report but summarizes the years work and offers a judgement on how well the plan has been carried out and other observations and recommendations about the internal audit function going forward.

### **Tracking and Implementation of Recommendations**

All recommendations made by the internal and external auditors should be inventoried and tracked with quarterly reporting to the audit committee on the status of recommendations not yet implemented and those implemented in the quarter (and dropped from the tracking list).

As shown in Appendix 5 Internal Audit Quarterly Report to the Audit Committee, the tracking of individual recommendations is organized as: recommendation description, quarter and year the recommendation was made, risk level, target implementation quarter, person responsible for implementation, management response to the recommendation.

Once management reports to internal audit that a particular internal control recommendation has been implemented, internal audit performs procedures to determine if the control remediation has been done properly, basically reperforming the tests of the control that found a deficiency to ensure the deficiency has been eliminated.

### **Audit Committee Evaluation of Internal Audit**

The audit committee should formally evaluate the internal audit group annually. The evaluation should be based on KPI's agreed with internal audit and the extent to which internal audit has met its plan.

Appendix 4 KPIs and Checklist for Assessing Internal Audit provides a framework for the audit committee's annual assessment of internal audit.

### **Changing Role of Internal Audit**

The traditional role of internal audit discussed above is to provide assurance on the operating effectiveness of the system of internal controls. But the role of internal audit continues to evolve, and it now involves the internal auditor in providing assurance, assessments, recommendations, and advisory services on a wide variety of issues and functions within the company. A non-exhaustive list of such work includes:

- Assessing fraud risk management
- Investigating expected instances of fraud
- Assessing the effectiveness of management's responses to whistle blowing reports
- Providing assurance on the effectiveness of the company's enterprise risk management process and process to manage risks that do not reach the enterprise level but which are significant
- Assessing the company's regulatory and legal compliance management processes
- Providing assurance on the company's compliance with all contracts it has entered into
- Assessing the company's compliance with financial and related reporting obligations
- Advising on controls combination/elimination to remove inefficiencies and redundancies
- Investigating individual high-risk transactions
- Providing assurance with respect to processes addressing each of the 3-5 highest risks facing the organization identified in the enterprise risk management process
- Assessing the effectiveness of integration of acquired businesses
- Assessing the management of processes to prevent cyber crime
- Assessing tone at the top and ethical standards, programs and training
- Providing assurance on nonfinancial functions in the company, for example, the HR function and talent management practices
- Providing assurance on the company's software asset management program to ensure that all software used in the company is licensed
- Assessing the company environment social and governance program
- Providing assurance that the company's information technology processes systems and applications have been implemented and functions as expected
- Providing assurance on the company's business continuity and disaster recovery programs
- And to bring internal audit firmly into the 21<sup>st</sup> century, assessing the company's risks associated with the use of social media by the company's employees and in official corporate social media.

### **Partnership Between Internal Audit and External Auditors**

The internal audit function should be designed and operate independently of the work performed by the company's external auditors. External auditors are generally focused on providing an opinion on whether the financial statements are free from material errors and frequently do not include an opinion on the design or operating effectiveness of internal controls over financial reporting.

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Internal audit's plan and focus should be at a much more detailed level than that of the external auditors.

With that said, there are many common overlaps between the functions and tests performed by internal auditors and those performed by external auditors. Therefore, the internal auditors should maintain a strong professional relationship with the external auditors. In developing the internal audit plan, the internal auditors should share their testing plan with the external auditors. Additionally, the internal auditors should work to ensure that any area that is in scope by the external auditors are also in scope for the internal audit testing plan.

Further, there are opportunities for external auditors to rely on the work performed by internal audit, which can result in operational efficiency and reduced burden from duplicative testing, that can result in cost savings. It is the determination of the external auditors as to whether they can utilize the work of internal audit, however, it is in best practice for internal audit to offer to assist the external auditors with any testing or information gathering they desire.

During the external audit, the internal auditors should request meetings with the external auditors to discuss the results of tests performed and share results. If the external auditors have identified any control deficiencies or errors, internal audit should amend their test plan to ensure that they incorporate similar testing to allow for management to reach their independent conclusions on the internal control environment.

## **Conclusion**

The internal audit function works independently from but in collaboration with management. Its traditional function is to provide assurance to the Board of Directors and management with respect to the operations of policies, procedures and the system of internal controls at the company. In a changing world, internal audit's responsibilities go beyond the traditional role to provide advice, assessments and assurance on a wide variety of other aspects of the operations of the company.

Like any other corporate department, internal audit operates with plans, timetables, reporting (in this case to the audit committee) and undergoing assessment. Internal auditors have specialized skills and are guided by standards promulgated by various professional internal audit bodies around the world.

If you are the CEO, CFO, part of management, or an employee of the company you are reliant on the policies, procedures and the system of internal controls to ensure that you are protected from loss of your job or financial or other penalties. How do you know that all these systems are working effectively?

That is the job of internal audit.

## **Appendices**

Appendix 1 Internal Audit Charter

Appendix 2 Controls Testing Calendars

Appendix 3 KPIs and Checklist for Assessing Internal Audit

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Appendix 4 Documentation of the System of Internal Controls

Appendix 5 Quarterly Internal Audit Report to the Audit Committee

With acknowledgement of Deloitte, KPMG and PwC from whose publications some of this material was obtained.

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### **Appendix 1 – Internal Audit Charter**

This Model Internal Audit Charter reproduced in this appendix was produced by The Institute Of Internal Auditors, <https://www.theiia.org/en/> .

#### **Model Internal Audit Activity Charter**

The Model Internal Audit Activity Charter is designed to illustrate common practices typically set out in an internal audit activity charter. The generic nature of this draft is intended to encourage customization.

The document may not reflect all legal or regulatory requirements that exist in the every jurisdiction. Additionally, stakeholder expectations may influence the inclusion or deletion of certain practices.

In drafting an internal audit activity charter, the chief audit executive should exercise care to customize the charter, including replacing bracketed, blue text with language that accurately reflects the user's situation.

#### **Supplemental Guidance / Model Internal Audit Activity Charter**

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### **Purpose and Mission**

The purpose of [name of organization]'s internal audit [department/activity] is to provide independent, objective assurance and consulting services designed to add value and improve [name of organization]'s operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit [department/activity] helps [name of organization] accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

### **Standards for the Professional Practice of Internal Auditing**

The internal audit [department/activity] will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The chief audit executive will report periodically to senior management and the [board/audit committee/supervisory committee] regarding the internal audit [department/activity]'s conformance to the Code of Ethics and the Standards.

### **Authority**

The chief audit executive will report functionally to the [board/audit committee/supervisory committee] and administratively (i.e., day-to-day operations) to the [chief executive officer]. To establish, maintain, and assure that [name of organization]'s internal audit [department/activity] has sufficient authority to fulfill its duties, the [board/audit committee/supervisory committee] will:

- Approve the internal audit [department/activity]'s charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit [department/activity]'s budget and resource plan.
- Receive communications from the chief audit executive on the internal audit [department/activity]'s performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the chief audit executive.
- Approve the remuneration of the chief audit executive.
- Make appropriate inquiries of management and the chief audit executive to determine whether there is inappropriate scope or resource limitations.

### **Supplemental Guidance / Model Internal Audit Activity Charter**

The chief audit executive will have unrestricted access to, and communicate and interact directly with, the [board/audit committee/supervisory committee], including in private meetings without management present.

The [board/audit committee/supervisory committee] authorizes the internal audit [department/activity] to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.

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- Obtain assistance from the necessary personnel of [name of organization], as well as other specialized services from within or outside [name of organization], in order to complete the engagement.

### **Independence and Objectivity**

The chief audit executive will ensure that the internal audit [department/activity] remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief audit executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for [name of organization] or its affiliates.
- Initiating or approving transactions external to the internal audit [activity/department].
- Directing the activities of any [name of organization] employee not employed by the internal audit [department/activity], except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The chief audit executive will confirm to the [board/audit committee/supervisory committee], at least annually, the organizational independence of the internal audit [department/activity].

The chief audit executive will disclose to the [board/audit committee/supervisory committee] any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

### **Scope of Internal Audit Activities**

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the [board/audit committee/supervisory committee], management, and outside parties on the adequacy and

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effectiveness of governance, risk management, and control processes for [name of organization]. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of [name of organization]'s strategic objectives are appropriately identified and managed.
- The actions of [name of organization]'s officers, directors, employees, and contractors are in compliance with [name of organization]'s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact [name of organization].
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The chief audit executive will report periodically to senior management and the [board/audit committee/supervisory committee] regarding:

- The internal audit [department/activity]'s purpose, authority, and responsibility.
- The internal audit [department/activity]'s plan and performance relative to its plan.
- The internal audit [department/activity]'s conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the [board/audit committee/supervisory committee].
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to [name of organization].

The chief audit executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

The internal audit [department/activity] may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit [department/activity] does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

### Responsibility

The chief audit executive has the responsibility to:

- Submit, at least annually, to senior management and the [board/audit committee/supervisory committee] a risk-based internal audit plan for review and approval.
- Communicate to senior management and the [board/audit committee/supervisory committee] the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in [name of organization]'s business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the [board/audit committee/supervisory committee] any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the

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documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.

- Follow up on engagement findings and corrective actions, and report periodically to senior management and the [board/audit committee/supervisory committee] any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit [department/activity] collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact [name of organization] are considered and communicated to senior management and the [board/audit committee/supervisory committee] as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit [department/activity].
- Ensure adherence to [name of organization]'s relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the [board/audit committee/supervisory committee].
- Ensure conformance of the internal audit [department/activity] with the Standards, with the following qualifications:
  - o If the internal audit [department/activity] is prohibited by law or regulation from conformance with certain parts of the Standards, the chief audit executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - o If the Standards are used in conjunction with requirements issued by [other authoritative bodies], the chief audit executive will ensure that the internal audit [department/activity] conforms with the Standards, even if the internal audit [department/activity] also conforms with the more restrictive requirements of [other authoritative bodies].

### Quality Assurance and Improvement Program

The internal audit [department/activity] will maintain a quality assurance and improvement program that covers all aspects of the internal audit [department/activity]. The program will include an evaluation of the internal audit [department/activity]'s conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit [department/activity] and identify opportunities for improvement.

The chief audit executive will communicate to senior management and the [board/audit committee/supervisory committee] on the internal audit [department/activity]'s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside [name of organization].

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## Access Holdings – Internal Audit Best Practices

### Appendix 2 Controls Testing Calendars

#### Key Controls Testing – 3 Year Calendar

- Medium and High risk controls tested annually.
- Low risk controls tested on a three year cycle.

	Process	2021 Testing	2022 Testing				2023 Testing				2024 Testing			
		Q1 2022	Q2	Q3	Q4	Q1 2023	Q2	Q3	Q4	Q1 2024	Q2	Q3	Q4	Q1 2025
Business Unit 1	Revenue													
Business Unit 2	Revenue													
Business Unit 3	Revenue													
Business Unit 4	Revenue													
Business Unit 2	Payables													
Business Unit 5	Revenue													
Business Unit 6	Revenue													
Corporate Finance	Client Financial Services													
	Commitments & Contingencies													
	Spreadsheets													
	Financial Statement Close													
	Goodwill & Intangibles													
	Payroll													
	Pensions													
	Property, Plant & Equipment													
	Purchases, Payables & Payments													
	Share Capital													
	Income Tax													
	Treasury													
Corporate	Entity Level Controls													
Corporate I.T.	I.T. General Controls													
Field I.T.	I.T. General Controls													
Total Controls Testing In-Progress														
Total Controls Completed		139												
Total Controls To Be Tested		166	143				138				129			
** Coverage (% of Total Controls)		75.96%	86.14%				83.13%				77.71%			

 Planned Testing  
 Process Walkthrough & Documentation

\*\* The 2021 coverage is based on total 183 key controls

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## Key Controls Testing– 2022 and Q1 2023 Calendar

## 2022 testing plan

[illegible]

## Perform Walkthrough

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- Original Testing
- Remediation Testing
- Update Testing (Phase 2)
- Field work

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## Access Holdings – Internal Audit Best Practices

### Appendix 3 KPIs and Checklist for Assessing Internal Audit

#### KPI's

Percentage of audit work delivered by qualified staff	60%
Operational plan to be submitted by September each year	September of each year
Follow-ups to be performed within 1 year of the audit taking place	Within 1 year of assignments
Issue of draft reports within 30 days of work being completed	30 working days
Issue of final report within 10 working days of receipt of management responses	10 working days
Recommendations made compared with recommendations accepted	80%
Internal audit attendance at audit committee meetings	100%
Issue of internal audit annual report	December of each year

#### Checklist for Audit Committee Assessment of Internal Audit

(From PwC *Understanding Internal Audit*)

1. Is the internal audit department efficient and effective in performing its responsibilities?
2. Given the internal audit plan and scope of work, are the resources appropriate?
3. Is the internal audit department objective? How does it ensure this objectivity?
4. Do internal audit staff have sufficient technical knowledge to perform their duties?
5. Is there a formal training program in place for the department?
6. Are IT auditors available to consider risks and related controls associated with operating systems?
7. Was the staff turnover level for the current year in accordance with expectations?
8. Was the internal audit plan delivered within the agreed budget, with a concentration of high risks and areas of sensitivity?
9. Was the entire annual Internal Audit plan completed?
10. Is the Internal Audit planning process appropriate?
11. Were established and documented criteria used to prioritise the annual and long-term Internal Audit plan?
12. Does planning include written audit plans and programs?
13. Are reported responsibilities formally documented (how often, to whom, forma)?
14. Are Internal Audit reports issued promptly?
15. Is sufficient detail included in the audit reports?
16. Are recommendations/agreed actions completed in accordance with agreed timeframes?
17. Does the scope of work include both operational and financial auditing?
18. Does the head of internal audit consider efficiency and effectiveness improvements to the department?
19. Is outsourcing of any internal audit services in place or planned?
20. Does the internal audit team have a periodic peer review? If so, what were the results of the latest review?
21. Has the charter been evaluated to determine whether it is still appropriate?

## Access Holdings – Internal Audit Best Practices

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### Appendix 4 Documentation of the System of Internal Controls

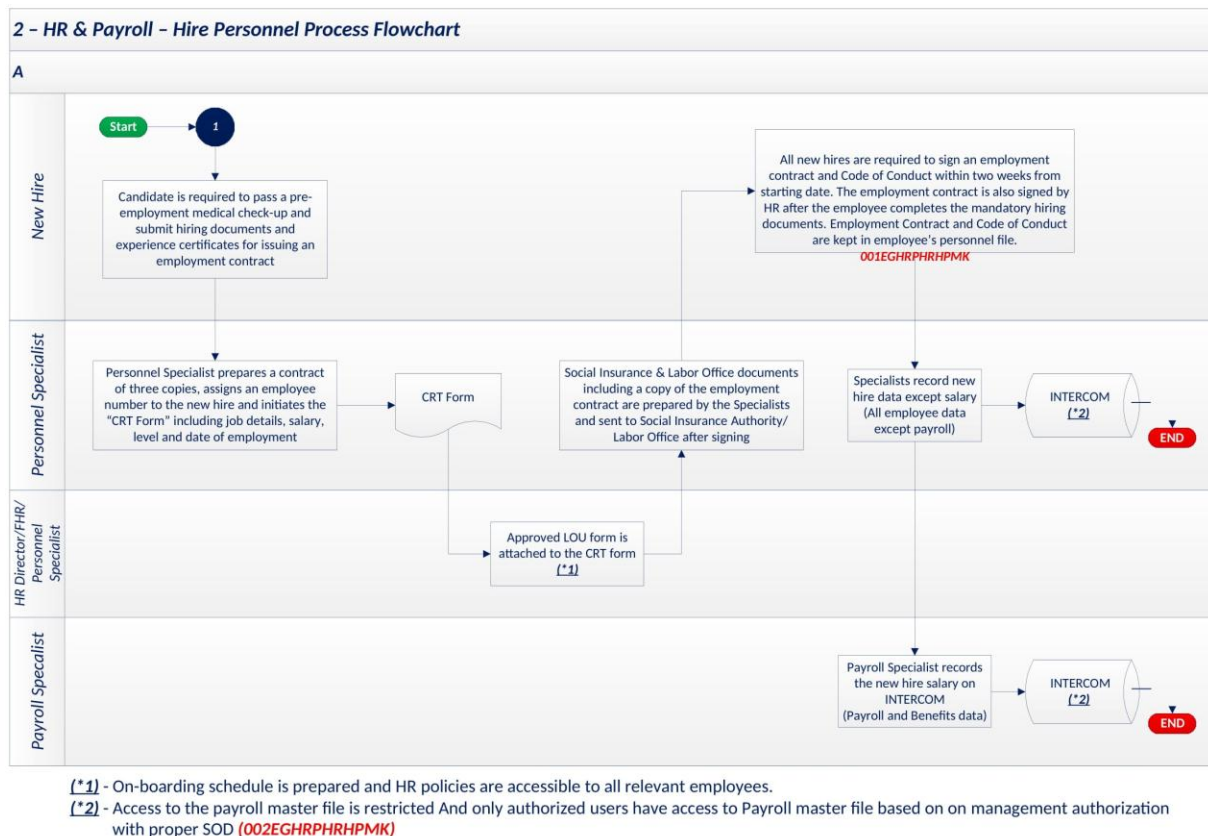
#### Risk and Control Matrix

Accounting Cycle	Payroll
Process	Changes to payroll masterfile
Risk descriptions	Fictitious employees added to the payroll system, terminated employees continue to be paid, unauthorized increases in pay
Risk level	High
Control descriptions	<p>All changes to the employee masterfile are supported by an approval document signed by an authorized employee who does not have access to the payroll masterfile.</p> <p>A payroll specialist authorized to change the employee masterfile enters the changed data and signs and dates the approval document as evidence that they made the changes.</p> <p>Changes to the employee masterfile are tracked and a report is automatically produced by the payroll system listing all changes each pay period and sent directly to a designated individual who does not have the ability to change the payroll masterfile.</p> <p>The designated individual reviews all changes, including a selection of a sample of approval documents prior to approving the payroll for release.</p>
Type of controls	Preventive / Preventive / Detective / Detective

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### Process Flowchart

This process flowchart is just an example of one page extracted from a larger actual business process flowchart and does not include all the controls described in the risk and controls matrix above.



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### Process Narrative

This process narrative is just a partial example extracted from an actual business process narrative and is not a prescribed format. Process narratives come in all shapes and sizes. Nor does it tie directly to the risk and control matrix and process flowchart above.

The (Company Name) core process “Employee Set-up and Maintenance comprises creating and maintaining employee payroll records, including legal name, social security number, address, pay and deductions. It begins with the creation of the employee record, payroll record and deductions from information received from Human Resources. The core process continues through steps required to maintain employee payroll records due to name or address changes and wage or salary changes.

Process step description	Responsibility of	Inputs	Outputs
Provide employee information to Payroll.	Human Resources	Completed employment forms and benefit deduction information - Submit completed employment forms such as employment authorization form, W4 and direct deposit form to Payroll. Submit information regarding selected benefits deductions, including benefit type, deduction amounts, frequency of deduction, start date. - Documents are scanned and emailed to Payroll; paper forms are provided later. - Original signed W4 needed by Payroll Office for files.	Payroll notified of new employee hire.
Review that required forms received are complete and accurate.	Payroll supervisor	Submitted new employee employment forms and deduction information	Submitted information reviewed for legibility, completeness and accuracy.
If paperwork is incomplete or inaccurate, contact sending office to provide correct information.	Payroll supervisor	Submitted new employee employment forms and deduction information - If paperwork is missing required information or is inaccurate as compared to	Sending office contacted to supply required information for payroll.

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		information input in Colleague or other forms, contact the office who submitted the information to provide the correct information for payroll processing.	
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## Appendix 5 Quarterly Internal Audit Report to the Audit Committee

This report example is just a partial example extracted from an actual quarterly internal audit report to the Audit Committee and is not a prescribed format. Internal audit reports come in all shapes and sizes.

Key Messages	Comments
<b>Summary</b>	<ul style="list-style-type: none"><li>● 2020 internal control testing was completed in November 2020 in accordance with plan</li><li>● Timely and accurate preparation and review of account reconciliations on going focus</li><li>● Special investigation of unusual transactions X investigated and remediation in progress</li><li>● Auditors annual IT Audit was completed in Q3 2020. We are awaiting the final report from PwC</li></ul>
<b>Process Walkthroughs</b>	<ul style="list-style-type: none"><li>● Process walkthroughs have been completed for all processes</li></ul>
<b>Process Documentation</b>	<ul style="list-style-type: none"><li>● Process documentation and modifications have been completed for all in scope processes</li></ul>
<b>Process Flowcharts</b>	<ul style="list-style-type: none"><li>● Flowcharts not required for a private company but we use them extensively</li><li>● Flowcharts completed for Capital Assets, Commitments, Contingencies, FSCP, Goodwill and Intangibles, Taxation and Treasury</li><li>● Billings and Accounts Payable in progress</li><li>● Business Process Services, XYZ billings, ABC billings, Payroll, Pensions, and Share Capital expected to be completed by Q1 2021</li></ul>

Key Messages	Comments
<b>Process Testing Update</b>	<ul style="list-style-type: none"> <li>• Tested the following processes in Q1 2020 – Billings, Goodwill and Intangibles, Treasury, ITGC's, Payables, Capital Assets, Commitments and Contingencies, Payroll, Pensions, Share Capital, Taxation, Spreadsheets and Entity Level Controls.</li> <li>• 2 deficiencies identified and remediated in Q1 2020 <ul style="list-style-type: none"> <li>• Client profile changes in AR did not agree to the Client Service Agreement. This control has been remediated and remediation testing is complete</li> <li>• Credit limits setup in the AP system were not authorized. This control has been remediated and remediation testing is complete</li> </ul> </li> <li>• 4 control deficiencies were identified within Q1 2020 and have been reported to the process owners for remediation <ul style="list-style-type: none"> <li>• An alert code in the AR system was bypassed resulting in sales taxes not being calculated on the invoice</li> <li>• Credit notes and rebills do not have adequate approval limits for balance sheet transactions</li> <li>• Client collecting A/R was changed to bypass credit hold process</li> <li>• Credit notes and rebills processed were not properly authorized</li> </ul> </li> <li>• 139 key controls fully tested</li> <li>• 105 key controls were tested in Q1 2020</li> </ul>



Key Messages	Comments
<b>Account Reconciliations</b>	<p>Corporate Governance undertook a review of the account reconciliation process by examining key and complex reconciliations. The purpose of this review was to identify gaps and/or deficiencies in the reconciliation process, communicate best practice with respect to reconciliations, identify opportunities for process improvements via automation, and determine whether the individuals performing and reviewing thereconciliations were knowledgeable and aware of the purpose. The issues identified are as follows:</p> <ul style="list-style-type: none"> <li>● Reconciliations are not being prepared in a timely manner (e.g.. Some accounts have not been reconciled dating back to December 2018)</li> <li>● Reconciliations were not properly reviewed in a timely manner. Reviews for some reconciliations are completed months after the reconciliations have been prepared</li> <li>● Outstanding reconciling items are not getting resolved in a timely manner (e.g., Some date back to 2017)</li> <li>● Inadequate support for reconciling items (e.g., no detailed descriptions and reconciling items not dated)</li> <li>● Reconciling items are not thoroughly analyzed to determine the cause and resolution and/or actionplans to resolve the reconciling items are not identified</li> <li>● Many reconciliations are being performed manually</li> <li>● Lack of understanding, knowledge and skills sets for some preparers as to why the reconciliation isbeing performed, reconciliation process and where the information comes from</li> <li>● Unassigned account reconciliations (e.g., tax assumes accounting prepares the reconciliation and accounting assumes tax prepares the reconciliation)</li> </ul> <p>Next Steps:</p> <ul style="list-style-type: none"> <li>● Account reconciliation training began in Q1 2019 and is on-going. Will also be engaging auditors</li> <li>● Account reconciliation tracker successfully implemented identifying ownership, expected completion dates, frequency, reviewer and amounts for write-off</li> <li>● Account reconciliation governance team established in Q4 2019 to provide regular status</li> </ul>

Key Controls Testing and Internal Audit...continued

Key Messages	Comments	2020			2019			
		Q1 Reconciliation Status			Q4 Reconciliation Status			
Account Reconciliation Analytics		Reported As			Reported As			
		Complete	Total	%	Complete	Total	%	
	CFS	16	16	100 %	CFS	14	14	100 %
	EPC	48	48	100 %	EPC	54	57	95%
	K84	21	21	100 %	K84	26	26	100 %
	Treasury	124	124	100 %	Treasury	40	124	32%
	Tax	8	8	0%	Tax	0	5	0%
	Acctng	240	251	96%	Acctng	168	234	72%
		457	468	98%		302	460	66%

Key Messages	Comments
Executive Summary	<p>Internal Audit plays a hybrid role focusing on key control testing, limited internal audit and value add projects. The controls testing process is to provide management and the Audit Committee comfort over the reliability of Company Name processes and operations that help the organization achieve its objectives</p> <p>2020 Focus areas:</p> <p>Billings</p> <p>Account Reconciliations</p> <p>Tests the key controls relating to: Compliance with internal policies and procedures; Safeguarding of assets; Reliability and integrity of financial and operational information and data; and Effectiveness and efficiency of operations</p>
What is new?	Key controls at 166, reduced by 17 due to rationalization. (See slides 3,4 and 5 which identify controls rationalized)
The Approach	Focus on the high and medium key controls. Risks are identified and assessed through discussions with auditors, Company management and key staff across various business units

	Through inquiry, observation and discussion, documentation of processes will be updated: thereby ensuring controls have been properly identified and documented. To ensure effective operation of key controls, the testing will focus on the key controls that address risks based on the results of the risk assessments
Internal Audit Budget (in Hours)	<p>2 employees X 46 weeks = 4,000 hours</p> <p>SOX Testing and Documentation – 2,000 hours</p> <p>Investigations and Other – 790 hours</p> <p>IES Implementation - 200 hours</p> <p>Annual Audit - 200 hours</p> <p>Account Reconciliations – 200 hours</p> <p>SOA Process Review – 200 hours</p> <p>Billing Review – 150 hours</p> <p>Change Management process review – 100 hours</p> <p>401(k) pension plan review – 50 hours</p> <p>Affiliated Integration – 50 hours</p> <p>Governance Operational Document – 40 hours</p> <p>Unbilled and Unpaid Items (Process requirements and training) – 20 hours</p>

Key Messages	Comments
High Risk Areas – Preliminary Internal Controls Assessment	<p>AR client information is accurately input into the system to enable correct billings to clients.</p> <p>Payroll – largest expense, there are a number of manual processes that are inherently risky.</p> <p>Accruals – lack of a proper purchase/payables system resulting in potential under/over accrued invoices, under/over reported project costs and highly manual processes.</p> <p>Invoicing – Incorrect invoices billed to the client causing issues in the collection process.</p> <p>Change Management – System changes made and not thoroughly tested (pre and post implementation) and properly approved.</p> <p>GL – Transformation of data from the current Coda environment to the upgraded platform is accurate and complete.</p>
Key Testing Areas – Per Standard Program	Taxation, Financial Statement Close Process, Billings, Accounts Receivable, Accounts Payable, Payroll, Capital Assets, I.T. General Controls, Treasury, Entity Level Controls and Spreadsheet Controls
Coverage of Key Controls	The number of high and medium key controls that have been identified for testing in 2020 is 143. This represents 86% coverage of overall budgeted net revenue
Risk Assessments	<p>Financial Statement Risk Assessment - Completed</p> <p>I.T. Risk Assessment - Completed</p> <p>Fraud Risk Assessment – To be completed</p>





**Status of Internal Control Recommendations**  
**(Includes Auditor Internal Control Recommendations, Control Testing and Quarterly Self Assessed FS**  
**Close Deficiencies)**

Item	In process items	Year Logged	Risk Level	Target	Responsibility	Management Response	RYG
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1	<p>Cash, A/R and payroll account reconciliations were not completed on a timely basis and there was lack of management review.</p> <p>Aged items on the reconciliations were identified that date back to 2018.</p>	Q2 2019	H	Q2, 2020	Name	<p>Account reconciliation training began in Q1 for employees. Requirements and expectations have been communicated.</p> <p>The Corporate Governance team performed a thorough review of the reconciliation process and made recommendations to improve the process. Some recommendations were implemented in Q1 and the remaining recommendations are to be implemented by Q2, 2020.</p>	
2	<p>Journal entries were not properly approved within the Treasury and Accounting departments.</p>	Q2 2019	H	Q1, 2020	Name	<p>The journal entry policy has been reviewed and will be updated in Q2 and rolled out to all employees.</p> <p>Remediation testing will be completed in Q2, 2018.</p>	

	Planned remediation is on schedule
	Planned remediation is slightly behind schedule
	Planned remediation is significantly behind schedule
	Remediation Testing Completed

# **Status of Internal Control Recommendations Closed in Quarter**

(Includes Auditor Internal Control Recommendations, SOX Testing and Quarterly Self Assessed FS Close Deficiencies)

Item	In process items	Year Logged	Risk Level	Target	Responsibility	Management Response	RYG
1	Timecards were not signed off and approved.	2019	M	Q1, 2020	All LOB's	92% of timecards received by Payroll have been approved by managers.	
2	Credit Limits setup in the Locussystem were not properly authorized.	2019	H	Q1, 2020	Name	The control was remediated in Q1, 2020. Remediation testing was performed and all samples passed.	
3	Client profile changes – In testing changes to client rate profiles for Canadian Brokerage, errors were identified with respect to ancillary charges whereby the rates did not agree to the rates stipulated on the Company Name Client Service	2019	M	Q1, 2020	Name	The control was remediated in Q1, 2020. Remediation testing was performed and all samples passed.	

	Agreement.						
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