

**PUNTLAND STATE OF SOMALIA**  
**LOCAL GOVERNMENT INTERNAL AUDIT**  
**MANUAL**



FINAL (March, 2016)

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## Acronyms

<b>CAATS</b>	Computer Assisted Audit Techniques
<b>CWPF</b>	Current Working Paper File
<b>DAC</b>	District Audit Committee
<b>HIA</b>	Head of Internal Audit
<b>IIA</b>	Institute of Internal Auditors
<b>IPPF</b>	International Professional Practice Framework
<b>OAG</b>	Office of the Auditor General
<b>PAF</b>	Permanent Audit File
<b>PFM</b>	Public Financial Management
<b>RCM</b>	Risk Control Matrix

## Background to the manual

### Districts Internal audit manual overview

This internal audit manual sets out procedures to be followed by internal auditors in providing internal audit services to Districts. Procedures set out in this internal audit manual are based on the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, (IIA). The procedures have been tailored to support internal audit staff in Puntland to appropriately discharge their statutory and professional responsibilities towards Districts being audited with due consideration for the Puntland legal and cultural context.

This internal audit manual shall be issued to District's internal audit units by Ministry of Interior, Local Government and Rural Development. The Ministry shall also be responsible for the revision of the manual when it becomes necessary.

Chapter	Description
1. Legal framework, charter and ethics	Outlines legal framework, internal audit charter, and internal audit ethics
2. Scope and nature of work	Establishes the rationale, context and role for the internal audit function.
3. Organisation and management of the internal audit unit	Identifies the organisational structure of internal audit function and assigns responsibilities for the fulfilment of the tasks necessary for an effective internal audit activity and identifies the competencies required to fulfill those tasks.
4. Risk assessment and annual audit plan	Outlines the processes that should be followed to identify the most appropriate internal audit engagements to be undertaken.
5. The audit engagement cycle	Describes the steps that should be followed in planning, performing, reporting individual audit engagements and monitoring of outstanding findings.
6. Audit techniques	Describes various audit techniques for conducting an audit engagement.
7. Administrative matters	Describes how the internal audit should manage the internal audit function.
8. Internal audit forms	These are tools and working papers to be used by the internal auditors and are distributed separately.

### Effective date

The manual becomes effective on the day of its approval by the Ministry of Interior, Local Government and Rural Development and Ministry of Finance.

# **1 Legal framework, charter and ethics**

## **1.1 Internal audit purpose**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve a District's operations. It helps a District accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The role of an internal auditor is to independently evaluate the effectiveness of the risk management procedures, controls and governance process within a District and then advise its management and the Council on areas to improve and new risk management procedures to introduce.

## **1.2 Internal audit legal framework**

District internal audit is provided for in chapter 10 of the Puntland Finance Policy (2016). According to the Finance Policy, every District shall establish an internal audit department to handle the internal audit function. The District internal audit shall perform the following key functions:

- (i) Assessment of the efficiency and effectiveness with which the operations of the District are conducted;
- (ii) Assessment and providing reasonable assurance about the reliability of District financial reporting;
- (iii) Providing assurance on procedures in place to deter fraud as well as to investigate fraud;
- (iv) Assessment of and providing assurance about the procedures in place for safeguarding District assets; and
- (v) Measuring and providing assurance about District's compliance with the laws and regulations.

## **1.3 Internal audit charter**

The internal audit charter is a formal document that defines the authority, purpose and responsibility of internal audit. The internal audit charter: establishes the internal audit activity's position within the District, including the nature of the Head of Internal Audit's (HIA) functional reporting relationship with the District Audit Committee (DAC); authorises access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The internal audit charter should define: the procedural framework relating to roles and responsibilities of the internal audit department/unit, including the HIA and internal auditors; the standards and ethics that internal auditors should abide by; and, reporting and charter review and approval requirements.

The internal audit department/unit should prepare the internal audit charter which is endorsed by the Secretary for Local Government, approved by the Mayor, and resides with the DAC. An example internal audit charter template is presented in Table 1.

**Table 1: District internal audit charter template**

**(1) Internal audit authority**

The Secretary for Local Government of the *[insert name of District]* has established an internal audit unit, to carry out an independent appraisal and monitoring of activities established by District's management and to review the accounting and internal control systems as a service to the District in accordance to provisions of the Puntland Local Government Finance Policy (2016).

The internal audit unit is granted access to records, personnel and physical properties relevant to perform the mission of the internal audit unit.

**(2) Internal audit mission**

The mission of the internal audit unit is to support the District in the successful achievement of its strategic goals. This is accomplished by serving as an independent unit to the District management, with internal audit staff providing an independent evaluation of the effectiveness of risk management, internal controls, governance processes and making recommendations for improvements.

**(3) Internal audit scope of work**

The internal audit unit's scope of work requires that they undertake audit and assurance, consulting and investigation work to ensure that processes are functioning as intended to meet the Districts objectives, and that they make recommendations to improve the District operations. The internal audit unit's scope includes consideration of policies, processes, controls and compliance relating to risk management, governance and strategy, and financial management.

**(4) Composition of internal auditors and requisite skills**

The *[insert name of District]* internal audit unit is comprised of *[insert Head of Internal Audit, and the name(s) of Auditors]*.

The internal auditors, collectively, should:

- (i) Possess the requisite qualifications to be able to carry out internal audit functions;
- (ii) Have the ability to communicate with other District officials and management; and
- (iii) Be knowledgeable about internal controls, financial statement audits and management/financial and operational audits

## **(5) Standards of internal auditing**

The internal audit unit should observe the following internal audit standards:

- (i) Independence – internal auditors should be independent of the activities they audit, carrying out internal audit work freely and objectively;
- (ii) Professional proficiency – internal auditors should demonstrate professional proficiency and due care with regards to compliance, skills supervision, relations/communication, continuing education and knowledge generation and management;
- (iii) Performance of audit work – internal auditors should properly plan an audit, examine and evaluate information, communicate results and follow up; and
- (iv) Management of the internal audit unit – internal auditors should ensure that the internal audit unit has clearly agreed authority, responsibility and purpose / scope, and has in place appropriate policies and procedures, personnel management and quality assurance practices.

## **(6) Internal audit ethical principles**

Internal auditors should demonstrate:

- (i) Integrity and honesty; conducting work with due skill, care and diligence and in line with the expectations of technical and professional standards;
- (ii) Objectivity and independence of mind;
- (iii) Confidentiality with regards to their work and findings; and
- (iv) Competency, performing work for which they are qualified and experienced;
- (v) Conduct themselves with courtesy and consideration towards all those they come into contact with during the course of the audit, and in a manner that will enhance the stature of the internal audit profession and its' ability to serve the District.

## **(7) Roles of the Head of Internal Audit**

The head of the internal audit department/unit should:

- (i) Be tasked with the overall management of internal audit unit;
- (ii) Establish plans to carry out the various responsibilities of the internal auditing department/unit;
- (iii) Provide written procedures to guide internal audit staff;
- (iv) Establish a programme for developing internal audit staff;
- (v) Coordinate internal audit efforts; and

(vi) Establish and maintain a quality assurance programme to evaluate the operations of the internal audit unit.

**(8) Roles of internal auditors**

In order to deliver on the internal audit mission, internal auditors may: review systems to ensure that they are effective and functioning as intended; undertake compliance assurance and audit work; undertake pre and post transaction audits; monitor the implementation of previously accepted recommendations; undertake consulting and advisory work, spot checks and investigations. Internal auditors are required to appropriately plan, perform, record and report on their internal audit assignments.

**(9) Reporting Requirements**

The *[insert name of District]* internal audit unit has the duty and responsibility to report its annual and quarterly findings to the District Council through the Secretary for Local Government, copy reports to the Ministry of Interior, Local Government and Rural Development, Ministry of Finance and the Auditor General.

**(10) Review of the Charter**

Internal audit Charter modifications and amendments will be discussed and approved by the Mayor.

**(11) Approval of the Charter**

*[Insert name of District]* internal audit Charter is endorsed by the Secretary for Local Government and approved by the Mayor.

.....

Signature, Secretary for Local Government

.....

Signature, Mayor

**1.4 International standards for the professional practice of internal auditing**

According to the Puntland Finance Policy, the District internal auditors should perform their duties in accordance with the International Professional Practice Framework (IPPF) issued by the Institute of Internal Auditors (IIA). The IIA’s IPPF is the authoritative guidance for the internal audit profession. The IPPF presents current, relevant, internationally consistent information that is required by internal audit professionals worldwide.

The IPPF is the conceptual framework that organises authoritative guidance promulgated by the IIA. The IPPF includes mandatory and strongly recommended guidance.

- (i) Mandatory guidance – Definition of internal auditing, Code of Ethics and International Standards for the Professional Practice of Internal Auditing (Standards); and
- (ii) Strongly recommended guidance – position papers, practice advisories and practice guides.

The full standards can be obtained at the IIA website, [www.theiia.org](http://www.theiia.org).

## 1.5 Internal audit code of ethics

The IIA code of ethics<sup>1</sup> that is outlined below states the principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioural expectations rather than specific activities.

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.

District internal auditors are required to comply with the following fundamental principles:

- (i) **Integrity** - The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment. The internal auditors shall:
  - Perform their work with honesty, diligence, and responsibility;
  - Observe the law and make disclosures expected by the law and the profession;
  - 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 District; and
  - Respect and contribute to the legitimate and ethical objectives of the District.
  
- (ii) **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 interests or by others in forming judgments. The internal auditors shall:
  - Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the District;
  - Not accept anything that may impair or be presumed to impair their professional judgment; and

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<sup>1</sup> Referencing: <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx> (Jan 2016)

- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

**(iii) 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. The internal auditors shall:

- Be prudent in the use and protection of information acquired in the course of their duties; and
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the District.

**(iv) Competency** - Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services. The internal auditors shall:

- Engage only in those services for which they have the necessary knowledge, skills, and experience;
- Perform internal audit services in accordance with (this manual and with) the *International Standards for the Professional Practice of Internal Auditing (Standards)*; and
- Continually improve their proficiency and the effectiveness and the quality of their services.

Internal auditors must also observe the principle of “public interest”. Public interest means honouring public trust and entails subordinating personal interests to those of the general public. This is important because the internal auditor is an independent “watch eye” in the accountability of public resources.

The Head of Internal Audit unit shall ensure that the definition of internal auditing, the code of ethics, and the standards are well understood by the District management and the DAC.

Internal auditors must acquaint themselves with the IPPF and this code of ethics for internal auditors. All auditors will be required to sign a code of ethics declaration confirming their understanding and commitment to compliance with the code of ethics for District internal auditors. Heads of Internal Audit should record and report non-compliance to the standards and code of ethics for internal auditors on a quarterly basis to the District Audit Committee and request appropriate assistance and action.

## **2 Scope and nature of work**

### **2.1 Introduction**

This chapter describes the nature and scope of internal audit work to be carried out by the Districts internal auditors.

It is the responsibility of top management and other personnel in the Districts to establish and implement effective risk management, internal controls and governance processes in the Districts. The DAC have an oversight role to determine whether appropriate management processes are in place and that the processes are adequate and effective.

The internal auditors' scope and nature of work should be clearly defined in the internal audit charter. Table 1 above, presents an internal audit charter template which can be used by the internal audit department/unit.

The nature of work of the internal audit department/unit is to evaluate the adequacy and effectiveness of the District's existing risk management, control and governance processes in order to provide:

- (i) Independent opinion whether these processes are functioning as intended and will enable the District's objectives and goals to be met; and
- (ii) Recommendations for improving the District's operations in terms of both efficient and effective performance.

### **2.2 Internal audit function**

#### **2.2.1 Assurance services**

Assurance service is an objective examination of evidence for the purpose of providing an independent assessment on risk management, control or governance processes of the District.

The Internal audit department/unit fulfils its audit obligations by:

- (i) Conducting financial, performance, and other audits of all activities;
- (ii) Assessing the effectiveness of internal control systems;
- (iii) Recommending measures to strengthen internal controls, governance and risk management; and
- (iv) Monitoring the implementation of audit recommendations and reporting on the status thereof.

Assurance services are initiated through the internal audit plan and are performed using the approach described in Chapter 4.

### **2.2.2 Consulting services**

Internal audit departments/units shall provide consulting services, the nature and scope of which are agreed upon with management and which according to internal auditor judgment are intended to add value and improve the District's operations. Examples include counsel, advice, facilitation, process design and training.

Internal auditors generally provide consulting services at the specific request of the District management, but as auditors, they do not have the management authority or responsibility for implementing the outcomes of these services.

Care should be taken to ensure that objectivity is maintained during consulting engagements. Internal auditors should be careful not to assume management roles. Internal auditors should attend meetings or presentations by the District management solely in an observer capacity to avoid the appearance of a conflict of interest.

Internal auditors may be requested to provide advice on specific issues and concerns, taking into account previous audit recommendations, internal control practices, and risks that the District may face. It should be made clear to the District management that internal audit would not be associated with or endorse the final policies arrived at by the District as a result of attending such meetings/presentations.

The HIA must decline or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

## **2.3 Role of internal audit on compliance with laws and regulations**

Internal audit unit shall ensure that the District's departments, sections and units comply with the relevant policies, laws, regulations and guidelines. Internal audit shall include in the quarterly audit reports cases of non-compliance with the laws and regulations and recommend necessary action thereafter.

## **2.4 Role of internal audit in risk management**

Risk management is a management tool that helps to anticipate any potential impediments/risks, emanating from either the external or internal environment that can impact the achievement of strategic, compliance, operational and financial objectives and proposes appropriate risk mitigating measures to reduce risks to acceptable levels.

The elements of an effective risk management framework include:

- (i) Policy framework and procedures;
- (ii) Risk management structure;
- (iii) Risk assessment process;

(iv) Portfolio view of risks;

(v) Board oversight; and

(vi) Risk awareness.

The main role of internal audit is to provide independent and objective assurance to top management and the District Council, on the adequacy and effectiveness of the risk management processes in a District and to recommend improvements.

Where District management has not put in place a formal risk management framework, the internal auditor can assist the District in identifying, evaluating risks and implementing risk management methodologies and controls to address risks.

Internal auditors must satisfy themselves that the District's risk management processes address the five key objectives that assist in determining the overall adequacy and effectiveness of the risk management processes:

- (i) Risk arising from the District's strategies and activities are identified and prioritised;
- (ii) Management have determined the level of risk acceptable to the District including the acceptance of risk designed to accomplish the District's strategic plans;
- (iii) Risk mitigation activities are designed and implemented to reduce or otherwise manage risks that were determined to be acceptable to the management;
- (iv) Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk; and
- (v) The management receive periodic reports of the results of the risk management process.

## **2.5 Internal controls**

Internal control means any policies, procedures, measures and actions taken by the management and other personnel of the District to manage its risks in a manner that, to a great extent, enhances the likelihood that the District's goals and objectives will be achieved as planned.

Internal control is intended to prevent financial loss and waste, promote efficient Public Financial Management (PFM) and accountability, prevent or detect and deter fraud or other irregularities, safeguard the District's assets, promote ethical, orderly, efficient and effective government programmes or projects, enhance reliability of financial information and reports, and promote compliance with laws and regulations.

As provided in Chapter 10 of the Puntland Local Government Finance Policy, the Secretary for Local Government has the responsibility of establishing the District's internal controls. Internal control comprises the whole system of controls and methods, both financial and otherwise, which are established by management to:

- (i) Safeguard its assets;
- (ii) Ensure reliability of records;
- (iii) Promote operational efficiency; and
- (iv) Monitor adherence to policies and directives.

## **2.5.1 Components of the internal control system**

Internal Control system has the following five components.

### **2.5.1.1 *The control environment***

The control environment sets the tone of a District, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence; management's philosophy and operating style; delegation of authority and responsibility; and human resources policies.

### **2.5.1.2 *Risk assessment***

This is the identification and analysis of relevant risks that threaten the achievement of objectives; it forms the basis for determining how the risks should be managed.

### **2.5.1.3 *Control activities***

This entails the specific controls put in place in the District. The following are the examples of such controls; procedures for transaction authorisation, transaction verification, segregation of duties, spending ceilings, system access passwords, earmarking expenditures, tendering processes, bank reconciliation, monthly review of budget execution reports and performance reviews.

Further examples of control activities are the controls which are inherent in ICT systems and software applications such as the computerized accounting system. These include ICT network stability, system security such as firewalls, physical access controls, passwords, data backup procedures, technical support and system maintenance procedures, robustness and reliability of the accounting system, integrity of data processing, data input and output controls.

### **2.5.1.4 *Information and communication***

This entails the reliability and timeliness of reported information, the frequency of internal communication regarding the need and objectives effective internal controls in the District, and the effectiveness of the mode of communication and reporting practices in the District.

### 2.5.1.5 **Monitoring**

This entails how well management monitors the implementation of controls over time. Continuous monitoring helps to identify poorly designed or ineffective controls. Monitoring should include the attention paid to reported weaknesses and the speed at which corrective measures are implemented.

### 2.5.2 **Evaluating the system of internal controls**

The internal audit unit should assist the District and its management to maintain an effective internal control system. The required assistance is rendered through evaluation of the adequacy, effectiveness and efficiency of the system including the specific controls, at least once in every fiscal year, and by promoting the continuous improvement of the system and the controls.

The *Internal Control Questionnaire for Districts, Form 6* should be used to assess the components of the internal control model.

Report on findings about the design and implementation of internal control systems, essentially the adequacy and effectiveness of the system should be prepared providing recommendations to remedy the identified deficiencies in design and weakness in implementation.

The review should cover the following management assertions on key controls and transactions:

- (i) **Authorisation** – approved party authorised the transaction;
- (ii) **Validity** – the activity or underlying event occurred;
- (iii) **Accuracy** – the terms and amounts were correct;
- (iv) **Timeliness** – information was recorded in the proper period;
- (v) **Confidentiality** – information was kept private;
- (vi) **Integrity** – information is free from corruption and alteration; and
- (vii) **Availability** – information is stored and readily available.

Based on this review and other audit evidence gathered in that year, the HIA shall form and issue an audit report on the effectiveness of internal controls in the District to the DAC to support the assessment of the adequacy and effectiveness of the internal control system by the Committee.

The annual overall internal audit report on the effectiveness of internal controls in the District Committee shall be part of annual internal audit report. The internal control reviews shall follow the audit approach described in Chapter 5.

## 2.6 **Risk based approach**

The Districts shall adopt a risk based audit approach and use the other audit approaches described below where appropriate to meet specific audit objectives. Risk based approach focuses on the areas of highest risk to attaining the Districts objectives. Furthermore, a District internal audit unit does not have

adequate resources to carry out 100% audit of every transaction. Therefore, the HIA has to decide how best to determine audit priorities, and where to allocate his relatively scarce resources.

The method of determining audit priorities is to carry out an assessment of relative risk of loss or error in each audit area, of each District, and to assess the possible value and impact of the loss/error. Those areas which are considered high risk/value must receive high priority and an appropriate allocation of the department/unit's resources. This is called the risk based approach to the internal audit of financial transactions.

The steps involved in the risk based approach to auditing can be summarised as follows:

- (i) Identify key risks and controls – what could go wrong;
- (ii) Prioritise the risks and controls by assessing the importance of each risk focusing on their likelihood; and
- (iii) Assess the effectiveness of the identified controls in addressing risks – assess control coverage.

### **2.6.1 Risk analysis**

Risk analysis enables the internal audit to evaluate the vulnerability of a particular system or group of systems. It is based on subjective judgment but various techniques can be used to make the analysis more systematic and, in part, more objective. Use of them will strongly support the auditor's judgment on the priority and frequency of audit. They can also help identify areas of high exposure which might not have otherwise been identified. The auditor should document fully all the stages of the risk assessment exercise.

In planning an audit the HIA will carry out an assessment of Audit Risk that exists in the District being audited. High risk areas will be subject to audit at least quarterly, whilst low risk areas may be subject to audit annually. The main factors which increase risk in any single area of an audit include:

- (i) The volume of transactions - the higher the volume, the higher the risk;
- (ii) The value of sums of money involved -the higher the value, the higher the risk;
- (iii) The relative complexity [and strength or weakness] of the systems, internal controls, and segregation of duties. Complex or weaker systems give rise to higher risk;
- (iv) The sensitivity of systems which includes:
  - Systems that are particularly susceptible to maladministration such as salaries and allowances. These are high risk.
  - The likelihood of collusion amongst employees. This raises risk.

- Systems where the capacity of staff is known to be weak, or there has been staff turnover.  
This raises risk.
- (v) The relative strength or weakness of the overall control environment within the District particularly with regard to financial management and analysis of financial performance. A weak control environment raises risk.

## 2.7 Types of audits

A number of different type of audit and assurance assignments which shall be undertaken by the internal audit function include, but are not limited, to:

- (i) **Compliance audit** – A compliance review determines the degree of adherence to laws, regulations, and internal and external policies and procedures.
- (ii) **Systems audits** - evaluation of the design and operation of a District’s systems and process rather than locations or departments. It follows a horizontal rather than a vertical approach by reviewing an activity across the District. The process assesses the adequacy and effectiveness of controls designed to manage risks and ensure objectives are met.
- (iii) **Value for money/ performance audits** – review for processes to determine whether resources have been used efficiently, effectively and economically.
- (iv) **Information system Audits** - Information system reviews address the internal control environment of automated information and transaction processing systems and how people use those systems. Information system reviews typically evaluate system input, output, and processing controls; backup and recovery plans; and system security and documentation.
- (v) **Financial review/audit** – A financial review evaluates the accuracy and correctness of accounting transactions and reports. The purpose of this type of review is to verify that the financial activity of a unit is accurately reflected in financial reports and that accounting records and financial documentation support the financial reports.
- (vi) **Operational audits** – An operational review examines the use of resources available to the organization and evaluates whether those resources are being used in the most efficient and effective ways to meet the stated missions and objectives. The accomplishment of goals and objectives is a major consideration of our operational reviews.
- (vii) **Procurement audits** - Procurement reviews are designed to evaluate independence, objectivity and fairness of department procurements.

When undertaking an audit, an internal auditor should be assessing the effectiveness of the internal control systems, recommending measures to strengthen these.

## **2.8 Fraud detection and investigations**

Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud will be detected. Consequently, internal audit shall not have responsibility for the prevention or detection of fraud. However, internal auditors should be alert in their work to risks and exposures that could allow fraud and incorporate audit steps to detect fraud. Managing the risk of fraud is the responsibility of top management and other personnel of the District

If an irregularity is suspected to have occurred, the internal auditor should promptly carry out procedures to confirm or rule out the actual occurrence of the irregularity. Such procedures may include inquiry into the circumstances of the event, interviews with the persons involved and vouching the associated documents. Any unconfirmed “suspected” irregularity need not be escalated beyond the internal auditor who has inquired into it.

Any confirmed cases of fraud shall be reported to the DAC. Internal audit shall also report the findings to top management except where top management is suspected of involvement in the fraud. The internal auditor should draw the immediate attention of the HIA and the DAC soon after discovery of any irregularities for direction.

The internal auditors should exercise due professional diligence to distinguish irregularities from ordinary non-compliance with prescribed procedures. The dividing line should be that: whilst an irregularity is characterised by intentional deception, ordinary non-compliance with procedures should be unintentional.

The internal auditors shall note that any allegation of irregularity would be a sensitive matter for both the auditor and the suspected person. Therefore the auditor shall:

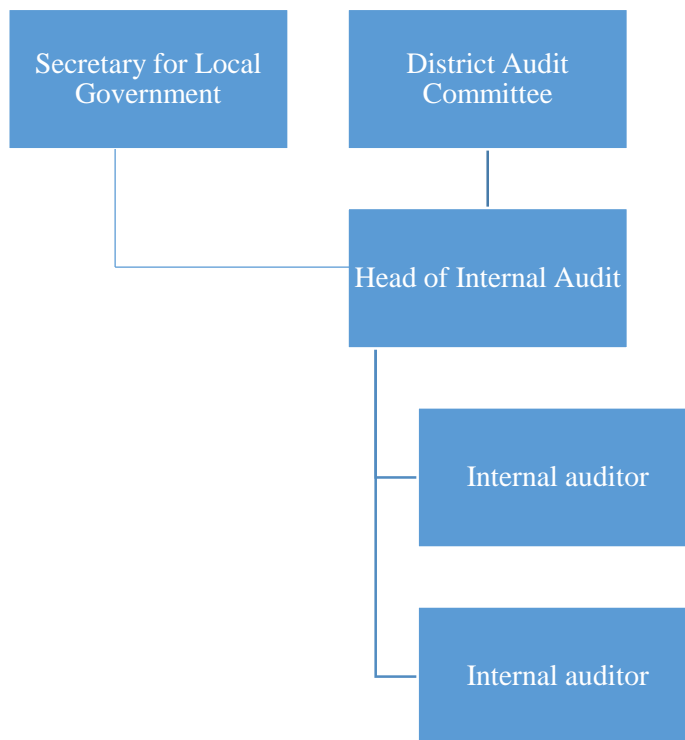
- Treat the matter “strictly confidential”; and
- Ensure that any case of irregularity is adequately investigated and that the associated report is supported by sufficient indisputable documentary evidence.

Unless the internal auditor has requisite skills, he/she should not investigate a major irregularity but should instead seek the support of the DAC.

### 3 Organisation and management of the internal audit unit

#### 3.1 Internal audit structure

The internal audit department/unit (hereafter referred to as ‘internal audit unit’) in Districts shall be headed by a Head of Internal Audit (HIA) reporting to the DAC, and to the Secretary for Local Government on administrative issues, and are organised as provided below:



The HIA is responsible for the efficient and effective functioning of a critical institution within the District, and one which is a key element of good governance. It is therefore important that the HIA understands and accepts the substantial responsibility that the role entails.

The DAC is responsible for providing oversight to the internal audit unit, monitoring and providing supervision and quality assurance, in order to ensure that the unit undertakes its work in accordance with the guidelines provided in this manual.

Good management of the internal audit unit relies on:

- (i) thorough planning;
- (ii) effective execution of the plan via the appropriate allocation and efficient use of resources;
- (iii) effective staff monitoring, mentoring and appraisal; and
- (iv) technical development and capacity building of professional staff.

### 3.2 Standard job descriptions

Internal audit unit operations will be guided by the internal audit charter and the following standard job descriptions. Internal auditors are requested to perform the following tasks in order to fulfil their responsibilities.

Description		Explanations
1	Prepare annual audit plan	Identify and evaluating the District risks in all auditable areas; and  Prepare a risk based annual audit plan
2	Carrying out financial review	Conduct quality review of financial statement by carrying out audits that evaluate the controls over revenues, expenditures, assets and liabilities designed to optimise the efficient use of resources and effectiveness of operations. To put much emphasis on the appropriateness of accounting records and reliability of the financial reporting.
3	Carrying out systems audit	Assess whether current controls are adequate to identify risks and provide assurance on the adequacy and effectiveness of risk management practices;  Help management to improve efficiency and to ensure that governance, risk management and internal control systems are operating effectively; and  Reviewing the existing and new information systems to assess the quality of controls and the relevance and reliability of the systems output.
4	Carrying out compliance audits	Examine adherence to any policy, contractual, regulatory and legislative requirements.
5	Conducting investigative assignments	Whether appropriate, assess any allegations of wrong doing or breaches of government standards of conduct.
6	Providing advisory services	Participate in significant initiatives and priorities and providing solutions to financial and other internal control

		issues. Auditors should safeguard their objectivity and ensure they do not play management roles.
7	Following up audit recommendations	Review management responses to internal audit and Office of the Auditor General (OAG) recommendations, and prepare monitoring report indicating status of implementation of recommendations and corrective action plans.
8	Preparing consolidated quarterly internal audit report	Summarise internal audit activities in a consolidated report to be submitted to the DAC (or District Council).
9	Maintaining records of work done	Maintain records of engagement plans, audit programs, working papers and adequate evidence to support work done and findings.
10	Performance management	Agree performance targets with DAC (or district council) and report on achievement on a quarterly basis
11	Preparing annual internal audit report	Prepare internal audit annual report to be presented to the DAC.
12	Carrying out other tasks	Perform any other duties as may be deemed appropriate

### **3.3 Internal audit reporting**

The internal audit unit shall produce quarterly and annual audit reports and submit them to DAC through the accounting officer, copy reports to the Mayor, Ministry of Interior, Local Government and Rural Development, Auditor General and Ministry of Finance.

### **3.4 Attribute standards**

Attribute standards address the characteristics of internal auditors performing internal audit activities.

#### **3.4.1 Independence**

To discharge his/her responsibility effectively, the HIA must have free and unrestricted access to the internal auditors. Internal Audit independence is reinforced further through a properly structured and effective DAC. The HIA must also establish effective communication with, and have free and unrestricted access to the Chairperson of the DAC.

The HIA shall report incidences of impairment to independence to the DAC. Internal auditors shall include details of scope limitation in audit reports and the impact in forming conclusions on the subject matter. If impairment is noted after the report has been issued, and such impairment has impacted on the quality of the audit and its outcome, the HIA must notify the DAC and withdraw the report.

Internal audit independence may be impaired by:

- (i) Restriction of access to sources of information;
- (ii) Actions or persuasion designed to influence the conduct, scope of an audit, or the content of an audit report;
- (iii) Previous employment in area being audited, unless a suitable period (at least one year) has elapsed since the auditor's involvement;
- (iv) Personal relationships, particularly with the staff of the audited unit;
- (v) Personal bias against unit management or other officer whether due to ideological differences, personality conflict; and
- (vi) Financial interest by the auditor personally or indirectly through family members.

The independence of the internal audit activity might be impaired if:

- (i) The internal audit unit is under an operational department e.g. finance;
- (ii) The reports of the internal auditor are subject to the prior approval of management of the audited unit before being released;
- (iii) The internal auditor serves the audited unit in management or operational capacity;
- (iv) The internal auditor's recruitment, performance appraisal, promotion and dismissal is influenced by management of the audited unit;
- (v) The internal auditor is not readily accessible to those charged with governance; and
- (vi) The internal auditor is unable to conduct audits and report findings, opinions, and conclusions objectively without fear of reprisal.

Consequently, District management shall place the internal audit unit in the position which prevents the occurrence of the above mentioned scenarios.

Internal auditors must remain politically neutral and avoid any factors that may restrict their work or impair their ability to be professionally independent. Such factors include actual or perceived pressures from management and employees of the audited department/unit, politicians, prosecutors and business people.

Internal auditors should report threats to independence to the HIA or DAC for appropriate intervention. Where appropriate, the DAC would draw the attention of the District Council for appropriate course of action. Internal audit independence may be impaired due to:

- (i) Pressure to improperly limit or modify the scope of an audit probably with preconceived audit conclusions;
- (ii) Interference in audit sampling; for example: instructions are given to examine and/ or not to bother with specific transactions;
- (iii) Unreasonable deadlines for the completion of the audit tests or to issue the audit report;
- (iv) External influence over the assignment, appointment, compensation, and promotion of the auditor; ability to overrule or to inappropriately influence the auditors' judgment as to the appropriate content of the audit report;
- (v) Bribes or significant gifts, promised or actual, to the auditor by entrepreneurs. These include promises for employment for self or relatives of the auditor;
- (vi) Threats, perceived or actual, to the personal security of the auditor, especially where embezzlement or other form of misappropriation of state resources is suspected; and
- (vii) Assignments with little impact on internal auditor's professional independence.

The following consulting services are considered to bear insignificant impact on the internal auditor's professional independence:

- (i) Being a member of a technical committee of whatever description solely as a technical expert in nonvoting capacity to render technical advice based on "auditors' knowledge;
- (ii) Providing tools and methodologies, such as "best practices" in governance and internal control; and
- (iii) Providing training to other District personnel.

Internal auditors should safeguard their independence when providing consulting services.

### **3.4.2 Objectivity**

Objectivity is an independent mental attitude that means honesty, freedom from bias, using facts without distortions from personal feelings or prejudices. Internal auditors should display appropriate professional objectivity when providing their opinions, assessments and recommendations. Internal auditors should be objective not only in fact but also in appearance.

Internal auditors shall not be placed in situations in which they feel unable to make objective professional judgments and shall not be assigned to audits where any perceived or actual conflicts of interest and bias are present. During planning, auditors shall consider any potential conflict of interest and declare to HIA for appropriate action using the statement of auditor's objectivity and ethics template, Form 1. The HIA shall report the same to the District management and the DAC as considered appropriate for assistance and action.

## **3.5 Professional responsibilities**

### **3.5.1 Proficiency**

Internal audit staff shall collectively possess the knowledge and skills essential to the practice of the internal auditing profession within the District. These include:

- (i) Proficiency in applying internal auditing standards, procedures and techniques required in performing engagements. Proficiency means the ability to apply knowledge to situations likely to be encountered and to deal with them without extensive recourse to technical research and assistance;
- (ii) Professional qualification in a related field (such as Association of Certified Chartered Accountants, Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, Certified Fraud Examiner, Certified Public Audit Professional or Certification in Control Self-Assessment) is desirable;
- (iii) An understanding of management principles to recognise and evaluate the materiality and significance of deviations from best practices;
- (iv) An appreciation of the fundamentals of subjects such as accounting, economics, public administration, law, finance, and information technology. Each auditor shall be fully qualified in at least one of the required disciplines, but need not be qualified in all of the disciplines;
- (v) Skills in dealing with people and communicating clearly and effectively to convey such matters as engagement objectives, findings, conclusions, and recommendations; and
- (vi) Knowledge of technology tools (such as Microsoft suite applications), electronic working papers, and ability to use technology, in particular computer-assisted audit techniques, to support audit testing and analysis.

The District shall endeavour to recruit audit staff that are qualified in disciplines needed to meet the District's responsibilities by ensuring suitable criteria have been established for the required level.

### **3.5.2 Due Professional Care**

Internal auditors shall apply care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances in performing their work and relationships with staff of the District. They shall exercise professional scepticism in carrying out their work and be alert to the following:

- (i) The possibility of intentional wrong-doing;
- (ii) Errors and omissions;
- (iii) Inefficiency, waste and ineffectiveness;
- (iv) Conflict of interest;
- (v) Conditions and activities likely to give rise to irregularities; and

(vi) Inadequate control situations.

In exercising due professional care, the internal auditor is required to consider the following:

- (i) The extent of internal audit work needed to achieve the audit objectives;
- (ii) The relative complexity, materiality or significance of processes/programmes being audited;
- (iii) Adequacy and reliability of risk management and control processes; and
- (iv) Likelihood of material irregularities or non-compliance.

### ***Professional judgement***

In the planning and performance of audit work, internal auditors must exercise appropriate professional judgment. This means exercising reasonable care and professional scepticism.

Reasonable care requires acting diligently and systematically in compliance with applicable ethical and professional standards, while professional scepticism entails an investigative attitude in the conduct of audit and critical assessment of the evidence obtained. The rationale behind professional scepticism is the assumption that the auditee is neither dishonest nor of unquestionable honesty until sufficient evidence has been obtained to support either way.

However, professional scepticism should not in any way mean that the internal auditor should have a preconceived mind of any irregularity with the affairs of the auditee; for example embezzlement, unless there are preliminary symptoms to that effect.

Internal auditor must not make conclusions which are not backed by appropriate, sufficient and undoubted evidence.

Due professional care does not imply infallibility. If significant risks are observed after an audit has been carried out, the HIA should investigate to establish if adequate audit procedures were carried out and institute corrective measures including re-training staff. The HIA shall report to the DAC critical incidents and the DAC shall provide support as required.

## **3.6 Quality assurance review**

The DAC shall undertake internal quality reviews of the internal audit unit. During the reviews a range of completed and current audit assignments should be reviewed. Internal quality review should be conducted at least once per year. Reviewers should appraise:

- (i) The quality of audit work;
- (ii) The quality of supervision and monitoring;
- (iii) Compliance with the internal audit unit's policies and audit manual;
- (iv) Compliance with the code of ethics and the standards for the professional practice of internal audit of the institute of internal auditors and other professional guidelines;

- (v) The achievement of stipulated performance standards for:
  - Meeting the annual audit plans;
  - Performance of field work;
  - Quality of reports; and
  - Follow up.

Annually, the HIA shall communicate results of the internal quality assurance improvement programme to the DAC.

The DAC shall engage the Auditor General to carry out the external quality assurance review initially once every year and at least once every three years once the controls at the District are believed to be satisfactory.

The review shall:

- (i) Check whether the unit is meeting its mission and strategic objectives;
- (ii) Check whether internal auditors are fulfilling their mandated roles and responsibilities;
- (iii) Identify and correct sub-standard practices; and
- (iv) Check whether the internal auditors are observing:
  - the code of ethics and the standards for the professional practice of internal audit of the institute of internal auditors;
  - Other professional guidelines; and
  - Internal audit unit policies and audit manual.

The HIA shall disclose non-conformance to the definition of internal auditing, the code of ethics, or the standards and results of the independent external quality assurance assessment to the DAC.

### **3.7 Coordination with the Office of the Auditor General**

In the preparation and implementation of the annual audit plan, and where otherwise appropriate, the HIA shall actively cooperate and coordinate efforts with the OAG for the following purposes:

- (i) To coordinate efforts to avoid duplication in the audit or other review of activities that commonly fall under the internal and external oversight responsibilities;
- (ii) To enhance knowledge and understanding of audit matters;
- (iii) To identify areas in which internal audit can improve its overall effectiveness;
- (iv) Synchronisation of audit effort; and
- (v) Monitor implementation of agreed corrective action plans.

### **3.8 Relationships with other assurance providers**

The HIA should also maintain contacts and cooperate with external assurance service providers. These may include, development partner auditors and procurement auditors.

Where management inspection or compliance teams from other assurance and review service providers are in place, internal audit should look for opportunities to gain assurance from, and place reliance on, their work.

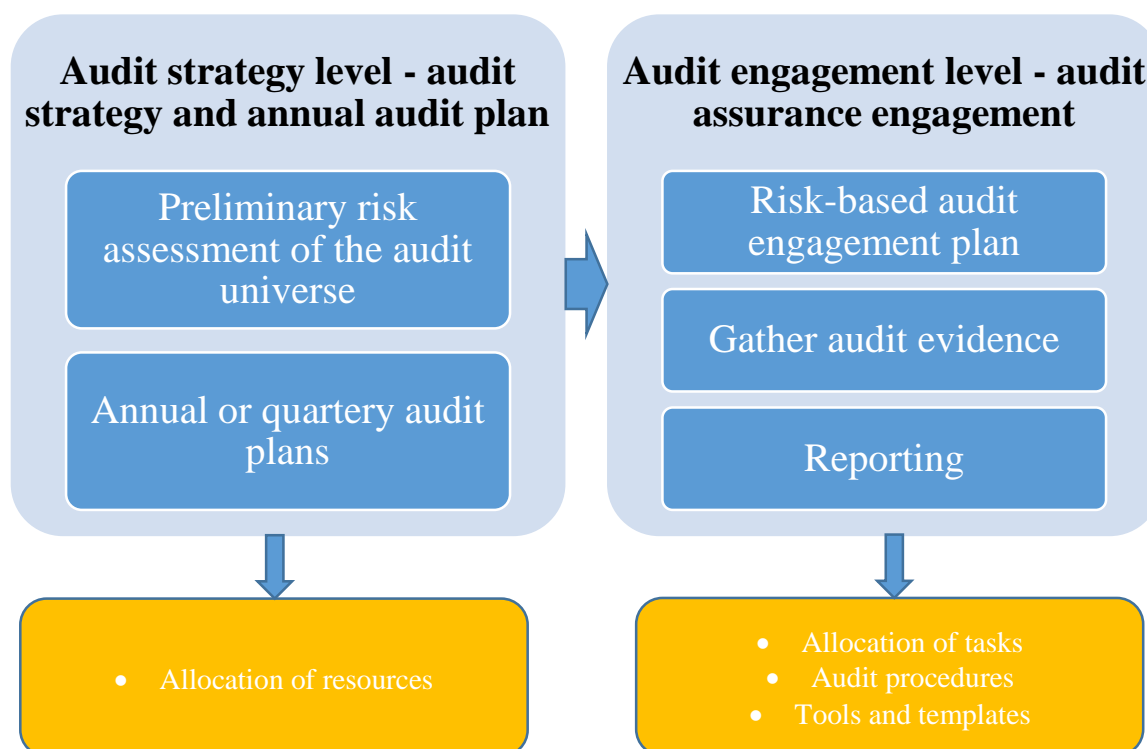
Where it is intended to place formal reliance on the work by such bodies, an appropriate quality assurance exercise should be done to confirm that the review work is carried out to the minimum standards required by internal audit.

## 4 Risk assessment and annual audit planning

### 4.1 Risk assessment

Districts in Puntland shall adopt a risk-based internal audit process in order to ensure the limited resources available are directed to areas of greater risk to achievement of District objectives. This helps to prioritise limited audit resources. For efficiency, all District internal auditors should adopt the risk based internal audit process as detailed:

#### Risk-based internal audit process



Internal auditors are required to conduct risk assessments and make conclusions about the adequacy of risk management in a District for the purpose of establishing both the audit strategy and annual audit plan and the engagement plans for the conduct of audits in individual areas. The HIA and internal auditors should be aware of and take into account the concepts following that relate to risks from an audit perspective when conducting a risk assessment.

#### 4.1.1 Inherent Risk

This is the probability of material errors and incorrect information, entering the accounting and management systems that could result in misrepresentation or misstatement of financial and other results, based on the assumption that there are no effective controls.

#### **4.1.2 Residual Risk**

The risk remaining after management takes action through various measures, including establishing control activities, to reduce the likelihood of adverse events occurring and their impact should they occur. Management actions should reduce inherent risks, but may not completely eliminate the risks. Management should be aware of such residual risks. Where Management has not carried out an evaluation of the residual risk, internal auditors should evaluate the risk and report their findings to management, if necessary.

#### **4.1.3 Control Risk**

Control risk is the probability that the District's internal control system will fail to detect material misstatements due to its own structural weakness. Where controls are either not properly designed or not properly executed as designed, the probability of control failures are higher. For example, a major risk is more probable under a weak internal control structure than under a well-designed one.

Reliance on a control system alone without other supporting audit work exposes an auditor to control risk.

#### **4.1.4 Detection Risk**

This is the chance that the auditor will not detect a material problem. This mostly would arise as a result of poorly designed audit procedures or that the auditors executing an audit programme do not fully understand the nature and importance of the planned audit tests.

### **4.2 Risk assessment and annual audit planning**

Internal auditors should use risk assessments in preparing the District's audit strategy and the annual audit plan. Proper risk assessment at a macro level of all the programmes, the various Districts departments/units and operational processes that constitute the audit universe helps the District internal auditors identify and prioritise those programmes, activities, departments/units and operations that should be included as potential audit engagements in the annual audit plan. Such systematic prioritisation based on risks as well as other pertinent factors is essential to ensure that scarce resources are allocated to conduct audits of areas that bear the highest risk to achieving District goals and objectives.

### **4.3 Risk assessment and audit engagements**

Risk assessment is an important part of planning and conducting audit engagements (audit work) of the areas or subjects identified and included in the annual audit plan. Detailed assessments of risks at the micro level, that is, at the level of the subject area, helps the internal auditors establish and refine the objectives of conducting the audit. It is also instrumental in determining the audit programme or steps,

that is, the lines of enquiry, so as to ensure that efforts are focused on the most important risks associated with the subject being audited.

## **4.4 Annual planning process**

Risk based audit methodology links internal auditing to the District's overall risk management framework and allows the internal audit units to provide assurance whether the risk management processes are managing risks effectively, in relation to the risk appetite.

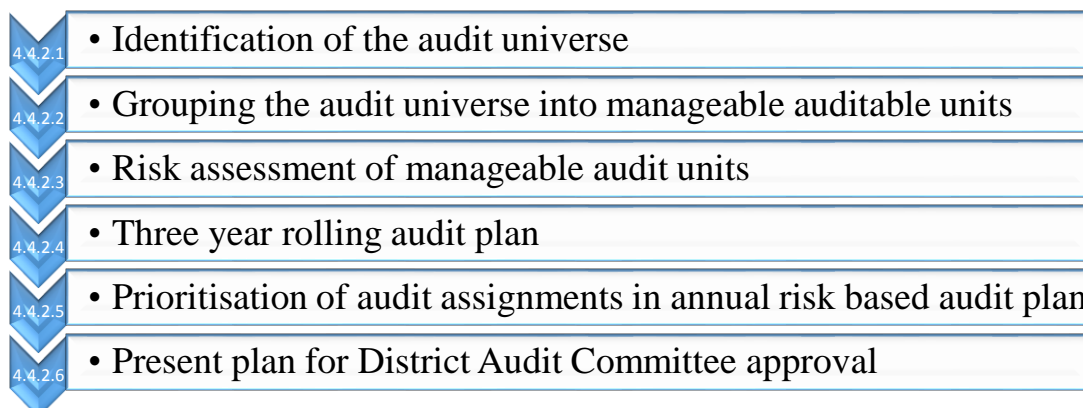
### **4.4.1 The purpose of the plan is to communicate:**

- (i) The audit areas, departments or processes to be covered;
- (ii) The level of resources required to implement the audit plan;
- (iii) The staff resources and other resources available, expected and budgeted;
- (iv) The resource gap if any, including proposals on how this gap could be dealt with, and the risks consequences arising if the proposals are not able to be implemented; and
- (v) A summary of capacity building that is planned to take place during the period.

Where the District's management has performed its own risk assessment, internal auditors may choose to rely on risk registers. However, where Districts do not have a formal risk management process, internal auditors shall conduct an annual risk assessment to establish its annual audit plans.

### **4.4.2 Overview of annual planning process**

Below is an overview of the annual planning process.



#### **4.4.2.1 Identification of the audit universe and grouping into manageable auditable units**

Internal audit shall identify all budget lines, departments, programmes, systems, assets, resources and processes that are within internal audit potential scope. New activities, programmes and changes within the existing District or operating units which may impact the audit universe are considered.

The District management of auditable areas should be consulted, and budgets and strategic and operational plans reviewed to identify key District objectives.

Internal audit should then group the components of the audit universe into manageable auditable units.

#### **4.4.2.2 Risk assessment of manageable auditable units**

Each auditable unit is assessed and ranked based on its significance to the achievement of the District's objectives, its complexity in terms of ensuring that intended outcomes are achieved, and its sensitivity in terms of the public or the intended beneficiaries.

The following steps are followed to assess the risks in each auditable unit.

##### **(i) Understanding the processes and objectives**

Assessment of each auditable unit risk assessment begins with an understanding of the District and departments, units, activities or processes.

##### **(ii) Identifying risks**

The District's strategic, financial, operational, regulatory and reputational risks at both a District-wide and operational level are identified. Risks whether from external or internal sources are categorised using a suitable risk model.

Information on risks can be gathered through:

- Interviews of District management;
- By consulting external auditors;
- By reviewing recent audit reports;
- From planning documents such as budgets and strategic plan;
- From the external environment; and
- From other stakeholders.

##### **(iii) Risk analysis**

- **Inherent risk assessment** - Risks are identified and assessed before considering the controls management has put place. Inherent risk should additionally be informed through use of a risk matrix, such as is included in Table 2.

**Table 2: Risk Matrix**

(i)		Risk factors							
		(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)
<b>Risk level</b>		<b>Prior audit work</b>	<b>Complexity</b>	<b>Control environment</b>	<b>Operating management</b>	<b>Changes</b>	<b>Sensitivity</b>	<b>Budget</b>	<b>Staff</b>
<b>High</b>		> 7 years	Very high	Very weak	Low perform.	New	Front line	>25 %	>25 %
<b>Medium</b>		5-6 years	Medium	Weak	Limited perform.	Many	Significant	25 to 15%	25 to 15%
<b>Low</b>		4-3 years	Low	Moderate	Satisfactory	Some	Important	<15 %	<15 %

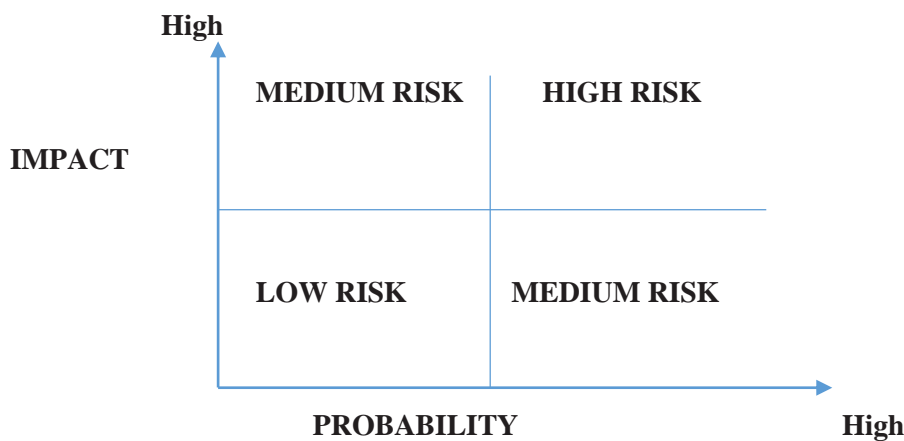
- **Residual risk assessment** - The controls to mitigate the risks are mapped and their effectiveness considered in determining the residual risk rating based on management’s perception and the auditor’s professional judgement.

Individual risks are profiled by combining the estimated risk likelihood/probability and impact to give the significance of each risk. Risks shall be assessed as high, medium or low, based on the following guidance:

- **High** – There is a critical weakness in controls. Resolution would help avoid a potentially critical negative impact involving loss of material assets, reputation, critical financial information, or ability to comply with the most important laws, policies, or procedures.
- **Medium** – There is a significant weakness in controls. Resolution would help avoid a potentially significant negative impact on the unit’s assets, financial information, or ability to comply with important laws, policies, or procedures.
- **Low** – There are no material weaknesses in controls however enhancement of the control environment is possible. Resolution would help improve controls and avoid problems in the unit’s operations. Individual risk scores are grouped for each auditable area (process) to give the relative significance of each auditable area in the audit universe.

Residual risks need to be rated in order to rank them according to the degree of severity. Risk is assessed in terms of the likelihood or probability of an event happening, and the degree of the impact if that event happens. For the purposes of preparing the annual audit plans, risks will be rated as High, Medium or Low. If the probability or likelihood of an event happening is high and its likely impact is also high, then the overall risk would be assessed as being high. Whereas, if the likelihood is low and the impact is also low then the overall risk of the event would be rated as low. Figure 1 below illustrates the relationship between the two factors, which determine the severity of risks.

**Figure 1: Risk Rating**



#### **4.4.2.3 Three Year Strategic Audit Plan**

A rolling three year rolling strategic audit plan shall be developed by the HIA in collaboration with management and approved by the DAC. The plan should take into account the following factors:

- (i) Existing controls;
- (ii) Expertise of management;
- (iii) Historical problems;
- (iv) Interval since the last audit review;
- (v) Conditions found during recent reviews;
- (vi) Adherence to the budget;
- (vii) Complexity of operations and technology; and
- (viii) Overall effectiveness and efficiency of operations.

Other considerations for selecting assignments include:

- (i) Audits requested by management and DAC;
- (ii) Emerging issues;
- (iii) High monetary value; and
- (iv) Follow up audit (on high risk recommendations).

#### ***4.4.2.4 Prioritisation of audit assignments in Annual risk based audit plan and presentation of plan to the DAC***

Audit assignments are proposed for areas that are of higher or moderate risk and that can be performed with the available resources. Carry-over assignments that are in progress and will be completed during the period of the audit plan indicating the remaining number of man days required to complete the assignment.

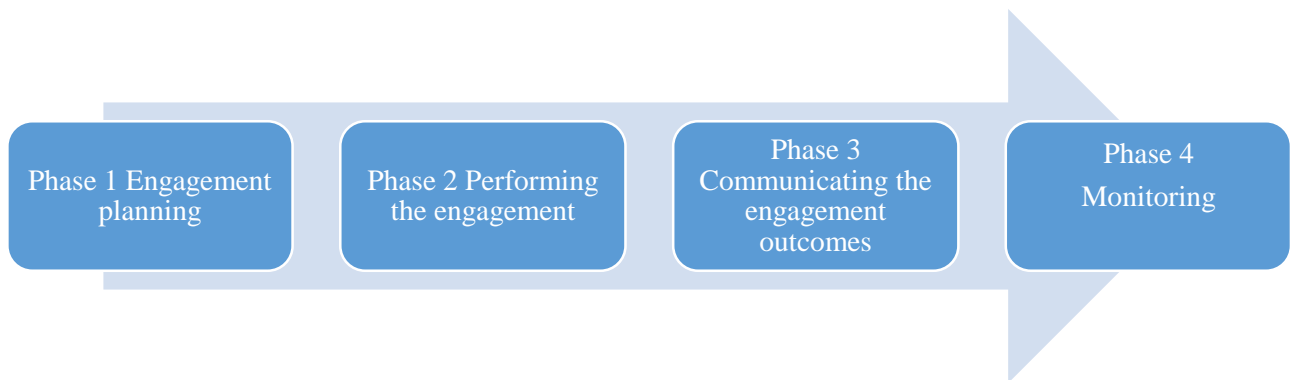
Once the plan has been prepared it should be presented to the DAC for their approval.

## 5 Audit engagement cycle

This chapter describes the procedures to be followed in the audit engagement cycle.

### 5.1 Overview of an assurance engagement cycle

A well conducted assurance engagement is carried out through 4 fundamental phases as illustrated in the diagram below:



Audit engagement consists of the following four phases:

Phase 1: Risk based audit engagement planning:

- Understand the District or system's objectives and operations;
- Defining audit objectives and scope;
- Selecting key areas of inquiry and key controls;
- Evaluate the adequacy of control design; and
- Developing of audit plan and program

Phase 2: Performing the engagement:

- Hold opening meeting;
- Identifying sources of audit evidence;
- Gathering audit evidence;
- Documenting audit evidence;
- Analysing audit evidence;
- Forming preliminary audit findings; and
- Hold exit meeting

Phase 3: Communicating the engagement outcomes:

- Prepare and submit the draft internal audit report;
- Hold closing meeting;
- Getting written management comments; and

- Prepare and submit the final internal audit report.

Phase 4: Internal audit monitoring

- Follow up survey and tests; and
- Reporting on implementation status

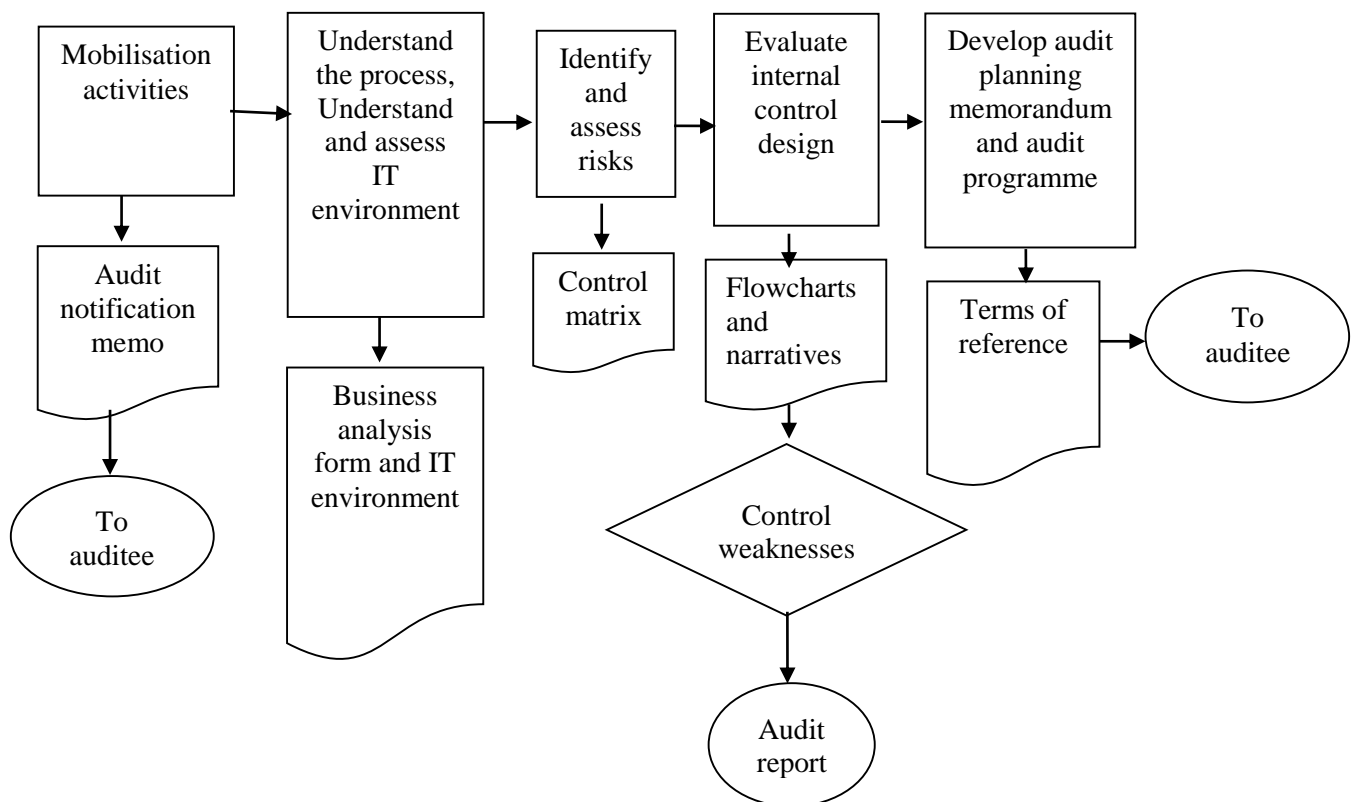
Forensic, consulting and other audit assignments would follow a separate approach, but delivered in line with the principles detailed in this section.

## 5.2 Engagement planning

The objectives of audit engagement planning are to:

- Help to ensure that appropriate attention is devoted to important areas of the engagement, that risk areas are identified and deeply assessed and resolved on a timely basis;
- Ensure that the engagement is properly organised and managed leading to an effective and efficient audit; and
- Assist in the proper assignment of work, facilitates the direction and supervision of the audit work and ensures proper supervision of the engagement.

The diagram below gives an overview of the engagement planning activities. These activities may be performed concurrently.



## **5.2.1 Mobilisation activities**

The following activities will be followed in mobilising audit assignments. Additional requirements may be needed for forensic audits depending on their circumstances:

### **5.2.1.1 *Selecting the assignment***

The HIA should select individual assignments from the approved annual audit plan. If a proposed assignment is not in the annual audit plan, the HIA should inform the Secretary for Local Government and the DAC. Assignments may also be performed on the request of the Secretary for Local Government, due to regulatory or legal requirement, recent event or a change in District process or system.

### **5.2.1.2 *The HIA determines the objectives and scope of the assignment***

The audit objectives will define the purpose of the audit. For example, the objective might be to evaluate the effectiveness of the internal control system or the reliability of the accounting system, or the effectiveness of a District programme.

### **5.2.1.3 *Selecting the team***

The HIA, taking into consideration the nature of the assignment, the training and experience of available staff and staff developmental needs, decides on the most effective team composition.

If more than one auditor is involved, the HIA holds a planning meeting with the other auditors to discuss the audit objectives, scope, methodology and the extent of audit sampling and testing. The meeting should also review the information obtained during the preparation of the annual audit plan.

### **5.2.1.4 *The HIA sends an “audit notification” letter to the Head of Department to be audited***

The notification letter informs of internal audit intention to conduct an audit and must reach the Head of the Department to be audited at least seven working (7) working days ahead of the commencement of the audit.

For forensic audits, the length of prior notice will depend on the circumstances of the specific case. Surprise cash count is an exception.

The notification letter should show the date of starting the audit, the type of audit, the key documents to be provided for audit and the names of the auditors to carry out the audit.

The letter should also outline the respective roles and responsibilities of internal audit and the audited department during the course of an audit, and an overview of the audit process and the broad timeframes for key milestones of the assignment. *An audit notification letter template is attached (Form 2).*

#### **5.2.1.5 Requesting for audit information**

The audit notification letter should be accompanied by *a request for audit information template (Form 3)* showing the time when the information is required. An exception to this practice will be on forensic audit as advance notice could be unproductive.

However, the use of initial information request does not prevent the auditor from requesting for additional information during the audit as deemed necessary.

The internal auditor should ask the auditee to appoint a focal person for coordinating the audit.

The auditor should maintain *an information request monitoring checklist (Form 4)* and update it on receipt of the requested information.

In the event that the information flow is persistently ineffective, the internal auditor should inform the Head of Department being audited, accordingly as well as the HIA on the impact of the delays on the reporting deadline.

#### **5.2.1.6 Opening Meeting**

The primary purpose of the opening meeting is to discuss the plans for the audit with the responsible persons of the activity or operations to be reviewed to ensure that pertinent issues facing the audited department are identified at the appropriate level and the audit is focused on the areas of greatest relevance and risk.

When preparing for this meeting, the internal auditor will review the documentation necessary to understand the department's organisation structure, its activities, risks and business processes. The opening meeting is held well ahead of the intended audit to establish a mutual understanding of the following audit planning matters:

- (i) The scope and objectives of the intended audit and the roles of each party towards the achievement of those objectives;
- (ii) Any specific "value addition" audit coverage that may be requested by the Head of Department and his/her team;
- (iii) The status of previous audit recommendations;
- (iv) Information requirements and timelines for providing the information;
- (v) The major deliverables from the audit and the persons to whom they will be addressed to;
- (vi) The projected timetable for the audit;
- (vii) The key contact persons for the audit and the communication methods; and
- (viii) Introduce the audit team.

At the end of the opening meeting the HIA must ensure that minutes of the meeting are prepared showing the date of the meeting, the persons in attendance, and the matters discussed including the conclusions reached. The minutes should be kept on the audit file as part of the working papers for the audit.

## **5.2.2 Understanding the process, understand and assess IT environment**

### **5.2.2.1 *Understand the process***

On the first day of fieldwork, the team leader should hold an entry meeting with senior personnel to introduce the team. The team commences to review information requested and to gather information on the audited department's objectives, its organisational structure and operations. *Minute's template is attached (Form 5).*

The following information should be collected to obtain a good understanding of how the audited department:

- (i) Plans, for example, strategic plans, policies, directives, budgets, funding sources;
- (ii) Organises, for example, organisation chart, job descriptions of key personnel, staff competency and delegation of authority;
- (iii) Directs, for example, copies of relevant regulation and rules, minutes; authority levels;
- (iv) Controls, for example, operational manual; and
- (v) Weaknesses or strength reported in the previous audits, implementation status of previous audit recommendations.

The internal auditor will obtain the required understanding through reviewing documentation such as the periodic operational reports, quarterly performance evaluation reports, funding agreements, programme budgets, applicable laws and regulations, minutes of management meetings, internal instructions such as those on delegation of authority, and previous audit reports including those written by the Auditor General.

The following techniques may be used to analyse and present information obtained at this stage:

- (i) Questionnaire
- (ii) Flowcharting.
- (iii) Narrative notes
- (iv) Internal control survey
- (v) Walkthroughs test
- (vi) Preliminary analytical review procedures
- (vii) Data analysis
- (viii) Physical observation

The *internal control questionnaire (Form 6)* should be used to assess the entity level control environment and internal control components at the process level.

A business process analysis is prepared to document this understanding. *A business process analysis template is attached (Form 7)*.

### **5.2.2.2 Understand and assess IT environment**

Where the audit relates to an activity or unit which maintains its information primarily on an ICT platform, auditors should:

- (i) determine the size and complexity of the system and the extent of the activity's dependence on it;
- (ii) determine if specialised IT audit skills are required; and
- (iii) gain an understanding of how the information system is used to support the organisation, and assess the application level risks the activity may face.

*Understanding the IT environment template (Form 8) and assessing IT general controls and application controls template (Form 9)* should be completed to assist in assessment of the Information system controls.

Internal auditors should remain alert to indicators of fraud and include steps to detect if fraud has occurred. *The fraud risk assessment template (Form 10)* should be completed to assist in this assessment.

### **5.2.3 Identify and assess risks**

The information obtained above is used to identify and describe key controls, conducting a risk assessment at the engagement level, and evaluating the design of the system of internal control and also to prepare the audit planning memorandum.

*A Risk Control Matrix (RCM), (Form 11)* is used to record the risks, key controls and audit objectives and the audit programme.

### **5.2.4 Evaluate internal control design**

After obtaining an understanding of the internal control system auditors should identify and assess key controls to determine whether identified controls are designed to meet the control objectives and mitigate risks. Limited examination of documents, records and reports should be undertaken to assess the design of key controls.

Using the results obtained, the auditors finalise the audit objectives and scope of the audit, and determine the extent of testing i.e. sample sizes, that will be required to enable reach a conclusion on

the audit objectives, and the methodology to be adopted to extract samples using *audit objectives and criteria template (Form 12)*.

The audit team should evaluate the adequacy of the control design during the planning activities and conclude as to whether controls to mitigate the risk are well designed.

NB. Generally there is no need to test the effectiveness of a control that has not been properly designed. If the audit team concludes that the control is not well designed, substantive tests should rather be designed to determine/illustrate the actual/potential risk resulting from the inadequacy of the control design.

## **5.2.5 Develop audit planning memorandum and audit programme**

### **5.2.5.1 Audit planning memorandum**

The audit plan memorandum should contain summaries of the key information gathered from the above planning steps. Furthermore, the document should contain the following;

- (i) Overview of the audited unit operations
- (ii) Audit scope and objectives

The objectives should inform the reader why the assignment will be conducted and what it is expected to achieve.

The audit scope should describe the processes or activities to be reviewed, the period to be covered by the audit and nature extent of testing.

- (i) Analysis of entity level and process level risks
- (ii) Status of previous audit recommendations
- (iii) The staffing plan for the audit, which should set out the responsibilities for each member of the assignment team, and the estimated man days to the completion of the audit.
- (iv) The proposed timetable for each stage and activities of the audit assignment – planning, audit tests, reporting writing and its submission. It is advisable to discuss the proposed timetable with the heads of units to be audited so that their commitment is obtained in advance.
- (v) The potential audit risks and the proposed measures to address those risks.
- (vi) Key contacts
- (vii) Management concerns and issues
- (viii) Planned areas of emphasis

*An audit planning memorandum template is attached (Form 13).*

### **5.2.5.2 Engagement audit program**

Audit programs should be designed to test controls deemed adequate/well designed, to determine whether the controls are operating as intended. An audit program includes the nature, timing and extent of audit procedures to be performed in order to obtain sufficient and appropriate audit evidence.

*An engagement work programme template is attached as (Form 14).*

## **5.2.6 Other considerations**

### **5.2.6.1 Review of previous audit findings**

Internal auditors shall enquire from management whether previous internal audit, external audit recommendations/action plans have been implemented and design steps to validate management assertions.

### **5.2.6.2 Audit sampling**

To enhance efficiency the internal auditors may test less than 100 percent of a population and use the results to conclude about the entire population.

The main considerations during sampling include:

- (i) risk of material misstatement;
- (ii) objectives of the audit procedure and the attributes of the population from which the sample will be drawn;
- (iii) sample size that reduces sampling risk to an acceptable low level;
- (iv) sample results, the nature and course of any errors identified and their possible effect on the particular audit objective and on other areas of the audit;
- (v) for tests of details, the effect of the projected error on the particular audit objective and on other areas of the audit; and
- (vi) whether relevant characteristic of the population is confirmed or needs to be revised.

*A sampling template is attached as (Form 15).*

### **5.2.6.3 Audit risk and materiality**

Audit risk is the risk that audit procedures will fail to detect an absent, inappropriately designed or ineffectively implemented internal control or management arrangement, which could result in an unacceptable level of business risk. Business risk is the risk of the District failing to meet its objectives.

Materiality is the degree of relevance or significance of an absent, inappropriately designed or ineffective control or management arrangement, in relation to the business risk of District.

Sampling risk arises from the fact that only a sample is selected for the audit tests, so that items in a population falling outside the selected sample may or may not contain material error. Therefore, conclusions might be reached which could have been different had the whole population been examined.

Non-sampling risk is the risk that the auditor fails to draw the right conclusion from an item that has been examined. Such a risk often arises from inadequacy of staff training, failure to exercise due professional care and diligence, inappropriate audit procedures and inadequate audit supervision.

The selection of the type, timing and extent of testing is influenced by:

- (i) The degree of risk involved in the transaction; and
- (ii) Materiality – substantive tests should be designed to detect errors that are considered material.

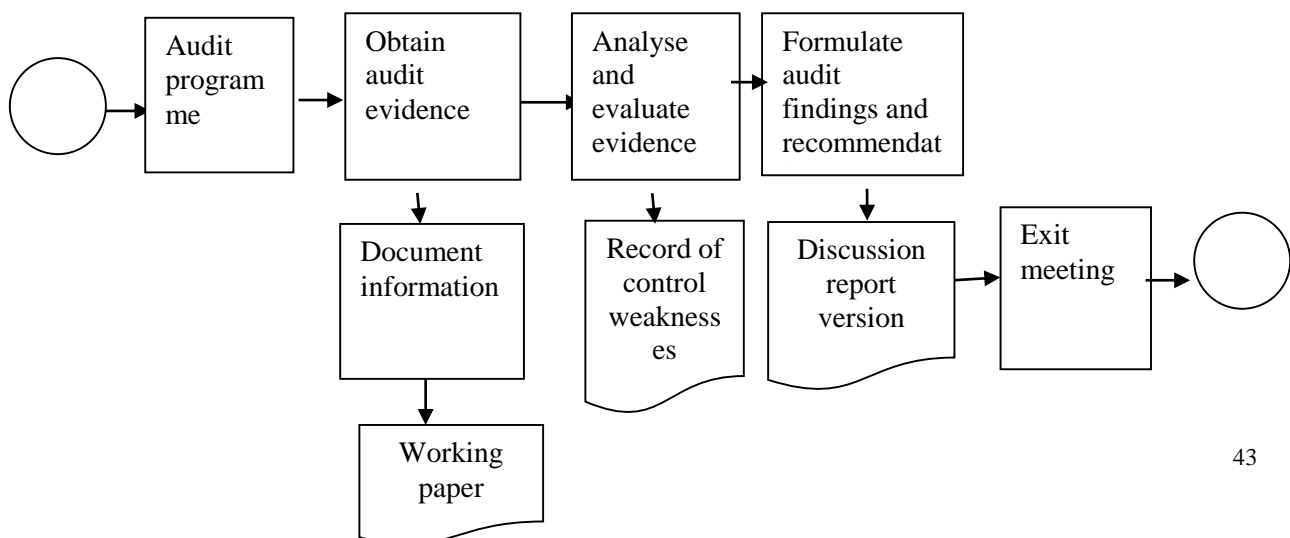
The HIA shall review and approve the audit programme before the team undertakes significant fieldwork. Where appropriate, the audit programme shall be revised to incorporate additional procedures that were not foreseen during the planning stage. The team leader of the assignment shall present these changes to the HIA for approval.

## 5.3 Performing the engagement

### 5.3.1 Overview of performing the engagement phase

Performing the engagement is the process of collecting, analysing, interpreting and documenting information on matters related to the audit objectives and scope. The objective is to obtain sufficient, competent, relevant, and useful information to provide a sound basis for audit findings and recommendations.

At the start of the fieldwork phase, the team leader should ensure that the audit team understands the audit objectives, scope and methodology, the procedures developed to accomplish the audit objectives, and the estimated timeframes. In this meeting the team should discuss fraud considerations. Based on the understanding of the likely important issues arising from planning activities, the team should start developing a structure of the report. The diagram below gives an overview of the performing phase



## 5.3.2 Obtaining evidence

Audit evidence gathered should be sufficient, competent, relevant and useful.

### 5.3.2.1 *Types of audit evidence*

Evidence may be categorised as physical, documentary, testimonial and analytical and is obtained by using various procedures:

- (i) Physical evidence - obtained by direct inspection or observation of people, property or events. Inspection of tangible assets provides reliable audit evidence about their existence, but not necessarily as to their ownership or value;
- (ii) Documentary evidence - consists of information that exists in some permanent form such as letters, contracts, accounting records, invoices, and management information on performance. It may be internal, external or a combination of both. The source of documentary evidence affects its reliability;
- (iii) Testimonial evidence - obtained through inquiries, interviews, or questionnaires. Inquiry and confirmation consists of seeking information from knowledgeable persons inside or outside the organisation. Testimonial evidence is less persuasive and may not always be conclusive and should be supported by other forms of information where possible;
- (iv) Analytical evidence - arises from the application of analytical review procedures which focus on:  
(1) relationships between financial and or statistical data; (2) comparison with previous years, and (3) comparison with budget, management information, and conclusions are based on examining data for consistencies, inconsistencies and cause-effect relationships. Unusual analytical results are investigated; and
- (v) Auditor shall obtain sufficient appropriate audit evidence, audit comfort, for each significant business activity and related audit area to enable the auditor reach a conclusion on the activity or operations reviewed. Internal auditors should strive to get the right evidence. Generally,
  - independent externally generated evidence is better than evidence generated within the District or unit under review;
  - evidence obtained directly by the auditor is more reliable than evidence obtained indirectly;
  - documentary evidence is better than oral evidence; and
  - original documentation provides more reliable evidence than photocopies and facsimiles.

The following substantive procedures may also be carried out to collect audit evidence:

- Vouching – testing recorded amounts by examining supporting documents to determine whether they represent an actual transaction;

- Tracing – following a document through its processing cycles to the accounting records to determine whether all transactions have been recorded;
- Recomputation – verifying the mathematical accuracy of figures. The value of this procedure is limited as the reliability of the evidence obtained depends on the validity of the underlying input.
- Scanning – searching for obvious exceptions in a large quantity of data.

Internal auditors shall use Computer Assisted Audit Techniques (CAATS), for example, IDEA to improve audit efficiency.

### **5.3.3 Analyse and evaluate**

After data is collected, it should be analysed and evaluated against established audit criteria to make conclusions. If the auditee has not established a criteria, internal audit in concurrence with the auditee may develop one.

Analysis means breaking down data/activities/processes into smaller, more manageable parts to determine attributes, relationships, cause, effect, etc. and make inferences or determine whether further examination is required.

Evaluation is the systematic determination of the merit, worth, or significance of the subject matter to arrive at a judgment in terms of adequacy, efficiency or effectiveness.

The analysis and evaluation of evidence obtained should give rise to issues (positive and negative), which HIA may wish to report to management.

Auditors should draw conclusions for each audit objective. Conclusions should be specified and not left to be inferred by readers. They should be free from personal biases or prejudices, and be objective.

### **5.3.4 Documenting information**

#### **5.3.4.1 *Developing appropriate working papers***

The audit working papers are required to serve the following purposes:

- (i) to facilitate effective conduct and management of the audit assignment;
- (ii) to ensure adequate coverage of the audit and control of the field work, providing coherence to the numerous individual procedures comprising any given audit, and facilitating quality control;
- (iii) to provide written evidence that supports the audit report;
- (iv) to guide follow-up actions and future audits;
- (v) they provide evidence of professionalism, objectivity, due diligence, or lack thereof; and

- (vi) to provide information to third parties such as the OAG who may intend to rely on the work of internal auditors, courts of law, prosecutors, crime investigators.

Auditors not involved in the specific audit assignment, may step into the assignment in “mid-stream” and carry on with the audit work without a need to re-do what had been done.

Each working paper should:

- (i) identify the assignment and describe the contents or purpose of the working paper;
- (ii) bear the initials of the auditor performing the work and the date prepared;
- (iii) contain an index or reference number and cross-referenced related working papers as appropriate;
- (iv) explain any tick marks (in different colours) used;
- (v) clearly identify the source(s) of data and personnel who provided the information and dates;
- (vi) be clear, concise and understandable, not requiring supplementary oral explanation;
- (vii) the specific audit objective, timing, extent and nature of tests;
- (viii) a description of the related risks identified;
- (ix) a description of the population tested and extent of sampling; and
- (x) have clear findings, conclusions reached and indicate any limitations.

For working papers authored by other parties, the internal auditor should prepare a “lead” working paper on standard stationery to summarise the audit information contained in that other working paper. Then that other party working paper should be HIA formed and cross-referenced to the working paper authored by the auditor. The reference numbers for the pages of that other party working paper should be sub-references of the working paper authored by the auditor.

#### **5.3.4.2 Filing principles**

Working papers must be securely kept in audit files structured in a manner that permits:

- (i) Several auditors to work concurrently on different segments of an audit assignment in a coordinated manner. This is achieved by partitioning the audit files according to the distinct segments of the audit assignment;
- (ii) Discipline in the conduct of the audit to eliminate possible omission of planned audit tasks. ***The quality control checklist (Form 16)***, should be signed off in each phase of the audit to ensure the audit is conducted in a systematic and sequenced approach;
- (iii) Smooth review of the audit working papers. Besides file partitioning, this is achieved by unique indexing of audit working papers. Any completed partition of the audit file may be reviewed without interrupting audit tests for other partitions; and
- (iv) Linking the audit programmes (list of planned audit tests) to the working papers where the associated audit tests and findings are recorded and linking the audit report to the supporting working papers. This is achieved through indexing and cross-referencing of the audit working

papers. “lead” sheets or control sheets which act as a form of “table of contents” should be used for easy retrieval of audit evidence from the audit file.

#### **5.3.4.3 *Audit file: working paper references and cross-referencing***

Every working paper should be assigned a unique reference number. The reference number services as an “identity” of the working paper. A working paper reference consists of:

- (i) the capital letter representing the section of the audit file where the working paper is to be filed; and
- (ii) a numeric index. Working papers should be assigned numeric indexes in serial ascending order (0, 1, 2, 3) at the same time as working papers are being prepared and filed. Thus, the series of complete working paper references found in section A of the audit file would be: A0 (“lead”/control sheet), A1, A2, A3.

If a working paper consisted of several pages, the references should be done in a manner that clearly shows the total number of the pages in the working paper. Thus, if A1 consisted of ten pages, its references would be as follows: A1: 1/10, A1: 2/10, A1: 3/10 up to A1: 10/10.

Working papers should be cross-referenced to facilitate understanding and information retrieval. Cross-referencing means indicating (on a working paper) the location (on another working paper) where the supporting information is found. For example, assuming that A1 above is a final audit report and on its page A1: 2/10 it states issues whose details are found on working paper numbered C4, the cross references would be as follows:

- On A1: 2/10 will be marked C4 against (usually on the left margin) the issue referred to – meaning that the reported issue is detained on C4; and
- On C4 will be marked A1: 2/10 against (usually on the right margin) the issue – meaning that the issue is carried forward to page 2/10 of the audit report (A1).

As a general principle, working papers should build upwards from source data to the final audit report. All working paper cross-references should be in red ink to make them conspicuous.

#### **5.3.4.4 *Review of working papers***

The HIA has the responsibility of ensuring that the audit working papers in the unit are reviewed before the associated audit reports are issued. The review of the audit working papers should focus on the following objectives:

- (i) Audit quality control. The review should provide the evidence that the audit has been supervised as required and that due professional care has been exercised;

- (ii) Confirming that the audit work has been completed as planned. That is, each audit test has been performed and each audit objective has been addressed;
- (iii) Confirming that the evidence gathered and analyses performed support the conclusions reached and the audit report issued;
- (iv) Confirming that the issues arising from the audit, including any irregularities, have been sufficiently discussed with the management of the audited unit and dealt with; and
- (v) Though a secondary aim, the review of working papers provides an opportunity to the auditors for on the job training and identification of training needs.

Working papers are normally reviewed by the team leader and the HIA of the specific audit assignment. However, depending on risk significance of the audited unit, the HIA or a person specifically delegated by him/her may review working papers for any audit assignment.

The review should take place at the premises of the audited unit so that any additional audit testing that may be necessary, as a result of the review, are performed before the departure from the premises.

The reviewer should append personal initials on each audit working paper reviewed and indicate thereon the date of the review.

The reviewer's questions or required additional audit work are summarised on *review notes working paper (Form 17)*. The working paper is then handed to the auditor to resolve. After resolving the questions or performing the additional work, the auditor indicates (against each review note) the working paper reference on which each of the review questions has been resolved), and then re-submits the working paper to the reviewer. The reviewer then signs-off the clearance of the review notes. The "cleared" review notes are retained on the audit file.

## **5.3.5 Formulate audit findings and recommendations**

### **5.3.5.1 Record of control weaknesses**

As reportable issues arise during the course of the audit, auditors should record their findings on record of control weaknesses and submit them to team leader for review. All elements of the finding as described above shall be provided. The team leader shall review the record of control weaknesses to confirm that each element of the finding is clear, correctly identified, factual and reflects the attributes outlined above.

Thereafter, the auditor shall set up a meeting to discuss the record of control weaknesses with the activity owner and confirm the validity of the findings and conclusions reached, and the feasibility of proposed recommendations.

Then the record of control weaknesses shall be updated with any explanations or clarifications provided, and the name and title of the official with whom the record of control weaknesses is discussed and the date of the meeting indicated. *A record of control weaknesses template is attached (Form 18).*

A determination of the next course of action shall be made based on the outcome of the meeting i.e. whether the issue is still ‘pending’ (additional work needs to be performed), ‘resolved’ (misunderstanding clarified or satisfactory explanation received) or should be included in the ‘audit report’.

Auditors shall consider the impact of the deficient condition before deciding to communicate it formally to management.

A “deficiency in design” represents a “gap” in the control structure. On the other hand, implementation weaknesses measure the “effectiveness” with which the control system is being implemented.

Three categories will be used to describe the design deficiencies and implementation weaknesses in the internal control system.

- (i) **“Inconsequential”** in which case it is a simple deficiency in design or implementation weakness with insignificant impact on the District’s operations. It would be sufficient to discuss the simple deficiency or implementation weakness with the respective managers of the District. However, repetitive occurrences should be reported in writing stating the times it was previously reported.
- (ii) **“Significant”** meaning that the deficiency in design or implementation weakness raises considerable concerns. A significant deficiency or implementation weakness, including the recommended remedies, must be brought to the immediate attention of the unit management in writing.
- (iii) **“Material”** which means that the deficiency in design or implementation weaknesses are very significant to the District’s control system. A material deficiency or implementation weakness, and the recommended remedies, must be promptly reported in writing not only to the unit management but also to the other organs charged with the governance of the District.

### **5.3.5.2 Elements of internal audit findings**

Audit findings should contain the elements of criteria, condition, risks and recommendations.

- (i) **Criteria** - The standards, measures, or expectations used in making an evaluation and/or verification (what should exist). The criteria should be credible, convincing and objective.
- (ii) **Condition** - The factual evidence that the internal auditor found in the course of the examination (what does exist). The condition should include sufficient information to help an adequate understanding of the matter(s) being reported.
- (iii) **Risk** - The exposure the organisation and/or others encounter because the condition is not consistent with the criteria (the impact of the difference). The risk should be logical and likely to occur. The auditor shall determine the possible financial implications of outcomes such as:
  - Cost savings, making scarce human financial and operational resources available for other programme/mission-related use;

- Cost avoidance by reducing expenditures and making funds available for other essential purposes;
  - Recovery of any amounts overpaid or incorrectly paid; and
  - Possibilities for income generation.
- (iv) Recommendations - call for action to correct existing conditions, mitigate risk or improve operations. They should address the cause of the finding, be implementable and capable of being monitored. Recommendations shall be constructive, practical, action oriented and thoroughly discussed with the auditee as to their feasibility and practicality.

### 5.3.5.3 *Rating audit findings*

Every audit issue will be rated as high, medium or low based on the following criteria.

- (i) **High** - A fundamental objective is not met or there is a critical weakness in controls;
- (ii) **Medium** - An important objective is not met or there is a significant weakness in controls.
- (iii) **Low** - Objectives are mostly met but further enhancement of the control environment is possible.

### 5.3.6 **Exit meeting**

At the end of the audit visits, a “discussion version” of the report with key findings noted during the audit is prepared and after discussion within the audit team, an exit meeting is arranged with the senior management of the audited unit to present the issues.

The “discussion version” is not for distribution but to guide the conduct of the “exit meeting” in a coherent manner. Essentially, it is an initial exposure of the audit findings. Therefore, the “discussion version” should simply contain the factual issues as revealed by the audit (for example: weaknesses noted and their actual impact), and at this stage the auditor should avoid personal subjective conclusions and opinions on the issues. The “discussion version” may be handed out to the audited unit personnel present at the “exit meeting”. Where possible, this draft should be reviewed by the head of internal audit unit before it is presented to the audited unit personnel.

A copy of the “discussion version” should be filed on the administration section of the audit file and each audit issue raised therein should be cross-referenced to the supporting audit working papers. For larger groups, the summary of findings may be presented in power point presentations.

The “exit meeting” is an additional opportunity to the auditor to confirm the audit findings particularly with top management of the audited unit, thus preventing the possibility of a disputed audited report.

Besides the key audit issues, the “exit meeting” should cover the tentative timetable for the issuance of the draft audit report and what the District would be expected to do after the receipt of the draft report, that is

to provide the written comments on the report and submit them to the auditor within the prescribed timeframe.

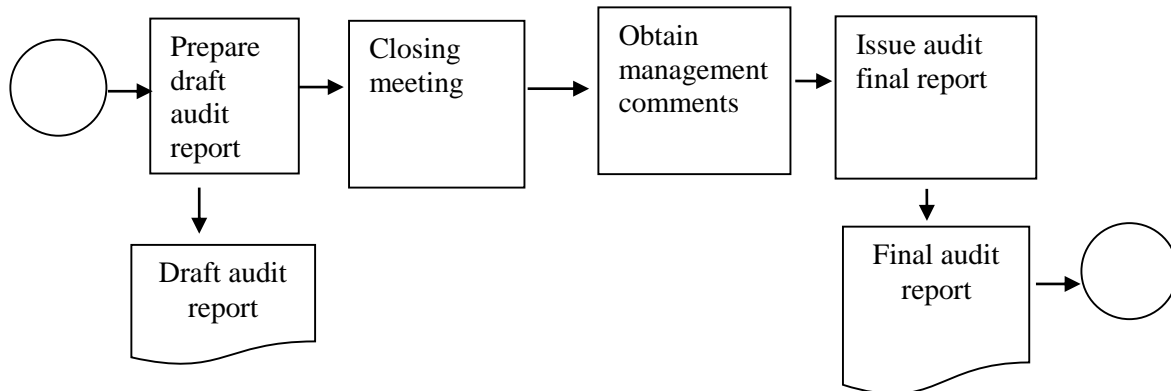
The minutes of the “exit meeting” should be kept on the administration section of the audit file. The exit meeting marks the end of audit fieldwork.

## 5.4 Communicating the engagement outcomes

The accountability for any communication issued by any internal audit unit rests with the HIA. The reporting phase of audits provides internal audit the opportunity to communicate the results of the audit assignment. Audit reports have the following objectives:

- (i) to inform potential readers of the conditions found during the audit and the criteria against which the conditions were evaluated;
- (ii) to persuade management of the validity of the conditions and their actual or potential effect; and
- (iii) to provide constructive and practical recommendations to management to take adequate corrective action to address issues that need improvement.

The following diagram gives an overview of the reporting phase of the audit



### 5.4.1 Draft audit report

Soon after the “exit meeting” the auditor in-charge of the audit assignment shall prepare the “draft version” of the audit report taking into account of explanations provided in the “exit meeting”. In addition, the draft version should contain audit conclusions, opinions and recommendations.

After the draft report has been reviewed and approved by the HIA, it should be sent to the unit’s management for formal comment within 15 working days after completing of the audit tests.

A copy of the draft report shall be filed on the administration section of the audit file and its content cross-referenced to the supporting audit working papers.

#### **5.4.1.1 Contents of an audit report**

Audit findings, conclusions and recommendations shall be communicated in writing through appropriate audit reports. However, this requirement does not negate the procedure of verbally discussing the audit findings with management of the audited unit during the audit “exit meeting”.

The effectiveness of internal audit depends on the quality and timeliness of the reports it produces. Consequently, internal audit reports must therefore be accurate, objective, clear, concise, constructive, complete, and timely.

#### **5.4.1.2 Report structure**

The internal audit reports for the specific assignment shall be prepared in the following structure using the *internal audit report templates provided (Form 19)*.

- (i) Submission letter;
- (ii) Cover page indicating the audit title, and date of the audit report, audit team and the assignment reference and report reference number. For instance, unit code/name of unit/month fieldwork started/year/no assignment in the year;
- (iii) Executive summary and/or opinion;
- (iv) Table of contents;
- (v) Introduction covering audit objectives, scope and methodology;
- (vi) Detailed audit findings and recommendations;
  - Areas of best practice; and
  - Areas of improvement
- (vii) Conclusion; and
- (viii) Annexes.

#### **5.4.2 Closing meeting**

The transmittal letter, which should be signed by the HIA, requesting for a closing meeting with the Head of Department within 5 calendar days to discuss the report. Minutes of the meeting should be prepared and filled.

#### **5.4.3 Management comments**

The head of the audited unit should be requested to submit written management comments within 5 working days after the closing meeting. The comments should include proposed timeframe for the implementation of the audit recommendations.

In the event that the comments have not been received by the deadline, the auditor should send a reminder to the unit top management and extend the deadline for further 3 working days. The reminder letter should state clearly that after the 3 days the report would be issued in final form even if the client comments are not received. If the auditee is not available to give comments due to extraneous circumstances, the HIA should determine how much time to give to the auditee before issuing the report as final.

#### 5.4.4 Final audit report

The final version of the audit report shall be issued five working days after receiving management comments. The final version of the report shall contain not only contain the content of the “draft version” but also the client comments thereof. The auditor should avoid paraphrasing the client comments.

The final report shall be distributed, with transmittal letters, to the prescribed recipients. A copy of the final report shall be filed on the administration section of the audit file and its content cross-referenced to the corresponding paragraphs of the draft report and client comments.

#### 5.4.5 Review of audit reports

The HIA or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated. Report reviewers should be senior than the auditor who prepared the report and should complete *quality control section of report pre-issuance review (Form 20)*.

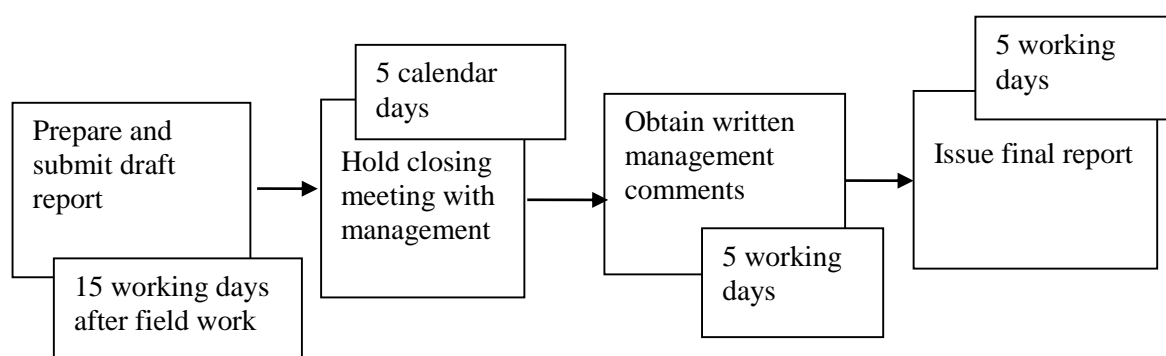
As evidence of review, a copy of the reviewed report showing review tick marks and the initials of the reviewer should be kept on the administration section of the audit file. The use of a rubber stamp which is inscribed as follows is recommended:

Reviewed/Approved:

By: ..... Date.....

#### 5.4.6 Report processing timetable

The diagram below indicates the minimum duration deemed reasonable for processing audit reports based on when the report is received by the next party but not when it is dispatched. HIA will set shorter targets for preparing the draft report based on the scope and complexity of the assignment. Auditees may also require shorter deadlines.



- (i) Within working fifteen (15) working days after completion of audit tests, the auditor shall initially issue the audit report in a draft form to the Head of the unit audited.
- (ii) The head of the audited unit shall organise a closing meeting with the audit team within 5 calendar days after receiving the report.
- (iii) The head of the audited unit shall sent written management comments within 5 working days.
- (iv) The HIA shall issue the report in final form five (5) working days thereafter.

#### **5.4.7 Audit reports**

Internal auditors will issue audit reports on the design and effectiveness of controls for individual audits. Audit reports will be based on the severity and number of audit findings.

Essentially, the report should reflect the “aggregate” of the audit findings about the design and implementation of the control system, and should provide an independent assurance, or lack of it, about whether the audited unit’s system of internal control is satisfactory.

When issuing an audit report, the auditor should consider the scope of work, the nature and extent of audit work performed and evaluate what the evidence from the audit means concerning the adequacy of internal controls.

Such a report should express clearly:

- (i) The evaluation criteria and structure used;
- (ii) The scope over which the report applies;
- (iii) Who has responsibility for the establishment and maintenance of internal controls; and
- (iv) The specific type of internal audit report being issued by the auditor.

##### **5.4.7.1 Types of audit reports**

Audit reports will be issued on:

- (i) individual reports or processes audited;
- (ii) overall internal control systems; and
- (iii) financial reviews.

When issuing reports on processes audited, the auditor shall use a three-tier graded system as follows:

- (i) **Satisfactory:** shall mean that the controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed, although some enhancements may have been recommended.

- (ii) **Needs Improvement:** a number of findings some of which are significant have been raised, however controls evaluated are adequate and appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
- (iii) **Unsatisfactory:** findings indicate significant control weaknesses and the need for urgent remedial action. Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

*Overall internal control systems*

In issuing an internal audit report, the HIA shall gather sufficient competent supporting evidence, in conformity with the standards. The following should be considered in evaluating whether sufficient competent supporting evidence has been obtained:

- (i) Adequacy of coverage of the audit universe;
- (ii) Areas of limitations or exclusions (areas not adequately or currently covered) should be identified;
- (iii) Assessing degree to which issues identified have been addressed since audit (follow-up critical); and
- (iv) Identifying outstanding issues that rise to a level of significance for the District (are deficiencies of such importance or pervasiveness that achievement of objectives may be affected).

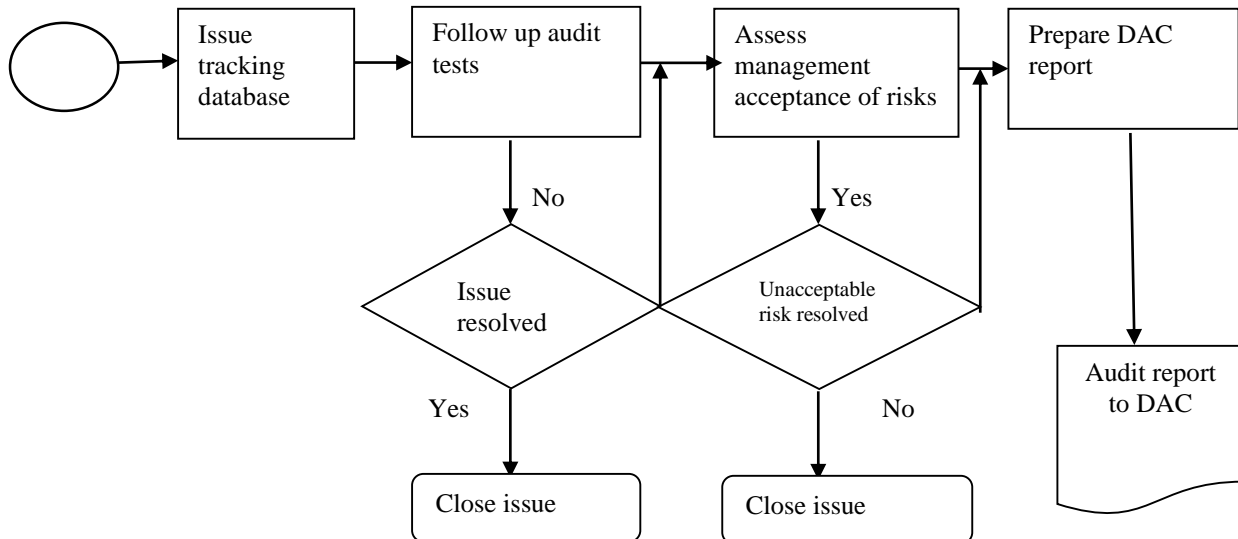
When expressing an opinion on internal control systems, the auditor shall include the following phases with the following meaning:

- (i) **Inadequate internal control system** – findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- (ii) **Adequate internal control system subject to reservations** – a number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
- (iii) **Adequate internal control system** - findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended. The annual overall opinion on the effectiveness of internal controls in the District to the DAC shall be timed to support the statement on internal control.

*Examples of audit reports are provided (Form 21).*

## 5.5 Monitoring

The diagram below gives an overview of the monitoring phase of the audit.



### 5.5.1 Issue tracking database

Internal audit shall maintain all recommendations issued on an issue tracking database or manual record (list). In addition to capturing the text of the recommendation and other administrative information, the issue tracking database/record list will include details of the impact, focus area, risk category and rating, cause and financial implication. The issue tracking database will be the source of data for annual; semi-annual and quarterly reporting. The HIA shall submit every quarter a copy of their issue tracking database/record list to the DAC.

*A copy of the issue tracking database template is attached (Form 22).*

### 5.5.2 Follow up audit tests

Internal audit has the responsibility to follow up and determine whether or not management has taken steps to adequately, effectively and timely address the matters reported in audit findings and recommendations, including those raised by the Office of the Auditor General. Internal audit therefore monitors on a quarterly basis, the status of implementation of open recommendations until the reported issue is either solved or the appropriate level of management or the District council has accepted the risk.

If the recommendation has been implemented, the auditor should validate the response and if the action is appropriate, close the issue.

If the audited unit's action is not satisfactory, the auditor should indicate the specific actions that are still required to enable closure of the finding. The auditor should indicate that the finding and report are still open.

If the audited unit's response indicates that the recommendation has been overtaken by events or other circumstances that make it impractical to implement the recommendation and the auditor concurs, the recommendation should be closed without implementation.

The HIA shall develop escalation procedures for any agreed recommendations not implemented within the agreed timeframe. Those procedures may include discussions with unit management highlighting the risks to the operations of the unit, and additional reporting to the recipients of the final audit report.

### **5.5.3 Assess management acceptance of risks**

The primary function of internal audit is to assist the District to accomplish its objectives by evaluating its risk management, control and governance processes, and making recommendations to mitigate risks or improve effectiveness. The audited unit's management is responsible for deciding the appropriate action to be taken in response to reported audit findings and recommendations.

The HIA is responsible for assessing the actions taken by the audited department/section/unit's management and determining whether matters reported as audit findings and recommendations were resolved in a satisfactory and timely manner.

Where senior management decides to assume the risk of not correcting the reported condition because of cost or other considerations, the implication of their decision should be brought to their attention formally, and an assessment made whether or not such decision will be included in Internal audit report to the DAC.

The HIA shall review open recommendations where the residual risk is deemed to be high and medium recommendations that have remained open for more than 12 months and where the auditee is either slow or has declined to implement them despite repeated counsel and seek DAC direction.

### **5.5.4 Reporting to the DAC**

The HIA shall submit on a quarterly basis a progress report to the DAC detailing:

- (i) all internal audit assignments that have been undertaken during the quarter;
- (ii) summary of significant findings and recommendations that have been made;
- (iii) unresolved audit queries;
- (iv) any problems experienced by internal audit unit in the course of the audit; and
- (v) details of how the unit has spent his/her time in the quarter.

*A DAC report template is attached (Form 23).* The DAC will review the progress reports and raise any queries with the HIA and assist with any problems that they may have.

The HIA should prepare and submit a summary report of audit findings to the OAG on a quarterly basis, or periodic basis as agreed with the OAG.

## 6 Audit techniques

### 6.1 Introduction

Evidence is the data and information which auditors obtain in the course of an audit engagement to document findings and support opinions and conclusions. Evidence gives an auditor a rational basis for forming judgments. Hence, a considerable amount of the auditors work consists of obtaining, examining and evaluating evidential matter. The measure of the relevance, reliance and validity of evidence for audit purposes lies in the nature of the evidence and the judgment of the auditors.

An important purpose of the working papers is to document and arrange the evidence that is collected through the course of an audit engagement to support audit reports.

### 6.2 Concepts relating to audit evidence

Audit evidence provides the foundation for any audit report or opinion. It is therefore important that auditors understand the nature of evidence and its critical role in the entire audit process. The more important characteristics associated with good evidence are:

- (i) **Relevance** - refers to the relationship of evidence to its use. The information used to prove or disprove an issue is relevant if it has a logical, pertinent and sensible relationship to the particular issue that is the subject of the audit. Information that is irrelevant should not be included as evidence or made part of the working papers. Questions that test the relevancy of evidence include the following:
  - (a) Is the evidence related to such factors as background, condition, criteria, effect or cause?
  - (b) Does the evidence make an asserted finding, conclusion or recommendation more believable?
- (ii) **Reliability** - refers to the appropriateness, soundness, trustworthiness or credibility of the sources of information and the techniques used to obtain the information. Generally evidence is more reliable if is obtained or developed from:
  - (a) A credible independent source other than from the auditee.
  - (b) A good system of internal controls rather than that obtained from a source where such control is weak or unsatisfactory.
  - (c) Direct physical examination, observation, computation and inspection rather than indirectly.
  - (d) Documentary rather than oral and original documents rather than copies.
  - (e) Testimonial evidence obtained under conditions where persons may speak freely rather than testimonial evidence obtained under compromising conditions (where the persons may be intimidated).

- (iii) **Sufficiency** - relates to quantity. There should be enough factual and convincing evidence to evaluate so that a reasonably informed and unbiased person would agree with the auditor's findings and conclusions. Determining the sufficiency of evidence requires professional judgment. When considering the adequacy of evidence, the auditor should keep in mind that:
- (a) The audit is seeking reasonable, but not absolute, conclusions.
  - (b) Incomplete data may result in inability to reach reasonable conclusions.
  - (c) Examination of extensive evidence may be uneconomical, inefficient and ineffective.
  - (d) Evidence should be reasonably representative of the population being reviewed or addressed.

### 6.3 **Methods of obtaining evidence**

Audit evidence can be collected using a variety of tools and techniques. Different tools and techniques have various strengths and weaknesses. For example, one may require a high degree of technical skill while another a high degree of interpersonal skill; one may be expensive but reliable, another inexpensive but less reliable. Internal auditors should consider the most appropriate as well as the most practical and cost-efficient method for collecting relevant information. The following paragraphs describe some common methods of creating or gathering audit evidence.

### 6.4 **Interviews**

Interviews are a frequently used technique to gather testimonial evidence and opinions. Interviews can help to define the issues, furnish evidence to support audit findings, and clarify positions between the auditor and the auditee on audit observations and recommendations. Interviews can also be used to solicit the opinions and experiences of stakeholders or recipients of the auditee's products or services. Adequate preparation and good skills are needed to use interviews effectively in building or confirming audit evidence.

### 6.5 **Audit testing**

Testing implies the evaluation or measurement of transactions or processes to determine its qualities or characteristics. The particular transaction or element to be tested is put on 'trial'. Audit tests are developed and conducted for either compliance or substantive verification purposes as follows:

- (i) **Compliance tests** are typically designed to assess the adequacy and effectiveness of specific controls.
- (ii) **Substantive tests** on the other hand are designed to conduct detailed examination of selected transactions for a specific purpose. For example, a substantive test may include evaluation of all payments made against a particular procurement contract and related files to determine if the

payments were properly made. Substantive tests are also typically used to reduce audit risk. For example, a population of payment transactions may contain a large number of small value transactions and a small value of high value transactions. The small value transactions could be tested through testing a small sample of transactions. If the risks associated with the larger value transactions are considered high, substantives testing of all transactions exceeding a predetermined value would be conducted. Such testing may help the auditor cover a larger value of the total population. In practice, the substantive test can also serve as a compliance test.

## 6.6 Sampling

It is rarely feasible to test every item within an entire population because of prohibitive costs and the time required. Instead, auditors select a sample of items from within the population and conduct such tests as are necessary on the items contained in the sample to make conclusions about or determine the parameters and characteristics (attributes) of the whole population.

The objective of sampling is to gather data based on tests of a limited number of people, things, processes, transactions, documents, etc. that represent the larger group or population. In order to serve a useful purpose, sampling needs to be properly planned to ensure that the sample in fact represents the population that is the subject of the audit. Unless the sample represents the population, sampling by itself accomplishes little. Where a sample does not effectively represent the population, then the conclusions drawn from the tests conducted will only represent or relate to the items that are tested and not the population.

Generally, two types of sampling are used by auditors:

- (i) **Judgmental (purposeful) sampling** - This form of sampling is flexible and can be applied in many circumstances within a short time frame. The size of the sample and the method of selecting the sample are determined by the auditor using professional judgment and subject to the purpose of the tests to be performed or the nature of the audit evidence required. The word 'judgmental' is only applied to the whole method and the size of the sample. Auditors have to still exercise objectivity in selecting the items to be included in the sample. The auditor should realize the limitation of this sampling method. Although, care is taken to ensure that the sample is representative and the samples are selected objectively, the results derived from the testing cannot be reliably extrapolated or projected to the entire population because the size of the sample and its selection methods are not mathematically determined. If the results are extrapolated, audit risk is increased. Where deficiencies are found in testing a judgment sample, the auditor can conclude that a reportable condition (adverse) exists relating to the population. When reporting the adverse condition, the auditor should mention in the report the type of sampling used, the size of the sample and the number of instances of errors.

(ii) **Statistical sampling** - is based on probability theories and mathematical calculations. The results of tests conducted using statistical sampling can be more reliably extrapolated or projected to the whole population with the desired degree of confidence. This sampling method would be particularly useful when the population is large and contains homogeneous elements. There are also limitations to the use of the technique. The use of this technique would require specialized knowledge and skills.

When the auditor decides to conduct tests using samples, then the auditor should prepare and attach to the relevant audit programme sample plan. The plan should indicate, the attributes or characteristics to be tested, the size and nature of the population, the size of the sample and finally the method of selection of the sample. Worksheets should also be prepared to show each item in the sample, the attributes tested against each item and the results of the tests.

## **6.7 Surveys**

Surveys are structured approaches to gathering information from a large population. Examples of survey use would include efforts to obtain input from all the members of the auditee on the perceived opportunities for training and development or to obtain opinions from recipients of services (either internal or external) on the quality and timeliness of services provided. Whether the survey is administered in person, by telephone, by Internet, or by mail, the key element is the existence of a structured, tested questionnaire.

## **6.8 Inspection**

Inspection consists of confirming the existence or status of records, documents or physical assets. Inspection of physical assets provides highly reliable evidence of their existence or condition. Inspection of records could confirm the existence of source documents for data entry, for example, programme participant questionnaires or evaluations.

## **6.9 Flowcharting**

Flowcharting is the graphic representation of a process or system and provides a means for analysing complex operations, for example, key control points, redundant activities. A system flowchart would provide an overall view of the inputs, processes and outputs while a document flowchart would depict value adding activities and critical controls.

## **6.10 Observation**

Like inspection, observation entails personally verifying or attesting to a process or procedure, for example, the application of controls by members of the auditee's staff or the manner in which clients

are treated. Many service transactions and internal control routines can only be evaluated by seeing the auditee perform them. Whenever possible, two or more auditors should be present to make observations in order to provide additional support to the observations.

## **6.11 Analytical procedures**

Analytical procedures often provide an efficient and effective means of obtaining evidence. Analytical procedures involve studying and comparing relationships among both financial and non-financial information as well as analysis and verification of information obtained through other means. Analytical procedures can be performed using monetary amounts, physical quantities, ratios or percentages and may include:

- (i) Comparisons with:
  - (a) Prescribed standards, budgets, plans and forecasts;
  - (b) Past or period-to-period operations;
  - (c) Other related operations, transactions or performances;
  - (d) Similar operations in other organisations;
  - (e) Laws and Regulations; and
  - (f) Physical, documentary or testimonial evidence.
- (ii) Studying relationships between financial and appropriate non-financial information (for example, project expenses against project progress reports, payroll expenses against the movement of number of employees in the establishment).

Analytical procedures, as mentioned, can corroborate the reasonableness of evidence obtained by other means. It may also point to unexpected results or relationships – for example a wide variance in project physical progress compared with expenses or significant increases in expenses compared with past periods. In such cases, the Auditor needs to obtain additional information either through soliciting explanations from management or through performing additional audit procedures to determine if the deviations are as a result of fraud, errors, change in conditions or other problems. Deviations of expected results that cannot be properly explained and if such deviation is likely to jeopardize the achievement of District objectives and or reputation should be included in audit reports.

## **6.12 Confirmation**

Confirmation involves a request seeking corroboration of information obtained from the auditee's records or from other less reliable sources, for example, the request for bank statements directly from a bank to confirm the cash balance recorded in the District's cashbook. Such confirmations are normally

obtained in writing and directly from the provider of the information. A newspaper may have reported a substantial loss of assets in a government agency. If such information is to be used, then it has to be corroborated by a confirmation by the District concerned.

## **7 Administrative matters**

### **7.1 Supervision and review of audit assignments**

The HIA unit shall ensure that audit assignments are properly supervised to achieve the quality standards set out in this manual. Supervision is a continuing process throughout an audit assignment and includes:

- (i) providing guidance and instructions to junior auditors, by the senior auditors, during audit planning, approval of audit tests to be undertaken and selection of audit techniques;
- (ii) ensuring that the approved audit tests are fully performed unless deviations are justified and also authorised.
- (iii) reviewing the audit working papers to ensure that they adequately support the audit findings, conclusions, and reports;
- (iv) making sure that audit reports are accurate, objective, clear, concise, constructive, and timely; and
- (v) ensuring that the overall audit objectives are met.

Review is very important to ensure audit objectives are achieved, quality is assured, and staff are developed. In practice, each audit assignment should be conducted by at least two auditors, one performing the field work and one reviewing the work. Where there is only one auditor in the unit, the auditor should maintain regular liaison with the HIA who should provide the necessary assistance.

Quality improvement program - detailed review of various phases of the internal audit process is the major quality control method used by the unit. The major review points and the persons responsible for these are indicated below.

- (i) Risk assessment, internal audit strategic plan and internal audit annual plan – internal audit management and DAC
- (ii) Engagement planning - HIA
- (iii) Working papers of field work - HIA
- (iv) Audit reports - HIA
- (v) Annual review of internal audit unit – DAC
- (vi) External review of the internal audit function – independent reviewers

Reviewer should complete form 16 quality control checklist at every phase of the audit to evidence their review.

The DAC shall give specific guidelines on conduct of periodic internal and external quality assurance programme.

## 7.2 Managing audit risks

The internal audit activity is not immune to risks. It needs to take the necessary steps to ensure that it manages the following risks that face internal audit:

- (i) Audit failure – failure to meet audit objectives;
- (ii) False assurance – giving false confidence or assurance based on perceptions or assumptions rather than fact; and
- (iii) Reputation risks – damage to the efficacy of internal audit.

At audit planning stage, the internal auditor should assess and document the potential audit risks in relation with the specific audit assignment including the planned actions to mitigate those risks. The following are typical examples of audit risks to any internal audit assignment:

- (i) The internal auditor may misunderstand the scope of the audit. A too wide scope may not be covered within the available timeframe and resources, and a too narrow scope may not fully address the audit objectives. This risk should be addressed by proper audit “scoping” during the planning process;
- (ii) Conflict of interest may exist between the internal auditor and his/her work, which may impair objectivity and undermine the audit results. In mitigation, any threat to independence and objectivity must be disclosed at the planning stage or any other time and the affected internal auditor removed from the specific audit assignment;
- (iii) The audit may not meet the expectations of the users. This should be addressed by thorough audit planning, continuous reference to the plan and audit objectives and discussions with management throughout the audit testing; and
- (iv) Less than adequate audit testing or inadequate audit evidence obtained, hence incorrect audit conclusions, due to lack of expertise, experience and proper supervision of the audit team. Close supervision during audit execution can provide timely and invaluable feedback and direction to the audit team.

The HIA should continuously make arrangements for the training of the auditors to uplift their skills and to keep them current with the trends in the internal audit profession and standards:

- (i) Audit recommendations are not implemented due to the lack of support from the senior management of the audited unit. This requires proper handling of “unit” relations throughout the audit process. The auditor should bear in mind that dealing with senior management of the audited unit is relatively sensitive compared to the other personnel, and that it is crucial to make them aware of the audit findings before they are reported to other parties;
- (ii) The audit timetable may be missed due to lack of cooperation from the audited unit’s personnel.

This issue must be addressed during the audit planning meeting to obtain commitment from the personnel;

- (iii) The audit timetable may be missed due to poor time management by the audit team. This issue should be mitigated by close supervision of the assignment, improved time plans and management on the part of the auditors, use of weekly time charts and daily action checklists are useful tools.
- (iv) Quality of audit reports could be inadequate, contain errors or even be inaccurate. Appropriate review and completing the quality control questionnaire at each stage of the audit will mitigate reporting errors.

### **7.3 Time management**

To enhance time management on audits, a time budget should be prepared for each audit assignment and used a “benchmark” for the actual hours spent on the assignment. Furthermore, the internal auditors should prepare daily time sheets which show the tasks accomplished on each working day and the number of “person-hours” spent on each task.

Time sheets should be reviewed and approved by the HIA and filed in the administration section of the audit file. A work allocation and time budget template to be completed on individual assignments is attached (*Form 24*). A resource calendar or chronogram to be completed for all activities in the annual plan is attached (*Form 25*).

### **7.4 Custody and disposal of working papers**

Audit working papers are the property of the internal audit unit which has prepared them and access to the papers is restricted, except under the direction of the HIA after consultation with unit management and advice from the District lawyer or a competent court of law. The violation of this restriction would be treated as breach of duty and confidentiality, punishable in accordance with the relevant laws and regulations.

For reasons connected with fraud or other grave irregularities, or criminal investigations, internal audit unit management or a competent court of law may issue an instruction for the release of an audit file, if it is believed that the file may contain necessary evidence to facilitate the conclusion of the matter under investigation.

Internal audit working papers must be stored under lock and key at all times except while in use by the concerned internal auditors. This means that the HIA must ensure adequate lockable filing cabinets for the audit files.

The internal audit unit should maintain a register to record the movement of its audit files. The movement should include the names of the person to whom an audit file is issued, the dates of issue and return, and his/her signature on both dates.

At the end of any working day, internal auditors must not leave audit files lying idle on working desks. It is recommended that copies of “sensitive” documents should not be kept on audit files for the sole reason that the file may normally be shared by several persons some of whom may not need access to such documents. Instead, the internal auditor should prepare a working paper summarising the audit evidence provided by that “sensitive” document. This working paper should make reference to where that “sensitive” document is normally retained in case its further consultation may be needed. The internal auditor may additionally require a note from the custodian of the sensitive document confirming the auditor’s review of the document and the audit notes thereof. The examples of sensitive documents may include security detail, litigation records, employee medical, performance appraisal or disciplinary records.

Audit working papers must be retained for a period of at least ten (10) years starting from the date of issuance of the associated audit report. After that period, the working papers may be disposed provided prior consultation has been made with the HIA and the DAC as appropriate. Notwithstanding this rule, any working papers deemed necessary for an on-going litigation should never be disposed before the final conclusion of the case.

Information stored in electronic form should be backed up regularly in line with IT security policies.

## **7.5 Current Audit file**

For every audit engagement a current working paper file (CWPF) should be maintained. The audit file should be partitioned into several sections separated by specifically designed hard paper dividers pre-printed with the content of the respective sections. The following illustrates the audit file partitioning:

Section A: Administration and reporting

- Final report
- Management comments
- Draft report
- Discussion version
- Other correspondence with the auditee

Section B: Audit planning

- Audit planning memorandum
- Audit programs
- Audit objective and criteria form
- Terms of reference

Section C: Assessment of unit level controls

- Internal control questionnaires
- Business process analysis forms
- Assessment of internal control design

Section D: Project risk assessment

- Risk control matrix section

E: Assessment of IT systems

- Understanding the IT control environment
- Assessing IT general controls and application controls

Section F- Z: Supporting documentation based on scope of the engagement (for each audit area)

- Completed audit program
- Tests of control
- Substantive tests

Current working files containing work done in respect of forensic audits should be marked “strictly confidential” and kept under the direct control of the HIA.

## 7.6 Permanent Audit File

The Permanent Audit File (PAF) contains information that should be relevant to the current and future audits. Documents may include organisational charts, circulars, relevant regulations and manuals.

A PAF is useful for the following reasons:

- (i) it ensures that important documents are not overlooked, and it consolidates such documents at one location;
- (ii) it provides a basis for consistency in testing;
- (iii) carry forward schedules, which compare ratios, averages, etc. can be used as an auditing tool; and,
- (iv) to avoid the necessity to re-read the full documents during successive audits, a contract may be summarised or the significant sections of a contract may be underlined and included in the PAF for easy future reference.

There is no standard organisational rule for the PAF; however, the following types of documents should normally be included in the file:

- (i) Organisation charts;
- (ii) Strategic plans;
- (iii) Latest corrective action plan;

- (iv) Legal and regulatory issues impacting the District;
- (v) District wide risk assessment; and
- (vi) Correspondence of continuing interest to future audits.

## **7.7 Performance appraisal**

- (i) The HIA should appraise the performance of the individual auditors on each assignment. The appraisal should cover the quality of working papers, time management and quality of reports – all benchmarked as required by this manual. The appraisal would be a useful tool for determining skill gaps and thus part of the continuous training needs assessment.
- (ii) Staff appraisals shall be conducted at the end of each assignment for all members of the audit team who spent five days or more on the audit. Their purpose is to record the performance of the audit team member while this is still fresh in the minds of the appraiser. Such appraisals can then be used to provide input into the annual performance appraisal.
- (iii) Managing internal audit unit performance - The internal audit shall have performance measures discussed and agreed upon with top management and approved by the DAC. The DAC shall provide a competency framework and guidelines on reviewing the performance of the unit.

## **7.8 Dealing with senior personnel of the audited unit**

District internal auditors must ensure that for any specific audit engagement they have sought the audience of the top management in charge of the audited unit.

Internal auditors should seek formal appointment with unit's top management and plan the meeting to cover the agenda of the meeting. The HIA shall attend assignment opening meeting and exit meeting with the top management of the audited unit.

The HIA shall ensure they keep a contact program with unit management and are updated on strategic, business and operational plans and planned changes to plan appropriately.

### **7.8.1 Confidentiality**

All staff members in the internal audit unit at all levels are responsible for the confidentiality of audit related documentation. Unauthorised disclosure of any internal audit unit official information is prohibited. Each working paper or document relating to an audit is confidential and all staff should respect the confidentiality of information acquired during the audit.

Confidential documents should be locked and kept inside drawers, or scanned and saved in computer files of each staff for ongoing assignments. On completion of the assignment, staff should obtain guidance from their HIA on the continued retention of such documents. Staff members should ensure

that no confidential document is left unattended or left out openly on desks, printers, copiers or fax machines. Shredders should be used to dispose of confidential documents.

## **7.9 Administration**

Internal audit units shall maintain separate administrative files for the following activities:

- (i) Minutes of staff meetings
- (ii) Training
- (iii) Final audit reports
- (iv) Reports to the DAC
- (v) Correspondence with unit management
- (vi) Correspondence with OAG
- (vii) Staff planning
- (viii) Travel logistics
- (ix) Staff personnel files including appraisal forms.

## Appendix 1: Glossary

**Added Value** - Value is provided by identifying operational improvement, and /or reducing risk exposure through both assurance and consulting services, thereby improving the likelihood of achieving organizational objectives.

**Adequate Control** – is present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization’s risks have been managed effectively and that the organization’s goals and objectives will be achieved efficiently and economically.

**Audit Objectives** - are broad statements developed by internal auditors and define intended audit accomplishments.

**Audit Procedures** - are the tasks the internal auditor undertakes for collecting, analyzing, interpreting, and documenting information during an audit. Audit procedures are the means to attain audit objectives.

**Audit Program** - is a document which lists the audit procedures to be followed during an audit. The audit program also states the objectives of the audit.

**Audit Report** - is a signed, written document which presents the purpose, scope, and results of the audit. Results of the audit may include findings, conclusions (opinions) and recommendations.

**Audit Scope** - refers to the activities covered by an internal audit. Audit scope includes, where appropriate:

- Audit objectives;
- Nature and extent of auditing procedures performed;
- Time period audited; and
- Related activities not audited in order to delineate the boundaries of the audit.

**Audit Working Papers** - record the information obtained, the analyses made, and conclusions reached during an audit. Audit working papers support the bases for the findings and recommendations to be reported.

**Code of Ethics** - The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

**Compliance** - Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

**Conflict of Interest** - Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

**Control** - Any action taken by management, the Council, 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.

**Control Environment** - The attitude and actions of the Council 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. The control environment includes the following elements:

- Integrity and ethical values
- Management's philosophy and operating style
- Organisational structure
- Assignment of authority and responsibility
- Human resource policies and practices
- Competence of personnel

**Control Processes** - The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

**Continuous Professional Development** - The Continuous Professional Development can be described as a scheme under which participants can access information for the betterment of their professional services. It refers to learning activities that develop and maintain capabilities to enable professional accountants to perform competently within their professional environments.

**Due Professional Care** - calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Due professional care is exercised when internal audits are performed in accordance with the Standards for the Professional Practice of Internal Auditing. The exercise of due professional care requires that.

- Internal auditors be independent of the activities they audit
- Internal audits be performed by those persons who collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly
- Audit work be planned and supervised

- Audit reports be objective, clear, concise, constructive, and timely

Internal auditors follow up on reported audit findings to ascertain that appropriate action was taken

**Error as it relates to internal audit reports** is an unintentional misstatement or omission of significant information in a final audit report.

**External Auditors** refers to those audit professionals who perform independent annual audits of an organization's financial statements.

**External Reviews** of the internal audit unit are performed to appraise the quality of the unit's operations. External reviews should be performed by qualified persons who are independent of the organizations and who do not have either a real or apparent conflict of interest.

**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.

**Engagement Objectives** - Broad statements developed by internal auditors that define intended engagement accomplishments.

**Engagement Work Programme** - A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

**Follow-up** by internal auditors is defined as a process by which they determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings. Such findings also include relevant findings made by external auditors and others.

**Fraud** - Any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

**Governance** - The combination of processes and structures implemented by the Council and/or Management in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.

**Head of Internal Audit** - Top position within the local government responsible for internal audit activities.

**Impairments** - Impairments to individual objectivity and organizational independence may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, properties and resource limitations (funding).

**Illegal Acts** refers to violations of laws and governmental regulations.

**Independence** allows internal auditors to carry out their work freely and objectively. This concept requires that internal auditors be independent of the activities they audit. Independence is achieved through organizational status and objectivity.

**Information** is data the internal auditor obtains during an audit to provide a sound basis for audit findings and recommendations. Information should be sufficient, competent, relevant, and useful.

**Internal Auditing** is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.

**The objective** of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.

**Internal Audit Department/Unit** includes any unit or activity within an organisation which performs internal auditing functions.

**Internal Auditor** is an individual within an organization's internal audit unit who is assigned the responsibility of performing internal auditing functions.

**Internal Control** is a process within an organization designed to provide reasonable assurance regarding the achievement of the following primary objectives:

- The reliability and integrity of information
- Compliance with policies, plans, procedures, laws, and regulations
- The safeguarding of assets
- The economical and efficient use of resources
- The accomplishment of established objectives and goals for operations or programs

**Irregularity** refers to the intentional misstatement or omission of significant information in accounting records, financial statements, other reports, documents or records. Irregularities include (a) fraudulent financial reporting which renders financial statements misleading and (b) misappropriation of assets.

Irregularities involve:

- Falsification or alteration of accounting or other records and supporting documents
- Intentional misapplication of accounting principles
- Misrepresentation or intentional omission of events, transactions, or other significant information

**Internal Audit Activity** - an 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.

**Key Audit Findings** are those conditions which, in the judgment of the director of internal auditing, could adversely affect the organization. Significant audit findings may include conditions dealing with irregularities, illegal acts, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses.

**Objectives** are the broadest statements of what the organization chooses to accomplish.

**Objectivity** is an independent mental attitude which requires internal auditors to perform audits 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.

**Quality Assurance** is a program by which the director of internal auditing evaluates the operations of the internal audit unit. The purpose of the quality assurance program is to provide reasonable assurance that internal auditing work conforms with the Standards for the Professional Practice of Internal Auditing, the internal audit charter, and other applicable standards. The quality assurance program should include the following elements:

- Supervision
- Internal reviews
- External reviews

**Recommendations** are actions the internal auditor believes necessary to correct existing conditions or improve operations.

**Residual Risk** - The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

**Risk** is the probability that an event or action may adversely affect the organization or activity under audit.

**Risk Assessment** is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process should provide a means of organizing and integrating professional judgments for development of the audit work schedule.

**Risk Management** - A process to identify, assess, manage and control potential events or situations in order to provide reasonable assurance regarding the achievement of the organization's objectives.

**Standards for the Professional Practice of Internal Auditing (the Standards)** are the criteria by which the operations of an internal audit unit are evaluated and measured. They are intended to represent the practice of internal auditing as it should be.

**Supervision** is a continuing process, beginning with planning and ending with the conclusion of the audit assignment. Supervision includes:

- Providing suitable instructions to subordinates at the outset of the audit and approving the audit program
- Seeing that the approved audit program is carried out unless deviations are both justified and authorized
- Determining that audit working papers adequately support the audit findings, conclusions, and reports
- Making sure that audit reports are accurate, objective, clear, concise, constructive, and timely
- Determining that audit objectives are being met

## Appendix 2: Internal audit forms

### Form 1 - Statement of auditor's objectivity and ethics

#### Statement of auditor's objectivity and ethics template

##### A. Principles

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

- i. **Integrity** - the integrity of Internal Auditors establishes trust and thus provides the basis for reliance on their judgment.
- ii. **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 interests or by others in forming judgments.
- iii. **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.
- iv. **Competency** - Internal Auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

##### B. Rules of Conduct

###### i. Integrity

Internal Auditors:

- (a) Shall perform their work with honesty, diligence, and responsibility.
- (b) Shall observe the law and make disclosures expected by the law and the profession.
- (c) Shall 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 organisation.
- (d) Shall respect and contribute to the legitimate and ethical objectives of the organisation.

###### ii. Objectivity

Internal Auditors:

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

**iii. Confidentiality**

Internal Auditors:

- (a) Shall be prudent in the use and protection of information acquired in the course of their duties.
- (b) Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

**iv. Competency**

Internal Auditors:

- (a) Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- (b) Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- (c) Shall continually improve their proficiency and the effectiveness and quality of their services.

**C. Conflict of Interest**

Conflict of interest is a situation in which an Internal Auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the Internal Auditor, the Internal Audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Internal Auditors are not to provide audit services for work for which they may previously have been responsible. The Institute of Internal Auditors provides guidance on this point and suggests a period of 12 months, but each instance should be carefully assessed.

When engaging internal audit service providers, the HIA shall take steps to identify, evaluate the significance, and manage any perceived or actual conflict of interest that may impinge upon internal audit work.

Instances of perceived or actual conflict of interest by internal auditors including service providers shall immediately be reported it to the HIA or the chair of the DAC.

**D. Declaration**

I certify that I have conformed to the code of ethics and have no conflicts of interest for with regards to the audit of the following unit/department/section.....If an issue arises with my professional behaviour that is not in line with the code of ethics, or if a conflict of interest should occur during the aforementioned audit. I shall immediately report it to the HIA or the chair of the DAC.

Signature:

Name:

Job title:

Date:

*Form 2 - Audit notification letter*

**Internal Audit Department/Unit**

**Internal Memo**

**To:**

**From:**

**Ref:**

**Date:**

**Subject: Audit notification**

This is to inform you that a team of internal auditors will be conducting an audit on .....unit/department/station/section on .....

The purpose of this audit is to examine and review.....for the period.....

This exercise will be useful to your unit/section/department and ourselves. There should be no restriction or limitation on the scope of this audit and in whatever circumstances, the internal audit staff shall have unrestricted access to all the records, property and personnel.

The audit is scheduled to take approximately .....to complete and should there be any weaknesses in the system, the same will be discussed with you together with our recommendations.

In order for us to work efficiently as possible, it is understood that your cooperation is greatly appreciated.

(Name)

(Signature)

**Form 3 – Request for audit information**

**Internal Audit Department/Unit**

**Internal Memo**

**To:**

**From:**

**Ref:**

**Date:**

**Subject: Request for audit information**

The following information is requested to facilitate our understanding of your unit/section/departmental operations and activities. This list is not intended to be all-inclusive. Additional information or questions may be required throughout the course of the audit. If the information detailed below is not available, we do not intend for you to create this information for our purposes. Please feel free to advise us of any additional information/documentation not listed below that may be useful to us in the conduct of this audit. If you or your staff have any questions or need clarification regarding this request, please contact the Head of Internal Audit.

No	Document	Due date

(Name)

(Signature)



**Form 5 – Opening meeting template**

**Internal Audit Department/Unit**

**Opening meeting template**

1. Date: \_\_\_\_\_ .

2. Audit area and period to be covered:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Estimated Audit dates: Beginning: \_\_\_\_\_ .

Ending: \_\_\_\_\_ .

4. Staff members present

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Objectives of the audit

\_\_\_\_\_  
\_\_\_\_\_

6. Key information about the unit/section/department operations.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_.

7. Detail any required assistance from the management

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

8. Any matters management would like us to discuss to address in this audit

\_\_\_\_\_.

\_\_\_\_\_.

9. Information or other requests by management for future audits

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

10. Audited unit contact person

\_\_\_\_\_.

\_\_\_\_\_.

\_\_\_\_\_.

11. Summary of issues discussed

\_\_\_\_\_.

\_\_\_\_\_.

Name

Designation

Date

Prepared by:

Reviewed by

**Form 6 – Internal control questionnaire**

**Internal Audit Department/Unit**

**Internal control questionnaire**

**Initials    Date**

**Department/Section:**

**Prepared by:**

**Period of audit:**

**Reviewed by:**

**Control environment**

**Description:**

**Objectives:**

No	Question	Yes/No	Remarks
1			
2			
3			
4			

**Risk Assessment**

**Description:**

**Objectives:**

No	Question	Yes/No	Remarks
1			
2			
3			

4			
---	--	--	--

**Control activities**

**Description:**

**Objectives:**

No	Question	Yes/No	Remarks
1			
2			
3			
4			

**Monitoring**

**Description:**

**Objectives:**

No	Question	Yes/No	Remarks
1			
2			
3			
4			

**Information systems and communication**

**Description:**

**Objectives:**

<b>No</b>	<b>Question</b>	<b>Yes/No</b>	<b>Remarks</b>
1			
2			
3			
4			

**Form 7 – Business process analysis template**

<p><b>Internal Audit Department/Unit</b></p> <p><b>Business process analysis template</b></p>	
<p><b>Initials    Date</b></p>	
<p><b>Department/Section:</b></p>	<p><b>Prepared by:</b></p>
<p><b>Period of Audit:</b></p>	<p><b>Reviewed by:</b></p>
<b>Internal control component</b>	<b>Comments</b>
Control environment	
Risk Assessment	
Control activity	
Monitoring	
Information systems and communication	

*Form 8 – understanding the IT environment template*

**Internal Audit Department/Unit**

**Understanding the IT environment template**

**Initials    Date**

**Department/Section:**

**Prepared by:**

**Period of Audit:**

**Reviewed by:**

<b>Question</b>	<b>Yes/No</b>	<b>Remarks</b>

**Form 9 – Assessing IT general controls and application controls template**

<b>Internal Audit Department/Unit</b>		
<b>Assessing IT general controls and application controls template</b>		
	<b>Initials</b>	<b>Date</b>
<b>Department/Section:</b>	<b>Prepared by:</b>	
<b>Period of Audit:</b>	<b>Reviewed by:</b>	
<b>Question</b>	<b>Yes/No</b>	<b>Remarks</b>

*Form 10 – Fraud risk assessment template*

<b>Internal Audit Department/Unit</b>		
<b>Fraud Risk Assessment</b>		
		<b>Initials    Date</b>
<b>Department/Section:</b>	<b>Prepared by:</b>	
<b>Period of Audit:</b>	<b>Reviewed by:</b>	
<b>Question</b>	<b>Yes/No</b>	<b>Remarks</b>

*Form 11 - Risk control matrix*

<b>Internal Audit Department/Unit</b>			
<b>Risk control matrix</b>			
			<b>Initials    Date</b>
<b>Department/Section:</b>	<b>Prepared by:</b>		
<b>Period of Audit:</b>	<b>Reviewed by:</b>		
<b>Risks</b>	<b>Key control</b>	<b>Audit objective</b>	<b>Audit programme</b>

**Form 12 – Audit objectives and criteria template**

<b>Internal Audit Department/Unit</b>		
<b>Audit objective and criteria template</b>		
		<b>Initials    Date</b>
<b>Department/Section:</b>	<b>Prepared by:</b>	
<b>Period of Audit:</b>	<b>Reviewed by:</b>	
Control 1	Audit objective	
	Audit criteria	
Control 2	Audit objective	
	Audit criteria	
Control 3	Audit objective	
	Audit criteria	
Control 4	Audit objective	
	Audit criteria	
Control 5	Audit objective	
	Audit criteria	

*Form 13 – Audit planning memorandum template*

<b>Internal Audit Department/Unit</b>			
<b>Audit planning memorandum template</b>			
		<b>Initials</b>	<b>Date</b>
<b>Department/Section:</b>		<b>Prepared by:</b>	
<b>Period of Audit:</b>		<b>Reviewed by:</b>	
<b>Overview of the audited unit/section department:</b>			
<b>Audit scope and objectives:</b>			

*Form 14 – Engagement work program template*

**Internal Audit Department/Unit**  
**Engagement work programme**

**Initials    Date**

**Department/Section:**

**Prepared by:**

**Period of Audit:**

**Reviewed by:**

**Area e.g. audit plan**

No	Detailed engagement procedure	Performed by	Working paper reference

**Area e.g. risk assessment**

No	Detailed engagement procedure	Performed by	Working paper reference

**Area e.g. Income**

No	Detailed engagement procedure	Performed by	Working paper reference

**Area e.g. expenses**

No	Detailed engagement procedure	Performed by	Working paper reference

*Form 15 – Sampling template*

<b>Internal Audit Department/Unit</b>				
<b>Sampling template</b>				
			<b>Initials</b>	<b>Date</b>
<b>Department/Section:</b>		<b>Prepared by:</b>		
<b>Period of Audit:</b>		<b>Reviewed by:</b>		
No	Reference no	Description	Amount (if applicable)	Remarks

*Form 16 – Quality control checklist*

<b>Internal Audit Department/Unit</b>		
<b>Quality control checklist</b>		
		<b>Initials</b>
		<b>Date</b>
<b>Department/Section:</b>		<b>Prepared by:</b>
<b>Period of Audit:</b>		<b>Reviewed by:</b>
Question	Yes/No	Remarks



**Form 18 – Record of control weaknesses template**

**Internal Audit Department/Unit**

**Record of control weaknesses**

**Initials      Date**

**Department/Section:**

**Prepared by:**

**Period of Audit:**

**Reviewed by:**

<b>No</b>	<b>Internal control weakness</b>	<b>Work paper reference</b>	<b>Comments/explanations provided</b>	<b>Name and title of the official discussed with</b>

**Form 19 - Internal audit report template**

**Internal Audit Department/Unit**

**Internal audit report**

- (i) Submission letter;
- (ii) Cover page indicating the audit title, and date of the audit report, audit team and the assignment reference and report reference number. For instance, unit code/name of unit/month fieldwork started/year/no assignment in the year;
- (iii) Executive summary and/or opinion;
- (iv) Table of contents;
- (v) Introduction covering audit objectives, scope and methodology;
- (vi) Detailed audit findings and recommendations;
  - (a) Areas of best practice; and
  - (b) Areas of improvement
- (vii) Conclusion; and
- (viii) Annexes.

*Form 20 – Quality control section of report pre-issuance review*

<p><b>Internal Audit Department/Unit</b></p> <p><b>Report pre-issuance review</b></p>
<p><b>Quality control:</b></p>
<p>Reviewed/ Approved:</p> <p>By: ..... Date.....</p>

*Form 21 – Example of audit opinions*

<p><b>Internal Audit Department/Unit</b></p> <p><b>Audit reports</b></p>
<p><b><u>Individual reports or processes audited</u></b></p>
<p>(a) <b>Satisfactory:</b> shall mean that the controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed, although some enhancements may have been recommended.</p> <p>(b) <b>Needs Improvement:</b> a number of findings some of which are significant have been raised, however controls evaluated are adequate and appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <p>(c) <b>Unsatisfactory:</b> findings indicate significant control weaknesses and the need for urgent remedial action. Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.</p>
<p><b><u>Overall internal control system opinions</u></b></p>
<p>(iv) <b>Inadequate internal control system</b> – findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.</p> <p>(v) <b>Adequate internal control system subject to reservations</b> – a number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.</p> <p>(vi) <b>Adequate internal control system</b> - findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended. The annual overall opinion on the effectiveness of internal controls in the District to the DAC shall be timed to support the statement on internal control.</p>

*Form 22 – Issue tracking database*

**Internal Audit Department/Unit**

**Issue tracking database**

**Initials      Date**

**Department/Section:**

**Prepared by:**

**Period of Audit:**

**Reviewed by:**

<b>No</b>	<b>Focus area</b>	<b>Risk category and rating</b>	<b>issue</b>	<b>cause</b>	<b>implication</b>	<b>Recommendation</b>

**Form 23 – DAC report template**

<b>Internal Audit Department/Unit</b>	
<b>DAC report</b>	
i.	Submission letter;
ii.	Cover page indicating the audit title, and date of the audit report, audit team and the assignment reference and report reference number. For instance, unit code/name of unit/month fieldwork started/year/no assignment in the year;
iii.	Executive summary and/or opinion;
iv.	Table of contents;
v.	Introduction covering audit objectives, scope and methodology;
vi.	Detailed audit findings and recommendations;
	(c) Areas of best practice; and
	(d) Areas of improvement
vii.	Conclusion; and
viii.	Annexes.

**Form 24 – Work Allocation and time budget**

<b>Internal Audit Department/Unit</b>			
<b>Work allocation and time budget</b>			
	<b>Initials      Date</b>		
<b>Department/Section:</b>	<b>Prepared by:</b>		
<b>Period of Audit:</b>	<b>Reviewed by:</b>		
<b>Engagement name:</b>			
<b>Work</b>	<b>Time budget allocation</b>	<b>Actual time spent</b>	<b>Remarks</b>

*Form 25 – Resource calendar*

**Internal Audit Department/Unit**

**Resource Calendar**

**Initials      Date**

**Department/Section:**

**Prepared by:**

**Period of Audit:**

**Reviewed by:**

**Engagement name:**

Engagement name	Time budget allocation	Staff allocated	Remarks