



INTERNAL AUDIT MANUAL

GOVERNMENT OF ZIMBABWE

FOREWORD

The purpose of this Internal Audit Manual is to document the policies, methods, approaches and general rules applied by the Government to promote and maintain integrity and accountability in its financial system. The manual is intended to serve as a reference guide to all Internal Audit staff in Government; and to promote general uniformity in working papers and documentation; as well as provide the means to the production of quality and professional internal audit work.

This manual provides an overview of the internal audit function in government, its structure, responsibilities, the services it provides and the relationships with key stakeholders. It discusses the policies and principles that apply to Internal Auditing including the administrative aspects of an internal audit department.

The manual details the internal audit procedures of executing an audit engagement from planning an engagement through to the resolution of outstanding issues. It also describes the procedures for carrying out some specific audit engagements in government.

It is expected that all Accounting Officers, Heads of Departments, Internal Auditors, Accountants, and other Government officers will access and read this Internal Audit Manual to broaden their knowledge thus contributing significantly to the financial management systems reform programmes.

This Manual will be reviewed and updated periodically in line with changes in government legislation, technological advances and economic realities.

The auditor, while applying the information in this Manual to specific audit assignments, will be expected to exercise sound professional judgement. This Manual is solely meant to provide guidance and should not inhibit professional judgment and innovation during audit work.

Accountant General

Ministry of Finance and Economic Development

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CHAPTER 1

GOVERNMENT INTERNAL AUDIT FUNCTION

1.1.INTRODUCTION

The role of internal audit with respect to good governance is to assist the entity in achieving its goals while creating and maintaining particular values. It does so by evaluating processes that contribute to the achievement of these goals and values, their communication, the processes used to monitor their respective achievement and accountability.

The internal auditing activity must therefore be well planned, organised, staffed, directed and monitored. It must also have policies and procedures that implement professional standards and systems that can ensure that the standards are followed in performing the work. This also includes ensuring that the work performed meets the expectations and the needs of management and Treasury.

It is against this backdrop that Treasury developed this manual to establish uniform policies and procedures to be followed in conducting internal audits of Government operations, systems, programmes and functions.

1.2.INTERNAL AUDITING

The Standards for the Professional Practice of Internal Auditing define Internal Auditing as, “*an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations*”. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of management, control and government processes.

1.3. OBJECTIVES OF THE MANUAL

- 1) To standardise procedures in government internal auditing.
- 2) To provide guidance to internal auditors in performing their day to day work.

- 3) To clearly define duties and responsibilities of internal auditors in government.
- 4) To increase accuracy and efficiency when discharging their duties.
- 5) To facilitate training of new staff so that they can learn more quickly and perform more effectively with minimum supervision.
- 6) To enhance consistence and efficiency of staff handling issues in audit units.

1.4. Mandate, Governing Framework and Standards

- a) Internal Auditors are appointed in terms of Section 80 of Public Finance Management Act [Chapter 22:19] to assist Treasury in the management and control of public resources.
- b) Internal Audit Charter

The Standards for the Professional Practice of Internal Auditing (IIA 1000) requires that the purpose, authority and responsibility of the internal audit function must be formally defined in an audit charter and shall be consistent with the Institute of Internal Auditors standards for internal auditing. The crafting and amendment of the Internal Audit Charter is done in consultation with the audit committee.

The purpose of the charter is to set out the nature, role, responsibility, status and authority of internal auditors within an institution and to outline the scope of the internal audit work. The internal audit charter should be developed for each internal audit function, approved by the Audit Committee and accepted by management. An internal audit charter should cover the following topics:

- i. The purpose and mandate of internal audit.
- ii. The mission, objective and scope of work.
- iii. The accountability of internal auditor.

- iv. Independence of internal auditor.
- v. Authority of internal auditor; and
- vi. Quality assurance matters.

As a minimum requirement the IA charter should give IA function free and unrestricted access to all information, records, documentation, data and employees of the entity from both internal and external sources.

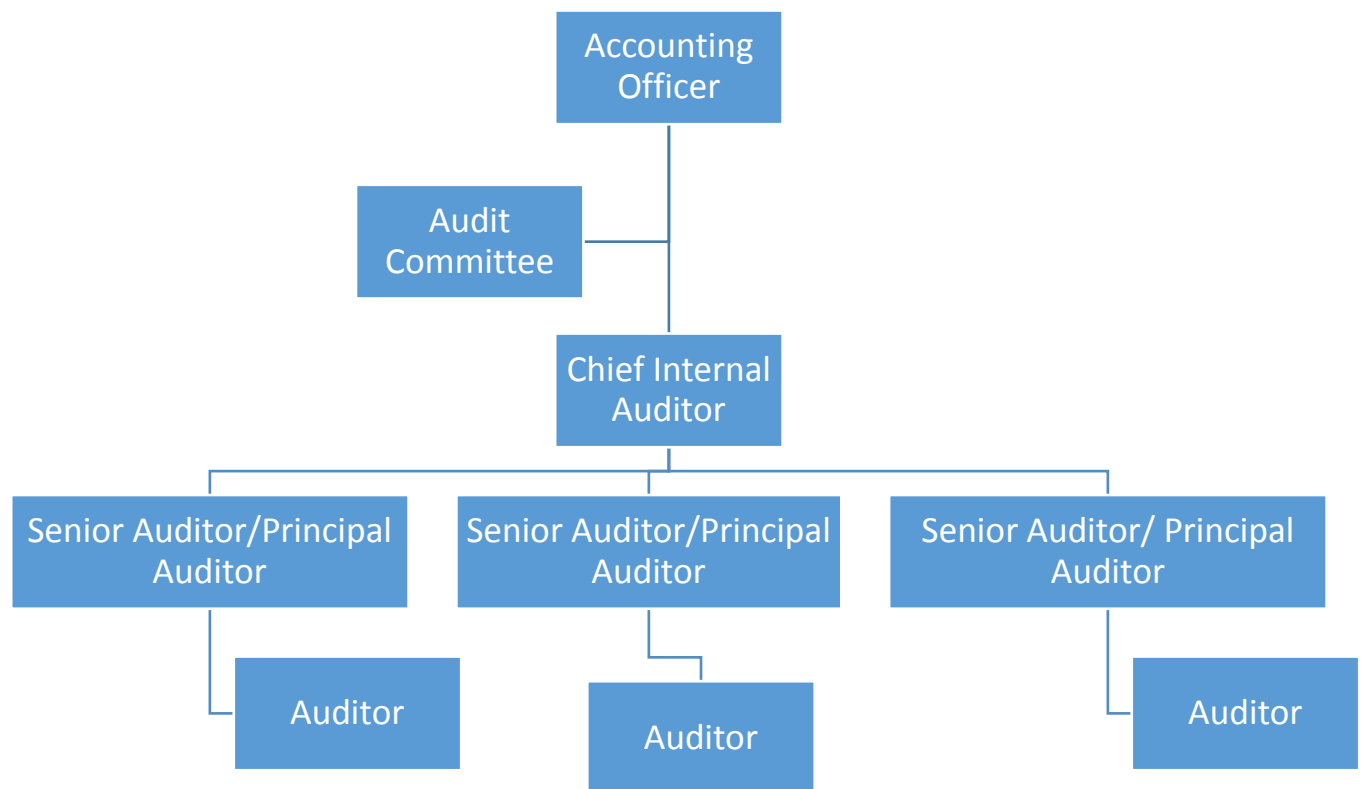
The head of internal audit should periodically assess whether the purpose authority and responsibility as defined in the charter continue to adequate to enable the IA unit to accomplish its objectives. The result of this assessment should be communicated to senior management and audit committee.

c) Governing Framework and Standards

Internal auditors shall conduct their work in accordance with the standards, principles and the code of ethics set by the Institute of Internal Auditors. This Manual complies with the technical requirements of the Institute of Internal Auditors' Professional Standards of Internal Auditing and all internal auditors are required to be guided by the IIA Standards in the performance of their work. In addition to the Professional Standards of the Institute of Internal Auditors, all internal auditors shall also comply with the technical provisions of the International Accounting Standards (IAS), International Financial Regulatory Standards (IFRS), Statement of Accounting Standards issued by the Accounting Standards Board (SAS).

Internal Auditors are also guided by relevant sections relating to finance and accounting controls in the Treasury Instructions of the Government of Zimbabwe and Treasury Circulars and current regulations and practices in the State.

1.5. STRUCTURE OF AN INTERNAL AUDIT SECTION



1.5.1 JOB DESCRIPTIONS

a) Chief Internal Auditor

1. Ensuring efficient and economic use of public resources and assessing the cost-effectiveness of any projects undertaken by the Ministry.
2. Reviewing, evaluating and analyzing common practical auditing issues with a view to soliciting practical solutions for implementation and improvement of the effectiveness of financial and other audits.
3. Evaluating and providing reasonable assurance that risk management, control, and governance systems are functioning as intended to enable the Ministry to meet its goals and objectives.

4. Formulating and reviewing strategic audit plans, developing audit policies, practices and general development of audit functions and ensuring that these are consistent with the internal audit charter and goals of the Ministry.
5. Monitoring the effectiveness of audit effort through reviewing of audit papers or direct audit involvement and ensuring that audit work is as per the requirements of Section 80 of the Public Finance Management Act (PFMA) (Chapter 22:19), and conforms with the Institute of Internal Auditors' (IIA) International Professional Practice Framework (IPPF) Standards.
6. Reviewing and approving final audit work (reports) before issuance and distribution and ascertaining that appropriate action is taken on reported audit findings.
7. Performing any other function that may be assigned by the Accounting Officer of the Ministry.
8. Providing technical support by writing policies and procedures.

b) Auditor/Senior Auditor/Principal Auditor

Planning, writing and reviewing of audit programmes.

1. Planning, organizing, directing and monitoring internal audit operations.
2. Reporting risk management issues and internal control deficiencies identified and providing recommendations for improving the Ministry's operations, in terms of both efficient and effective performance.
3. Conducting system, risk based operational, compliance and financial audits.
4. Conducting special/investigative audits.
5. Developing Annual audit plans for review by the Chief Internal Auditor.

6. Leading audit teams and supervising subordinates. This includes identifying training and development needs of subordinates and giving them on the job training.
7. Composing summary memos, preparing working papers and reporting audit findings.
8. Reviewing working papers and verifying audit findings.
9. Assisting the Chief Internal Auditor with the overall management of the Ministry's Internal Audit function.
10. Reviewing and evaluating internal control systems and making recommendations.
11. Making follow-ups on outstanding issues and ensuring implementation of recommendations regarding activities audited.
12. Analysing audit replies and ensuring compliance with standing rules and regulations.
13. Attending exit briefing meetings.
14. Gathering audit evidence and writing audit reports to:
 - i. Management
 - ii. Auditor – General
 - iii. Accountant – General

c) Audit Assistant

1. Assisting with the development of annual audit plans for review by the Chief Internal Auditor.
2. Planning audit engagements.
3. Conducting independent verification of all accounting and asset records.
4. Preparing working papers and reporting audit findings.

5. Distributing reports and ascertaining that appropriate action is taken on reported audit findings.
6. Filing working papers and audit reports.
7. Reviewing and evaluating internal control systems and making recommendations.
8. Gathering audit evidence and writing audit reports to Management
9. Carrying out special investigations/reviews as and when assigned.

1.6. Mission, Objective and Scope of Work

The IA function will assist the government in fulfilling its vision, mission, strategic initiatives, and objectives while adhering to its core value by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, internal control systems and governance processes.

Ultimately, the internal audit function will help ensure:

- i. Risks are appropriately identified and managed;
- ii. Significant financial, managerial and operating information is accurate, reliable and timely;
- iii. Employees' actions are in compliance with government policies, standards, procedures and applicable laws and regulations;
- iv. Government resources are acquired economically, used efficiently and adequately safeguarded;
- v. Government operations are transacted in accordance with sufficient internal controls, good business judgement and high ethical standards;
- vi. Quality and continuous improvement are fostered in the government's internal control processes;

- vii. Significant legislative or regulatory issues impacting the government are recognised and addressed appropriately; and
- viii. Opportunities for improving the Ministries internal controls and operating efficiency may be identified during internal audits. These opportunities will be shared with the audit committee and management.

1.5.1 Responsibilities

The internal audit function shall assist the Accounting Officer to maintain efficient and effective controls by evaluating those controls and recommending improvements to:-

- a) the information systems;
 - (ii) the reliability and integrity of financial and operational information;
 - (iii) the effectiveness and transparency of operations;
 - (iv) safeguarding of assets;
 - (v) compliance with laws, regulations and controls; and
 - (vi) the functioning of other operating systems and practices.
- b) The internal audit function shall also assist the Accounting Officer to achieve the performance required from the Public Entity, Ministry or Constitutional Entity by making recommendations for the enhancement or improvement of the processes through which -
 - (i) performance requirements are set, reported and monitored;
 - (ii) accountability is ensured; and
 - (iii) corporate values are set and preserved.

1.7.INTERNAL AUDIT SERVICES

The Ministry's internal auditors provide independent, objective assurance and consulting services on governance, risk management and control processes, designed to add value and improve the operations of the Ministry.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter.

Consulting services are advisory in nature and are generally performed at the request of Management or the Audit Committee. Whilst the nature and scope of assurance audits are determined by the internal auditors, the nature and scope of consulting services are subject to agreement with the party requesting for the assistance.

1.6.1 Types of Audits

In preparing the annual internal audit plan, the internal auditor shall determine the type of audit to be performed for each audit. The following is a summary of the various types of audits which may generally be conducted.

a) Financial Audits

These are designed to validate the accuracy and completeness of records and account balances. Financial audits will utilise substantive tests, analytical reviews and other validation procedures, which may or may not include functional tests or transactional reviews.

Financial audits determine whether the financial information of the Ministry's function, activity, department or unit under audit fairly represents the financial

position, result of operation, and cash flows and changes in financial position of the auditee is in accordance with the Generally Accepted Accounting Principles.

b) Operational Audits

An operational audit process is designed to:

- I. Understand the responsibilities and risk faced by auditable department, unit or process.
- II. Assess the level of control exercised by management.
- III. Identify, with management participation opportunities for improving control.
- IV. Provide senior management of the Ministry and audit committee with an understanding of the degree to which management has achieved its responsibilities and mitigated the risk associated with the operations of the Ministry. This includes:
 - (i) Reliability and integrity of financial and operational information.
 - (ii) Effectiveness and efficiency of operations.
 - (iii) Safeguarding of assets.
 - (iv) Compliance with laws, regulations and contracts.

c) Compliance Audits

They involve testing and reporting on whether the Ministry or department has complied with the requirements of various laws, regulations, policies and procedures. Recommendations typically call for improvements and processes and controls intended to ensure compliance with regulations.

d) Other Audits

Other types of audits are investigations and special audits which are covered in detail in Chapter 4.

1.8.INTERNAL AUDIT RELATIONSHIPS

1.8.1. Internal audit and the Accounting Officer

It is important that the Chief Internal Auditor has direct access, as required, to the Accounting Officer. This contact should be used as an opportunity for internal audit to gain insights into new and emerging risks, issues facing the Ministry and to discuss the role the Accounting Officer expects internal audit to fulfill in the entity.

1.8.2. Internal audit and senior management

To effectively fulfill its responsibilities, it is important that internal audit has a professional and constructive relationship with senior management of the entity.

Internal audit functions will interact on a regular basis with members of the senior management team, and through the delivery of practical, business-focused and useful reports and advice, will build a relationship that is based on cooperation, collaboration and mutual respect.

Meetings with managers should be used as an opportunity to be briefed on key developments and associated risks facing the Ministry. These meetings should also be used to obtain informal feedback about the performance of internal audit and to assist in identifying ways that internal audit can best assist management. One measure of the effectiveness of internal audit is the extent to which managers seek out internal audit to assist them in managing their business.

1.8.3. Internal audit and professional associations

It is generally expected that individual internal audit staff will be members of the Institute of Internal Auditors and/or other relevant professional associations such as the Institute of Chartered Accountants of Zimbabwe and, for information technology auditors, Information Systems Audit and Control Association.

It is important that internal audit staff take advantage of their membership to keep abreast of professional and industry developments and use networking opportunities to assist in their ongoing professional development.

1.8.4. Audit Committees

The Audit Committee oversees the work of Internal Audit. The relationship with internal audit involves:

- a) The Audit Committee endorsing the internal audit charter and being responsible for either reviewing or approving internal audit plans.
- b) Internal audit functionally reports to the Audit Committee. This places the committee in the role of being internal audit's primary client and requires internal audit to have a sound professional relationship with the committee;
- c) Internal audit reports and general IA interaction with the Audit Committee, provides a key source of information on the effectiveness of controls and the performance of the entity;
- d) Chief Internal Auditor provides secretariat support to the Audit Committee; and
- e) The Audit Committee is involved in assessing the performance of internal audit, change of the Chief Internal Auditor and/or any external service provider.

1.8.5. Internal audit and the Auditor – General (AG)

Establishing a professional working relationship between internal audit and the AG should deliver benefits to both parties. It is important that internal audit seek input from the AG in developing the internal audit strategy and internal audit work plan. Internal and AG audit consult with each other during the planning phase of individual audits that address the key financial and business systems underpinning the Ministry's financial statements. In order for the AG to use specific work of the internal auditor, the AG is required to evaluate the work of internal audit to determine its adequacy for external audit purposes.

A consultative approach can also be usefully applied in relation to proposed performance audit coverage when developing respective work plans.

1.8.6. Method of coordinating with other stakeholders.

These can be summarised as follows;

Relationship with	How?
Accountant General	Through Reports
Auditor – General	Through Reports
Professional Bodies	Consultative
Other Stakeholders	Consultative

CHAPTER 2

INTERNAL AUDIT POLICIES

2.1 Code of Conduct and Professional Guidance

2.1.1 Code of Ethics

The purpose of the Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.

A Code of Ethics is necessary and appropriate for the profession of internal auditing. It is founded on the trust placed in its objective assurance about risk management, control and governance.

The Code of Ethics, together with the Institutes Professional Practices Framework, and other relevant Institute pronouncements provide guidance to how internal auditors execute their mandate.

Internal auditors are expected to apply and uphold the following principles and rules of conduct:

2.1.2 Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Internal auditors shall:

- (a) Perform their work with honesty, diligence and responsibility.
- (b) Observe the law and make disclosures expected by the law and profession
- (c) Not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the Ministry.

(d) Respect and contribute to the legitimate and ethical objectives of the Ministry.

2.1.3 Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interest or by others informing judgements.

Internal auditors shall:

- (a) Not participate in an activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that maybe in conflict with the interest of the organisation.
- (b) Not accept anything that may impair or be presumed to impair their professional judgement.
- (c) Disclose all material facts known to them that, if not disclosed may distort the reporting of activities under review.

2.1.4 Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Internal auditors shall:

- (a) Be prudent in the use and protection of information acquired in the course of their duties.

- (b) Not use information for any personal gain or in any manner that will be contrary to the law and detrimental to the legitimate and ethical objectives of the organisation.

2.2 PROFESSIONAL RESPONSIBILITIES

2.2.1 Independence and objectivity

Independence

- a. Refers to the auditor's ability to maintain an objective and impartial mental attitude throughout the engagement.
- b. The internal audit unit should be sufficiently independent from line management to ensure that its professional judgements are objective and impartial.
- c. To be effective, internal audit needs to have authority and report at a sufficiently senior level within the Ministry.
- d. IA takes its authority from The Public Finance Management Act and terms of reference from the audit committee and Accounting Officer to whom the Chief Internal Auditor should report and have the right of direct access.

Objectivity

- a. Objectivity is an independent attitude of mind that internal auditors should maintain when performing internal audit work.
- b. Objectivity requires internal auditors to carry out audits in such a way that the quality of their work or their honest belief in the results of their work is not compromised.
- c. Internal auditors should not be placed in situations in which they feel unable to make objective and impartial professional judgements.

- d. The following are situations which may impair independence of internal auditors:
- i. Conflict of interest arising either from professional, personal relationships, or other interest in the Ministry or activity that is subject to audit.
 - ii. Undue influences which either restrict or modify the scope or conduct of the internal auditors work or overrule significantly affect judgement as to the content of the audit report.
 - iii. Auditing an activity for which they have had an authority or responsibility in the past year.
 - iv. Interest of an internal auditor's relatives such as financial interest and business relationships of an auditor's spouse or direct dependent.
 - v. Acceptance of gifts in cash or kind from clients. The receipt of promotional items (such as pens, calendars, or samples) that are available to the general public and have minimal value should not hinder internal auditors' professional judgments. Internal auditors should report the offer of all material fees or gifts immediately to their supervisors.

2.2.2 Accountability

The Chief Internal Auditor must report directly to the Accounting Officer. This will provide sufficient authority to promote independence and to ensure broad coverage, adequate consideration of engagement communications and allow appropriate action on engagement recommendations. The Chief Internal Auditor should report operationally to the Audit Committee, and administratively to the Accounting Officer of the entity to:

- (a) Assist Accounting Officers by providing periodical assessments on the adequacy and effectiveness of the entities process for controlling its activities;
- (b) Report significant issues related to the processes for controlling the activities of the entity, including potential improvements to those processes; and
- (c) Periodically provide information on the status and results of the annual audit plan and the sufficiency of the IA resources.

2.2.3 Proficiency and Due Care

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services as required by IIA Code of Ethics.

Internal auditors shall:

- (a) Engage only in those services for which they have the necessary knowledge, skills and experience.
- (b) Perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- (c) Continually improve their proficiency and the effectiveness and quality of their service.

2.2.4 Continual Professional Development

- a. Internal auditors must enhance their knowledge, skills, and other competencies through continuous professional development.
- b. The Accounting Officer shall provide staff development and training to Internal Auditors to keep abreast of changes in both the profession of internal auditing and stakeholder needs within the confines of resources provided by Treasury.

2.2.5 Quality Assurance

In order to ensure that the quality of Internal Audit work is consistently at a high standard, the Internal Audit function shall abide by this Internal Audit Manual. External quality assurance is also encouraged by the IIA professional standards.

2.3 MANAGING THE INTERNAL AUDIT DEPARTMENT

2.3.1 Strategic and Annual Plan

An internal audit function shall prepare, in consultation with the Accounting Officer, the Executive Authority and the audit committee –

- (i) a rolling three-year strategic internal audit plan based on its assessment of key areas of risk having regard to its current operations, the annual and strategic plans and the risk management strategy;
- (ii) an annual internal audit plan for the first year of the rolling three-year strategic internal audit plan;
- (iii) plans indicating the proposed scope of each audit in the annual internal audit plan; and
- (iv) a quarterly report to the audit committee detailing its performance against the annual internal audit plan to support effective monitoring and appropriate interventions.

The internal audit plan shall be approved by the Audit Committee which shall consider but not be bound by the views of the Accounting Officer and the Executive Authority.

2.3.2 The Planning Process

- a. Audit planning should be based on an assessment of risk and exposures that may affect the organisation. This should be done annually in order to reflect the most current strategies and direction of the organization.

- b. Risk assessment need to include input from management. This can be accomplished by studying the organisations strategic plan and then discuss with management the risks to achieving the objectives.
- c. A risk based audit plan ensures that audit activities are effectively focused on those areas where the risks or materiality of exposure is greatest.
- d. The basic audit planning process consists of two phases:
 - i. the assessment of risk; and
 - ii. the allocation of audit resources.

2.3.3 Assessment of Risk

- a. Risk assessment is the process of identifying the possibility that events will occur that will be harmful to Ministry or will be detrimental to the achievement of the Ministry's goals.
- b. Risk assessment is the most critical phase of audit planning.
- c. A risk assessment and audit planning methodology is a structured approach to a subjective process.
- d. Even the most sophisticated risk assessment and planning models is the product of value judgements.
- e. The key to good audit planning is to develop a methodology that will produce a plan that reflects management's concerns.
- f. Assessment of risk consists of:
 - i. Defining the auditable unit.
 - ii. Establishing the audit universe.
 - iii. Establishing the risk criteria.
 - iv. Constructing the risk model.
 - v. Ranking the audit universe.

2.3.3.1 Defining the auditable unit

An auditable unit is simply the subject or business process that becomes the audit entity. The Business Process is any combination of transactions, systems, processes or interfaces that constitutes a logical process.

2.3.3.2 Establishing the audit universe

To provide flexibility and to a manageable size the scope of an audit project sub – units can be identified. Determine the skill – set needed for an audit project after the individual objectives for an audit are defined.

2.3.3.3 Establishing the risk criteria

Individual elements used in risk analysis should be afforded different levels of importance depending on whether consideration is being given to priority or frequency, for example, time since last audit is likely to be of significant importance in considering order of priority but not frequency.

2.3.3.4 Constructing the risk model

For the assessment of priorities and frequencies, the calculation of risk indices is probably the most useful approach. It provides a way of combining the characteristics or elements of a system. In calculating the weights, the auditor can assign different weights to each of the elements he/she is combining to incorporate his/her judgement of their relative importance in terms of risk. In allocating weights, the auditor judges between the relative significance of different elements, as they are likely to apply to the systems.

2.3.3.5 Ranking the audit universe

The total rating is the sum of the individual criteria weights multiplied by their scale, as with any model the results will be analysed to see if they are consistent with what professional judgement would expect. At this point management input

is strongly recommended. The audit universe could then be risk ranked by sorting the units from highest to lowest risk.

2.3.3.6 Allocating audit resources

Allocation of audit resources focuses on establishing a strategy or selection approach that optimises the available audit resources. This requires establishing a risk strategy or selection policy.

The Chief Internal Auditor should communicate the internal audit activity's plans and resources requirements, including significant interim changes to senior management and to the board for review and approval. The Chief Internal Auditor should also communicate the impact of resource limitations. (Standard 2020)

Chief Internal Auditor should ensure that audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. (Standard 2030)

2.3.4 Progress Register or Time Sheets

Internal Auditor will maintain under his or her personal control, a Register or Time Sheet to record the progress of the audit. The Register will normally be in columnar form to record in the specific tasks to be undertaken in the period covered. At the end of each month, he or she would initial to indicate the task that he has completed and submit against the budgeted time and an explanation of any variances.

2.3.5 Internal Audit Activity Key Performance Indicators

- (a) The key performance indicators (KPIs) used are of central importance because those features that are measured are the matters that tend to receive the highest priority. It is important, therefore, that the KPIs for internal audit be aligned with the Ministry's internal audit strategy and work plan, and help to drive the behaviour the Ministry expects from internal audit.

(b) It is also important that performance is measured over time in order to identify trends, and that performance is measured against both qualitative and quantitative targets. Such targets should be challenging but realistic. While recognising that every organisation is different, the ministry may benefit from formal or informal benchmarking of indicators and performance.

(c) It would be expected that KPIs would be limited in number but, as a minimum, would measure the timeliness, cost and quality of both audit work and any other services provided by internal audit. KPIs include measurement of the:

- i. timeliness and cost of internal audits commensurate with the objectives or benefits of the internal audit;
- ii. acceptance of recommendations made by internal audit;
- iii. quality of assurance reviews, advisory services and audit support activities, including stakeholder satisfaction;
- iv. progress in delivery of the approved program;
- v. internal audit staff qualifications and professional development;
- vi. internal audit staff satisfaction; and
- vii. overall contribution made by the internal audit function.

CHAPTER 3

INTERNAL AUDIT PROCEDURES

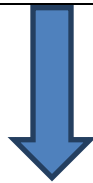
3 INTRODUCTION

Internal Audit procedures describe in detail how an audit engagement is carried out from the time of planning an audit engagement until the recommended action will have been implemented. The following diagram is a graphic illustration of the auditing process for specific audit assignments

Audit planning – the audit staff assigned will review background information, contracts, prior audit files, policies, laws, regulations, etc., applicable to the audit area and prepare an audit programme. It includes procedures to be followed during the audit.



Entrance conference/meeting – a meeting will be held between the audit staff and the managers of the audit area. The audit staff will discuss the purpose of the audit, the time period of the audit and the resources needed. Management is given the opportunity to discuss any concerns or questions about the audit.



Fieldwork – during field work the auditors will interview personnel concerning their duties and responsibilities, observe day to day operations, flowchart processes, perform various tests of transactions, review supporting documentation and document issues of concern and areas of non-compliance

Report draft – once the fieldwork is completed, the auditor will write a report that reflects what was done, what was found and any other recommendations for improvement.



Exit meeting/conference – a meeting is held with management of the audited area to discuss the audit findings before findings are officially released. Management is allowed the opportunity to concur or not concur with the findings and to present evidence to support any non – concurrence with the auditors. Any recommendations by the auditors for improvement or corrective action are also discussed at the time



Follow up – after a reasonable period of time, the audit staff will conduct a follow up review of areas previously audited to determine if corrective action has been effectively taken.

3.1 Planning an Audit Engagement

- a. Audit plans are accomplished by effectively managing each audit project.
- b. Establishing a plan for performing internal audit work is primarily a responsibility of the Chief Internal Auditor.
- c. In planning an engagement, internal auditors should consider:
 - (i) The objectives of the activity being reviewed, the means by which the activity controls its performance and achievements of those objectives.
 - (ii) The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact and/or likelihood of risk is kept to an acceptable level.

(iii) Adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model.

3.1.1 Engagement Objectives

(i) Objectives must be established for each engagement.

(ii) Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment. This stage includes the process of the internal auditor identifying the various types of information and documentation needed from the auditees. This information and documentation will generally include items such as organisational charts, job descriptions, department manuals and relevant reports. Common examples of data are likely to include the following:

- i. Accounting information not available from the Ministries accounting system;
- ii. Important contracts and agreements;
- iii. Established policies, procedures and accounting processes;
- iv. Minutes of important senior management meetings; and
- v. Important correspondence and information.

During the organising stage the internal auditor will obtain a copy of the appropriate organisational chart and confirm its accuracy during the opening conference. The organisational chart will be reviewed in detail during the opening conference to assist the internal auditor in understanding the function, activity, department, or unit of the Ministry that is the subject of the audit

(iii) Internal auditors must consider the probability of significant errors, fraud, non – compliance and other exposures when developing the engagement objectives.

3.1.2 Engagement Scope

- (i) The established scope must be sufficient to satisfy the objectives of the engagement.
- (ii) The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

3.1.3 Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

3.1.4 Engagement Work Program

- (i) Internal auditors must develop and document work programs that achieve the engagement objectives.
- (ii) Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved by the Chief Internal Auditor prior to its implementation, and any adjustments approved promptly
- (iii) During this stage an agenda for the opening conference will be prepared
- (iv) The major outcome of this stage is the preliminary audit programme which the internal auditor can later make modifications as necessary. Adequate planning and a sound audit programme will ultimately allow the internal auditor to perform an effective and efficient internal audit.

3.2 Opening conference

The purpose of the opening conference is to discuss the plans for the overall conduct of the audit. During the opening conference, the internal auditor will:

- (i) Explain the type of audit being undertaken, the scope of the planned audit, the audit objectives, the period to be audited and the general approach to the audit;
- (ii) Verify that the auditee understands the role of the internal auditor and the commitments needed from the auditee to support the audit and respond to audit requests;
- (iii) Ask the appropriate members of management if they have any particular areas of risk or concern which they would like reviewed;
- (iv) Request management plans, Objectives, or other documents that may have a material impact on the audit outcome;
- (v) Review audit findings from previous internal or external audits and the current status of corrective actions;
- (vi) Develop a list of key personnel in the auditee department to be contacted for meetings or information;
- (vii) Discuss the procedure for preparing and reviewing the formal audit report, which is a compilation of reportable findings and auditee responses;
- (viii) Enquire about current developments relating to the Ministry's function, activity, department or unit under audit;
- (ix) Attempt to resolve any questions with respect to the documentation requested in the audit notification letter;
- (x) Confirm the location of documents and records needed during the audit;
- (xi) Explain the preliminary audit programme in general terms and establish priorities for the audit;
- (xii) Prepare a working paper memo which summaries the date, time, location and person in attendance at the opening conference; and
- (xiii) Discuss any other applicable topics.

3.3 AUDIT FIELDWORK

Objectives

During the conducting stage the internal auditor will:

- (i) Execute the approved audit programme;
- (ii) Compile audit working papers which detail the necessary audit work accomplished to satisfy each step of the audit programme;
- (iii) Prepare a draft final audit report;
- (iv) Obtain management responses to preliminary findings; and
- (v) Hold the closing conference.

3.3.1 Executing the Work Programme

The conducting stage of the audit begins with the finalisation of the audit programme and ends with the closing conference. The extent of tests performed during this stage is heavily dependent upon the discretion and judgement of the internal auditor. The materiality of the amounts involved and the relative risk of the existence of errors and other irregularities will be weighed heavily when considering and planning audit tests.

3.3.2 Audit Working Papers

- (i) In the performance of audit work, the Standards for Professional Practice on Internal Auditing state that ***“internal auditors should collect, analyse, interpret and document information to support audit result”***.
- (ii) The internal auditors work papers will provide the principal evidence that these standards were met, and the audit was performed professionally.
- (iii) The term “work papers” includes all documents and papers collected or prepared during a given audit.
- (iv) Work papers provide the basis and support for the conclusions reached by the internal auditor.

(v) All relevant work papers prepared during a review will be preserved and included in the work paper files maintained by the internal auditor.

3.3.2.1 Characteristics of working papers

Work papers include the evidential matter that links field work and the final audit report. Work papers will contain the necessary evidence to support the findings, judgments and conclusions in the final report.

i. Sufficiency

Work papers will always be complete and accurate, and include adequate data to precisely indicate the audit work performed. Work papers will also provide support for findings, judgments and the conclusions reached by the internal auditor as a result of the internal audit process.

ii. Accuracy

Work papers will include only high quality information and evidence. Accordingly, the internal auditor will take all necessary steps to help ensure that the information contained therein is reliable.

iii. Relevance

The information contained in the work papers will be restricted to matters that are materially important and relevant to the audit objectives for usefulness. The evidence retained in the work papers must be useful in helping the Ministry achieve its goal.

iv. Clarity and understandability

Work papers must be understandable without detailed supplementary oral explanations. Work papers should also be complete and concise.

Principles of documentation

- (i) Work papers will substantiate everything included in the final audit report.
- (ii) A work paper or series of work papers will be prepared for each step in the audit programme.
- (iii) Work papers will clearly identify the documents or series of documents examined. It's not necessary to include a copy of each document examined although in some cases efficiency may result by utilising copies of the documents.

3.3.3 Audit Evidence

- (i) In performing internal audits, the internal auditor generally gathers evidence from internal sources, which may require verification from external sources. Some of the internal sources of audit evidence include books of accounts, ledgers and records, memoranda, minutes of meetings, documents that support transactions and management letters.
- (ii) Information gathered from these sources may be verified from external sources that include confirmation of bank balances, accounts receivable, investment balances, assets held by third parties, long term debts and other assets and liabilities.
- (iii) All of the information gathered to support the internal audit effort, and the conclusions drawn there from should be considered audit evidence, which may be categorised as analytical, documentary, physical, or testimonial:

3.3.3.1 Types of Evidence

(i) Analytical evidence

This includes computations, comparisons, reasoning, and the separation of information into components.

(ii) Documentary evidence

This consists of letters, contracts, accounting records, invoices, etc.

(iii) Physical evidence

This is obtained by direct inspection or observation of activities, property or events. It may take the form of memorandum, photographs, charts or other summary documentation.

(iv) Testimonial evidence

This is obtained from others through statements received in response to enquiries or through interviews. The critical to the audit will be corroborated through independent verification when feasible.

3.3.4 Methods of obtaining Audit Evidence

Audit evidence is one of the basic principles that govern an audit. There are various methods that can be adopted to obtain audit evidence. The most common ones include:

i. Inspection

This is the most efficient method of obtaining audit evidence. Inspection refers to checking all the documents, records, and physical assets. The reliability of these documents and records depends upon the nature and effectiveness of internal control.

ii. Observation

Another important method of obtaining audit evidence is observation. This method involves the auditor to look at a process or procedure being executed by others. This method can be exemplified by the auditors' presence at the clients' physical stock count.

iii. Inquiry and confirmation

The two aspects of this method include searching about the info from a knowledgeable person inside or outside the company, and responding to any inquiry to substantiate information in the accounting records. These responses might provide the auditor with info which is not previously possessed by him or even with corroborative evidence.

iv. Computation

This method of obtaining evidence involves the examination of arithmetical accuracy of source documents and accounting records. The method might also involve performing individual calculations.

v. Analytical review

This method involves conducting a study of important ratios and trends and examining unusual fluctuations and items.

3.3.5 Processing of findings

As deficiencies are identified during the audit, they will be discussed with the auditee to verify the facts before any audit report is drafted. If these discussions confirm that a deficiency exist, the internal auditor will draft a preliminary finding. All findings will be considered preliminary unless (and until) they are included in the final audit report.

3.3.6 Effective supervision

To assist in maintaining high-quality standards, it is important that audit teams are properly supervised. Supervision needs will vary according to the skill and experience of the team but will generally involve:

- i. providing suitable directions or guidance at the start of an audit;
- ii. regularly monitoring audit progress;
- iii. ensuring compliance with professional standards and the internal audit manual;
- iv. ensuring that audit findings, conclusions and recommendations are adequately supported by the evidence; and
- v. ensuring that reports are accurate, objective, clear and concise.

Audit quality is further strengthened where the management of the audit and the emerging findings are reviewed periodically by someone at a distance from the detail of the audit.

3.3.7 The closing conference

The closing conference of each audit will be scheduled for the last day of fieldwork, that is, the last day of the conducting stage.

During the closing conference the internal auditor will present his preliminary findings to the auditee and the auditor will seek the auditee's input where appropriate.

3.4 AUDIT COMMUNICATIONS

3.4.1 Introduction

The reporting stage begins upon completion of the closing conference and ends where the final audit report is issued. The activities completed during this stage include preparing a draft audit report, discussing proposed changes with the appropriate level of management, preparing a final audit report and distributing the

final audit report to Management, Accountant General and Auditor General. The final audit report is designed to assist the Ministry in measuring its own performance, particularly with respect to the reliability of established internal controls

3.4.2 Review of draft reports

To provide confidence in the quality of audit reports, it is important that a draft of the report is reviewed by the Chief Internal Auditor or a Principal Auditor or Senior Auditor appointed for the task, prior to the draft report being discussed with the business area being audited. This helps to ensure that the:

- i. report covers the objectives and scope of the audit;
- ii. report demonstrates a good understanding of the area under review;
- iii. audit findings are placed in context and the report is balanced;
- iv. audit findings and conclusions can be supported by the evidence and analysis;
- v. report is logically structured and the final report can be understood by a reader who may not have a detailed understanding of the topic or area subject to review; and
- vi. proposed recommendations are action-orientated, practical and cost-effective to implement and address the underlying issue identified by the audit.

3.4.3 Characteristics of a Good Audit Report

- i. Indicates Objectivity
- ii. Complies with IIA Standards
- iii. Relevance
- iv. Clarity and Conciseness

v. Disclosure

vi. Recommendations

3.4.4 Content and format of audit reports

Audit report should at least contain the **purpose, scope, and results** of the audit.

- (a) Purpose statements should describe the audit objectives and may, where necessary, inform the reader why the audit was conducted and what it was expected to achieve.
- (b) Scope statements should identify the audit activities and include, where appropriate, supportive information such as time – period audited. Related activities not audited should be identified, if necessary, to delineate the boundaries of the audit. The nature and extent of auditing performed should also be described.
- (c) Results may include findings, conclusions and recommendations.
- (d) Findings are pertinent statements of fact. Those findings which are necessary to support or prevent misunderstanding of the internal auditor's conclusions and recommendations should be included in the final audit report. Less significant information or findings may be communicated orally or through informal correspondence. Findings should be based on the following attributes:-
 - (i) **Criteria** - The policies, procedures, directives, regulations, laws, standards, measures, or expectations used in making an evaluation and/or verification (i.e. what should exist).
 - (ii) **Condition** - The factual evidence which the internal auditor found in the course of the examination (i.e. what does exist). If there is a difference between the expected and actual conditions.

- (iii) **Cause** - The reason for the difference between the expected and actual conditions (i.e. why the difference exists).
 - (iv) **Effect** - The risk or exposure the auditee organization and/or others encounter because the condition is not the same as the criteria (i.e. the impact of the difference).
- (e) Conclusions (opinions) are the internal auditor's evaluations of the effects of the findings on the activities reviewed. They usually put the findings in perspective based upon their overall implications. Audit conclusions, if included in the audit report, should be clearly identified as such. Conclusions may encompass the entire scope of an audit or specific aspects. They may cover but are not limited to whether operating or program objectives and goals conform with those of the public body, whether the public body's objectives and goals are being met, and whether the activity under review is functioning as intended.
- (f) Recommendations are based on the internal auditor's findings and conclusions.
- i. They call for action to correct existing conditions or improve operations.
 - ii. Recommendations may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired result.
 - iii. Recommendations may be general or specific. For example, under some circumstances, it may be desirable to recommend a general course of action and specific suggestions for implementation. In other circumstances, it may be appropriate only to suggest further investigation or study

(g) An Executive Summary shall be included at the beginning of the audit report highlighting the important findings and conclusion of the report. The report shall also include comments by the Auditee on the reported findings.

(h) Satisfactory performance and improvements by auditees shall also be mentioned in the report

3.4.5 Disseminating Results

The Chief Internal Auditor must communicate results to the appropriate parties who can ensure that the results are given due consideration.

The purpose of communication is:

- a. To inform potential readers of the conditions found during the audit and the criteria against which the conditions were evaluated
- b. To persuade Management of the validity of the conditions and their actual or potential effect; and
- c. To provide constructive and practical means to Management to take adequate corrective action to address issues that need improvement.

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the Chief Internal Auditor must:

- i. Assess the potential risk to the Ministry.
- ii. Consult with senior management and/or legal counsel as appropriate; and
- iii. Control dissemination by restricting the use of the results.

The contents of the major reports issued by Internal Audit can be summarised as follows;

Reports	To	When	Content
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Audit Reports	<ul style="list-style-type: none"> • Responsible management • Permanent Secretary and Executive Management - • Audit Committee CC. • External Auditor • Treasury 	The end of each audit	<ul style="list-style-type: none"> • Audit objective • Scope • Executive summary of major findings and recommendations • Detailed Observations/Findings • Detailed recommendations • Management responses • Agreed actions
Interim Status Reports	<ul style="list-style-type: none"> • Executive Committee • Audit Committee CC • External auditor • Treasury 	Quarterly	<ul style="list-style-type: none"> • Progress against, and significant amendments to, current annual audit plan • Summary of major recommendations
Annual Report	<ul style="list-style-type: none"> • Executive Committee • Audit Committee CC. • External Auditor • Treasury 	Annually	<ul style="list-style-type: none"> • Achievement of annual audit plans, staffing plans, and budgets • Summary of major Findings and recommendations • offers a holistic opinion on controls, governance and risk management • Amendments to strategic plan

3.4.6 Errors in Reports

If a final communication contains a significant error or omission, the Chief Internal Auditor must communicate corrected information to all parties who received the original communication.

3.4.7 Response to Audits

Every auditee shall provide substantive responses to any internal or external audit report within 30 working days of submission of such report. Failure to comply with the above requirement without justifiable cause shall constitute an act of financial misconduct as defined in the Principal Act.

3.5 AUDIT FOLLOW UP

3.5.1 Monitoring Implementation of Audit Results

- (a) The Chief Internal Auditor must establish and maintain a system to monitor the disposition of results communicated to management.
- (b) The Chief Internal Auditor must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
- (c) The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the auditee.

3.5.2 Resolution of Senior Management's Acceptance of Risks

When the Chief Internal Auditor believes that senior management has accepted a level of residual risk that may be unacceptable to the Ministry or department, the Chief Internal Auditor must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the Chief Internal Auditor must report the matter to the Audit Committee.

CHAPTER 4

PROCEDURAL GUIDANCE ON FINANCIAL AUDITS

4.1 INTRODUCTION

This part of the Manual includes procedural guidance for financial and compliance audits. Internal auditors should carry out these activities by taking into account the basic concepts and principles explained in the first three chapters. The audit procedures provided in this part should only be used as guidance for the internal auditor to design an audit program, which specifically meets the requirements of the public body under audit. The internal auditor should select audit procedures, which are materially related to risk, feasible to the audit and likely to generate useful findings.

Not all auditable areas are covered as government operations are many and diverse to be covered in this Manual. Only critical areas of operation that apply to all Ministries and their departments are covered.

4.2 AUDITING OF REVENUE

Revenue generated by Government is the means to the achievement of projects approved in the annual budgets and development plans. Adequate controls are required to secure revenues generated by Government.

4.2.1 Some of the sources of revenue to the State include the following:

- a) Statutory Funding from Government, which includes: Statutory Allocation, Share of VAT Account, Special Grants, Reimbursements, etc.
- b) Internally Generated Revenue (IGR) which includes: Taxes, Fines, Fees, Licenses, Earnings, Sales, Rent of Government Properties, Interests, Dividends, Reimbursements, Hospital Licenses Renewal, Tuition Fees from Schools of Health Technologies, External Auditors' Registration Fees, Audit

Fees, Registration of Company Premises, Registration of Contractors, Income and Road Taxes, Tender Fees, Power of Attorney Fees, Stamp Duty, Sale of Assets, Registration of Private Schools and Miscellaneous Classification.

- c) Other Sources includes: Internal Loans, External Loans, Grants from Local and Foreign Agencies, Donations, etc.

4.2.2 Role of Internal Audit

- a) Ensure that there are procedures and practices in place, consistent with guidelines provided by the Ministry of Finance and adapted for the entity to collect, receive, hold, issue, control, bank and account for public money and
- b) Ensure that there are appropriate independent systems of internal check and control in respect of all public moneys for which they are responsible.
- c) Ensure that full and proper accounts are kept of all transactions related to public money

4.2.3 Audit Objectives

- a) To ensure that all collections are in compliance with the law.
- b) To ensure that all revenue is recorded on official government receipts and date stamped.
- c) To ascertain that all receipts to Ministerial Exchequer Account or other fund account are deposited within twenty four (24) hours.
- d) To ensure that all receipts are properly recorded in the books of accounts.
- e) Ascertaining that all SSB deductions are properly recorded and accounted.
- f) Ensure that financial reports are in accordance with the books of accounts.

4.2.4 Audit Procedures

- a) Check that the receipts books in use are recorded in the security items register.

- b) Check whether receipts books are being issued sequentially and signed.
- c) Establish spaceman signature for receipting offices and see whether the center maintains a register for the same.
- d) Check whether amount received is entered in both words and figures.
- e) Check that revenue received through SSB is recorded.
- f) Check whether revenue is classified correctly.
- g) Establish whether there is segregation of duties i.e. the receipting officer is not the banking officer and that there is proper handover – takeover of cash.
- h) Check whether cash is being deposited in the proper account within 24hours as required by the Treasury Instruction and check if the accountant is posting receipts to the cash book timeously.
- i) Check whether reconciliations are being done monthly.
- j) Check if the head of center or department or delegated officer is checking and signing in the various books accounts.

4.3 AUDITING GRANTS AND CONTRACTS

4.3.1 Definition

- Grants are non – repayable funds given for a specific purpose.
- Contracts are legally – binding agreements, between two or more parties, to deliver a goods or services. The contract states the obligations for each party.

4.3.2 Audit Objectives

To verify whether funds are used for intended purposes

4.3.3 Audit Procedures

There should be an approved budget by the authorising entity, which is usually Ministry of Finance. Internal Audit should verify whether:

- i. there was authority for the beneficiary to get the grant;
- ii. the correct amount was released to the beneficiary;
- iii. the amount was receipted;
- iv. separate set of records are kept, that is Receipts, cashbook, payment vouchers;
- v. all payments were authorised, that is, do they have the receipts and invoices;
- vi. tender procedures were followed according to SSB;
- vii. funds were used during the year as per budget, otherwise the organization should reimburse;
- viii. period of contract and delivery time was adhered to;
- ix. the amount was paid according to contract;
- x. stage forms and certificate were issued on building contracts;
- xi. procedures were followed when entering the contract e.g. right person to sign the contract, organization or department, amounts;
- xii. site verification versus stage forms and certificates was done;
- xiii. with regards to residual disposal e.g. vehicles and other material, whether it was given to the right organization; and
- xiv. if there is a breach of contract, the contract is cancelled or actioned in accordance with contract i.e. terms and conditions.

4.4 AUDITING OF RECEIVABLES

4.4.1 Audit Procedures

The audit of receivables includes but is not limited to:

1. Checking that a schedule of receivables is regularly and accurately prepared. Schedule must incorporate an age analysis and must be reported to management.

2. Examining the nature, age and amount of receivables.
3. Ascertaining that proper and updated general (control) and subsidiary ledgers are maintained. Also ensure that the total subsidiary ledger balances agree with that of the control ledger balance.
4. Check schedule balances against ledgers.
5. Ascertaining that there is a proper register of sums charged, money received in settlement and amounts outstanding.
6. Ensuring that all necessary measures are taken to collect debts.
7. Seeing that there is a strong follow up mechanism for collecting from overdue debtors in particular regarding delinquent cases already reported to court
8. Ensuring that debts which cannot be collected after repeated attempts, are written off in accordance with official procedures and that the write-off of debts is properly controlled and authorized.
9. Ascertaining that the cash collected from debtors is properly accounted for and recorded in individual ledger corresponding to each debtor.
10. Ascertaining whether statement of accounts of receivable balances are exchanged with major debtors.
11. Sending request of confirmation for major receivable balances, depending on materiality and risk involved. Review responses received.
12. Ascertaining compliance with directives in respect to both short and long term loans to staff.

4.5 AUDITING CASH AND BANK

4.5.1 Introduction

Of all assets, cash is the most susceptible to misappropriation, theft and loss. The implementation and follow-up of control procedures is the responsibility of all

eligible staff of the public body. The internal auditor should frequently check the extent of compliance with established policies and procedures for proper use of cash and bank accounts. The audit of cash and bank balances is commenced by a surprise cash count. The accuracy of the cash balance is determined by examining records and supporting documents kept by the public body for the collection of receipts, effecting of payments and banking of money. The audit of cash and bank balances verifies cash and bank balances at a specific date.

4.5.2 Audit Procedure

- i. Cash should be counted to agree with receipts.
- ii. There is need to check the security items register to check that all receipt books at the station are recorded.
- iii. Verify that the subsidiary receipt books at the station are recorded.
- iv. Check the subsidiary receipt books and the master receipt books.
- v. Check if all receipt have been recorded.
- vi. Check that all cash receipts are banked intact the same day.
- vii. Check that cash handling is done according to Treasury Instructions.
- viii. Check that all cash is kept in a lockable safe.
- ix. All receipts not yet in use should be locked somewhere by another person who is not the cashier.
- x. The one who receipts should not be the one who does the banking.
- xi. Petty cash balance should be ascertained.
- xii. Also ascertain cash on hand vis-a-vis imprest balance.
- xiii. Documents such as invoices should be attached to the vouchers.
- xiv. Periodic supervisory checks should be done according to the Treasury Instructions.

- xv. When there is cash deficiency the cashier should acknowledge the deficiency or the cash count form and the cashier should make good the deficiency.
- xvi. If fraud is suspected a report should be made to senior management for them to take action.
- xvii. No personal cash should be kept in the safe by the cashier. Extra cash found in the safe should be receipted and be banked to revenue according to Treasury Instruction.
- xviii. Signatories to the bank account should be ascertained and verify that these are the ones giving authority to the bank.
- xix. Ensure that collection and payment of cash are made on legal receipt and payment vouchers, respectively.
- xx. Ascertain that cash collected by the public body is deposited intact into bank in a timely manner as directed by the Ministry of Finance (within 24 hours) using the electronic clearing facilities of the banking system and when electronic clearing facilities are not available, remittances shall be made at least once a week.
- xxi. Ascertain that every cash and bank transaction is properly registered in the books of account.
- xxii. Verify that bank accounts opened for particular purposes are used for those purposes and that no unauthorised bank accounts exist.
- xxiii. No bank accounts shall be opened without the written approval of the Ministry of Finance or other competent authority.
- xxiv. Ensure that proper actions are taken with regard to safeguarding of cash.

4.5.3 Procedure to be taken when there is a cash deficiency

- i. Cashier shall acknowledge the deficiency.
- ii. Cashier shall sign cash count form.

4.5.4 Bank Balance

- i. Identify all bank accounts held in the name of the public body.
- ii. Check bank balances with the bank by obtaining a current statement from the bank.
- iii. Check whether all deposits are recorded in the cashbook.
- iv. Check whether all payment are recorded in the cashbook.
- v. Ascertain the accuracy of the bank reconciliation statement prepared by the accounts section of the public body.
- vi. Check that outstanding cheques shown in the bank reconciliation statement for the current month are included in the bank statements of the public body for the following month(s).
- vii. Ascertain whether there are no cheques outstanding for more than six months.
- viii. If there are long outstanding cheques, ask accounting staff to make the necessary adjustments in respect of them (for instance make write-back entries in cash book to cancel the overdue cheques).
- ix. Ascertain that the cashier does not present dishonoured cheques during the cash count in order to prevent means of covering defalcation.
- x. Ascertain the inclusion in the following month's bank statement of deposits in transit shown in the cash book in the previous month (by checking their accuracy against bank deposit slips) to prevent their use for covering misappropriation.

- xi. Make further investigation when uncommon and high value adjustments appear in the bank reconciliation. Check also unusual high value withdrawals appearing in the bank statement.
 - xii. Ensure that bank reconciliation statements are prepared monthly.
 - xiii. Ensure that errors made by bank are notified to the bank as soon as possible.
- Check that all banks account shall be opened with the approval of the treasury.

4.6 AUDITING PROCUREMENT.

4.6.1 Audit Objectives

- i. Ensure there is maximum economy and efficiency in the procurement of goods and services ;
- ii. Encourage as wide as possible a solicitation of proposals to promote competition, and to secure the best least price;
- iii. Encourage local producers and tax payers to bid for tenders;
- iv. Promote integrity, fairness and transparency of the procurement process; and
- v. Ensuring that all procurements have complied strictly with existing Government's laws and regulations.

4.6.2 Audit Procedures

The internal Auditor should undertake the following procedures:

- i. Identify the officer responsible for procurement to determine the system in place.
- ii. Verify the composition of the Procurement Tender Committee (PTC).
- iii. Request for all procurement documents i.e. Purchase Plan, Initial Request forms, and invitations to treaty, quotations, and comparative schedules

- register for bidders, receipt books, PTC adjudication minutes and Tradesman requisitions.
- iv. Check existence of tender box, its location and custody of the keys.
 - v. Check whether:
 - a) Purchases are as per plan.
 - b) Request forms are being authorised at the right level.
 - c) Invitations to treat have detailed information pertaining to specification.
 - d) Tender adverts are being flighted in specified media.
 - e) Register for bidders are being maintained. Verify receipts.
 - f) Quotations are being signed by the Procurement Committee members on receipt.
 - g) Comparative schedules are being compiled and forwarded to the Procurement Committee for adjudication and signing.
 - h) Adjudication minutes are being written for Tender Adjudication proceedings.
 - i) Check Management of price variations for soundness.
 - j) Invoiced prices, quantity and specifications are as per quotation.
 - vi. Verify receipts of goods or items (or service provided) by ministry and user department together through Goods Received Registers and Stock Control Cards.
 - vii. Evaluate the system of internal check and control in the procurement process.
 - viii. Confirm the physical existence of the items.

4.7 AUDITING OF PAYMENTS

Government expenditure represents payments made from the revenue generated to settle bills for goods and services benefitted. Some of the expenditure already identified in State Government includes:

Payment to Contractors for executed Projects, payment to suppliers, payment of expenses claims, remittances of proceeds to third parties, donations, payment to parastatals, repayment of loans to banks, etc.

4.7.1 Audit objectives

To check whether the payment

- i. is a proper charge to the vote, i.e. legitimate charge;
- ii. is adequately supported by appropriate documents such as internal requisition, purchase order invoices, goods received voucher, comparative schedules, delivery notes and authorities of the payment voucher; and
- iii. is according to tariffs, regulations.

4.7.2 Audit Procedures

The Internal Auditor shall check for the following –

That the payment:

- i. is a proper charge against public funds;
- ii. is according to regulations, tariff or agreement, or alternatively is fair and reasonable;
- iii. is covered by competent authority;
- iv. is correct in regard to date and period of service;
- v. is correct in regard to computations;
- vi. is supported by the relative requisitions or an explanation for their absence given;
- vii. is properly certified;

- viii. is made at the correct rate;
- ix. is not made before the due date, or duly delayed-especially at the end of the financial year;
- x. has not been previously paid;
- xi. is made against invoices and not statements;
- xii. is allocated to the correct vote –sub-head item; and
- xiii. is not made by one person.

The internal auditor should also check that:

- a) requisition was issued prior to receipt of goods;
- b) a certificate required have been included on the voucher;
- c) a duplicate requisition has not been issued;
- d) the name on the invoices agrees with the name on the voucher;
- e) what is paid for is actually received;
- f) any discount allowed has been claimed;
- g) the payment has been noted for department assets where necessary;
- h) the payment is supported by relevant documents;
- i) supporting documents are stamped '**supporting voucher**' only;
- j) where necessary, that payments are noted for income tax purposes;
- k) that accounts rendered are not paid;
- l) where grants are being paid, that the payments are supported by evidence that any conditions attached to the grants have been fulfilled;
- m) in the case of stores purchases, that the stores have been received in order and brought on charge;
- n) goods are (wherever possible), purchased from state service departments;
- o) all claims against the state are paid promptly;
- p) the face of the voucher reflects the full history of the payment;
- q) a commitment register is maintained;

- r) a system of internal checks and control has been instituted;
- s) vouchers have relevant authorisation field in department and reference not entered on voucher face;
- t) payments apply to statutory funds unless specific authority to exempt the fund has been given; and
- u) vouchers are in sequence.

4.8 AUDITING STORES

4.8.1 Audit objectives

The Internal Auditor should ensure proper accountability of Stock received into stores.

4.8.2 Audit Procedures

- i. Ensure that store items are properly classified for easy identification and grouping.
- ii. Check that all stock received is accurately recorded in the Store Register.
- iii. Carry out inspection to ensure that Stock supplied are the type, quantity and quality ordered.
- iv. Check whether stock issued to users are accurately recorded and acknowledged by the receiving officer or department.
- v. Check to ensure that Stock Account Balances agree with the physical counts.
- vi. Participate in Stocktaking to ensure that actual counts are correctly recorded and carried in the books.
- vii. Check to ensure that stock items recorded in the Bin Cards/system are correct.

- viii. Check the Stores Received Voucher to ensure that information contained is accurate.
- ix. Confirm that the Storekeeper adheres to the Stock Management Policy of the Ministry. He or she should review observance of the Policy to ensure that Minimum Stock Level, Maximum Stock Level, Reorder Level, Reorder Quantity, etc. are maintained by the Storekeeper.

The following additional steps are also important

- a) Examine all security measures against burglary, fire etc. Are these adequate? Also check when fire extinguishers were last serviced this should be done annually.
- b) Are there written job descriptions for all officers responsible for stock control?
- c) Is staff aware of these descriptions and are they able to understand them?
- d) Are any officers handling a transaction from beginning to end?
- e) Are items received into stock checked against delivery notes before acknowledging receipt?
- f) Quantity, correctness and damage must be assessed before signing.
- g) Segregation of duties between receiving and issuing.
- h) Are frequent stock checks carried out?
- i) Is there excess wastage, spoilage etc.?
- j) Is the register of losses and damages kept showing the following:
 - date of loss/damage
 - nature of loss/damage
 - value of loss/damage
 - value of any recoveries and

- resultant loss to government funds
- k) Is a return of losses and damages submitted to Head Office annually?
- l) Is storage space and accommodation adequate?
- m) Are precaution against fire, burglary and pilferage adequate?

4.9 AUDITING HUMAN RESOURCES AND SALARIES

4.9.1 Audit Procedures

The Internal Auditor shall:

- a) check that no public officer was paid from budget allocations until the public officer's appointment and scale of pay have been authorized;
- b) check that no public officer received an increment, allowance or increase in salary until such increment, allowance or increase in salary has been authorized according to Regulations issued by the Civil Service Commission or other relevant authority;
- c) Check for existence of records for each employee for proof of engagement, dismissal, changes in rates of pay. Any changes in these details should be evidenced in writing by a responsible official;
- d) Check or reconcile the payroll records on months by month basis so that an unexplained deviations are identified;
- e) Check all time – records and overtime for approval by responsible officials;
- f) Check that wages and salaries are compared for the clients employees only in accordance with authorized rates of pay and conditions;

- g) Check whether wages and salaries computed is in agreement with recorded of work performed i.e. overtime claims, bonus calculations, e.t.c.;
- h) Check that payroll is correctly computed and paid appropriate employees;
and
- i) Verify establishment per cost centre. Check whether Head count is done
and make comparisons with organogram and pay sheet

Verification of vacant returns

Verify:

- i. appointments versus changes in payroll (pay sheet)
- ii. output from line ministries by responsible offices before submission to Salary Services Bureau (SSB)
- iii. check that all records of transactions are accurately maintained within the accounting system
- iv. Check that there are controls to ensure that all payroll deductions (income tax, pension e.t.c.) are computed and paid over on due dates.
- v. Verification of invoices from SSB and comparisons with pay sheet and current establishment before requests for actual payments from Treasury to SSB.
- vi. Check gross pay, deductions and net pay calculated on pay sheets from SSB before actual payment
- vii. Check amendments to pay sheets, payments versus circulars approving(eg compliance)

- viii. Check gross pay, deductions outside Treasury approval (surcharge, disallowances)
- ix. Check pay sheets from SSB before the actual payment
- x. Check whether no deductions from the gross salaries, wages and allowances was made except for such purposes and under such conditions as approved by the Ministry of Finance and Economic Development; and
- xi. invoices for payment of salaries and allowances was processed through the Ministry of Finance and payments made electronically to the designated bank accounts of Ministries or other entities.
- xii. that the deductions made from the salaries are paid over to the recipients expeditiously.
- xiii. Check whether instructions from the Ministry of Finance and Economic Development regarding the calculation, payment dates, recording of and accounting for salaries, wages and allowances are being adhered to.

4.10 AUDITING SUSPENCE ACCOUNTS – ADVANCES

Examples

- i. Travelling and Subsistence
- ii. Surcharges
- iii. Disallowances
- iv. Salary advances
- v. Miscellaneous
- vi. Temporary deposits

4.10.1 Audit objectives

- a) To ensure that advances are properly recorded.

- b) To ascertain/verify whether the advance was properly authorised.
- c) To verify whether the advances was acquitted within 30 days from return to home station.
- d) To establish whether advances are cleared before another is cleared.
- e) To verify whether pay sheets were fully acquitted.
- f) To verify whether the block grant was not exceeded.
- g) To establish whether advance registers are in existence and properly maintained.
- h) To verify whether requisite returns statutory are transmitted to treasury and Auditor General within stipulated time frames.

4.10.2 Audit procedures

- a) Verify the existence of advances register.
- b) Check whether the budget is available.
- c) Check existence of ledger cards.
- d) Check T&S application forms were properly authorized and completed.
- e) Verify whether members are acquitting their advances within the stipulated time.
- f) Check the reasonableness of the amounts advanced in relation to the requirements.
- g) Carry out recalculations.
- h) Post a sample of advanced amounts to the ledgers.
- i) Verify if statutory returns are being compiled.
- j) Request alpha deduction sheets and post figures to relevant ledger accounts.
- k) Verify supporting documents.
- l) On foreign trips verify:
 - i. invitation letters;
 - ii. authorisation by way of cabinet authority; and

iii. per- dium rates.

Temporary deposits

- a) Verify that all receipts have been allocated to their appropriate revenue codes and that any unallocated receipts are credited to the temporary deposit accounts.
- b) Check that all amounts in the temporary deposit accounts are cleared within 6 months.
- c) Verify that all un-cleared amounts are receipted to the exchequer account after 6 months.
- d) Report on what was done during the trip.
- e) Check whether the passport is stamped on entry and departure.

4.11 INFORMATION TECHNOLOGY (IT) AUDITING

This involves examining the internal control environment of automated information possessing systems and how people use those systems.

IT audits typically evaluate system input, output and processing controls: backup and recovery plan; system security and computer facility reviews. IT auditing projects can focus on existing systems as well as systems in the development stage.

4.11.1 General controls

These comprise the Electronic Data Processing (EDP) environment and all EDP activities, thus these controls are pervasive in their effect and are generally viewed as administrative controls over the EDP department. Although they are administrative in nature they bear directly on the effectiveness of the entire system

weaknesses if these controls are serious because they affect all phases of the process, these controls include:

1. Organisational controls within the department – segregation of duties.
2. Designated procedures for testing and approving systems or programmes, these procedures should be in a written manual of systems documentation.
3. Controls built into the equipment by the manufacturer called hardware controls.
4. Controls over access to the equipment and data.
5. Backup and recovery plans.

4.11.2 Application controls

Application controls related to specific tasks performed by EDP. Their function is to provide reasonable assurance that the recording, processing and reporting of data are properly performed. There is considerable choice in the particular procedures and records used to effect application controls.

They include:

1. Preventing errors from happening.
2. Detecting errors should they happen.
3. Correcting errors when they happen.

4.11.3 Testing the system

The system must go through major testing to determine if it is working as designed and controls functioning as intended. Types of tests are:

1. **Test data approach** – this is where dummy data is inputted into the system to determine if the controls to keep bad things from happening are functioning.

2. **Integrated test facility** – dummy data is integrated with real data and processed to determine if the system processes good information properly.
3. **Parallel simulation** – a programme is prepared to run besides the existing programme and compares the results to determine if they are exactly the same.

4.12 ASSET MANAGEMENT AUDIT PROCEDURES

4.12.1 Audit objectives

The objective of the audit is to ensure that proper internal controls exist for the custody and use of assets and that:

- (a) assets are acquired in accordance with provisions of the Procurement Act, Procurement Regulations and Ministry of Finance instructions or other applicable framework;
- (b) preventive mechanisms are in place to minimise theft, losses, wastage and misuse; and assets bought during the period were recorded in the assets register, exist and are in good working order.

4.12.2 Audit Procedures

i. Examine a sample of invoices and contracts to ensure that:-

- a) Purchases of fixed assets are supported by budget;
- b) Relevant supporting documents such as purchase requisitions, purchase orders, goods receiving reports, etc. are in order;
- c) Acquisition is authorized;

ii. Check the existence of the assets register.

Such asset registers shall record the following information-

- a) physical features of the assets including asset class, location, quantity, size, useful life, and value;
- b) legal features including the identification of asset owners, managers, and users; and economic features such as economic features, that is, whether the assets are tradable or non-tradable and cost benefit estimations.

iii. Carry out physical inspection of fixed assets periodically and/or annually and compare this against fixed assets register.

iv. Compare inventory list to the assets.

v. Take note of any discrepancies.

vi. Check whether the discrepancies are noted in assets register.

vii. To confirm Existence and Maintenance:

- a) Ascertain that all registered assets are given identification numbers (fixed with tag number);
- b) Where there are various agents and/or projects which are located far from the Head Office, inspection visits should be made on a sample basis in such a way that the sampling would enable you to visit all numbers of the group at least within five year plan of government; and
- c) Verify any discrepancies.

viii. Ask for donations register and confirm its existence.

ix. Confirm the existence of the donated assets.

x. Where donations exist confirm the existence of treasury authority to accept the same.

xi. Ask for a losses and damages of assets register and confirm its existence

xii. Check whether the losses and damages were recorded in the register

xiii. Verify unrecorded losses and damages.

- xiv. Ask for a board of inquiry register and confirm its existence
- xv. Verify the status of the board of inquiry matters
- xvi. Take note of delays between the constituting of the boards and their sitting
- xvii. To establish the functionality of property, plant and equipment
 - a) Check with users
 - b) Physically inspect to confirm
 - c) Inspect maintenance of Property Plant and Equipment and assess sustainability
- xviii. To Confirm disposals and write-offs; Obtain schedule for fixed assets disposed of and written off during the year and ensure that:
 - a) Senior management has approved the disposal and the writing off;
 - b) Assets have been disposed of in a manner that maximize public benefit and best serve the public interest.
 - c) Disposal of a movable asset has been made at a market-related value or by way of price quotations, competitive bids or auction, whichever is most advantageous to the State.
 - d) Whether management has properly evaluated other factors including alternative uses of the fixed assets prior to disposal;
 - e) The procedure applied in disposing of and writing off fixed assets is consistent with the directives and regulations of the government.

The Protection and Handling of Government Vehicles

- a) Ensure that the public body acquires and disposes vehicles on the basis of relevant directives of the Government;
- b) Check whether all vehicles are recorded in the asset register and trace back the details from vehicle registration books and individual vehicle files;

- c) Check that all private plated vehicles are not registered under individuals' names.
- d) Inspect all the vehicles at the station for existence and assess the condition. Record a report on the condition of the vehicle. For non- running and unserviceable vehicles, check if board of surveys and auctions are carried out on time.
- e) Examine the accessories register to see whether all items bought are recorded and signed for issues. Check on the frequency of issuing parts/accessories to the same vehicle.
- f) Check whether parts are being moved from one vehicle to another and for any such movements' authority has been sought from the Accounting Officer, to deter cannibalization.
- g) Ascertain that there is a senior manager who controls all aspects of vehicle management;
- h) Ascertain the existence of control mechanisms (driver's log books; checks on mileage readings etc.) to ensure that the vehicles of the public body are only used for government duties;
- i) Ascertain that the vehicles of the public body are only driven by authorized persons;
- j) Make sure that all eligible officials and drivers are using government vehicles with due care as per relevant guidelines;
- k) Ascertain the accident reporting procedures in principle and compare to see if in practice when drivers and eligible officials are involved in accidents causing damage to government vehicles follow them;
- l) Make sure that drivers and eligible officials who damage government vehicles as a result of their own carelessness or negligence, are held responsible for

the cost of repairs by checking on the board of investigation report and the treasury decision;

m) Request for all payments for repairs and maintenance to check whether:

I. Payments tally with actual service carried out

For accident related repairs a board of investigation was done and the action taken is in sync with decisions passed.

II. Ensure that vehicles of the public body are serviced at regular intervals. Check to see if this information is maintained and updated in a file or service register with reconciliations being made before payment.

III. Ensure that those who receive transport allowances are not at the same time utilizing a vehicle of the public body as required by PSC Circular No.3 of 2011.

5.1 PROCEDURAL GUIDANCE ON SPECIAL AUDITS

5.1.1 FRAUD INVESTIGATION PROCEDURES

5.1.1.1 Introduction

These are designed to verify the existence and magnitude of suspected fraud and financial irregularities. Fraud and financial irregularities audit may be conducted at the request of management as a result of a tip off from a whistle blower or at the

discretion of an internal auditor. The internal auditor shall utilise the highest level of discretion when undertaking a final irregularity or fraud audit. The internal auditor shall promptly notify management of any significant findings, which result from a fraud and financial irregularity audit.

An Auditor may be required to carry out investigation due to his professional training and experience. He could be commissioned to carry out this assignment alone or work as a member of a group appointed to do the investigation. He may as well be required to provide information to the Investigators. Depending on the situation, the Auditor is expected to co-operate as long as he is directed by Management or his boss. Such directive should be preferably in writing as Investigators may require the provision of sensitive documents or information.

5.1.1.2 Terms of Reference

Investigators must be given terms of reference by those who appointed them. The terms of reference should be clear and specific to enable the investigators to focus on important issues. Terms of reference carefully determined should contain the following information:

- a. Type of irregularity.
- b. The type of irregularity to be investigated. For instance, is it Cash, Bank, Convertible Assets, Reporting, e.t.c.
- c. Who are the likely participants? Those mentioned along the line, in the process of carrying out the suspected action should be investigated to determine their roles.

- d. What method is applied in carrying out the irregularity? Is it manual or IT assisted? Internal or external parties? Documented or undocumented?
- e. Recommendation of measures to forestall future occurrence: This is based on the findings and facts gathered during the investigation.

5.1.1.3 Investigation Procedure

It is not practical to devise a set of rules that can be applied in every circumstance, but a framework for carrying out investigations could be provided. Therefore, the recommended procedure that should be considered during investigation would include the following steps:

- i. **Plan the Investigation Assignment:** The Internal Auditor should draw up a plan of action on the investigation assignment. He should obtain the resources required and open a Case File for information and documents to be generated during the exercise.
- ii. **Identify the Departments Involved:** The department where the incident being investigated is traced to have originated should be identified and noted as the commencement point of the investigation.
- iii. **Identify the Officers or Staff Involved:** The key staff mentioned in the process chain and their roles should be identified and noted.
- iv. **Identify the Officers' Schedules:** The job functions of the staff mentioned in the process chain should be identified. Their job description should be obtained and analysed to understand their roles in the organisation and specifically relating to the incident being investigated.

- v. **Identify Relevant Records and Documents:** The Investigator should identify and request for relevant records and documents used in the transactions for reviews during the assignment. The records may include computer tapes, personal files and documents in the archives. He should also make a list of information required but beyond his reach, such as bank statement, paid cheques, etc. Make photocopies of documents obtained and keep safely in the Case File.
- vi. **Draw a flow chart of the internal control system and document trail** relating to the area being investigated. He should establish the normal procedure and identify the point where the incident occurred.
- vii. **Ask Officers to make Statements:** Staff identified to have participated in the process should be requested to make voluntary statements in writing. The Auditor may prescribe a particular format to guide the staff in supplying only relevant information.
- viii. **Conduct Interviews:** The staff should be relaxed to remove fears so that vital information would not be withheld. Clear and clever questions that would extract relevant information should be asked. Micro Recorders or Videos should be used to record proceedings where available. Notes should also be taken.
- ix. **Verification of Facts Obtained.** This is done through review of:
 - a) Information extracted from Statements made by staff
 - b) Information generated from outside the organisation: Banks, Treasury Office, Individuals, etc.
 - c) Information generated from evidences gathered during the exercise. The Auditor should exercise some care and carry out some tests to determine the extent of reliance to place on them

- d) Information from previous reports may also provide a lead on current incident
- e) General observations made by the Auditor based on experience

5.1.1.4 Investigation Findings-Reporting the results of a fraud investigating

- a) The objective of internal auditor during fraud investigation is to obtain sufficient evidence which enables him to draw reasonable conclusions and recommendations and to report to the Head of public body whether fraud has occurred or not. The internal auditor should use the guidance for writing a report in in this manual.
- b) It is important that reports on fraud investigation are clearly written, have conclusions and recommendations that are justified by the evidence used. The structure that should be used is similar to that for normal audit report, except the following points.

The investigation report should disclose:-

- (i) The reasons for investigation:- The investigation will either be the result of other routine work of the internal auditor or due to an allegation made by an individual inside or outside of the public body.
- (ii) The objectives of investigation:- The objective of investigation is to establish whether there is sufficient evidence for the suspected fraud occurrences to substantiate legal action and to report findings to the public body.
- (iii) The work carried out:- Documents scrutinized, locations visited, timing and staffing, interviews held and other relevant documents which were inspected.
- (iv) Conclusions and recommendations:- The report should include all findings, conclusions, recommendations and corrective actions to be taken.

(v) Finally, a draft of a proposed report on fraud should be submitted to legal departments for review in order to obtain opinion in respect of legal matters and to take further necessary action.

Moreover, the auditor should follow whether appropriate action has been taken on findings she/he reported on the perpetrator of fraud. If such action has not been taken it should be reported to the next higher public body till it reaches the Ministry of Finance and Economic Development. In addition, the internal auditor shall pass the report to the Auditor General.

5.2 VALUE FOR MONEY AUDITS

Value for money auditing describes reviews of economy, efficiency and effectiveness with which the Ministry has used its resources in discharging its functions.

Economy is concerned with spending less by minimising the cost of resources of a given quality.

Efficiency is concerned with spending well by minimising resources used for a given output.

Effectiveness is concerned with spending wisely by ensuring that the outputs achieved match the policy or operational objective.

5.2.1 Audit objectives

- a) To consider controls as well as results.
- b) To judge whether good value for money has been achieved.
- c) To identify instances of waste.
- d) To identify ways of improving value for money.

Value for money (performance) audit undertaken by the internal auditor involves three basic phases:

- a) Planning
- b) Examination
- c) Reporting

The precise timing and depth of procedures may vary from one audit to the next, but all VFM audits have the three basic phases.

5.2.2 Planning

The purpose of this phase is to provide focus and direction for the detailed examination phase by identifying what the audit objectives will be and the procedures required to be performed to achieve the stated objectives. This focus is based on having an appropriate understanding of the areas in which VFM is to be conducted

5.2.3 The examination phase

This consists of conducting tests, evaluating controls and collecting sufficient and appropriate evidence to conclude whether or not the matters originally identified during the planning phase are potentially significant for reporting purposes.

The examination phase includes the following major activities:

- a) Selecting or preparing detailed audit programme.
- b) Conducting tests and documenting audit findings.
- c) Analysing the associated causes(s) and effect(s).
- d) Preparing project report/fact sheets.
- e) Developing conclusions and recommendations.
- f) Completing and reviewing audit files.

5.2.3 Reporting the Results of Value for Money Audit

The objective of internal auditors during value for money audit is to obtain sufficient audit evidence to evaluate the accomplishment of established objectives and goals and to report any findings and recommendations.

The audit report should be well structured and well written. The report should be reader – based and the language should not be suggestive and ambiguous. Performance audit reports should be objective and fair in their presentations. This might for instance require that:

- a) There are separate presentations of findings and conclusions;
- b) Facts are presented and interpreted in neutral terms;
- c) Different perspectives and view-points are represented;
- d) All relevant findings, arguments and evidences are included;
- e) Reports are constructive and positive conclusions are also presented.

5.2.3.1 Reports arising from Value for Money audits often include the following elements:

- a) A summary of context in which the activities under scrutiny took place including the historical context;
- b) The objectives for those activities, a description of the activities and analysis of the prospects for achieving economy, efficiency and effectiveness, leading to a statement of the objectives of the audit;
- c) A description or summary of audit methodologies used for collecting and analysing data and presentation of the sources of data;
- d) An explanation of the criteria used (to verify the hypothesis or to interpret and assess the findings);
- e) The audit findings and all arguments that are considered material; and
- f) Conclusions relating to the audit objectives.

5.3 DEPARTMENTAL AUDITS

This can be an example of an Operational Audit. Departmental audits are designed to review and evaluate the activities and operations of Ministries, activity, department or unit under review. Departmental audits will evaluate accounting controls and ensure compliance with Ministry's policies and procedures, applicable laws and regulations and validate the record and account balances of the auditee.

Departmental audits will utilise a complete battery of audit tests and procedures, including, but not limited to, functional tests, transaction reviews, substantive test, and analytical reviews

5.4 FORENSIC AUDITING

Forensic auditing is the application of auditing skills to situations that have legal consequences.

5.4.1 Role of forensic auditing

The basic role of forensic audit component is to facilitate the prevention, detection and investigation of economic crime in the public sector. This includes the following aspects:

- The initiation of an economic crime awareness programme with a view to highlighting the existence of potential risks and the need for an economic crime strategy in each public institution;
- A review of the criminal justice system as it pertains to economic crime in the public sector and of all the relevant legislation with a view to identifying any material deficiencies and reporting appropriately thereon;

- The development of the necessary policy and guidelines, including an appropriate risk assessment model for audit and other purposes.

5.4.2 Applications of forensic audit

An obvious example of forensic auditing is the investigation of a fraud or presumptive fraud with a view to gathering evidence that could be presented in a court of law. However, there is an increasing use of auditing skills to prevent fraud by identifying and rectifying situations that could lead to fraud being perpetrated (i.e. risks). It might be useful, therefore, to discuss forensic auditing as either “reactive or proactive”.

Proactive forensic auditing

Forensic auditing in this sense could be viewed from different aspects depending on its application: some of which are discussed below:

5.4.3 STATUTORY AUDIT/REGULATORY COMPLIANCE

Forensic audit methodologies can be used to obtain a more detailed understanding of the entity and its activities to identify areas of risk both in determining the direction of the audit and expressing an opinion.

Government departments could themselves use the technique of forensic auditing to assess compliance with regulations governing payments of grants and subsidies performance auditors could also use these techniques while auditing such governmental programmes.

Diagnostic tool

Forensic auditing can be used either by management or by auditors to carry out general reviews of activities to highlight risks arising either out of fraud or any

other source with the purpose of initiating focused reviews of particular areas targeting specific threats to the organisation.

Investigation of allegations

Complains, allegations in the press or in parliament, unanimous tips from employees or others could all in their separate ways require to be investigated. The techniques of forensic auditing are useful in such cases.

Reactive forensic auditing

The objective in case of reactive forensic audit is to investigate cases of suspected fraud so as to prove or disprove the suspicions, and if the suspicions are proven, to identify the persons involved support the findings by the evidence and to present the evidence in an acceptable format in any subsequent disciplinary or criminal proceedings.

5.5 AUDITING PROJECT FUNDED BY GRANTS AND LOANS

5.5.1 Introduction

Donations and loans are resources secured by the Government or the public body for the support of projects as per agreements with donors or lenders. The proceeds from the loans and donations are used by the implementing agency (public body) as per relevant agreements in undertaking various activities within the recurrent and capital expenditure budgets as well as other special socio-economic projects of the government. Counter – part funds are created by means of payments into a special account. They are recorded in the budgetary accounts as receipts and are used to finance capital projects and recurrent budget as well. A public body has now also incorporated additional function, i.e. it acts as a disbursing agent (implementing agent) for the loans obtained from lenders (like World Bank, IDA, ADB) for the health and education sectors.

5.5.2 Audit objectives

The audit objectives with respect to the counter- part funds in particular and donor funds in general are as follows:

5.5.2.1 General objectives

- To assure the proper receipt and use of funds designated for a specific purpose and to ensure satisfactory compliance with relevant agreement,

5.5.2.2 Specific objectives

- To assure proper compliance with bilateral/multilateral agreement.
- To assure proper collection of funds.
- To verify that disbursements are made for the purposes designated and are in agreement with the budget.
- To ensure proper record maintenance.
- To provide adequate stewardship over grants and loans.
- To ensure the economic and efficient use of funds.

5.5.3 Audit procedures

Though it is difficult to stipulate detailed procedures with regard to each agreement, some generalized issues can be raised.

a) Compliance with agreement

Check the details of the agreement and make sure that the points raised are adhered to. This is concerning general and specific responsibilities, requirements, conditions, covenants, etc.

b) Collection from donors/lenders

- Check correspondence file in relation to donation/loan advice of payment of donors/lenders.
- Check that official cash receipts are issued for collections of cash of the grant/loan from donors/lenders.
- Proper acknowledgements are made (if required).
- Ascertain that goods receiving vouchers are issued for receipt of commodities.
- Check whether stock cards are used to record receipts and issues of commodities by the public body.
- Ensure the receipts are as per agreement or budget.
- Ascertain that the collections are properly registered and recorded in the books of account.
- Other relevant procedures as mentioned in 'receipt and receivables' and 'cash and bank balances' sections can be used

Payments

- Ensure that payments are approved.
- Ensure that payments are made as per plan/program/budget and agreement
- Check relevant supporting documents with respect to the payments.
- Ensure that payments are made for the designated purposes.
- Check the actual expenditure against budget.
- Check interest rate computations and loan status (for credit agreements).

- Ensure the proper recording of expenditure to the right account/ledgers.
- Other relevant procedures as mentioned in the 'Expenditure' and 'Procurement' sections can be applied here.

Cash and Bank Balances

- Check that an imprest system is maintained and
- Check that any cash in hand is regularly counted.

ANNEXURE A ROLES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

The audit committee has non-executive status in an advisory capacity to the Accounting Officer. In no circumstances should the audit committee have executive powers with regard to its findings and recommendations on any operational functions of the management and control of the Ministry. Its role is that of an independent monitor of activities within the Ministry.

Section 84 of the Public Finance Management Act provides that;

1. Every Ministry, statutory fund, constitutional entity and public entity shall establish an audit committee.

2. The responsibilities of an audit committee shall include the following:-

(a) to review internal controls, including the scope of the internal audit programme, the internal audit findings and to recommend appropriate action to be taken by the responsible authorities;

(b) to ensure that accounts, are prepared in a timely and accurate manner and to ensure the prompt publication of the annual accounts;

(c) to review with the Comptroller and Auditor-General or other external auditors as may be appropriate, the scope of their audit plan, the system of internal audit reports and assistance given by officers or staff to the auditors and any findings and action to be taken.

3. The audit committee :

(a) Shall consist of at least three persons of whom, in the case of a Ministry-

(i) one shall be from outside the Public Service;

(ii) the majority may not be persons in the employ of that Ministry, except with the approval of the appropriate Minister; and

(iii) the chairperson shall not be a member of the Public Service employed by the Ministry;

(b) Shall meet at least twice a year; and

(c) May be established for two or more Ministries or Institutions if the Treasury considers it to be more economical.

4. The Comptroller and Auditor-General, external and internal auditors shall have access to audit committees.

5. Upon the request of any auditors, the Chairman of the audit committee shall convene a meeting to consider any matter that the auditors believe should be brought to the attention of the responsible authorities.

The Chairman of the audit committee shall send or cause to be sent to the Accountant General, Comptroller and Auditor-General, internal auditors and external auditors where appropriate:

(a) notices of audit committee meetings; and

(b) minutes of audit committee meetings.

The role of an Audit Committee

- Consider internal audit plans and activities of internal audit department with regard to risk management, control and good governance.
- Provides one of the channels of communication between management, internal auditors and also the Office of the Comptroller and Auditor-General.
- It enhances independence of internal audit department.
- Evaluation and approval of the audit policy.
- Evaluation of internal control and risk management system.

Reporting Channels

The audit committee must report and make recommendations to the Accounting Officer, by the Accounting Officer retains responsibility for implementing such recommendations. Copies of all the IA reports should be made available to the Accounting Officer, Accountant General, and the Comptroller and Auditor General.

Should a report to an audit committee, whether from the IA function or any other source, implicate the Accounting Officer in fraud, corruption or gross negligence the chairperson of the committee must promptly report this to Treasury or Auditor General.

The committee should have direct and unobstructed lines of communication to the Accounting Officer, Senior Management, Treasury and the Internal and External audit.

Operations of Audit Committee

There are several steps that will contribute to the effectiveness of an Audit Committee, these include:

- (a) Establishing written charter/terms of reference.
- (b) Selecting qualified committee members.
- (c) Considering the independence and objectivity of committee members.
- (d) Determining the term of office of committee members.
- (e) Appropriately scheduling meetings.

Establishing an internal audit committee charter

Audit committees should have documented terms of reference from Accounting Officer and these should be stated in a formal, written charter or equivalent.

The charter should clearly state the responsibilities and structure of the audit committee and these include:

- Mission and scope of the committee.
- The size, frequency and timing of meetings.
- Role and responsibilities of the committee.
- Term of office of committee members.
- Remuneration of members.
- Authority of the committee and the authority to conduct special investigations.

Constitution of audit committee

Audit committees should be large enough to represent a balance of views and experiences yet small enough to operate efficiently and effectively.

The PFM Act provides that an audit committee may be made up of at least 3 members.

Members and Chairperson of the committee shall be appointed by the Accounting Officer in concurrence with the Minister and shall perform their duties for a period of three years from the date of appointment.

Members should at least have adequate mix of expertise in finance, management, law and any of the fields relating to the activities of the Ministry. They should possess the following qualifications for starters, integrity, understanding of the

entity, its products and services, independent judgement and ability to offer new or different perspective and constructive suggestions.

The Chief Internal Auditor, Finance Directors and representatives of Treasury have standing invitations to the Audit Committee meetings.

Independence and objectivity of committee members

Critical to the effectiveness of the audit committees is its independence and objectivity and hence its membership. It is generally agreed that the audit committee should be made up of individuals who are independent of the day-to-day management of the Ministry and who have necessary management expertise to perform their review function effectively.

The primary reason for this independence is to ensure an unbiased perspective on reports and recommendations brought to the committee.

ANNEXURE B ESSENTIAL ELEMENTS OF AN INTERNAL AUDIT CHARTER

The internal audit function is established in pursuance to section 80(1) of the Public Finance Management Act, which provides that internal auditors be appointed:

“to assist the Treasury in carrying out the duties referred to in section 6, the Public Service Commission may appoint an officer of the public service as an internal auditor to any ministry or to any department of a ministry.”

The purpose of the charter is to set out the nature, role, responsibility, status and authority of internal auditors within an institution and to outline the scope of the internal audit work. The internal audit charter should be developed for each internal audit function, approved by the Audit Committee and accepted by management. An internal audit charter should cover the following topics:

- (a) The purpose and mandate of internal audit.
- (b) The mission, objective and scope of work.
- (c) The accountability of internal auditor.
- (d) Independence of internal auditor.
- (e) Authority of internal auditor; and
- (f) Quality assurance matters.

As a minimum requirement the IA charter should give IA function free and unrestricted access to all information, records, documentation, data and employees of the entity from both internal and external sources.

The head of internal audit should periodically assess whether the purpose authority and responsibility as defined in the charter continue to adequate to

enable the IA unit to accomplish its objectives. The result of this assessment should be communicated to senior management and audit committee.

Mission objective and scope of work

The IA function will assist the government in fulfilling its vision, mission, strategic initiatives, and objectives while adhering to its core value by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the enterprise – wide risk management, internal control systems and governance processes.

Ultimately, the internal audit function will help ensure:

- Risks are appropriately identified and managed;
- Significant financial, managerial and operating information is accurate, reliable and timely;
- Employees' actions are in compliance with government policies, standards, procedures and applicable laws and regulations;
- Government resources are acquired economically, used efficiently and adequately safeguarded;
- Government operations are transacted in accordance with sufficient internal controls, good business judgement and high ethical standards;
- Quality and continuous improvement are fostered in the government's internal control processes; and
- Significant legislative or regulatory issues impacting the government are recognised and addressed appropriately.

Opportunities for improving the Ministries internal controls and operating efficiency may be identified during internal audits. These opportunities will be shared with the audit committee and management.

Accountability

The Head of internal audit must report directly to the Accounting Officer with sufficient authority to promote independence and to ensure broad coverage, adequate consideration of engagement communications and appropriate action on engagement recommendations. The Head of internal audit should report operationally to the Audit Committee, and administratively to the Accounting Officer of the entity to:

- Assist Accounting Officers by providing periodical assessments on the adequacy and effectiveness of the entities process for controlling its activities;
- Report significant issues related to the processes for controlling the activities of the entity, including potential improvements to those processes; and
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of the IA resources.

ANNEXURE C INTERNAL AUDIT ENGAGEMENT LETTER

To Head Of Division
Cc Permanent Secretary
Audit Committee Chairperson
From Chief Internal Auditor
Date xxxxxx
Subject **ENGAGEMENT LETTER** – xxxxxxxxxx
audit

Introduction

In accordance with the (Year xxx) Audit Work Plan approved by the Audit and Compliance Committee, the Internal Audit Team will be conducting an audit of [Audit Process, i.e. Procurement] in your department for the period starting (DATE) and ending (DATE). .

Objectives

Our objective in performing this review is to assess whether (LIST ACTUAL OBJECTIVES HERE]

For example:

- Reliability and Integrity of Financial and Operational Information,
- Compliance with Laws, Regulations, and Contracts,
- Safeguarding of Assets, and
- Effectiveness and Efficiency of Operations of the [AUDIT AREA], and to follow-up on recommendations included in prior audit reports

Scope of Work

The audit program will involve a review of the xxxxx.

Specific areas to be covered include:

- General (which covers major issues reported at last audit, and related matters raised in recent External Audit management letters)
- XXXXX
- XXXXX

Our Approach

1. Obtain, through existing procedural documentation, and discussions with management and staff, necessary information required to produce a risk focused program of audit work
2. Conduct field audit work, which will involve compliance testing of controls and substantive testing to evaluate the effectiveness of these controls.
3. Discuss recommendations for improvement with management at an exit interview upon conclusion of our field work.
5. Issue a draft audit report to management with our documented findings and recommendations, and request a formal response to the recommendations.
6. Include the formal management response to each recommendation in the draft report, and then issue the final signed report, which will include our overall audit opinion.

The Audit Team

The audit team will comprise the following members:

[NAME OF TEAM LEADER }
[NAMES OF AUDITORS }

Management's Responsibilities

An initial list of items and information required to commence our audit is attached to this memo. We would appreciate it if this information could be provided to us as

soon as possible, as this will minimise the need for disruption to staff. Further requests for information will be made as and when required.

Please note that any delays in providing us with the information required to perform our audit work, in meeting with management and staff or in responding to our draft audit report, will adversely impact on our ability to meet the deadlines described in the Timing section below.

It is also your duty to take the necessary remedial action on the issues raised by Internal Audit or provide reasons why action will not be taken on some areas reported. Your action plan will be reported to the Audit Committee at its next meeting.

Timing

Subject to any unexpected/unplanned delays (on your part or ours), we will endeavour to meet the following timelines:

- **Audit Commencement:** We wish to advise that we will commence this audit on ([DATE]). The Audit is expected to take [NUMBER OF WEEKS] to complete. At the beginning of our audit, we would like the opportunity to meet with you to discuss our audit objectives and solicit your input as our goal is to perform an effective and efficient audit
- **Issue of final draft audit report for consideration:** Before the audit team leaves site at the end of the fieldwork phase; a meeting will be held with you to discuss preliminary findings raised, any outstanding information and your initial comments to the audit findings. The draft audit report will be completed by the audit staff and reviewed by me within a week after fieldwork. You are then expected to provide a response to the draft report within two weeks including your action plans on the issues raised in the report
- **Issue of final signed report.** Within five working days of receipt of your management comments to the draft audit report

Conclusion

I would appreciate if you could inform me, at any time, of any particular concerns you may have concerning the subject of this audit. These matters will certainly be taken into consideration while performing the audit work.

Thank you and we look forward to working with you on this audit review.

Name and Signature

Chief Internal Auditor

ANNEXURE D
INTERNAL AUDIT STRATEGY AND RISK BASED PLANS

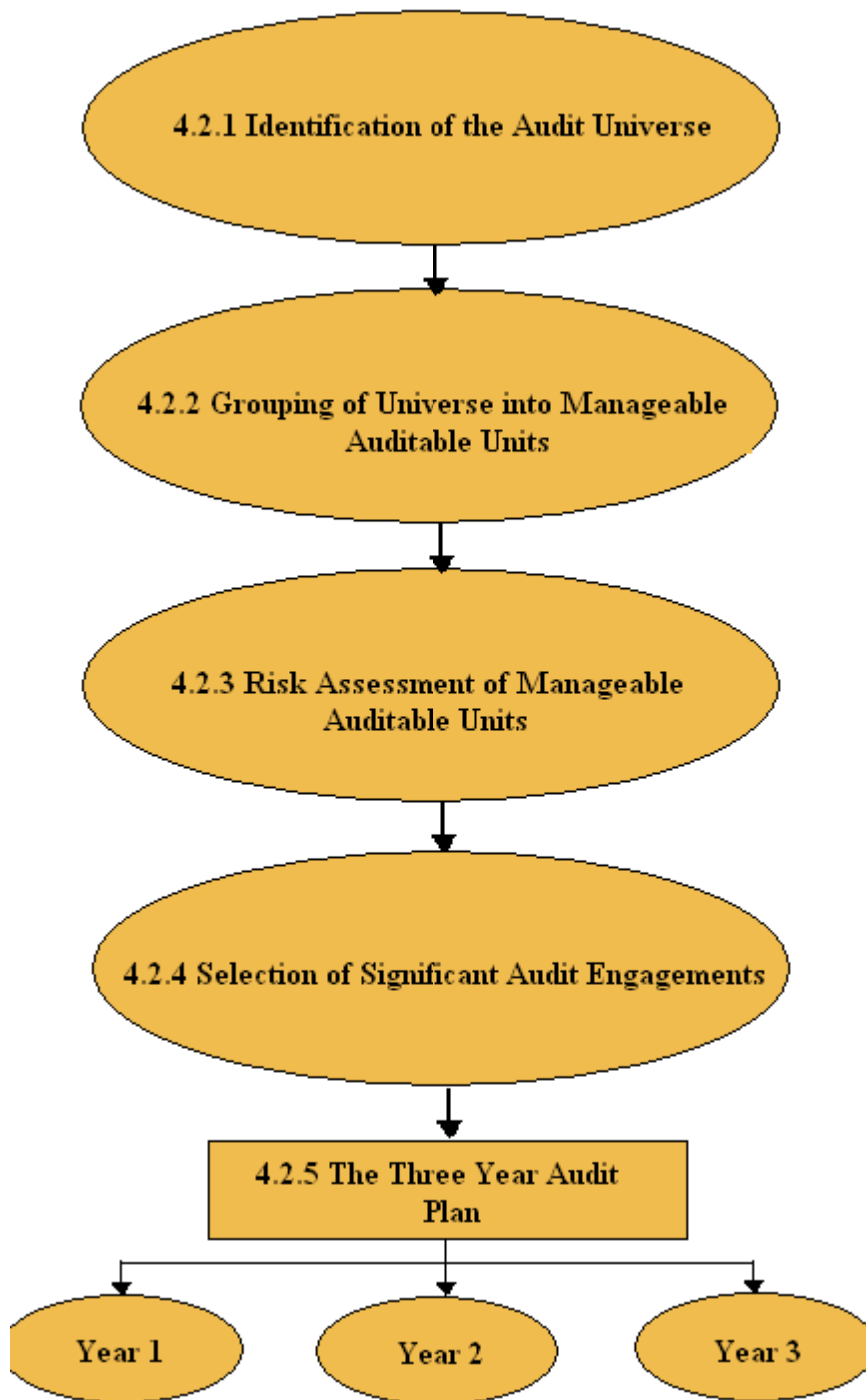
The internal audit strategy describes the role of internal audit within the entity's overall assurance processes and provides an important link between the internal audit charter and the detailed internal audit work plan. It is expected that the strategy will set out:

- i. the organisation's assurance requirements;
- ii. the contribution of the internal audit function to that assurance over the period covered by the strategy;
- iii. the broad details of the audit; and
- iv. the resources that will be devoted to the different types of activities that will be undertaken.

The period covered by the strategy can vary, but would normally cover a three-year period and be reviewed at least annually.

Strategic, risk-based plans are designed to ensure that audit resources are allocated to areas that will help achieve strategic outcomes and reduce the possibility that the Ministry or department will be exposed to significant risks.

ANNEXURE E
Model of a Strategic Risk Based Plan



4.2.1 Identification of the Audit Universe

All mandates, authorities, programs, corporate functions, organizational units, systems, assets, resources and processes of Ministry are identified that are within the potential scope of internal audit.

4.2.2 Grouping of Universe into Manageable Auditable Units

All the potential universe entities and elements are grouped into units that would likely produce meaningful findings for senior departmental management and that would be of such size and scope that an audit engagement could be practically conducted within a reasonable timeframe or cycle of coverage.

4.2.3 Risk Assessment of Manageable Auditable Units

Each auditable unit is assessed, using a scale of 1 to 5 where 1 is low and 5 is high, in terms of risk related to its significance to achievement of Ministry objectives, its complexity in terms of ensuring that intended outcomes are achieved, and its sensitivity in terms of the public or the intended beneficiaries.

4.2.4 Selection of Significant Audit Engagements

Audit projects are proposed that would be most appropriate to address the highest risk areas of the manageable audit units on a priority basis.

4.2.5 The Three Year Audit Plan

The annual plan outlines a prioritised list of proposed engagements including the initial objectives and scope for each engagement, an estimate of required resources and an identification of the most suitable timing for specific engagements.

ANNEXURE F

RISK BASED ANNUAL PLANNING

Steps in Annual audit Planning

- i. Define the audit universe
- ii. Identify and weight risk factors
- iii. Establish a mechanism and score risk factors for auditable units
- iv. Sort the auditable units by total risk score
- v. Develop the annual risk based plan basing on the ranked audit universe

Step 1: Defining the Audit Universe

- Distinct units or functions of the enterprise (For example Human Resources Department (HR) Finance Department and Technical Department)
- Business or organizational processes
- Requests from senior management
- Requests from the Board of Directors
- Regulatory or statutory requirements
- Potential audits based on experience or instincts

Step 2 and 3: Identifying and Weighting Risk Factors;

Establish a Mechanism and Score Risk Factors

Should address impact and probability

Design and apply objective criteria for assigning scores

Ensure consistency of application

Risk factor	Scale of measurement	Rating Points (A)	Weighting Factor (B)	Rating
Value of Transactions	\$1-10000	1	2	
	\$10001-20000	2		
	20001-40 000	3		
	40 001- 60000	4		
	Over 60 000	5		
Impact to organisational objectives	Very High	5	5	
	High	4		
	Medium	3		
	Low	2		
	Very low	1		
Complexity of Transactions	Very simple	1	3	
	Simple	2		
	Average	3		
	Complex	4		
	Very complex	5		

**Step 4 and 5 Sort Units by Scores and determine audit priorities.
Develop the plan**

		Rating Points Score (A)	Weighting Factor (B)	Total (AxB)	Auditable Unit Total	Rating Points explanations	Audit Priority
Human Resources Department	Value of Transactions	3	2	6	27	20001-40000	3
	Impact to business objectives	5	5	15		Very High	
	Complexity of transactions	2	3	6		Simple	
Finance Department	Value of Transactions	5	2	10	47	Over 60 000	1
	Impact to business objectives	5	5	25		Very High	
	Complexity of transactions	4	3	12		Complex	
Technical Department	Value of Transactions	4	2	8	45	40001-60 000	2
	Impact to business objectives	5	5	25		Very High	
	Complexity of transactions	4	3	12		Complex	

ANNEXURE G

THE AUDIT RISK MODEL

This model is used to identify and quantify the elements making up overall audit risks. For an Auditor to effectively manage the risks, he should measure the associated risks attached to the audit subject and define a tolerable limit to arrive at favourable conclusion.

The audit risk model is defined as follows;

$$\mathbf{AR = IR \times CR \times DR}$$

IR = Inherent Risk

CR = Control Risk

DR = Detection Risk

Inherent Risk

This is the risk that items may be misstated as a result of their peculiar characteristics. Inherent risk may result from:

- i. Nature of the items: For instance, estimated items are inherently risky because their measurement is not precise but based on assumptions.
- ii. Nature of the operation: For example, purchase of materials is volatile and has the high risk of being over invoiced

Inherent risk operates independently of controls. The Auditor should accept that such risks exist and may not be eliminated

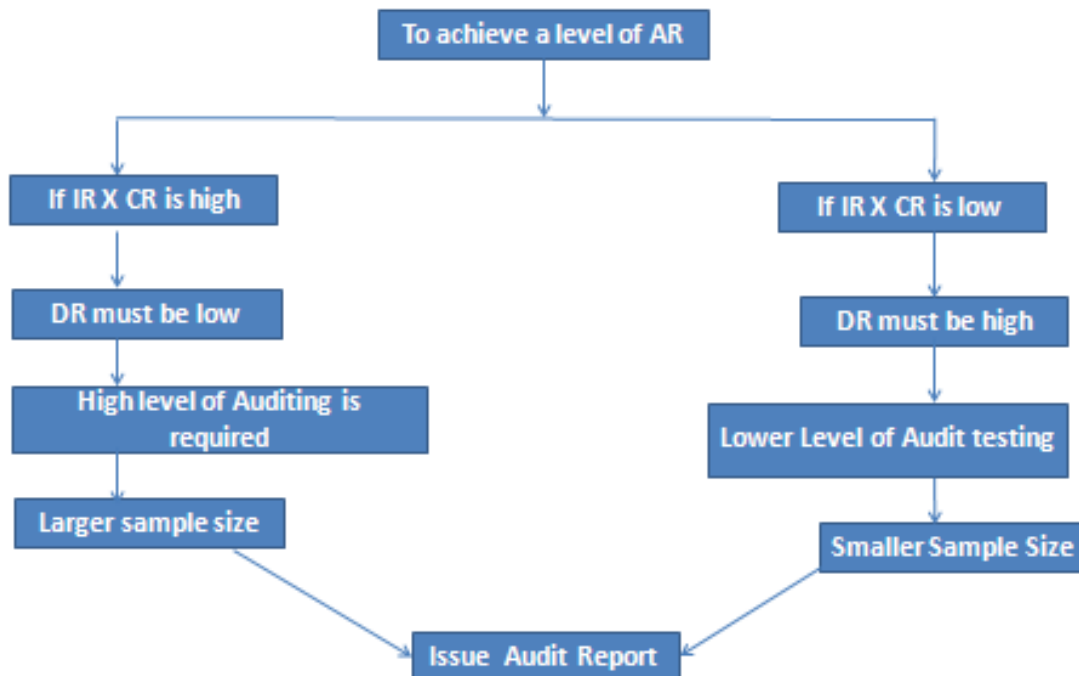
Control Risk

This is the risk that a misstatement would not be prevented or detected by the internal control systems in operation. It is not likely that control risk would be zero because of some limitations of internal control system. However, control risk could be reduced by introducing new or better controls

Detection Risk

This is a risk that audit testing procedure would fail to detect a misstatement in a transaction or account balance. For example, if detection risk is 10%, then there is a 10% probability that the audit tests will fail to detect a material misstatement. Therefore, increase in the ratio of test carried out would reduce the detection risk.

Flow Diagram of Audit Risk Management Model



ANNEXURE H
TYPES OF AUDIT TESTING

	Test Description	Advantages	Disadvantages
1	<p>Interviewing</p> <p>Inquiry procedure involves the discussions with process owners, process staff, including key stakeholders who operate the process</p>	<p>Direct interface with personnel involved in the business process - facilitates greater understanding of the business.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Interviewers have the chance to probe for further details. <input type="checkbox"/> Effective way to identify opinions, causes and possible solutions to problems. <input type="checkbox"/> Clarification of questioning is possible before 	<p>Issues conveyed may be merely a one-sided perception of management and not actual business practice.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Data can be difficult to obtain, organise and analyse. <input type="checkbox"/> Interviewers must be trained to elicit valuable information - this involves the use of open-ended questioning versus closed ended
2	<p>Observation and Inspection</p> <p>Observing involves a careful, knowledgeable look at documents processed, activities and assets. It means a visual examination with a purpose, a mental comparison with standards.</p>	<p>Tends to provide a greater understanding of the business through audit involvement with operational personnel.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Information collected reflects actual behaviour. <input type="checkbox"/> Information collected is current, not retrospective. 	<p>Tests typically need to be corroborated with other procedures.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Potentially time consuming. <input type="checkbox"/> Difficult to record data and observe large numbers of people or activities. <input type="checkbox"/> Random observation may not provide an adequate evaluation of the process due to fluctuations in volume or activity. <input type="checkbox"/> Workers may alter their behaviour if they know their

			work is being reviewed.
3	<p>Documentation Review</p> <p>This involves a review of existing reports and documents to identify controls, to understand the business or process, and to provide evidence in supporting audit conclusion.</p>	<p>Unobtrusive.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Highly valid as data is quantifiable, historical and objective. <input type="checkbox"/> Strong base to build questioning upon 	<p>A skilled auditor is needed to apply historical documents to the current situation and to identify areas where interpretation is required of the document.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Risks may be misinterpreted without involving client personnel in the review or corroborating the results through other types of tests.
4	<p>Confirmation/Representation</p> <p>A confirmation or representation is frequently prepared by the Auditor, completed by the relevant party, then delivered directly back to the Auditor. Confirmations and representations may be obtained either externally or internally.</p>	<p>Sound basis for determining the reasonableness of historical or forecast data.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Facilitates strong understanding of business activities and relationships and provides a structured basis for identification of areas requiring further analysis. <input type="checkbox"/> Can be used effectively as an audit test to assess the need for more detailed audit testing. <p>Can be used in initial stages of the audit to identify problem areas to focus audit reviews/testing</p>	<p>Lack of availability of appropriate and reliable data may limit the ability to develop effective analytical procedures.</p> <p>Unstable operating environments create increasing difficulties in predicting relationships.</p>

5	<p>Analytical Review: Comparison of inter-relationships among sets of data, and the comparison of these relationships with some pre-defined expected relationship may be referred to as analytical testing</p>	<p>Sound basis for determining the reasonableness of historical or forecast data.</p> <ul style="list-style-type: none"> □ Facilitates strong understanding of business activities and relationships and provides a structured basis for identification of areas requiring further analysis. □ Can be used effectively as an audit test to assess the need for more detailed audit testing. <p>Can be used in initial stages of the audit to identify problem areas to focus audit reviews/testing.</p>	<p>Lack of availability of appropriate and reliable data may limit the ability to develop effective analytical procedures.</p> <p>Unstable operating environments create increasing difficulties in predicting relationships</p>
	<p>Data Analysis and Exception Tests: Analysis and query of historical data files to identify trends, problem areas, exceptions, etc</p>	<p>Provides a more scientific and rigorous approach than scanning type procedures.</p> <ul style="list-style-type: none"> - Used effectively to quantify the significance or incidence of a certain event or non-event. - Data analysis can be used to understand the volume or magnitude of certain events or values, which may assist in further refining and limiting 	<p>Significance of exception items identified needs to be evaluated in the overall business context.</p> <ul style="list-style-type: none"> □ Data required may not be available in a readily usable format and may become costly to "manipulate."

		<p>audit testing.</p> <ul style="list-style-type: none"> - Sample file can be selected automatically. - Efficient, accurate method of analyzing a large amount of data. - Ideal application for statistical sampling. 	
	<p>Vouching and Verifying</p> <p>Tests to prove that recorded events or values took place through examination of supporting documents or systems</p>	<p>May be the most efficient and effective audit procedure to verify a particular management assertion.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Provides "hard" audit evidence of certain infractions or errors. <input type="checkbox"/> Provides "hard" audit evidence that stated controls are operating effectively 	<p>Method and reasonableness of sample selection of items to vouch has a significant bearing on the appropriateness of conclusions which may be drawn. Particular consideration must be made of whether to select vouching samples based on a statistical selection of sample sizes and items or to judgmentally select items for review.</p>
	<p>Process Mapping</p> <p>Process mapping analysis may be used as a test of business practices. In particular, where the completeness of controls or logic of business procedures is being assessed, process mapping provides a tool to identify weaknesses or inefficiencies.</p>	<p>Provides a clear documentation trail to support an evaluation of controls or processes.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Provides a complete technique for assessing a process. <input type="checkbox"/> Readily understood by the client. 	<p>May be difficult to determine the proper level of detail to process map.</p> <ul style="list-style-type: none"> <input type="checkbox"/> May not meet requirements if a structured detailed flowchart is required. <input type="checkbox"/> Process mapping analysis can be time consuming.
	<p>Walk Through</p> <p>Tracing procedures beginning with</p>	<p>Process tracing may be used to verify that controls exist to</p>	<p>Workers may alter their behaviour if they know their</p>

	<p>original documents and following their lifecycle through process.</p>	<p>ensure transactions are complete.</p> <ul style="list-style-type: none"> □ May uncover process errors not identified through other audit steps. □ May be used to confirm process understanding gained through process mapping. 	<p>work is being reviewed.</p> <ul style="list-style-type: none"> □ Sample selected for testing may be too subjective and not reflective of trends in the business process.
	<p>Reconciliation</p> <p>A specific purpose audit test designed to analyse variances between two sets of similar information.</p>	<p>May provide valuable insight as to business issues and risks underlying the process. For example, a detailed book to physical analysis may identify problems in goods dispatch and inventory production recording and monitoring processes. It may disclose incidence of fraud.</p>	<p>Time consuming.</p> <ul style="list-style-type: none"> □ Root causes may not necessarily be identified.
	<p>Recalculation and Valuation Tests:</p> <p>Amounts or values are recalculated by the Auditor to verify their accuracy or to assess the reasonableness of the final valuation.</p>	<p>May provide the most efficient method to evaluate the outcome of a certain process</p>	<p>Important to view the calculation in terms of total audit risk - for example, recalculation of interest income may not be useful if one-third of loans will never be collected.</p> <ul style="list-style-type: none"> □ Recalculation may be complex and time consuming. □ May require assistance of Consultants, particularly where a valuation is being assessed – E.g. Property value.

ANNEXURE I
INTERNAL AUDIT PLANNING CHECKLIST

	<u>Initials</u>	<u>Date</u>
<u>Prepared By</u>		
<u>Reviewed By</u>		

Name of Public Body _____

Audit Area **Audit Planning Checklist**

Period: _____

	Yes	No	Initials
PRIOR YEARS AUDIT REPORTS 1. Have you reviewed with the in-charge auditor (Senior Auditor), re:- <ul style="list-style-type: none"> • Changes in presentation of disclosure? • Points to which special attention should be paid? • Improvements to the content and style of the audit findings and recommendations report? 			
PRIOR YEARS WORKING PAPERS 2. Have you reviewed with the in-charge auditor, re:- <ul style="list-style-type: none"> • Points for attention at next audit, if any? • Unnecessary schedules? • Inadequate or excessive work? • Changes in procedure or scope of examination? 			
NARRATIVE SYSTEM NOTES AND/OR FLOW CHARTS 3. Are you satisfied that narrative system notes and/or flow charts and updates cover all aspects of the accounting and other relevant systems and explain the significance of any systems weaknesses?			

<p>INTERNAL CONTROL EVALUATIONS</p> <p>4. Are you satisfied that the ICEQ's have been properly completed and evaluated and the audit implications of weaknesses fully disclosed?</p>			
<p>AUDIT PROGRAMMES</p> <p>5. Are you satisfied that the audit programmes fit the particular circumstances and that the scope and extent of the tests adequately cover the implications of systems and control weaknesses disclosed by the narrative system notes/flow charts and ICEQs?</p>			
<p>TIME BUDGET</p> <p>6. Have you reviewed and approved the time budget ensuring that total time is within the limit for the type of audit to be carried out?</p>			
<p>STAFF ASSIGNMENTS</p> <p>7. Have you reviewed with the in-charge auditor and agreed his provisional assignment of staff to the various audit responsibilities?</p>			
<p>PLANNING MEETING</p> <p>8. Have you held a planning meeting with the staff assigned to discuss all aspects of the audit work to be undertaken?</p>			

ANNEXURE J

OUTLINE OF A MODEL INTERNAL AUDIT REPORT

1. Covering Memo

This should show at minimum

- 1) Date and addressees of the audit
- 2) Audit objective and scope of audit
- 3) Conclusion from the audit findings
- 4) Signature of the Chief Internal Auditor or person delegated to sign

2. Executive Summary

(May not be required when reports can be kept short)

The executive summary should reiterate the objectives and scope of the engagement, the rationale for the audit, and the criteria and approach employed including references to professional standards. A conclusion is required for each objective, and a summative conclusion may be provided. Key findings and recommendations may also be included. Above all, management should be able to readily focus on and understand the important issues being reported.

3. Objectives

- Reason for the engagement and the specific objectives

Scope

Context of the subject matter (e.g. a description of the program, activity, issue, organization, or system examined, its place within the department, and its importance or a description of exclusions)

- Timing (the period covered by the evidence examined)

4. Approach or Methodology

- Criteria (against which the observations and assessments were made and conclusions were drawn)
- Work conducted
- Standards used (any professional standards, e.g. IIA, governing how the work was done)
- Timing (the period during which the work was done)

5. Observations and Recommendations

- Start by acknowledging improvements from last audit

For each area of observation:

- (A topic sentence may be employed to introduce the essence of the observation)
- Condition
- Criteria
- Cause
- Impact and Exposure to Risk
- Recommendation (action required and responsibility)

6. Management Action Plan

- Action to be taken for each recommendation
- Timing

7. Conclusions

- Conclusions on objectives
- Compliance with relevant laws, regulations, policies, and standards
- A summative conclusion may be desirable

- A statement of assurance may be included or may be referenced if it is addressed in a covering memorandum
- Other higher level results relative to engagement objectives

8. Overall Recommendation

- Recommendation on the conclusions made above on item 7
- May be general or specific. For example, the recommendation may call for management to take compliance seriously or the recommendation may call for disciplinary measures against a Manager for gross negligence.

ANNEXURE K CHECKLIST FOR REVIEWING AUDIT REPORTS

The Substance of the Report

Sufficient background information is provided to understand the context and significance of the audit report.

The audit objectives and the related criteria used to arrive at observations and conclusions are stated.

The audit scope states what was and was not included in the examination and specifies the period of time represented by the activities examined.

The timing of the audit, the methodology employed, and the professional standards followed are described. If appropriate, disclosure is made if any parts of the engagement were affected by non-compliance with professional standards.

Detailed audit observations relate to the stated objectives and criteria and logically support overall opinions and conclusions.

Each observation contains a statement of the condition (the situation supported by audit evidence), the criterion, the cause, the effect, and a recommendation.

Convincing or persuasive evidence is presented in support of each audit observation.

The impact of negative observations is quantified where possible but otherwise presented in a compelling argument, including an analysis of potential risks.

Recommendations flow logically from observations and causes, are specific and cost-effective, and are directed to specific positions or individuals with the authority to act upon them.

A conclusion, or a statement of inability to conclude, is provided for each audit objective and is supported by convincing evidence and analysis.

As appropriate, a statement of assurance is provided.

- Positive observations and conclusions are provided where warranted.
- Appendices included in the report add value in understanding the engagement results

The Style of the Report

The table of contents establishes the layout and structure of the report and correctly represents headings and page numbers in the body of the report.

- Headings and text styles (e.g. italics, boldface, font size) are used effectively and consistently to draw the reader's attention, e.g. topic or lead sentences, highlighted recommendations.
- Charts and other exhibits are referenced in the report and appropriately labelled.
- Paragraph and sentence structure support understanding, e.g. single topic or issue, concise, logical.
- Initialisms and acronyms are explained or defined upon their first use.
- Language usage and terminology is appropriate to the intended audience(s), e.g. the active voice is used and jargon and overly technical terminology are avoided or clearly explained.
- A balanced tone is maintained.
- Grammar and spelling are correct.
- Appendices are presented in a uniform format and are referenced in the body of the report.
- Overall, the report is clear and concise - the important findings, recommendations, and conclusions are evident.

GLOSSARY OF TERMS

Accountability

The obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties: one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it has been discharged.

Add value

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Assurance services

An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Chief Internal Auditor

Top position within the Ministry responsible for internal audit activities. Normally, this would be the internal audit director. (IIA International Standards for the Professional Practice of Internal Auditing)

Compliance

Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements. (IIA International Standards for the Professional Practice of Internal Auditing)

Consulting services

Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an

organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. (IIA International Standards for the Professional Practice of Internal Auditing)

Control

Any action taken by management and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. (IIA International Standards for the Professional Practice of Internal Auditing)

Control environment

The attitude and actions of the the Audit Committee and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control.

Economy

Thrifty and efficient use of material resources: frugality in expenditures.

Effectiveness

Production of a decided, decisive or desired effect.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, Control Self-Assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives. (IIA International Standards for the Professional Practice of Internal Auditing)

Engagement objectives

Broad statements developed by internal auditors that define intended engagement accomplishments. (IIA International Standards for the Professional Practice of Internal Auditing)

Engagement work program

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan. (IIA International Standards for the Professional Practice of Internal Auditing)

Evidence

Something that is intended to prove or to provide support for some belief. (Dictionary definition from Sawyer, Internal Audit Techniques and Practices, p. 139)

Finding

In auditing, it is used to describe the result of comparison between a criterion and an actual situation, control or circumstance to which this criterion was applied. (Manual on Value-for-Money Audit)

Governance

The combination of processes and structures implemented by the board in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives. (IIA International Standards for the Professional Practice of Internal Auditing)

Independence

The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels. (IIA International Standards for the Professional Practice of Internal Auditing)

Internal audit activity

A department, division or team of consultants,) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (IIA International Standards for the Professional Practice of Internal Auditing)

Internal audit charter

An internal audit charter formally outlines internal audit's role, responsibilities, authority, standards and accountabilities and formalises the position of internal audit in the entity's governance framework.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others. (IIA International Standards for the Professional Practice of Internal Auditing)

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. (IIA International Standards for the Professional Practice of Internal Auditing)

Risk management

A process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives. (IIA International Standards for the Professional Practice of Internal Auditing)