The Audit Process

Responsible Officer: Director of Internal Audit
Responsible Unit: Internal Audit Department
Effective Date: July 01, 1996
Last Revised on: November 20, 2008

Procedure Summary

Once scheduled, Internal Audit (IA) projects generally consist of the following phases:

- preliminary survey;
- review of internal controls;
- fieldwork; and
- communication of results.

Procedure Steps

Scheduling

Approximately three to four weeks before a project is scheduled to begin, a member of the audit staff will contact auditee management to notify them of the review, schedule an entrance meeting (see Preliminary Survey, below), and begin the exchange of information that will be needed in the audit. This phone call is confirmed with a memorandum summarizing the initial discussion and identifying any information or documents that will be needed early in the project. The memo is addressed to the head of the unit or function being audited. Copies are sent to the appropriate Vice Provost or Vice Chancellor and other members of management who may be affected by the audit.

The purpose of the entrance meeting is to open the channels of communication that are essential to a successful audit. During this meeting, the audit team explains the audit process, discusses the expected time frame for the review, and identifies management's suggestions for objectives. The meeting also allows arrangements to be made for audit work space in or near the auditee offices so that the project can proceed as efficiently as possible.
Preliminary Survey

During this phase, an auditor becomes familiar with the mission and primary activities of an organizational unit or function being audited. The purpose of this phase is to identify areas where IA can provide analyses and recommendations that will benefit the auditee or the University as a whole. Information reviewed during this phase helps develop the focus of and specific objectives for an audit.

Based on the review of background information and discussion at the entrance meeting, the audit team selects final objectives for the review. Except in unusual circumstances, these objectives will include at least one item suggested by management. Final audit objectives are presented to the auditee and other members of management affected by the audit in a memorandum.

Review of Internal Controls

The system of internal controls is the plan of organization and processes adopted by an organization to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage compliance with established policies and procedures.

The extensive study and analysis of internal controls are features that distinguish an internal audit from an external audit of financial statements. Internal auditors provide an opinion on the quality of operations in an area or on processes used to produce financial statements, whereas an external audit opinion focuses on the fairness, consistency, and propriety of the financial statements produced by these processes.

A study of internal controls includes identifying the purpose of an activity and determining how it works. An analysis of controls includes identifying potential risks (i.e., what can go wrong), identifying ways to protect against those risks, and determining whether those features are part of the activity under review (strengths). This analysis also seeks to identify any weak or duplicative control features and to determine whether unnecessary steps are being performed.

At the end of this phase, the auditors will draw conclusions about the adequacy of control systems in the activities reviewed. That is, determine whether or not control systems contain the checks, balances, and procedures needed to ensure that management's objectives for these activities will be carried out.

Fieldwork

During fieldwork, auditors test documents and perform other procedures to determine if the strengths identified during the review of internal controls are in effect. Another purpose of fieldwork is to assess the possible impact of weak or missing controls. At the end of this phase, auditors will draw conclusions about whether the system of internal controls is operating as intended.

Communicating Results

Throughout an audit, IA will keep management informed of how an audit is progressing and will discuss possible findings and recommendations as these are identified during a review. This practice helps ensure that the results of the audit are accurate. It also promotes a team approach by actively involving management in developing solutions to issues identified by the audit. Early discussion of findings allows management to promptly begin any corrective action that is needed.

Audit findings will be summarized in writing, with "point sheets" and copies given to management during the audit. Since only the most significant findings will be included in the audit report, point sheets provide management with a complete record of the results of the audit.
The results of the audit will also be presented in a written report addressed to the Chancellor of the University, with copies provided to appropriate members of management. Refer to Internal Audit Procedure 3.2, Audit Reports and Management Responses, for information about written audit reports.

Contacts

Questions and concerns can be submitted using the Internal Audit Staff Directory.

Revision History

<table>
<thead>
<tr>
<th>Prior Revisions:</th>
<th>Details</th>
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<tbody>
<tr>
<td>July 01, 1996</td>
<td>The policies in the Internal Audit Department Policies and Procedures Manual supercede any IA policies, procedures, appendices and information previously included in the University Business Manual, a publication of UNC Chapel Hill’s Division of Finance.</td>
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<tr>
<td>June 03, 2004</td>
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<tr>
<td>November 20, 2008</td>
<td>Revised wording of procedure</td>
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