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PUNTLAND EE SOMALIYA

PUNTLAND STATE OF SOMALIA
Ministry of Interior, Local Government and Rural Development

District Participatory Planning and Budgeting
Guide (DPP&BG)

District Internal Audit Training

Participant Book

June 2019





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Foreword & Acknowledgements

It is with great pleasure that I present to you this newly developed District Internal Auditing module, in the series of 'District Participatory Planning and Budget Guide' (DPP&BG) Curriculum for Local Governments in Puntland. This module and others in the series will be delivered through LGI, with support from the Ministry of Interior.

This District Internal Auditing Module combines information from the District Internal Audit Manual, Audit Committee Manual, and Procurement Audit Manual, and will provide information to audit staff and members of the audit committee, as well as other relevant stakeholders. The focus will be on the purpose and process of district internal audit, so that district systems can be strengthened.

I would like to acknowledge the support of the UN Joint Programme for Local Government and Decentralised Service Delivery (JPLG), as well as the JPLG target districts of Garowe, Bosaso, Galkacyo, Banda Bayla, Jariban, Gardo, Eyl, Galdogob and Burtinle, for their contributions to the development of this module.

Mohamed Ali Nor (Juba)

Director General, Ministry of Interior, Local Government and Rural Development

Introduction

This Participant Book is designed to be used either in a standalone training on the district Internal Audit process, or in conjunction with training on the DPP&BG Overview Module.

The information provided in this Participant Book is based on the following documents:

- District Internal Audit Manual (2015)
- District Audit Committee Manual (2015)
- Procurement Audit Manual (2015)

Who is this module intended for?

This module is designed for:

- District Internal Audit staff
- District Audit Committee members
- Other key district stakeholders
- Other regional and national stakeholders

Module Overview and Timings

Module Time: 16 training hours **Delivered Over:** 4 days (4 training hours per day)

Session	Indicative Timing	Content
Introductory Session: Getting Started	1 hour	<ul style="list-style-type: none"> • Pre-test Questions • Introductions and Icebreakers • Aims and Objectives
Session 1: Introduction to Internal Audit	1.5 hours	<ul style="list-style-type: none"> • Internal Audit and the DPP&BG Cycle • Internal Audit Charter • Internal Audit Standards and Code of Ethics
Session 2: Scope of Internal Audit	1.5 hours	<ul style="list-style-type: none"> • Risk Management • Internal Controls • Types of Audits
Session 3: The District Internal Audit Unit	1 hour	<ul style="list-style-type: none"> • Structure of Internal Audit • Internal Auditor Job Description • Internal Auditor Attributes
Session 4: District Audit Committee	4 hours	<ul style="list-style-type: none"> • Audit Committee Composition • Audit Committee Functions • Audit Committee Action Plan
Session 5: The Annual Audit Plan	2 hours	<ul style="list-style-type: none"> • Annual Audit Planning • Risk Assessment • Risk Matrix and Risk Rating
Session 6: Conducting an Audit	3 hours	<ul style="list-style-type: none"> • Audit Engagement Cycle • Audit Conduct: Phase 1–Phase 4
Session 7: Audit Techniques and Administration	1 hour	<ul style="list-style-type: none"> • Audit Evidence and Collection Methods • Administrative Considerations
Session 8: Conclusion	1 hour	<ul style="list-style-type: none"> • Module Summary • Next Steps • Assessment & Evaluation

Introduction Session: Getting Started

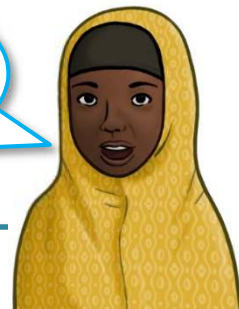
Session Objectives:

- Create a comfortable and encouraging learning environment.
- Provide an overview of the training, including aims and objectives.
- Understand participants' expectations of the training.
- Agree on ground rules for the training.

Here are some topics your trainer is likely to cover in this session:

- Welcome, Introductions and 'Housekeeping'
- Aims and Objectives of the Training
- Expectations and Ground Rules
- Pre-Training Questions

'What auditing activities currently take place in your district local government?'



Icebreaker Question

Amina is asking a question to find out what you already know about auditing. Discuss your ideas with your neighbour and then in plenary.

Session 1: Introduction to Internal Audit

Session Objectives:

By the end of this session participants will be able to:

- Explain what internal audit is in the context of the DPP&BG cycle.
- Prepare an Internal Audit Charter, based on the template provided.

What is District Internal Audit?



Internal audit is:

- Continuous, Objective and Independent.
- A set of activities to help the district local government manage and improve its operations.
- Relates to district risk management, control and governance processes.
- An approach taken to advise local government management and Council on areas for improvement.

The legal framework for District Internal Audit comes from the Local Government Finance Policy, which states that every district shall establish an internal audit department (unit) to handle the internal audit function.

District Internal Audit comes under Step 4 of the DPP&BG cycle (see **Diagram 1** below). Auditing is an ongoing process (along with M&E) but its place in the cycle reflects how the results of the Audit process should feed into and guide the next cycle event, **Step 1. Planning and Budgeting**.

An Internal Audit Charter is a document that defines the authority, purpose and responsibility of internal audit. A template is provided below in **Table 1**.



For more detail...

For more information, see the following documents:

- Puntland Local Government Internal Audit Manual, **1.1–1.3**
- Puntland Local Government Finance Policy, **10. Internal Audit**

Diagram 1. DPP&BG Cycle

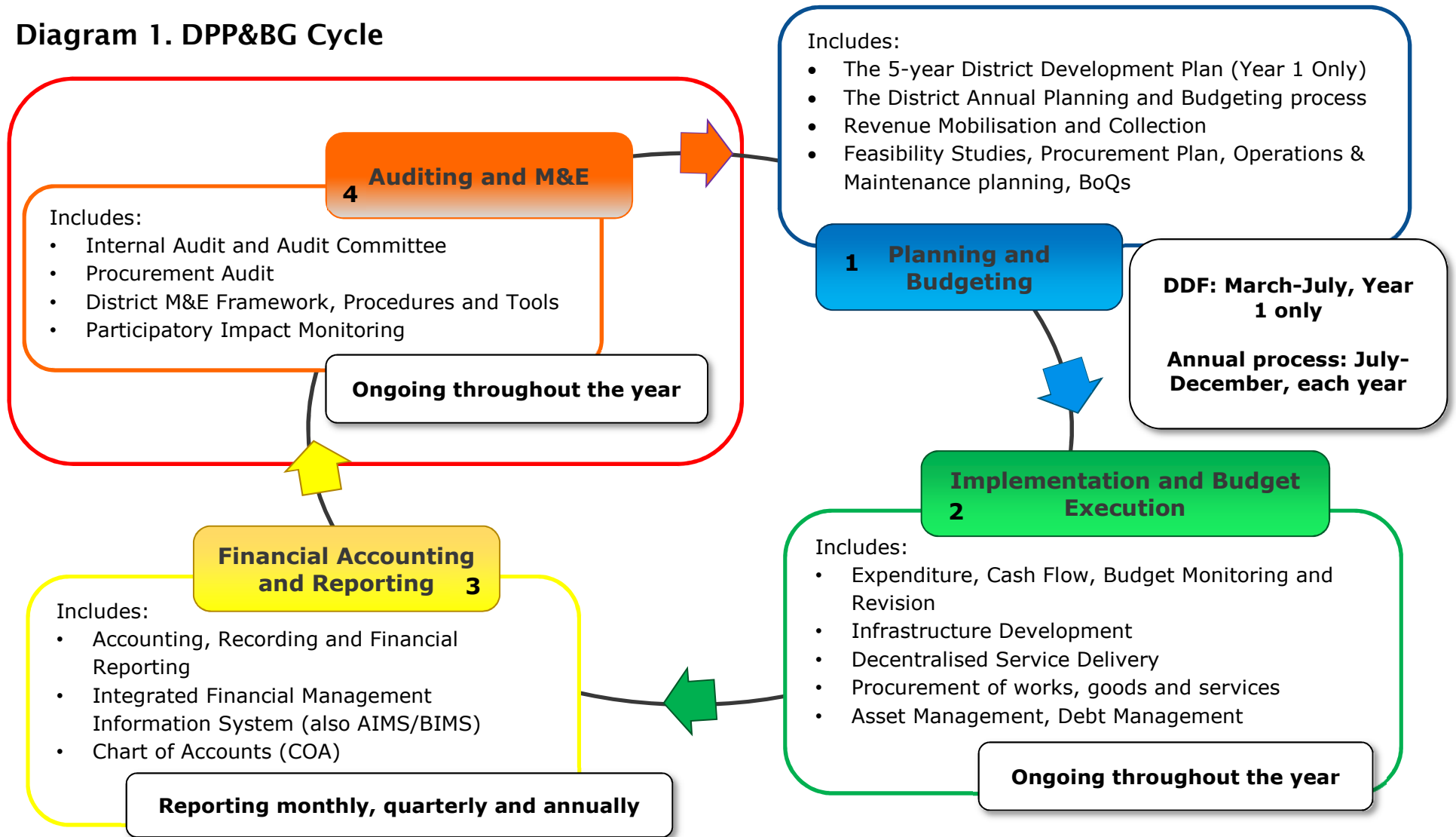


Table 1. Internal Audit Charter Template

<p>1. Internal audit authority</p> <p>The [<i>insert position</i>] of the [<i>insert name of District</i>] 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 (2015).</p> <p>The internal audit unit is granted access to records, personnel and physical properties relevant to perform the mission of the internal audit unit.</p>
<p>2. Internal audit mission</p> <p>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.</p>
<p>3. Internal audit scope of work</p> <p>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.</p>
<p>4. Composition of internal auditors and requisite skills</p> <p>The [<i>insert name of District</i>] internal audit unit is comprised of [<i>insert Head of Internal Audit, and the name(s) of Auditors</i>].</p> <p>The internal auditors, collectively, should:</p> <ul style="list-style-type: none"> (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 Executive Secretary, copy reports to the Ministry of Interior, 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 Executive Secretary and approved by the Mayor.

<p>.....</p> <p>Signature, Executive Secretary</p>	<p>.....</p> <p>Signature, Mayor</p>
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Exercise 1: Internal Audit Charter

Your trainer will also guide you in this activity. This exercise is designed to help you look more closely at the Internal Audit Charter and what it includes.

You will work in small groups and your trainer will assign you two (2) of the sections of the charter to read in detail and discuss.

Read your assigned sections and discuss the following questions:

1. What are the main requirements of this section of the Charter?
2. How easy or difficult will it be for this section of the Charter to be put in place?
3. If there are some difficulties identified, what is needed to overcome these, in terms of support, training or resources, for example.

Report back in plenary on what you discussed and your findings.

Internal Audit Standards and Code of Ethics

Standards for internal auditing are set by the Institute of Internal Auditors (IIA), through the International Professional Practice Framework (IPPF).

The standards can be found at www.theiia.org

The Code of Ethics can be found in **Annex 1** and also at:

<https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Code-of-Ethics.aspx>

An important principle relating to internal audit is that of 'Public Interest', which means honouring public trust and placing the interests of the public above one's own personal interests.

District Internal Auditors will be required to sign a code of ethics declaration, confirming their understanding and commitment to compliance with the code of ethics.



Questions for Discussion

Discuss the following questions in pairs and then discuss in plenary.

- Have a look at the Code of Ethics provided in **Annex 1**. Have you ever been in a situation where it has been challenging to uphold the principles in the Code of Ethics? What happened and how was the situation resolved?
- Examples could include encountering difficulties in making an unbiased assessment or using professional judgement, avoiding illegal activity or conflict of interest.



For more detail...

For more information, see the following documents:

- Puntland Local Government Internal Audit Manual, **1.4–1.5**

Session 2: Scope of Internal Audit

Session Objectives:

By the end of this session participants will be able to:

- Explain risk management in the district internal audit context.
- Identify the five components of the internal control system.
- Outline some different types of audits that can be carried out.

What is the nature of Internal Audit work?

The Internal Audit Unit is required to evaluate the adequacy and effectiveness of the district's existing processes in terms of:

- Risk Management (see below)
- Internal Controls (see below)
- Governance

In order to provide:

- Independent opinion on whether these processes are functioning as intended and will enable the district local government's objectives and goals to be met.
- Recommendations for improving the district local government's operations in terms of both efficient and effective performance.

The Internal Audit Unit does this by:

- Conducting financial, performance and other audits of all activities.
- Assessing the effectiveness of internal control systems.
- Recommending measures to strengthen internal controls, governance and risk management.
- Monitoring the implementation of audit recommendations and reporting on their status.
- Providing consulting services at the specific request of district management, providing advice on specific issues, while maintaining objectivity and not assuming management roles.



For more detail...

For more information, see the following:

- Puntland Local Government Internal Audit Manual, **2.1-2.4 & 2.6**

Risk Management and Internal Controls

What is Risk Management?

- A 'risk' is the probability that an event or action may affect an organisation and the achievement of its objectives.
- Risk is measured in terms of impact and likelihood, in other words, the 'impact' is the affect that the event would have it if happened, and the 'likelihood' is how possible it is that this event will actually happen.
- Therefore, an event that is identified as being 'low impact' and 'low likelihood', will likely be considered as 'low risk'.
- An example of risk in the context of a district local government is the separation of financial management duties. For example, those with responsibilities for revenue cash collection should not also be allowed to make payments from cash collection. If such duties are not separated, the risk of fraudulent use of public funds is much greater.
- Risk management refers to the practice of identifying potential risks in advance, analysing them (in terms of impact and likelihood) and taking precautionary steps to reduce the risk.
- The main role of internal audit is to provide independent and objective assurance to management and the District Council on the adequacy and effectiveness of the risk management processes in the district and to recommend improvements.

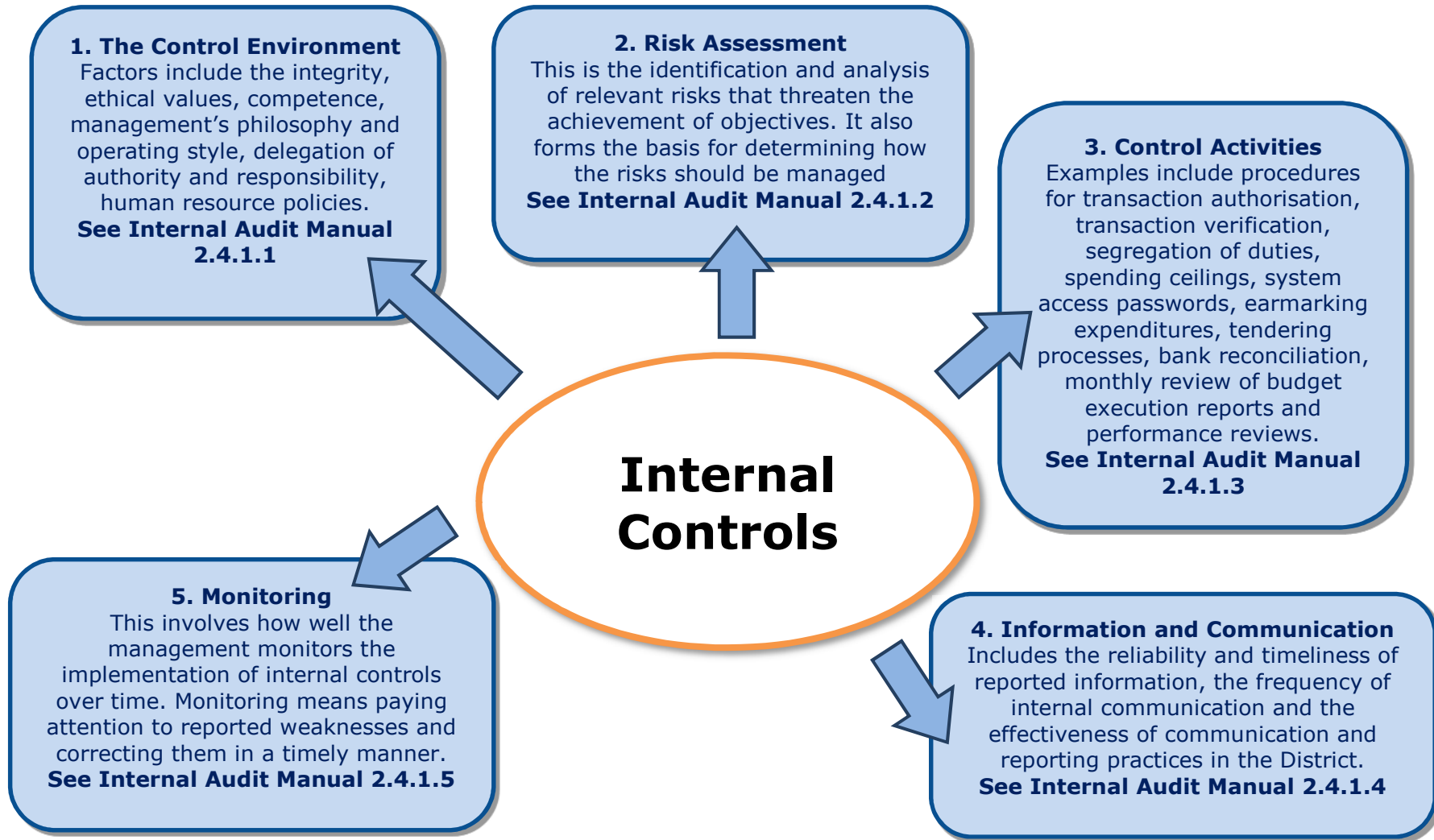
! Risk Management and Risk Assessment are covered in more detail in **Session 5**.

What are Internal Controls?

- 'Internal Controls' are all the policies, procedures, measures and actions taken by management and other district personnel to manage its risks. See **Diagram 2** below, which shows the different components that make up an Internal Control system.
- The purpose of Internal Controls include:
 - Preventing financial loss and waste.
 - Promoting efficient PFM and accountability.
 - Preventing and detecting fraud.
 - Safeguarding the District's assets.
 - Promoting ethical, orderly, and effective programs or projects.
 - Enhancing reliability of financial information and reports.
 - Promoting compliance with the law.

! Internal controls are also covered in **Chapter 3** of the Local Government Financial Management Manual.

Diagram 2: Components of the Internal Control System





Questions for Discussion

Discuss the following question in pairs and then discuss in plenary.

- The text box above gives you an example of 'risk' in the context of a district local government and its internal control system.
 - Can you think of any other relevant examples of 'risk' that might apply in the context of local government internal controls?

What are the different types of audits?



Compliance audit—A compliance review determines the degree of adherence to laws, regulations, and internal and external policies and procedures.

Systems audits—A valuation 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.

Value for money/performance audits—Review for processes to determine whether resources have been used efficiently, effectively and economically.

Information system Audits—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.

Financial review/audit—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.

Operational audits—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 operational reviews.

Procurement audits—Designed to evaluate independence, objectivity and fairness of department procurements (see below).



For more detail...

Procurement Audit

Procurement Audit is important for districts because:

Public entities generally spend significant resources through procurement of goods, works and services. As such, procurement potentially poses a high risk in misappropriation of resources. Proper management of the procurement process, which includes ensuring adequate systems and controls are in place and are complied with, is vital in ensuring effective and efficient utilisation of resources.

This independent review, referred to as procurement audit, is expected to highlight areas of non-compliance, weak controls, capacity gaps and so on and provide recommendations for improvement.

There is a separate manual, which contains detailed information on conducting a procurement audit:

- Puntland Procurement Audit Manual for Local Government

Chapter 3. Procurement Audit Planning

Chapter 4. Procurement Audit Execution



Exercise 2: Sharing Audit Experiences

Your trainer will guide you further in this activity. This exercise is designed to help you share your previous experiences of auditing with others in your group, as a way of learning about the different types of auditing and how people have been involved in audits previously.

You will work in small groups. In your groups, read the information above about different types of audits. Then discuss the following questions:

- Which of these different types of audits have you come across previously, either as an auditor, or as part of an audited unit?
- Describe the process—what happened, who was involved?
- Describe the outcome—was it positive, or where there some challenges?

Share your results in plenary.

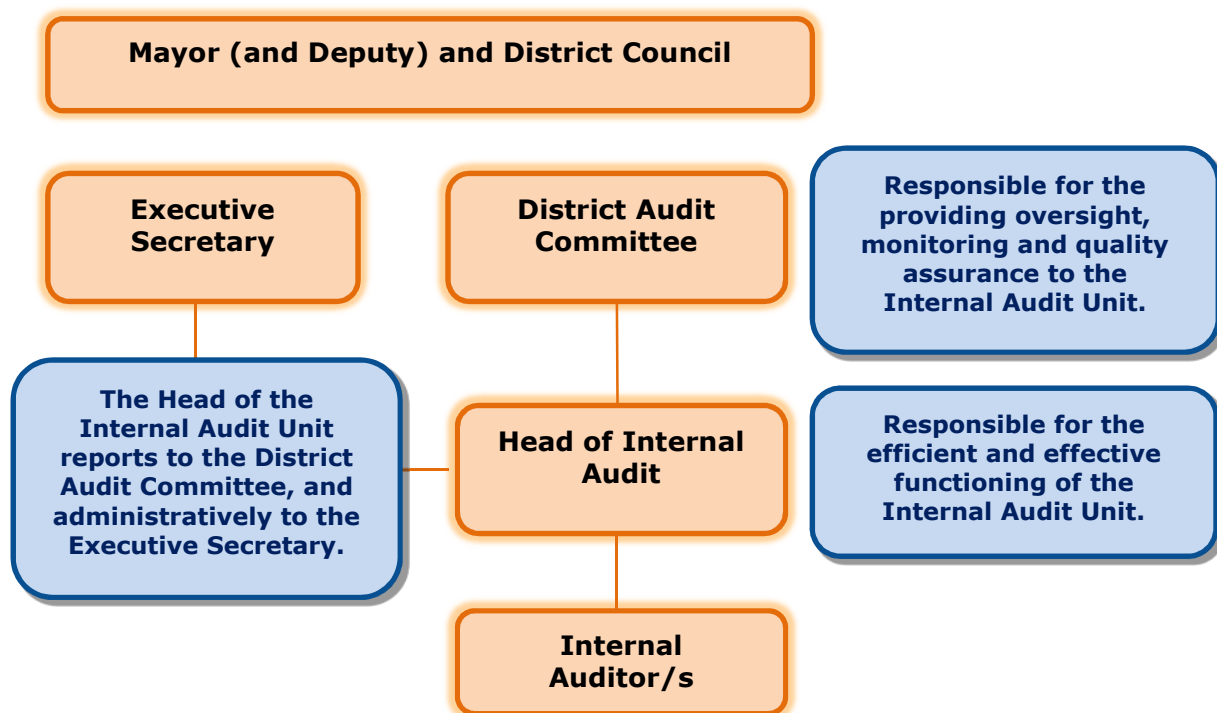
Session 3: The District Internal Audit Unit

Session Objectives:

By the end of this session participants will be able to:

- Outline the structure and responsibilities of district internal audit.
- Carry out the duties of an internal auditor as defined in the job description, and according to the required attributes.

Diagram 3: District Internal Audit Structure



Questions for Discussion

Discuss the following question in pairs and then discuss in plenary.

- Look at the structure of the Internal Audit as outlined in Diagram 3 above. In your opinion, what is needed to ensure that this structure can be implemented effectively in the district internal audit context?

Table 2. Internal Auditor Job Description

Description	Explanation
1. Prepare Annual Audit Plan	<ul style="list-style-type: none"> Identify and evaluate the District's risks in all auditable areas. Prepare a risk based annual audit plan.
2. Conduct Financial Review	<ul style="list-style-type: none"> Conduct quality review of financial statements by carrying out audits that evaluate the controls over revenues, expenditures, assets and liabilities. Emphasise the appropriateness of accounting records and reliability of the financial reporting.
3. Conduct Systems Audit	<ul style="list-style-type: none"> 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. Reviewing the existing and new information systems to assess the quality of controls and the relevance and reliability of the systems output.
4. Conduct compliance audits	<ul style="list-style-type: none"> Examine adherence to any policy, contractual, regulatory and legislative requirements.
5. Conduct investigative assignments	<ul style="list-style-type: none"> Where appropriate, assess any allegations of wrong doing or breaches of government standards of conduct.
6. Provide advisory services	<ul style="list-style-type: none"> Participate in significant initiatives and priorities and provide solutions to financial and other internal control issues. Auditors should safeguard their objectivity and ensure they do not play management roles.
7. Follow up audit recommendations	<ul style="list-style-type: none"> 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. Prepare consolidated quarterly internal audit reports	<ul style="list-style-type: none"> Summarise internal audit activities in a consolidated report to be submitted to the District Audit Committee (or District Council).
9. Maintain records of work done	<ul style="list-style-type: none"> Maintain records of engagement plans, audit programs, working papers and adequate evidence to support work done and findings.

10. Performance Management	<ul style="list-style-type: none"> • Agree performance targets with the District Audit Committee (or District Council) and report on achievement on a quarterly basis.
11. Prepare annual internal audit report	<ul style="list-style-type: none"> • Prepare internal audit annual report to be presented to the District Audit Committee.
12. Other tasks as needed	<ul style="list-style-type: none"> • Perform any other duties as may be deemed appropriate.

Attributes of Internal Auditors

Independence

The independence of the Internal Audit Unit is critical to its proper functioning. This independence can be strengthened by:

- A properly structured and effective Audit Committee.
- Free and unrestricted access of the Head of Internal Audit to the Internal Auditors, and the Chair of the Audit Committee.
- Internal Audit Unit to be politically neutral and avoid any factors that may impact on their ability to be independent (See **Annex 2**).
- Internal auditors should report threats to independence to the Head of Internal Audit, or the Audit Committee.
- Independence is not compromised by an internal auditor providing technical advice, training, or 'best practice' tools to staff.

Objectivity

Refers to an independent mental attitude that means:

- honesty
- freedom from bias
- using facts without distortions from personal feelings or prejudice.

Internal Auditors should not be placed in situations where they feel unable to make objective professional judgements or where there is conflict of interest or bias. See **Annex 3. Statement of Auditor's Objectivity and Ethics**.

Proficiency

This means that internal audit staff should collectively possess the knowledge and skills essential to the practice of the internal auditing profession. This includes:

- Applying the relevant standards.
- Possessing the relevant qualifications.
- Understanding management principles and discipline areas such as accounting, economics, finance.
- Communication skills and dealing with people.
- Knowledge of technology tools.

Due Professional Care/Professional Judgement

Internal Auditors should carry out their role in a professional way, exercise professional judgement, and be alert to:

- The possibility of intentional wrong-doing.
- Errors and omissions.
- Inefficiency, waste and ineffectiveness.
- Conflict of interest.
- Conditions and activities likely to give rise to irregularities.
- Inadequate control situations.

However, an Internal Auditor must always ensure any conclusions are backed by appropriate, sufficient and undoubted evidence.



For more detail...

For more information, see the following documents:

- Puntland Local Government Internal Audit Manual

3.4.1 Independence

3.4.2 Objectivity

3.5.1 Proficiency

3.5.2 Due Professional Care / Professional Judgement



Exercise 3: Internal Audit Independence

Your trainer will guide you further in this activity. This exercise is designed to help you explore further what is meant by 'independence' in the context of internal audit, and how it can be maintained.

1. Work in groups of 3 and brainstorm some ideas of what independence means in the context of internal audit, and what are some factors that may threaten the independence of an internal audit.
2. Share any experiences you may have had as an auditor when your ability to be independent was threatened. What happened and how was it resolved?
3. Discuss your answers in plenary.

Session 4: District Audit Committee

Session Objectives:

By the end of this session participants will be able to:

- Fulfil the role of an Audit Committee member according to the functions, responsibilities and Charter provided.

What is the District Audit Committee?



An Audit Committee is a specialist and independent oversight body designed to improve the district's overall governance framework.

The legal framework for District Audit Committee comes from the Local Government Finance Policy, which states that:

- *Every District shall have an Audit Committee.*
- *The District Audit Committee has an advisory role that helps in achieving:*
 - *Improved Accountability*
 - *Strengthened internal control environment*
 - *Support to the Executive Secretary to fulfil their stewardship, leadership and control responsibilities.*



For more detail...

For more information, see the following documents:

- Puntland Local Government Audit Committee Manual, **1.1–1.4**
- Puntland Local Government Finance Policy, **11. Audit Committee**



Questions for Discussion

Discuss the following question in pairs and then discuss in plenary.

- What do you think are the benefits of having an independent District Audit Committee?
- Who should be a member of a District Audit Committee, in order to ensure its independence?

Diagram 4: District Audit Committee Composition

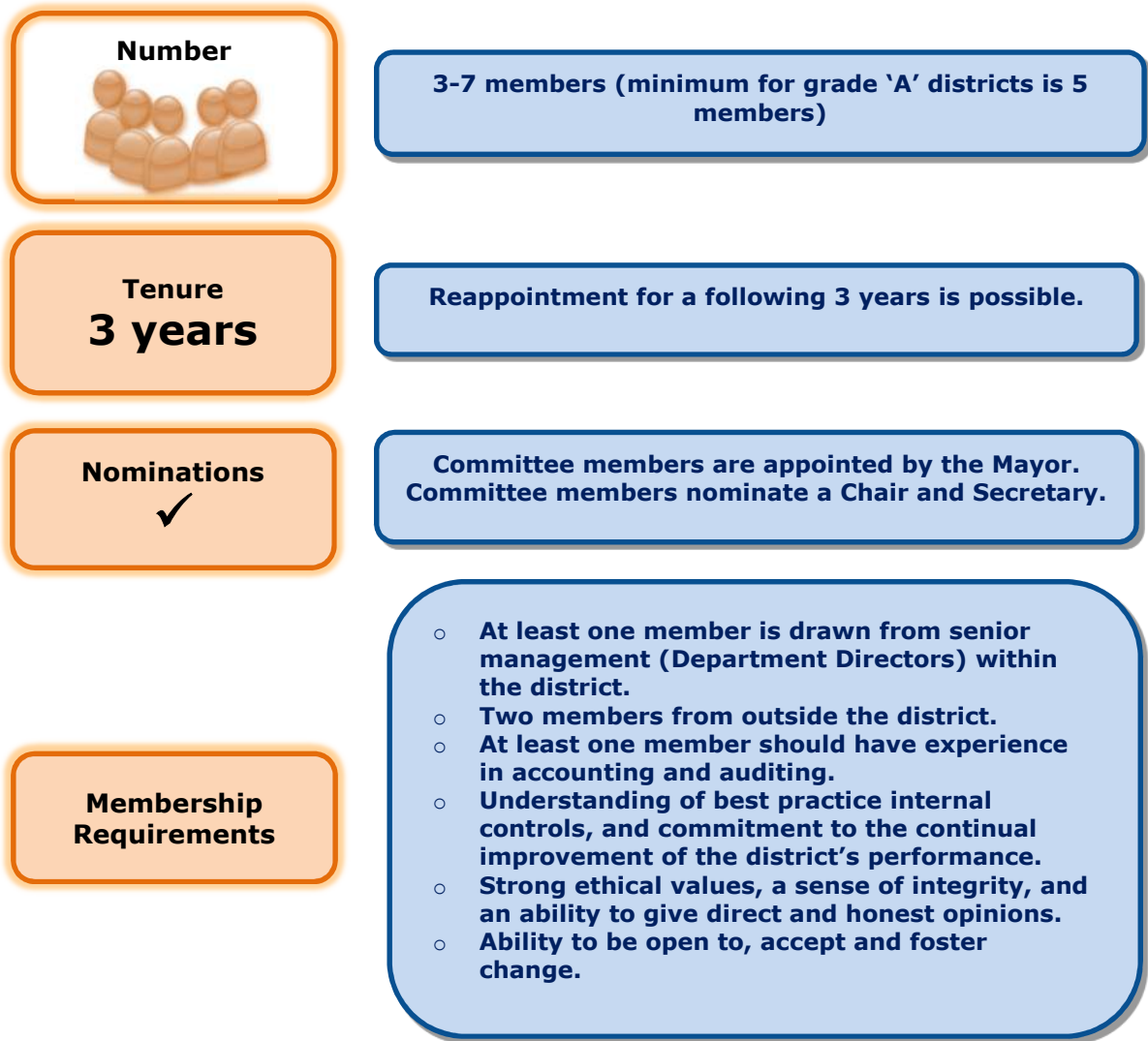


Table 3: Oversight Functions of the Audit Committee

1. Internal Control Oversight
<ul style="list-style-type: none"> • Involves reviewing the adequacy of the Districts' internal control environment to provide assurance that the Districts' key controls are designed appropriately and are operating as intended. • To do this effectively, Audit Committee members are expected to have a good understanding of the Districts' internal control framework.

2. Financial Reporting Oversight

Includes:

- Obtaining assurance from management that the financial statements comply with all prescribed accounting requirements, regulations and are materially correct.
- Assessing the appropriateness of the District's internal accounting policies.
- Assessing the process used by management in making material estimates and judgments in financial reports, for example, writing-off bad debts.
- Identifying and actively assessing any unusual financial or operational trends or variations from forecasts.
- Reviewing the impact of any materially adverse audit findings on the integrity of the District's financial statements.
- Performing other due care and diligence processes, including whether the statements are complete and operationally accurate and provide a 'true and fair view' of the activities of the District for the period under review.

3. Internal Audit Oversight

Includes:

- Act as a forum for communication between the Accounting Officer, senior management and internal and external audit.
- Review internal audit coverage and ensure the internal audit plan is aligned with the District's risks.
- Advise the Accounting Officer on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit plan.
- Review all audit reports and provide advice to the Accounting Officer on significant issues identified and action to be taken on issues raised that are relevant to the District, including the identification and dissemination of good practice.
- Monitor management's implementation of internal audit recommendations.
- Review the internal audit charter to ensure appropriate authority, access and reporting arrangements are in place.
- Periodically review the performance of internal audit.

4. External Audit Oversight

Includes:

- Act as a forum for communication between the Accounting Officer, senior management and external auditors.
- Liaising with external auditors regarding the progress of the audit and monitoring issues that may impact on external audit's ability to complete the audit within agreed timeframes.
- Review all external audit reports in respect of planned or completed audits and monitor management implementation of audit recommendations.
- Provide advice to the Accounting Officer on action to be taken on significant issues raised in relevant external audit across-institutional reports or better practice guides.

5. Compliance Oversight

Includes:

- Review the system for monitoring compliance with laws and regulations and the results of the management's investigation and follow-up of any fraudulent acts or accounting irregularities.
- Obtain regular updates from management regarding compliance.
- Assess whether all regulatory compliance matters have been considered in the preparation of the financial statements.
- Review the findings of any examinations by regulatory/inspection agencies.
- Review any steps taken by the management to establish, implement and monitor a formal written code of conduct/ customer charters.

6. Other Responsibilities

Includes:

- District has appropriate mechanisms in place to review and implement projects.
- District has a performance management framework that is linked to its objectives and outcomes.
- District management has in place appropriate processes to develop performance indicators and procedures to report against them in its annual report.
- The District's governance arrangements remain relevant and responsive to business developments and change in business risks.
- Meet at least quarterly and produce quarterly reports.
- Prepare an annual report on its functions, copies of which shall be sent to the Council, Ministry of Interior, Ministry of Finance and the Auditor General.

Table 4. Audit Committee Charter Template

1. Audit Committee authority

The Mayor of the [*insert name of District Council*] has established an Audit Committee to assist the District in the oversight of internal controls, financial reporting, compliance internal and external audit functions and other governance arrangements. In accordance with Puntland Local Government Finance Policy (2015), the role of an Audit Committee shall be advisory.

2. Mission/overall objective/ purpose

The Audit Committee will assist the Accounting Officer to provide independent advice, assistance, and recommendations on internal controls, financial reporting, compliance internal and external audit functions and other governance arrangements of the council.

3. Composition and requisite skills

The [*insert name of District*] Audit Committee is comprised of [*insert number of members—must be at least three*]. The Committee shall include:

[*Insert composition of the Audit Committee*].

The Audit Committee's members, collectively, should:

- (i) Possess the requisite knowledge necessary to understand key financial reporting issues;
- (ii) Have the ability to communicate with auditors and management; and
- (iii) Be knowledgeable about internal controls, financial statement audits and management/operational audits.

4. Duties and Responsibilities

See *Table 3* above.

5. Meetings and Notification

The [*insert name of District*] Audit Committee shall meet a minimum of [*insert number*] time each year. An agenda of each meeting should be clearly determined in advance and the Audit Committee should receive supporting documents in advance.

The Audit Committee shall give notice and prepare minutes of each meeting. At a minimum, the minutes will include the following:

- (i) The meeting agenda;
- (ii) Date, attendance and location of the meeting; and
- (iii) Except as otherwise provided by law in connection with executive sessions, summaries of the topics discussed, and all motions, proposals, resolutions and any other matters formally voted upon and the vote thereon, including recommendations agreed to by the Committee.

6. Decision-making process (quorum and majority)

All decisions shall be reached by vote of a simple majority [*insert number*] of the total membership of the Committee. A quorum constitutes a simple majority of the total membership and meetings will not be conducted unless a quorum is present. Where the Audit Committee are evenly divided the [*Chair will have the deciding vote OR the motion will be put forward again until a majority is realised*].

7. Role of the Accounting Officer

The Accounting Officer ensures that:

- (i) District officials comply with relevant laws and regulations.
- (ii) District's funds, property and resources are properly managed.
- (iii) District officials produce reports promptly as required by the laws and regulations.
- (iv) Internal and external audit queries are responded to promptly.
- (v) Plans and budgets are produced within the prescribed time.
- (vi) Payments of district creditors promptly.
- (vii) Collection of districts own source.
- (viii) Establishment of internal controls.

8. Role of the Director of Administration and Finance

- (i) Control and management of District's expenditure as well as assets and liabilities.
- (ii) Receipt, control and accounting of all District's income including development partner funding.
- (iii) Maintenance of proper books of account and records of revenue, receipts and other funds.
- (iv) Preparation of annual accounts.
- (v) Expenditure forecasts and monitoring, prioritisation of projects and activities for the purpose of financial allocations in the budget.
- (vi) Oversight of commitment of funds and expenditure trends.
- (vii) Budget preparation, monitoring and reporting.
- (viii) Financial management and control of voted funds.
- (ix) Producing cash flow budgets and statements.
- (x) Ensuring effective cash management.

9. Role of the Internal Auditors

See *Table 1.* above

10. Role of the External Auditors

- (i) Audit of district financial statements.
- (ii) Produce an independent opinion on whether or not the district's financial statements are relevant, accurate, complete, and fairly presented.
- (iii) Adds credibility to the financial transactions undertaken by the district.
- (iv) It assures district's stakeholders that the financial statements fairly represent.

11. Code of Conduct and ethics

The Committee requires careful observance of applicable laws and regulations. High standards of conduct and personal integrity are essential. To ensure that all Committee members embrace and promote sound ethical practices, the Committee requires that all members agree that he or she will:

- (i) Act with honesty and integrity, avoiding actual or apparent conflicts of interest in person and professional relationship.
- (ii) Comply with the relevant financial laws, regulations and manuals.
- (iii) Act in good faith, responsibly and with due care, competence and diligence, without misrepresenting material facts or allowing one's independent judgment to be impaired.
- (iv) Objectively advise the Accounting Officer.

12. Reporting requirements

The [*insert name of District*] Audit Committee has the duty and responsibility to report its activities to the Council, Ministry of Interior, Ministry of Finance and the Auditor General. Periodic written reports of Audit Committee activities are an important communication link between the Audit Committee and the appointing authority on key decisions and responsibilities.

The Audit Committee's reporting requirements are to:

- (i) Report on the scope and breadth of Committee activities so that the Council, Ministry of Interior, Ministry of Finance and the Auditor General are kept informed of its work;
- (ii) Provide minutes or a summary of minutes of meetings which clearly record the actions and recommendations of the Committee;
- (iii) Report on their review of the District's draft annual audit report and accompanying management letter and their review of significant findings;
- (iv) Report on suspected fraud, waste or abuse, or significant internal control findings and activities of the internal control function;
- (v) Report on indications of materials or significant non-compliances with laws, regulations and policies; and
- (vi) Report on any other matters that the Committee believes should be disclosed to the Accounting Officer/Council.

13. Evaluation of Committee activities

The Committee will undertake an annual self-assessment of its performance for the previous twelve months at [*insert timeframe, for example, June meeting*]. The Committee will provide a report of the annual review outcomes to [*title of Accounting Officer*].

At least once every [*insert appropriate timeframe, for example, three years, or co-ordinate with Chairperson's term of office*] the Committee will arrange for an external peer review of its operations and activities. The results of this review are to be provided directly to [*title of Accounting Officer*].

The Chair will provide each individual member with feedback on that person's contribution to the Committee's activities at least once during each member's term of office. This assessment will include a review of any training needs of the member.

14. Review of the charter

The [*insert name of District*] Audit Committee shall assess and report to the Ministry of Interior, Ministry of Finance and the Auditor General adequacy of this charter not less than an annual basis or as necessary. charter modifications and amendments will be discussed and approved by [*title of the Mayor*].

15. Approval of the charter

[*Insert name of District*] Audit Committee charter is endorsed by the Chairperson of the Committee and approved by [*Title of the Mayor*].

.....

Signature, Chair—Audit Committee

.....

Signature, Mayor

Principles for effective working of the Audit Committee

See **Annex 4** for a list of functions of the Chair and Secretariat.

Independence

Most of the members of an Audit Committee need to be independent of the management team.

Competence

Members need to have relevant experience and expertise. The personal qualities, skills, experience in governance and independence of the Chairperson are important.

Clarity of Purpose

An Audit Committee needs to be clear about its mandate, purpose, and role in the organisation and within the governance structure as a whole.

Open and Effective Relationship

An Audit Committee needs to encourage open and transparent communication and effective ways of working with its stakeholders.

Other recommended good practices include:

- (i) The Chairperson being responsible for setting and approving the agenda, which would have been prepared with senior staff.
- (ii) The Chairperson and the Head of Internal Audit having regularly scheduled meetings, outside Audit Committee meetings.
- (iii) The Audit Committee ensuring that requests it makes of management are reasonable and cost effective to implement.



For more detail...

For more information, see the following documents:

- Puntland Local Government Audit Committee Manual, **2.1–2.7, 3.2, 4.2–4.4, 5.2–5.4**



Exercise 4: Audit Committee Functions and Principles

Your trainer will guide you further in this activity. The purpose of this exercise is to familiarise you with the oversight functions of the Audit Committee, as well as the functions of the Chair and Secretariat and the working principles.

You will work in groups for this exercise. In your group, you will be given two (2) pieces of information to read and discuss in your group.

After you have spent some time reading and discussing your assignment material, one member of your group will give a short presentation in plenary to:

1. Summarise the essence of what you have read.
2. Summarise the group's reaction to the information they discussed.
3. Respond to any questions from the rest of the participants about what their group has just presented.

Audit Committee Action Plan

How to prepare the Action Plan:

1. Prior to preparation of the action plan, all DAC members should be consulted with regards to their commitments and/or other assignments they may have over the year.
2. The Committee Secretariat in consultation with the chairperson should discuss with members of District management with a view of establishing the timings of important events for Districts' activities, for example, preparation and submission of budgets, preparation and submission of annual financial statements and receiving Districts' audit reports.
3. The Committee Secretariat prepares the draft action plan – the Committee should have in place a calendar, and Audit Committee charter. It should also ensure that all Committee responsibilities as provided in the charter are included in the action plan.
4. The draft Audit Committee action plan is then presented in a format for easy reference See **Annex 5**.
5. The draft Audit Committee action plan is shared with the Chairperson and all other members to confirm to its correctness. Also, the same is shared with District management.
6. Final version is produced, signed by the Committee Chair and Secretary.

Diagram 5: Audit Committee and Key Stakeholders



District Audit Committee Meetings

A meeting quorum should consist of a majority of Committee members. Meeting minutes are very important and should be recorded as soon as the meeting commences.

Meeting minutes should:

- Cover each agenda item and document the discussion held and the outcome or conclusion from the discussions, including any recommendations, action points, allocation of tasks to relevant people, allocation of time for follow up and further consultations.
- Contain sufficient information to provide an understanding of the activities of the Audit Committee and the Committee's recommendations, decisions, conclusion and outcomes.
- Be prepared and distributed to Committee members as soon as possible after the conclusion of the meeting. The Secretary should sign the minutes being distributed.
- Be confirmed as an accurate record of the meeting at the next meeting of the Audit Committee. If any important details have been incorrectly recorded or omitted, they can be discussed and the minutes amended prior to confirmation at a subsequent meeting. After the minutes are confirmed as an accurate record of the meeting, they should be signed by the Chair and sent to all Committee members.

See **Annex 6** for a meeting minutes format.

In addition, the Audit Committee has authority to access any relevant information and reports for discussion at a meeting, including information from district staff and experts/specialists.



For more detail...

For more information, see the following:

- Puntland Local Government Audit Committee Manual
7.1-7.4 Procedures of District Audit Committee meetings
8.1-8.4. Audit Committee guide on decision making methods



Questions for Discussion

Discuss the following question in pairs and then discuss in plenary.

- Based on your experience and the information below, what do you think is the best method for decision making in a Committee, and why?

District Audit Committee Decision Making

Consensus

- A process of group decision making, where an entire group comes to an agreement.
- Inputs and ideas of all participants are gathered to arrive at a final decision acceptable to all.
- Consensus helps to achieve better solutions, and promotes trust among all members.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Most effective method of committee decision making. • All members express their thoughts and feelings. • Members feel understood. • Active listening is used. 	<ul style="list-style-type: none"> • Takes more time than other methods of decision making. • Requires commitment and responsibility by members. • It can be negative if members are not committed to the process.

Voting

- A 'win-lose' model of decision making. The decision is arrived when there is majority vote (more than half).
- A Committee must agree on what happens in a split vote situation and include this in the Charter. For example, some Committees give the Chair the deciding vote.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Useful when there is insufficient time to make decisions by consensus. • Useful when the complete committee member commitment is unnecessary for implementing a decision. 	<ul style="list-style-type: none"> • Voting does not take into account individual feelings or needs. • More focus on getting the numbers to 'win' rather than the issue itself. • Minority opinion is not discussed and may not be valued. • May lead to unresolved and unaddressed conflicts. • Full group interaction is not obtained. • Voting is taken for granted as the natural or only way for a group to make a decision.

! Where legal provisions exist, the Committee should be guided by such provisions in arriving at its decisions.

Diagram 6: Audit Committee Responsibilities in Detail

Four key responsibilities of the Audit Committee are covered in detail in this session:



The timing of these activities is captured in the Audit Committee Action Plan in **Annex 5**.

1. Review of Internal Audit Reports

- Internal audit reports are compulsory and are produced at the end of each quarter by the Internal Audit Unit on the activities that were performed each quarter.
- Internal audit reports can be grouped into the following main types:
 - **Engagement reports:** reports on individual assurance audit assignments
 - **Special audit reports:** reports on special audit arrangements by management and other special investigations
 - **Periodic reports:** quarterly and annual reports, which are a summary of the engagement reports and other non-audit activity undertaken during the quarter/year.
- It is the role of the Audit Committee to review these reports and provide advice to the Accounting Officer on significant issues identified, and action to be taken on issues raised that are relevant to the District, including the identification and dissemination of good practice.

Audit Evidence

The Audit Committee should pay attention to the audit evidence presented, as part of its review of internal audit reports. Audit evidence can be categorised as follows:

- **Physical evidence:** Direct inspection or observation of activities of people, property or events. This can be documented in the form of memoranda, photographs, charts, maps or other types of physical evidence.
- **Documentary evidence:** Created information such as accounting records, invoices, letters, contracts and management information on performance.
- **Testimonial evidence:** Responses to inquiries through interviews. These need to be confirmed when possible with additional evidence.
- **Analytical evidence:** Analysis or verification information. For instance, computations, comparisons with past operations, standards, laws/regulations and evaluations of physical, documentary or testimonial information.

Audit Recommendations

These are a summary of solutions for fixing the weaknesses identified by the auditors in the course of audit. The below steps should be followed:

1. Members of the Audit Committee should be familiar with the agreed formats of internal audit reports for use by auditors in Puntland Districts.
2. During the Committee meetings, it is good practice to invite the Head of Internal Audit to present the internal audit report.
3. The Head of Internal Audit should present and highlight the critical issues in relation to audit findings included in the reports, and the key strengths and challenges faced during implementation of the internal audit plan. The Head of Internal Audit should then take Committee members through all key sections of the report.
4. Audit Committee members should critically review the sections of 'Status of implementation of previous audit recommendations' and 'Current audit findings and recommendations'. Members should evaluate the adequacy of both audit recommendations and management responses.
5. The Audit Committee member with accounting and auditing background will guide other Committee members in the discussions and reaching conclusions, and/or advice to be submitted to the Accounting Officer.
6. While reviewing all key sections of the reports, Committee members should pay particular attention to the adequacy of both audit recommendations and management responses.

2. Review of External Audit Reports

External Audit:

- Refers to the audit of a District's financial statements by an independent third party.
- Results in the publication of an independent opinion on whether or not those financial statements are relevant, accurate, complete, and fairly presented.
- Adds credibility to the financial transactions undertaken by the District.
- Assures stakeholders that the financial statements fairly represent the District's position and performance during a stated period.
- The Auditor General provides an opinion on the fairness of financial statements of the District. Types of opinion can be grouped into the following categories:
 - **Unqualified Opinion:** the external auditor is satisfied that the financial statements present a 'true and fair view' of the state of affairs of the district. The financial statements of the District can be relied on by users.
 - **Qualified Opinion with 'Subject or Except for':** Where the auditors have found some departure from prescribed rules and regulations, but this is not significant, they issue a 'qualified opinion' on clerical mistakes which do not impact on making sound decisions based on the financial statements.
 - **Adverse Opinion:** The departure from prescribed rules and regulations is significant. Financial statements *cannot* be relied upon for making sound decisions. Examples include: significant sums of missing payment vouchers, non-banking of cash receipts and fraud or misappropriation of funds.
 - **Disclaimer of Opinion:** In this case the audit scope was limited, for example, the books of accounts were not provided for audit. Therefore, the auditor cannot form any opinion on the financial statements of the District.

See **Annex 8. Auditor General's Report Format** for the contents of the Auditor General's report, within which the audit opinion is given.

Management letter and Audit Committee Recommendations

- The management letter contains detailed audit findings, responses by management and auditor's recommendations for each audit finding, in two sections:
 - Follow up on the implementation of previous year's auditor's recommendations.
 - Current year's audit findings and recommendations.
- The Audit Committee should review all audit findings contained in the management letter, particularly management commentary, and consider whether the information is adequate to ensure rectification of the any non-compliance issues in the audit finding.
- The Audit Committee should consider inviting the external auditor to present and highlight on the key critical issues of concern.
- After reviewing the external auditor's report, the Audit Committee will discuss, deliberate and agree on key issues of concern that will require further follow-up to management. This is to ensure full and adequate implementation of the audit issues raised.

See **Annex 9. Audit Committee Recommendations Format**



For more detail...

For more information, see the following documents:

- Puntland Local Government Audit Committee Manual, **10.1–10.5**

3. Advice to Accounting Officer

- The Audit Committee provides advice to the Accounting Officer on various matters that it reviews in respect of:
 - Financial Reporting
 - Internal Controls
 - Audit Functions and Reports
 - Compliance with legal and other regulatory requirements for the District.

Audit Committee Recommendations

- i. Audit Committee recommendations are the result of the work performed by the Committee from its mandated functions during a specific time period.
- ii. These functions are carried out over the year, on a quarterly basis with at least one meeting taking place per quarter.
- iii. Normally, the Audit Committee recommendations will arise from discussions and deliberations of issues that have been raised in the auditors and/or other regulatory reports concerning improvement of systems and procedures in the District.
- iv. Conclusions, opinions and/or way forward arising from discussions and deliberations by members of the Committee will form part of the recommendations of the Audit Committee.
- v. The recommendations given should be specific, feasible, realistic and/or practical geared towards improving the desired situation in a cost effective manner. Where possible, time frames should be considered in the Audit Committee recommendations.
- vi. Recommendations should be clearly documented in brief reports after each Committee meeting.

See the **Example** below from Abyan District.

Laws and Regulations

The Audit Committee should be guided by the following Puntland laws and regulations:

- Puntland Local Government Law no. 7 (2003)
- District Public Expenditure Management (2012) and the Ministerial Decree (2011)
- District Councils' Budgeting and Accounting Systems Regulations and Manual
- Procurement regulations and guidelines.
- Local Government Finance Policy and Financial Management Manual

4. Audit Committee Report

The Audit Committee has a duty to report its activities to the District Council, with copies to the Accounting Officer, Ministry of Interior, Ministry of Finance and the Auditor General.

The key steps for preparing the Committee's audit report are:

1. Preparation of the Audit Committee annual report starts immediately after the end of the year and after production of the 4th quarterly Audit Committee report. The Audit Committee Secretariat is responsible for preparing the draft report.
2. Well prepared/documented quarterly reports of the Committee will normally lead to timely and quality production of annual Audit Committee report.
3. Ensure that the report is clearly written, with brief summaries / opinions / recommendations and in simple language. Grammar and other considerations in effective report writing should be observed.
4. All members of the Committee should be given the opportunity to read and comment on the draft Committee report before production of the final version for submission to all relevant organs.
5. The final version of the report must be signed by the Chairperson of the Committee.

! The Audit Committee's annual report is important for showing stakeholders how the Committee has discharged its responsibilities, and it is important for improved communications between the District and the public. It is therefore critical for the committee to produce a timely and quality annual report on its activities.

Refer to **Annex 5. Audit Committee Action Plan** to see recommended timings.

Refer to **Annex 7. Audit Committee Annual Report**, for a format for preparing the Audit Committee's annual report.



For more detail...

For more information, see the following documents:

- Puntland Local Government Audit Committee Manual, **11.1–11.3 and 12.1–12.2**

Example: Audit Committee Recommendations Summary

Example from the District Audit Committee Recommendations, Abyan District

i. Internal Controls

The Audit Committee noted with concern regarding the lack of segregation of duties in financial management systems of the District. This may result in misuse of District funds and endanger successful achievement of its objectives. The Committee advised management to immediately put in place the segregation of duties in financial management—revenue cash collectors should not be allowed to make payments from cash collection, as well as record payment cash books.

ii. Financial Reporting

The Audit Committee was generally satisfied with the quality of financial reporting in the District. However, it noted and advises on the following areas:

- Rectify all errors in the year-end adjustments before final accounts are submitted to Auditor General for audit.
- Ensure consistent application of double entry bookkeeping system.



Exercise 5: Audit Committee Action Plan

Your trainer will also guide you in this activity. This exercise is designed to help you look more closely at the Action Plan the Audit Committee must prepare each year, and what it includes.

You will work in small groups. In your group, review the Action Plan provided in **Annex 5** and answer the following questions, based on the 4 main areas of Audit Committee responsibility:

1. In what months does the Audit Committee review the Internal Audit Reports?
2. In which month does the Audit Committee receive a briefing from the External Auditor?
3. In which months does the Audit Committee review reports on legal and regulatory matters, as part of its role in advising the Accounting Officer on regulatory compliance?
4. In which months does the Audit Committee prepare *each* of its quarterly reports?

Share your answers in plenary.

Session 5: The Annual Audit Plan

Session Objectives:

By the end of this session participants will be able to:

- Carry out an annual audit planning process, including risk assessment.

What is the annual audit planning process?

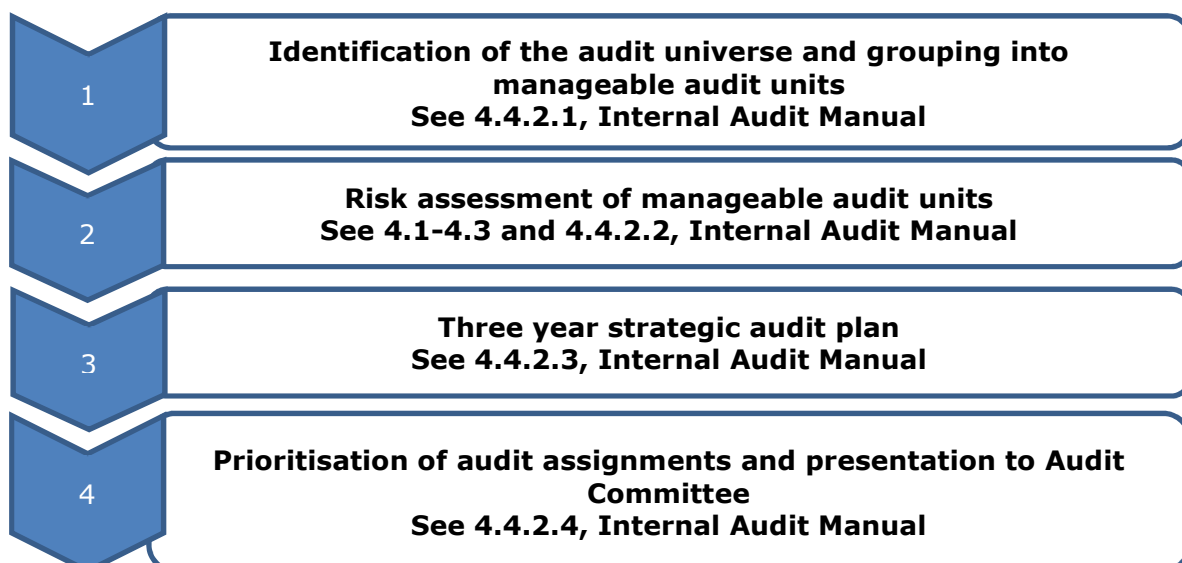


Each year a District must plan what audit activities it will undertake in the coming year and how it will carry this out. The purpose of an audit plan is to communicate:

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

The district Internal Audit Unit may need to conduct a risk assessment as part of its annual audit planning process, depending on whether or not the district management has a formal risk assessment and management process in place.

Diagram 7. The annual audit planning process



1. Identification of the audit universe and grouping into manageable audit units

- Identify all budget lines, departments, programs, systems, assets, resources and processes that are within potential audit scope.
- New activities, programs and changes within the existing operating units, which may impact the audit universe are considered.
- District budget and plans should be reviewed to identify key objectives.
- Group the components of the audit universe into 'manageable audit units.'

2. Risk assessment of manageable audit units (see below)

- 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 process of conducting a risk assessment is covered in detail below.

3. Three year strategic audit plan

- A rolling three year strategic audit plan is developed in collaboration with management and approved by the Audit Committee. The plan should take into account the following factors:
 - Existing controls
 - Expertise of management
 - Historical problems
 - Interval since last audit review
 - Conditions found during recent review
 - Adherence to the budget
 - Complexity of operations and technology
 - Overall effectiveness and efficiency of operations.

4. Prioritisation of audit assignments and presentation to the Audit Committee

- Audit assignments are proposed for areas that are of high 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 are included, along with the number of person days required to complete the assignment.
- Once the plan has been prepared it should be presented to the Audit Committee for their approval.

Risk Assessment

In **Session 2** we introduced the concept of 'risk' and 'risk management'. As part of internal auditing planning, districts are recommended to adopt a 'Risk Based Audit Approach', which means the audits focus on the areas of highest risk to the district achieving its objectives.

A risk-based audit approach is also important because a district internal audit unit does not have the resources to carry out a 100% audit of every transaction, therefore it has to prioritise what it will focus on.

To do this, the internal audit unit carries out a 'risk assessment' of each audit area—those areas considered 'high risk' receive high priority, and an appropriate allocation of the internal audit's resources. For example, 'high risk' areas might be audited on a quarterly basis, while 'low risk' areas might only be audited on an annual basis.

Risk assessments are important for both the audit strategy and annual audit plan, as well as the audit engagement plans for conducting audits in individual areas.



Which factors increase risk?

- The volume of transactions—the higher the volume, the higher the risk.
- The value of sums of money involved—the higher the value, the higher the risk.
- The relative complexity (and strength or weakness) of the systems, internal controls, and segregation of duties. The more complex the system, the higher the risk. Also, the weaker the system, the higher the risk.
- 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.
- The relative strength or weakness of the overall control environment within the District, particularly in financial management and analysis of financial performance. A weak control environment raises risk.
- See **Table 5. Risk Matrix** below for an example of how these factors are important for assessing risk.

Diagram 8: Types of Risk

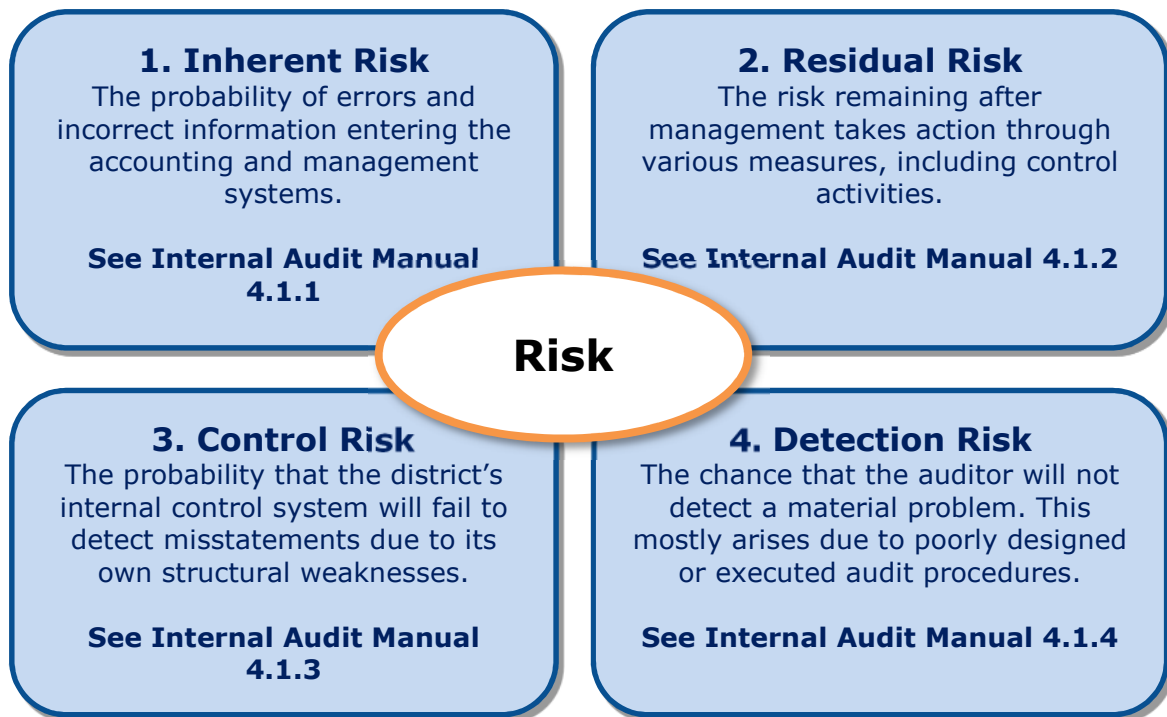


Diagram 9: Steps in risk assessment of auditable units

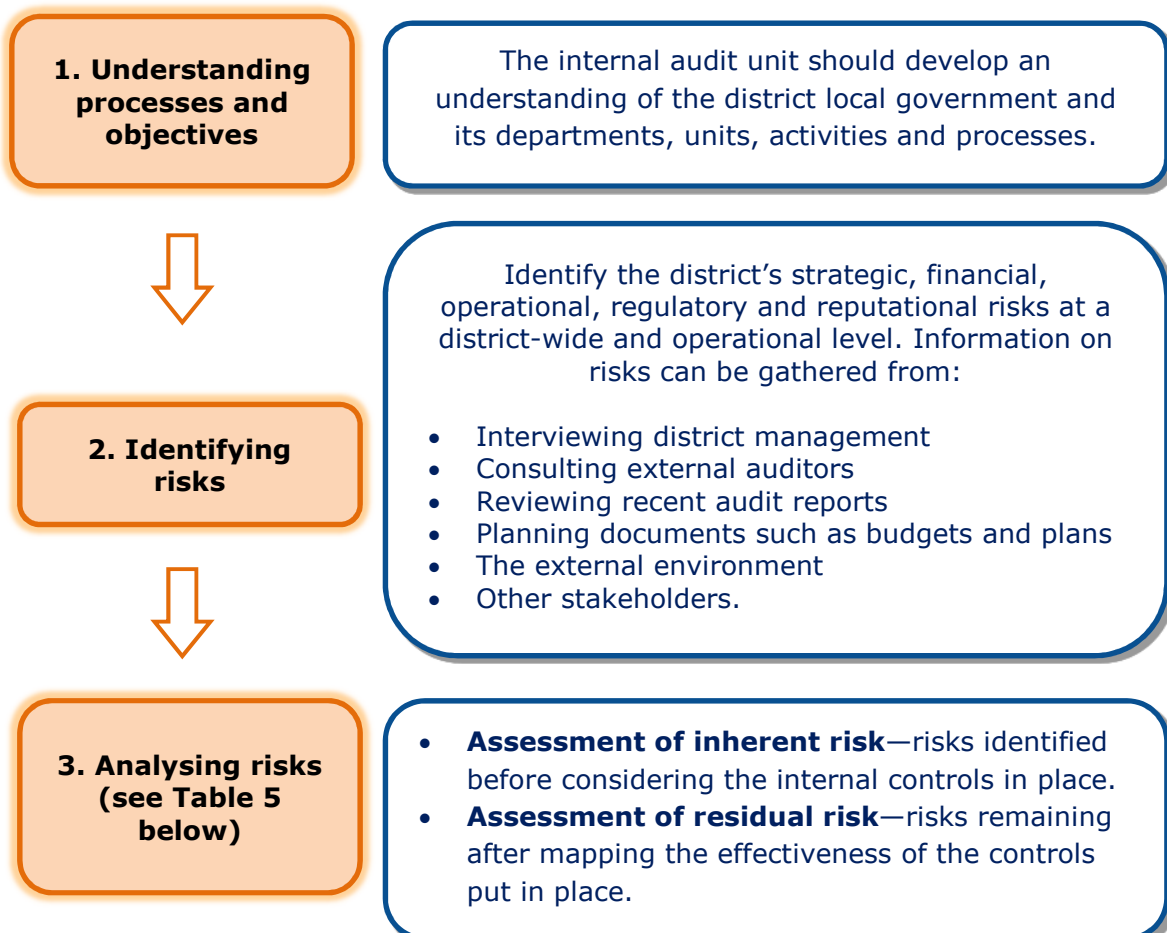


Table 5: Risk Matrix

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

Individual risks are determined by combining the estimated risk likelihood and impact to give the significance of each risk—high, medium or low, based on the following:

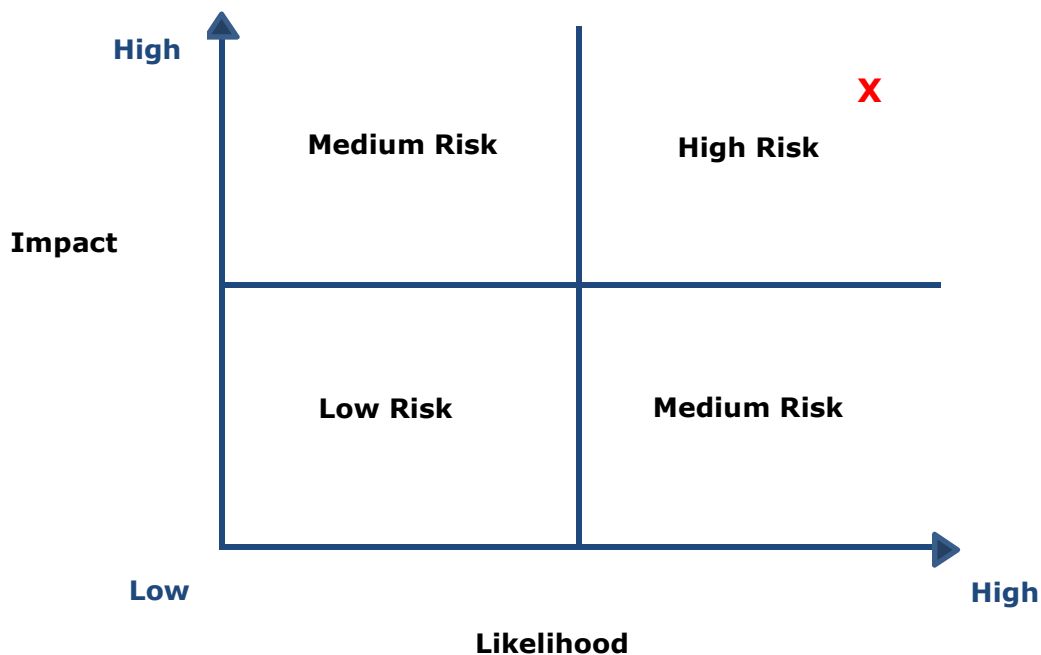
High—There is a critical weakness in controls. Resolution would help avoid a potentially critical negative impact on the unit involving loss of material assets, reputation, critical financial information, or ability to comply with the most important laws, policies, or procedures.

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 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.

Diagram 10: Risk Rating



Questions for Discussion

Discuss the following questions in pairs and then discuss in plenary.

You can see the red **X** in the diagram shows that an event with a high impact and high likelihood of occurring has been given a 'high risk' rating.

1. Indicate on the diagram above with a '**Y**', what risk rating might be given to an event with a low impact, and a high likelihood of occurring.
2. Indicate on the diagram above with a '**Z**', what risk rating might be given to an event with a high impact, but a low likelihood of occurring.

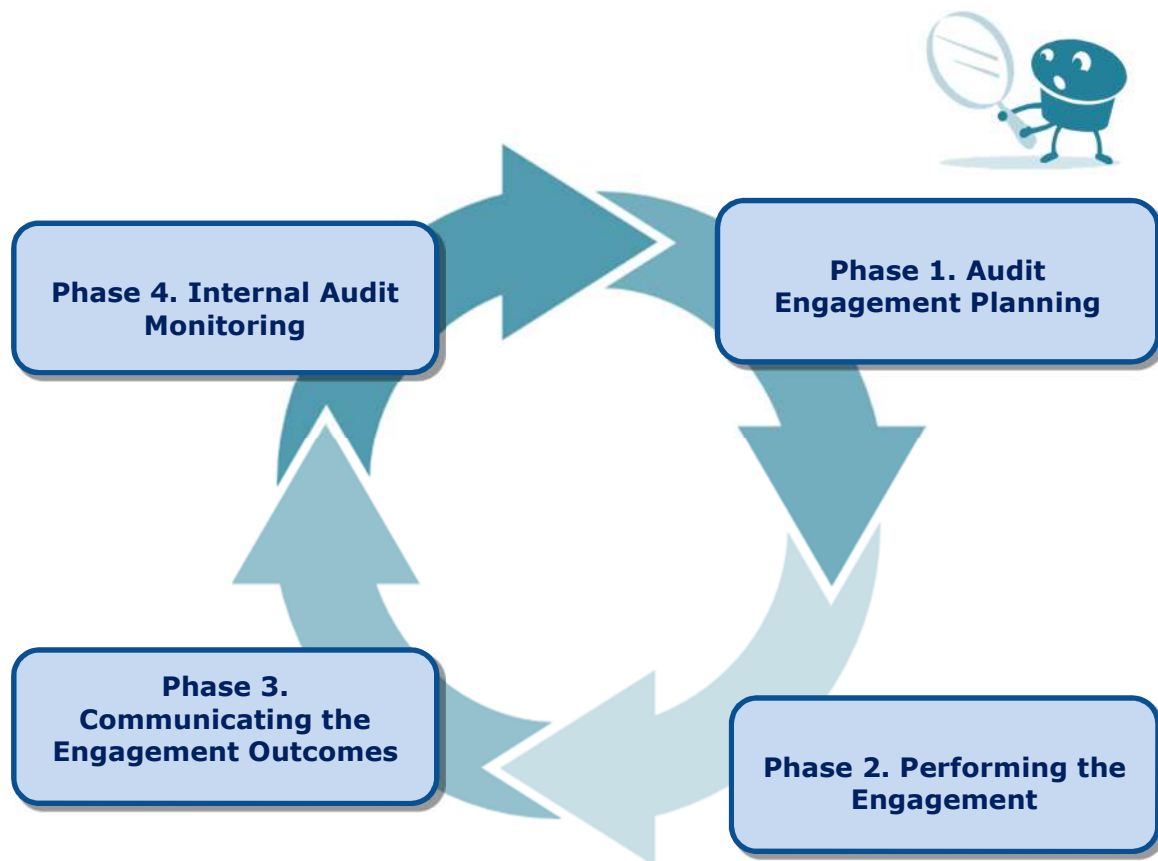
Session 6: Conducting an Audit

Session Objectives:

By the end of this session participants will be able to:

- Conduct an audit engagement cycle according to the procedures in the Internal Audit Manual.

Diagram 11: What is the audit engagement cycle?



For more detail...

For more information, see:

- Puntland Local Government Internal Audit Manual, **5.1-5.5**

Phase 1: Audit Engagement Planning

Diagram 12: Audit Engagement Planning

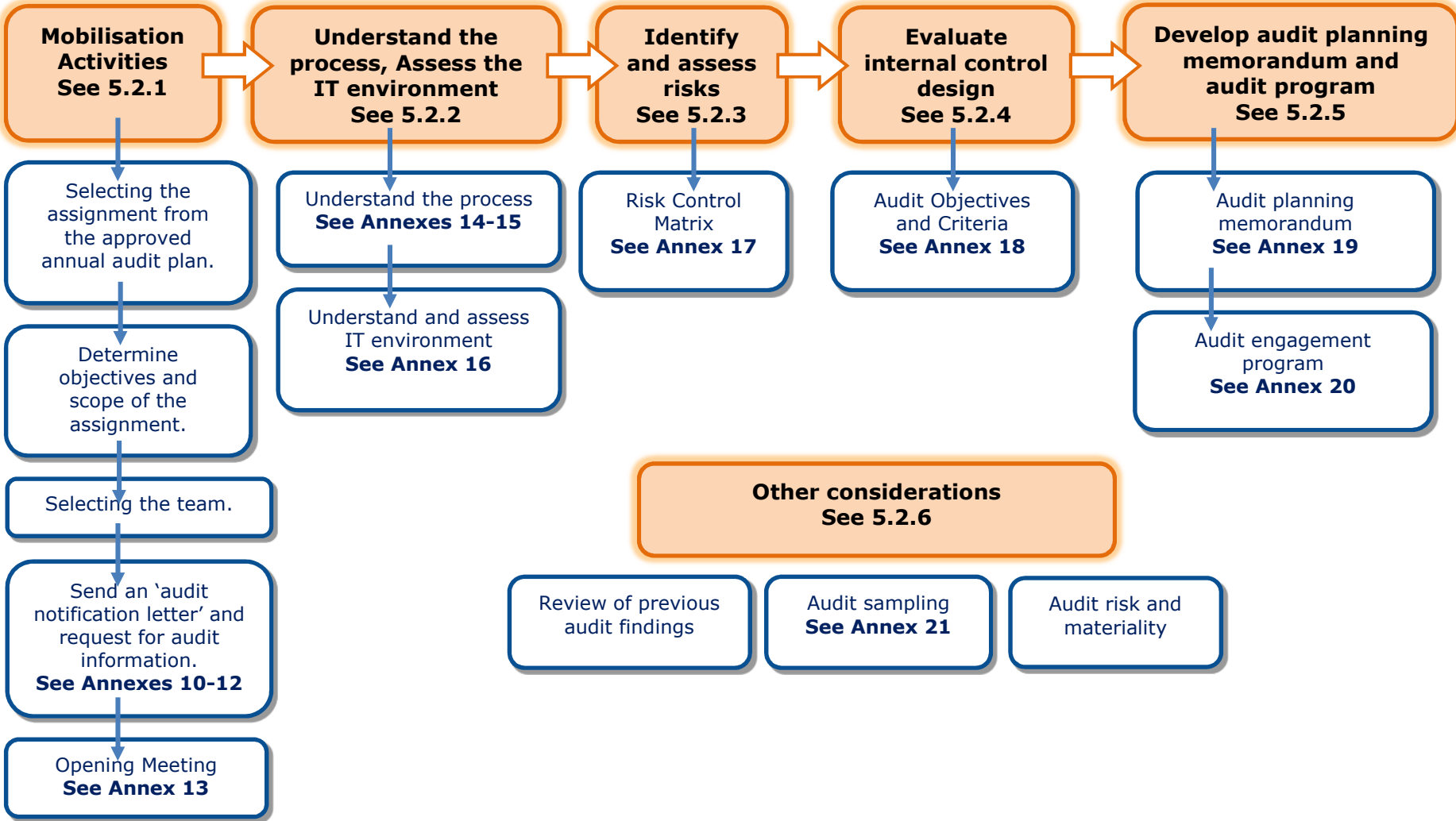


The objectives of Phase 1: Audit Engagement Planning are to determine how the audit will be carried out, including to:

- i. Help ensure that appropriate attention is devoted to important areas of the engagement, that risk areas are identified and resolved.
- ii. Ensure that the audit engagement is properly organised and managed, leading to an effective and efficient audit.
- iii. Assist in the proper assignment of work, facilitate the direction and supervision of the audit work, and ensure proper supervision of the engagement.

Each set of activities in this Phase has relevant sub-activities, which are outlined in **Diagram 13** below. More detail is also provided further below about the activities and sub-activities.

Diagram 13: Audit Engagement Planning—Activities and Sub-Activities



Selecting the assignment and its objectives and scope

- Individual assignments are selected from the annual audit plan.
- The audit objectives define the purpose of the audit, for example, 'to evaluate the reliability of the district's accounting system'.

Selecting the team

- The Head of Internal Audit selects the audit team, based on the assignment, and the training and experience of available staff
- There should be a planning meeting with members of the audit team to discuss the audit including its objectives and methodology.

Audit notification letter and request for information

- These documents (**Annexes 10 & 11**) must reach the Director of the Department to be audited at least seven (7) working days prior to the commencement of the audit.
- The audit team should maintain a checklist for monitoring the information provided for the audit (see **Annex 12**), any delays in receipt of information should be reported to the Head of Internal Audit.

Opening meeting

- The purpose of this meeting is to discuss plans for the audit with those who will be the subject of the audit, and is held well in advance of the actual commencement of the audit (see **Annex 13**).

Understanding the process

- The audit team leader holds an entry meeting with senior personnel on the first day of fieldwork to introduce the team.
- The following information should be collected to gain a good understanding of the department:
 - **Plans**—strategic plans, policies, directives, budgets, funding sources.
 - **Organisational documents**—organisation chart, job descriptions of key personnel, staff competency and delegation of authority.
 - **Directives**— copies of relevant regulation and rules, minutes, authority levels.
 - **Controls**— operational manual.
 - **Weaknesses or strengths**—as reported in previous audits.
- It is important to evaluate the district's system of internal control at least once every financial year, to check its adequacy, effectiveness and efficiency, and areas for improvement of the system generally, as well as the specific controls in place.

In Phase 1, this evaluation is conducted as part of 'Understanding the Process', and should cover the following areas by asking some key questions, for example:

- **Authorisation**—Did an approved party authorise the transaction?
- **Validity**—Did the recorded activity actually occur?
- **Accuracy**—Were the terms and amounts correct?
- **Timeliness**—Was information recorded during the proper period?
- **Confidentiality**—Was information kept private?
- **Integrity**—Is the information free from corruption and alteration?
- **Availability**—Is the information stored and readily available?

See **Annex 14. Internal Control Questionnaire** for a tool to help guide key questions about each of the components of the Internal Control system, and **Annex 15** is used to document the findings.

Understanding the IT environment

- Where the audit relates to an activity or unit which maintains its information primarily on an ICT platform, the audit team should:
 - Determine the size and complexity of the system and the extent of the activity's dependence on it.
 - Determine if specialised IT audit skills are required.
 - Gain an understanding of how the information system is used to support the organisation, and assess the application level risks the activity may face.
- **Annex 16** can be adapted for this purpose.

Identify and assess risks—Risk Control Matrix

- The information gathered above can be used to conduct a risk assessment at the engagement level.
- **Annex 17** is a Risk Control Matrix, used to record the risks, key controls audit objectives and the audit program.

Evaluate internal control design

- After evaluating the internal controls based on information above, the audit team finalises the audit objectives and scope and determines the extent of testing, for example the sample sizes needed, as well as a methodology to extract samples.
- **Annex 18** can be used for this purpose.

Audit planning memo and audit program

- The audit plan memorandum should contain summaries of the key information gathered from the above planning steps, as well as information outlined in **Annex 19. Audit Planning Memorandum** template.
- An audit program includes the nature, timing and extent of audit procedures to be performed in order to obtain sufficient and appropriate audit evidence, as outlined in **Annex 20. Audit Engagement Program**.
- The Head of Internal Audit reviews and approves the audit program before the team commences significant fieldwork. The program may be revised where appropriate to incorporate additional procedures that were not foreseen during the planning stage.

Other considerations

Review of previous audit findings

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

Audit Sampling

- Auditors may test less than 100% and use the results to draw broader conclusions. This is known as sampling and helps with efficiency of the audit process.
- Sampling is covered in more detail in **Session 7** and an audit sample template is found in **Annex 21**.

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 arrangements, which could result in an unacceptable level of business risk.
- 'Business risk' is the risk of the district local government failing to meet its objectives.
- 'Materiality' is the degree of relevance or significance of an absent, inappropriately designed or ineffectively implemented internal control or management arrangement, in relation to the business risk of the district local government.

Phase 2: Performing the Engagement

Diagram 14: Performing the Engagement



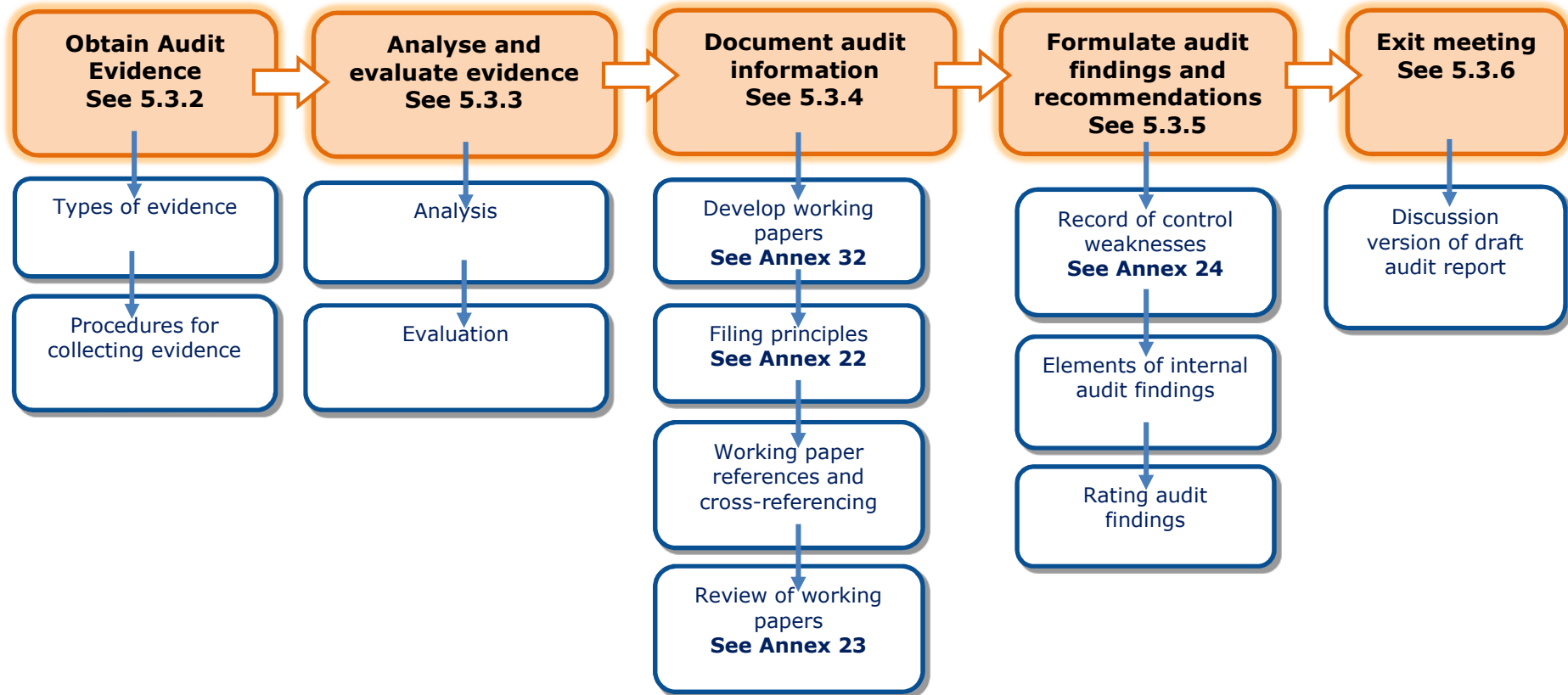
Phase 2: Performing the Engagement is the process of collecting, analysing, interpreting and documenting information on matters relating to the audit objectives and scope.

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 audit team leader should ensure that the audit team understands the audit objectives, scope and methodology, the procedures developed and the estimated timeframes.

Each set of activities in this Phase has relevant sub-activities, which are outlined in **Diagram 15** below. More detail is also provided further below about the activities and sub-activities.

Diagram 15: Performing the Engagement—Activities and Sub-Activities



Obtaining audit evidence

Types of evidence

- **Physical evidence:** Direct inspection or observation of activities of people, property or events. This can be documented in the form of memoranda, photographs, charts, maps or other types of physical evidence.
- **Documentary evidence:** Created information such as accounting records, invoices, letters, contracts and management information on performance.
- **Testimonial evidence:** Responses to inquiries through interviews. These need to be confirmed when possible with additional evidence.
- **Analytical evidence:** Analysis or verification information. For instance, computations, comparisons with past operations, standards, laws/regulations and evaluations of physical, documentary or testimonial information.

Evidence collecting procedures

- **Vouching:** testing recorded amounts by examining supporting documents to determine whether or not they represent an actual transaction.
- **Tracing:** following a document through its processing cycles to the accounting records to determine whether or not all transactions have been recorded.
- **Recomputation:** verifying the mathematical accuracy of figures.
- **Scanning:** searching for obvious exceptions in a large quantity of data.

Analyse and evaluate evidence

- Data should be analysed and evaluated against established audit criteria to make conclusions.
 1. *Analysis* means breaking down data/activities/processes into smaller, more manageable parts to determine attributes, relationships, cause and effect and make inferences or determine whether further examination is required.
 2. *Evaluation* means the systematic determination of the merit or significance of the subject matter to arrive at a judgement in terms of adequacy, efficiency or effectiveness.

Audit evidence is covered in more detail in **Session 7**.

Documenting Information

Working papers serve the following purposes:

- Facilitate effective conduct and management of the audit assignment.
- Ensure adequate coverage of the audit and control of the field work.
- Provide written evidence that supports the audit report.
- Guide follow up actions and future audits.
- Provide evidence of professionalism, objectivity and due diligence.
- Provide information to third parties such as the Auditor-General.
- Enable auditors to step into the audit assignment part way through, without having to re-do work that has previously been done.
- Working papers should be reviewed by the Head of Internal Audit before the associated audit reports are issued.
- See **Annexes 22 and 23** for templates to assist with quality control and review of working papers. See **Annex 32** for guidelines on preparing working papers and filing.

Formulate audit findings and recommendations

- **Annex 24** is a record of control weaknesses template, which auditors should use to record reportable issues as they arise during fieldwork.
- Such findings should be reviewed by the team leader, followed by a meeting with the activity owner to discuss the identified control weakness, to confirm the validity of the findings and conclusions reached, and the feasibility of proposed recommendations.
- Based on the meeting outcome, the deficiency or weakness is identified as 'pending', 'resolved' or should be included in the 'audit report'.
- Three categories are used to describe deficiencies and weaknesses in the internal control system:
 1. **Inconsequential**—a simple deficiency in design or implementation weakness with insignificant impact on the District's operations. It is sufficient to discuss the deficiency or weakness with the respective managers. However, repeat occurrences should be reported in writing stating the times it was previously reported.
 2. **Significant**—the deficiency or 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.
 3. **Material**—the deficiency or weakness is 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.

Elements and ratings of internal audit findings

Audit findings should contain the following elements:

- **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.
- **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 matters being reported.
- **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.
- **Recommendations**— Call for action to correct existing conditions, mitigate risk or improve operations. Recommendations 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.

Audit issues are rated according to the following criteria:

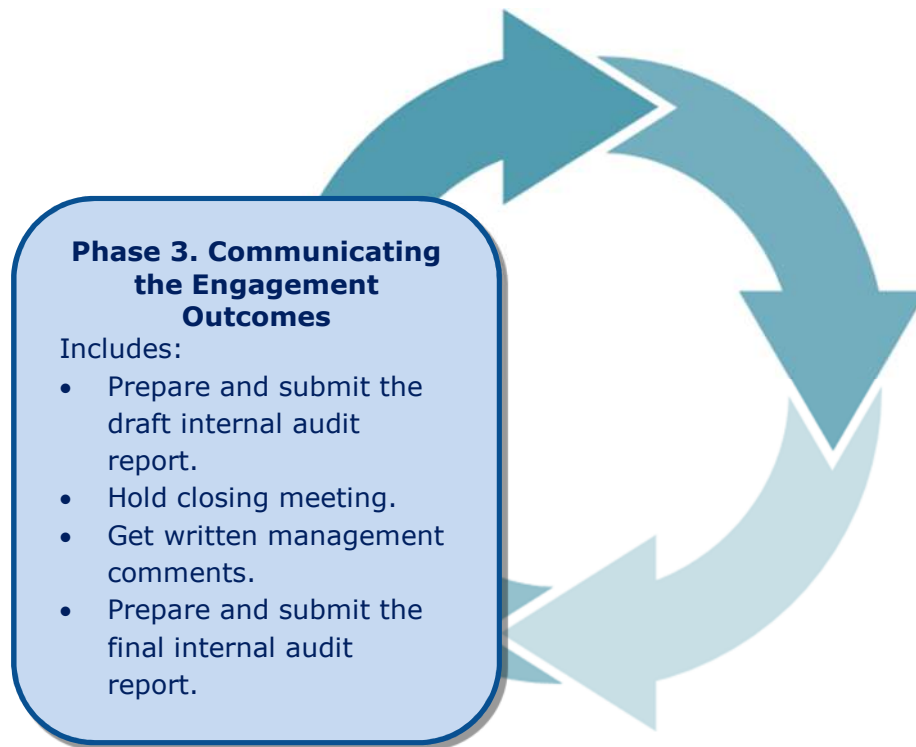
- **High**—A fundamental objective is not met or there is a critical weakness in controls.
- **Medium**— An important objective is not met or there is a significant weakness in controls.
- **Low**—Objectives are mostly met but further enhancement of the control environment is possible.

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.
- The exit meeting is an additional opportunity for 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 issuing the draft audit report and what the District would be expected to do after receipt of the draft report.

Phase 3: Communicating the Engagement Outcomes

Diagram 16: Communicating the Engagement Outcomes



Phase 3: communicating the engagement outcomes provides the internal audit unit the opportunity to communicate the results of the audit assignment.

Audit reports have the following objectives:

1. To inform potential readers of the conditions found during the audit and the criteria against which the conditions were evaluated.
2. To persuade management of the validity of the conditions and their actual or potential effect.
3. To provide constructive and practical recommendations to management to take adequate corrective action to address issues that need improvement.

Each set of activities in this Phase has relevant sub-activities, which are outlined in **Diagram 17** below. More detail is also provided further below about the activities and sub-activities.

Diagram 17: Communicating the Engagement Outcomes—Activities and Sub-Activities

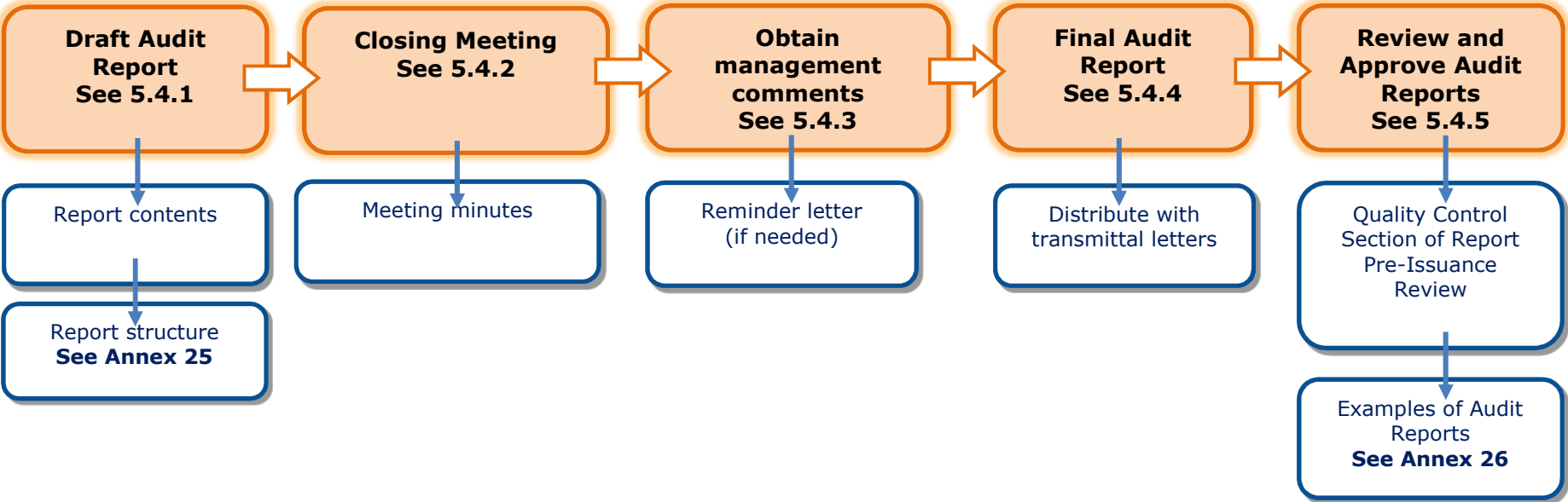
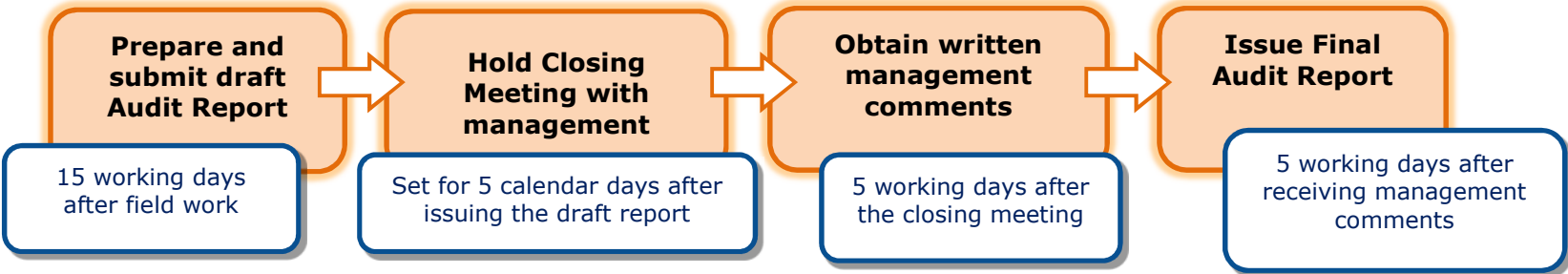


Diagram 18: Report Processing Timetable



Draft Audit Report

- Soon after the exit meeting, the audit team leader prepares the draft version of the audit report, taking into account explanations provided at the exit meeting. See **Annex 25** for the audit report template.
- After the draft report has been reviewed and approved by the Head of Internal Audit, it is sent to management of the audited unit for comment (see **Diagram 18**).

Closing Meeting

- This should be held within 5 days of issuing the draft report to discuss the report findings (see **Diagram 18**).

Management Comments

- The head of the audited unit should submit written management comments within 5 working days after the closing meeting (see **Diagram 18**). The comments should include a proposed timeframe for the implementation of audit recommendations.
- A reminder letter may be needed for management, along with an extension of 3 working days, after which time the final report will be issued, with or without management comments.

Final Audit Report

- The final version of the audit report is issued 5 working days after receiving management comments, and includes the contents of the draft version, as well as any management comments received (see **Diagram 18**). The final version is distributed with transmittal letters to the prescribed recipients. See **Annex 26** for audit report examples.

Review of Audit Reports

- The Head of Internal Audit Unit reviews and approves the final engagement communication before issuance and decides how it will be disseminated.
- Report reviewers should be more senior than the auditor who prepared the report and should complete the quality control section of report pre-issuance review (see below).

Internal Audit Department/Unit

Report pre-issuance review

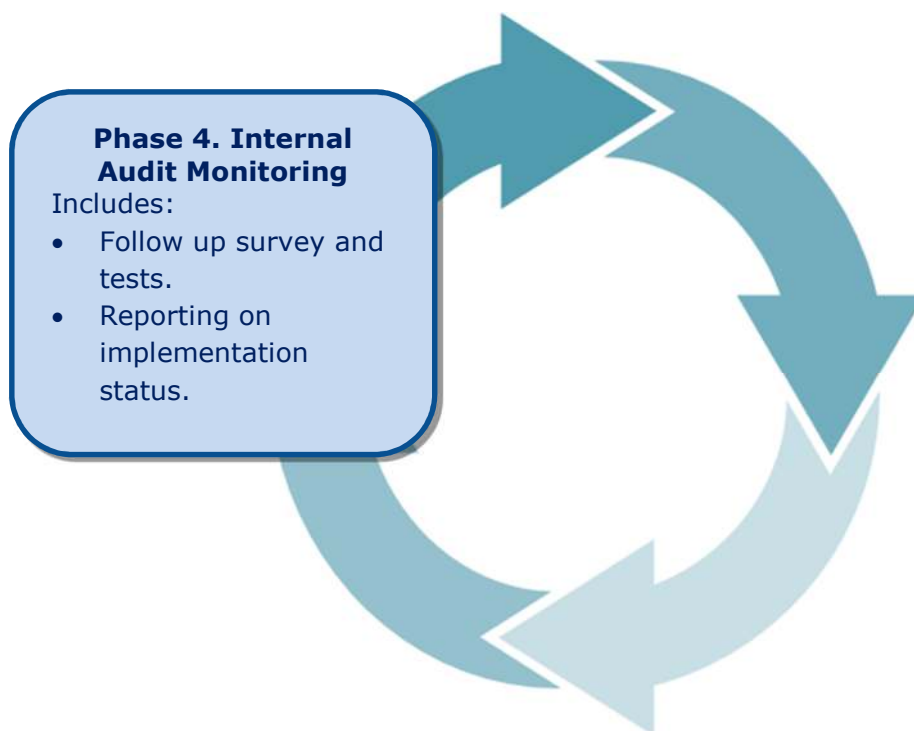
Quality control:

Reviewed/ Approved:

By:Date.....

Phase 4: Internal Audit Monitoring

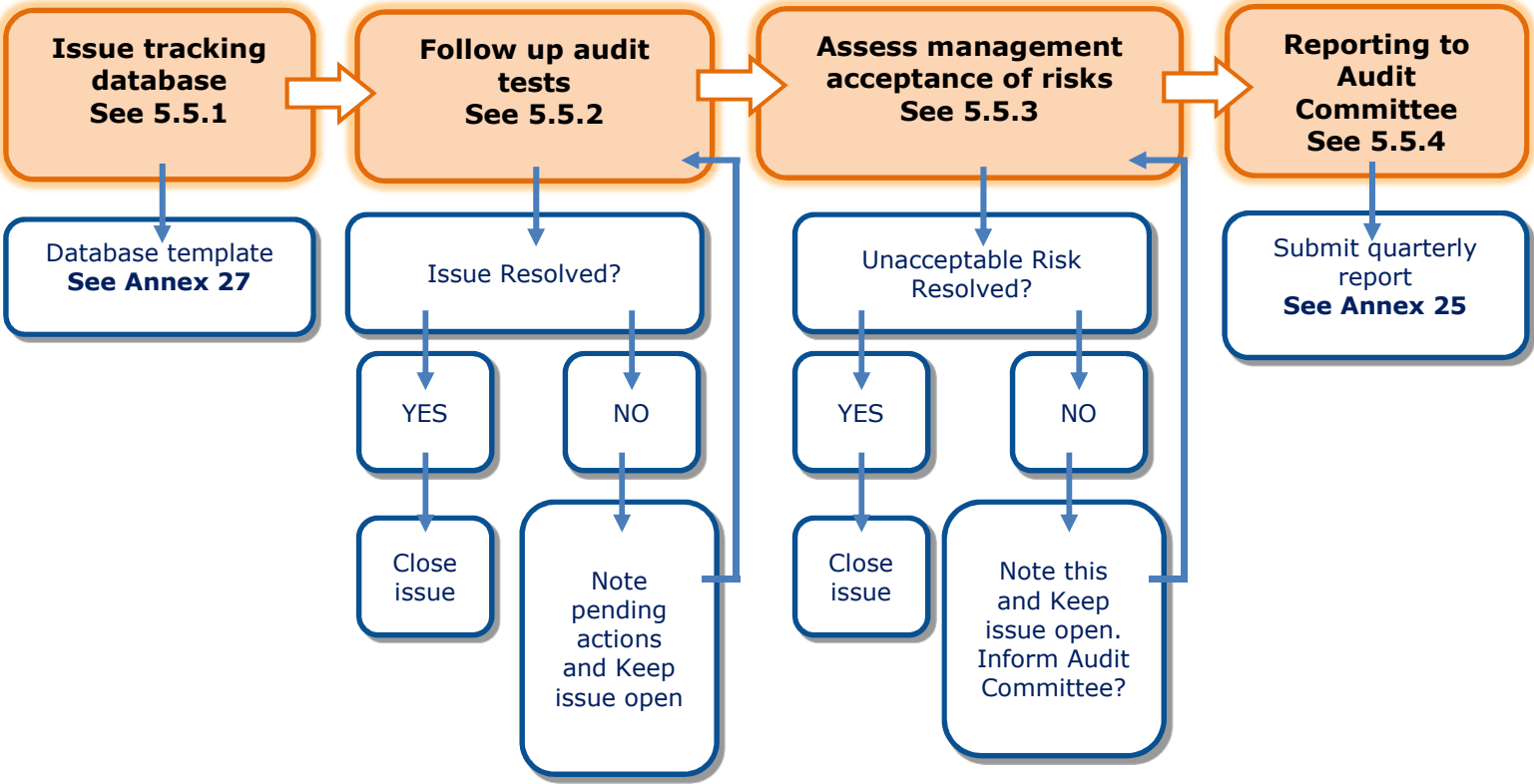
Diagram 19: Internal Audit Monitoring



Phase 4: Internal Audit Monitoring covers the areas of following up audit recommendations, and preparing reports for the Audit Committee.

Each set of activities in this Phase has relevant sub-activities, which are outlined in **Diagram 20** below. More detail is also provided further below about the activities and sub-activities.

Diagram 20: Internal Audit Monitoring—Activities and Sub-Activities



Issue tracking database

All audit recommendations issued should be recorded on an 'issue tracking database', or similar manual list (see **Annex 27**). This information becomes the source of information for quarterly and annual reporting, and a copy should be submitted to the Audit Committee every quarter.

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 monitors the status of implementation of open recommendations until the reported issue is either solved, or the appropriate level of management has accepted the risk.

If the recommendation has been implemented, the auditor should validate the response and if appropriate, close the issue (see **Diagram 20**). 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.

The Head of Internal Audit develops escalation procedures for any agreed recommendations not implemented within the agreed timeframe.

Assess management acceptance of risk

The audited unit's management is responsible for deciding the appropriate action to be taken in response to reported audit findings and recommendations.

The Head of Internal Audit is responsible for assessing the actions taken by the audited unit's management and determining whether matters reported as audit findings and recommendations were resolved in a satisfactory and timely manner, or if not, whether this will be included in an internal audit report to the Audit Committee.

Reporting to the Audit Committee

The Head of Internal Audit submits a quarterly progress report detailing:

- All internal audit assignments undertaken during the quarter.
- Summary of significant findings and recommendations made.
- Unresolved audit queries.
- Any problems experienced in the course of the audit.
- Details of how the unit has spent its time in the quarter.

A summary report on audit findings is also prepared for the Auditor-General on a quarterly basis or as agreed.

Session 7: Audit techniques and administrative matters

Session Objectives:

By the end of this session participants will be able to:

- Use appropriate methods of evidence collection in the conduct of an audit.
- Conduct audit assignments with the appropriate administrative considerations.

What is audit evidence?



- 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 judgements, as such a considerable amount of the auditor's 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 judgement of the auditors.
- An important purpose of working papers is to document and arrange the evidence that is collected through the course of an audit engagement to support audit reports.
- Audit evidence provides the foundation for any report or opinion. It is therefore important that auditors understand the nature of evidence and its critical role in the audit process, including:
 - **Relevance:** refers to the relationship of evidence to its use. Irrelevant information should not be included as evidence or made part of the working papers.
 - **Reliability:** refers to the appropriateness, soundness, trustworthiness or credibility of the sources of information and the techniques used to obtain it.
 - **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.



For more detail...

For more information, see:

- Puntland Local Government Internal Audit Manual, **6.1–6.12**

Diagram 21: Methods of Obtaining Evidence

Interviews

- Frequently used technique for testimonial evidence and opinions.
- Can be used to solicit opinions and experiences of stakeholders, as well as clarify the positions of the auditor and auditee.

Audit testing

Audit tests are developed and conducted for:

- **Compliance**—to assess the adequacy and effectiveness of specific controls.
- **Substantive**—to conduct detailed examination of selected transactions for a specific purpose. For example, a substantive test may include the evaluation of all payments made against a particular procurement contract and related files, to determine if the payments were properly made.

Sampling

- Is used because it is rarely feasible to test every item within an entire population because of costs and time required.
- Sampling allows the gathering of data based on tests on a limited number of people, things, processes, transactions, and documents that represent the larger group or population.

Two types of sampling are used by auditors:

- **Judgemental (purposeful) sampling.** The auditor determines the sample size and method of selecting the sample, using his/her professional judgement.
- **Statistical sampling.** Based on probability theories and mathematical calculations.

An auditor should prepare and attach a sample plan to the audit program.

Surveys

- Are structured approaches to gathering information from a large population. For example, to obtain opinions from recipients of services on the quality and timeliness of services provided.
- A survey exercise should be designed around a structured, tested questionnaire.

Inspection

- Consists of confirming the existence or status of records, documents or other physical assets.
- Provides highly reliable evidence.

FlowCharting

- Is the graphic representation of a process or system and provides a means for analysing complex operations, for example, key control points, or redundant activities.

Observation

- Involves personally verifying or attesting to a process or procedures, for example, the application of controls by members of the auditee's staff, or the way clients are treated.
- Where possible, two or more auditors should be present to make observations in order to provide additional support.

Analytical Procedures

Involve studying and comparing relationships, can be performed using monetary amounts, physical quantities, ratios or percentages and include comparisons with:

- Prescribed standards, budgets, plans and forecasts.
- Past or period-to-period operations.
- Other related operations, transactions or performances.
- Similar operations in other organisations.
- Laws and Regulations.
- Physical, documentary or testimonial evidence.
- Project expenses against progress reports.
- Payroll expenses against the movement of number of employees.

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 cash book.

Administrative Considerations

The following need to be taken into account when planning and conducting internal audit activity.

Supervision and Review

- Audit assignments should be properly supervised to achieve the quality standards set out in the Internal Audit Manual.
- Each audit engagement should be conducted by two auditors, one performing the fieldwork and one reviewing the work to ensure quality.

Managing Audit Risk

Audit Risk includes the following:

- **Audit Risk**—failure to meet audit objectives.
- **False Assurances**—giving false confidence or assurance based on perceptions or assumptions rather than fact.
- **Reputation Risk**—damage to the efficacy of internal audit.

Time Management

- A time budget should be prepared for each audit assignment and used as a 'benchmark' for the actual hours spent on the assignment.
- Internal auditors should prepare daily timesheets which show the tasks accomplished on each working day and the number of person hours spent on each task.
- See **Annex 28. Work allocation and time budget** and **Annex 29. Resource Calendar**

Custody and disposal of working papers

- Working papers are the property of the internal audit unit and access to them is restricted. Violation of this confidentiality is punishable by law.
- Internal audit working papers must be stored under lock and key at all times, except while in use by the concerned internal auditors.
- The internal audit unit should maintain a register to record the movement of its audit files, including the name of the person to whom a file is issued, the dates of issue and return, and his/her signature. See **Annex 30. Audit Files Movement Register**.
- Audit papers should not be left on working desks at the end of a working day. Working papers must be retained for a period of at least ten (10) years starting from the date of issuing the associated audit report.

Current Audit File

- For every audit engagement a current working paper file should be maintained, partitioned into a number of sections. See **Annex 31. Audit File Partitioning**

Permanent Audit File

- This contains information relevant to the current and future audits and includes documents such as: organisational charts, circulars, relevant regulations and manuals, strategic plans, district wide risk assessment, and any correspondence on future audits.

Performance Appraisal

- Each auditor on an assignment should have a performance appraisal by the Head of Internal Audit Unit, which covers quality of working papers, time management and quality of reports (as outlined in the manual).
- The Audit Committee determines the performance measures for the Internal Audit Unit as a whole.

Dealing with senior staff 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 Head of Internal Audit shall attend the assignment opening meeting and exit meeting with the top management of the audited unit.
- All internal audit staff should respect the confidentiality of information acquired during the audit.

General Administrative Filing

Separate files should be maintained 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.

**For more detail...**

For more information, see the following documents:

- Puntland Local Government Internal Audit Manual, **7.1-7.9**

**Exercise 6: Internal Audit Administrative Requirements**

Your trainer will guide you further in this activity, which is designed to help you think through some of the administrative practicalities that are involved with setting up and running an effective internal audit unit.

1. In your groups, read the information on **Administrative Considerations** above, as well as information in **Annexes 28-31**, which details some of the practicalities of a functioning internal audit unit. You can also find more detailed information in the Internal Audit Manual, in **Sections 7.1-7.9**.

2. Thinking about your own district context, what are some of these administrative requirements that your internal audit unit needs to either put in place, or strengthen in order to be properly functioning?

Some examples might include:

- The need to retain audit papers for 10 years—storage requirements
- The need to keep working papers secure—locked cabinets for document storage
- Register of files moved—good administration capacity within the unit.

3. Discuss your findings in plenary.

Session 8: Conclusion

Session Objectives:

By the end of this session participants will be able to:

- Summarise the main topics covered in the Internal Audit Module.
- Demonstrate understanding of the content of the module, through a short assessment task.
- Evaluate the module, by providing feedback on their reaction to the training they have just completed, through a short questionnaire.

Module Summary

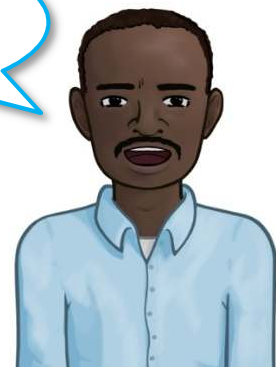
In this Internal Auditing Module, we have learned about the following:

- What is internal audit and where it fits in the DPP&BG cycle.
- Understanding internal audit work and different types of audits.
- The district internal audit structure and job description.
- The district audit committee and how it functions.
- How to do annual audit planning and assess risk.
- How to conduct an audit through the four Phases.
- Some of the audit techniques used and administrative considerations.

Assessment & Evaluation

- You will be asked to complete a short assessment task, to gauge your understanding of what was covered in this Module.
- You will also be asked to complete a questionnaire, to gather information on participant reactions to the Module, which can be used to make improvements to the module for the future.

Thanks for your participation!



Glossary

Audit Objectives	Broad statements developed by internal auditors and define intended audit accomplishments.
Audit Procedures	The tasks the internal auditor undertakes for collecting, analysing, interpreting, and documenting information during an audit. Audit procedures are the means to attain audit objectives.
Audit Program	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	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: <ul style="list-style-type: none"> • Audit objectives • Nature and extent of auditing procedures performed • Time period audited • 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.
Conflict of Interest	Any relationship that is or appears to be not in the best interest of the organisation. 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, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.
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.

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 organisations 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.
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 organisational status and objectivity.
Internal Control	<p>A process within an organisation designed to provide reasonable assurance regarding the achievement of the following primary objectives:</p> <ul style="list-style-type: none"> • 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.
Key Audit Findings	Those conditions which, in the judgment of the Director of internal auditing, could adversely affect the organisation. Significant audit findings may include conditions dealing with irregularities, illegal acts, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses.
Risk Assessment	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 organising 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.

Source: Puntland Local Government Internal Audit Manual

! A full Glossary can be found in **Appendix 1** of the Puntland Local Government Internal Audit Manual.

Annexes

Annex 1. Internal Audit Code of Ethics

1. 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.
- Respect and contribute to the legitimate and ethical objectives of the District.

2. 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.
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. 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.
- Not use information for any personal gain or in any manner contrary to the law or detrimental to the legitimate and ethical objectives of the District.

4. 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 the International Standards for the Professional Practice of Internal Auditing (Standards).
- Continually improve their proficiency and the effectiveness and quality of their services.

Annex 2. Internal Audit Independence

Internal Audit independence may be impaired by:

1. Restriction of access to sources of information.
2. Actions or persuasion designed to influence the conduct, scope of an audit, or the content of an audit report.
3. Previous employment in area being audited, unless a suitable period (at least one year) has elapsed since the auditor's involvement.
4. Personal relationships, particularly with the staff of the audited unit.
5. Personal bias against unit management or other officer, whether due to ideological differences or personality conflict, for example.
6. Financial interest by the auditor personally or indirectly through family members.
7. The internal audit unit sitting under an operational department e.g. Finance.
8. Ability by external parties to overrule or to inappropriately influence the auditors' judgment on the appropriate content of the audit report.
9. The internal auditor serving the audited unit in a management or operational capacity.
10. External influence over the assignment, recruitment, performance appraisal, promotion and dismissal of the internal auditor.
11. The internal auditor not being readily accessible to those charged with governance.
12. The internal auditor being unable to conduct audits and report findings, opinions, and conclusions objectively without fear of reprisal.
13. Pressure on the internal auditor to improperly limit or modify the scope of an audit, probably with preconceived audit conclusions.
14. Interference in audit sampling, for example: instructions are given to examine and/or not to bother with specific transactions.
15. Unreasonable deadlines for the completion of the audit tests, or to issue the audit report.
16. Bribes or significant gifts, promised or actual, to the auditor by entrepreneurs. These include promises for employment for self or relatives of the auditor.
17. Threats, perceived or actual, to the personal security of the auditor, especially where embezzlement or other form of misappropriation of state resources is suspected.

Annex 3. 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:

Annex 4. Functions of Audit Committee Chair and Secretariat

Chair

- (i) Assist Committee members to maintain a good understanding of the District's objectives, operational needs, risks and priorities.
- (ii) Settle the agenda for each meeting with the Committee Secretariat.
- (iii) Lead discussion and encourage the participation of other members, and focus the Committee's deliberations on the most important issues.
- (iv) Seek the input of observers or other experts to maximise their contribution to the deliberations of the Committee.
- (v) Summarise discussion outcomes and actions, including assigning responsibility and timeframes for actions.
- (vi) Report formally and informally to the Accounting Officer.
- (vii) Attend formal and informal meetings with senior management, the DAF, the internal auditor and external auditors as may be required.
- (viii) Signing/approving Committee minutes, and quarterly and annual Committee reports.
- (ix) Ensure quarterly DAC reports are submitted timely to the relevant authorities (within 15 days after the meeting).
- (x) Arrange for a periodic review of the effectiveness of the Audit Committee against its charter.

Secretariat

- (i) Liaising with the Committee Chairperson to prepare meeting agendas and generally Committee action plan.
- (ii) Coordinating the preparation and circulation of Committee papers (with invitation letters) to Committee members within agreed timeframes.
- (iii) Preparing minutes of Committee meetings, including action points arising from meetings and details of actions to be undertaken by management.
- (iv) Supporting the Chairperson in the preparation of DAC reports for submission to the Accounting Officer with copies relevant officials/organs specified in the laws and regulations.
- (v) Maintaining a record of when members' terms of appointment are due for renewal or termination.
- (vi) Ensuring that new members receive appropriate induction training, and that all members are supported in identifying and participating in on-going training.
- (vii) Managing expenditures relating to the Committee's operations.

Annex 5. Audit Committee Action Plan Format

District Name:

Annual Action Plan for the year ending 31 December 20XX

Key Responsibilities	Sub-Activities	1 st Quarter			2 nd Quarter			3 rd Quarter			4 th Quarter		
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Internal Controls	Briefings from assurance providers e.g. Internal Audit/External Audit/Management												
Financial Reporting	Review of financial reports												
	Review management compliance/representations												
	Review significant accounting and reporting issues e.g. Financial Reporting Requirements												
	Update on significant issues in relation to commitments and contingencies, unusual and/or material items/trends												
Internal Audit	Review internal audit reports												
	Review performance and resourcing of Internal Audit												
	Review annual Internal Audit plan and Internal Audit charter												
	Chair member meeting with Internal Auditor												
External Audit	Briefing from External Auditor on review of financial reports, audit findings and follow up with management												
	Share with External Auditor on the progress of audit												
	Chair and independent member meet with External Auditor												
	Discuss findings from the external audit report												

Regulatory Compliance	Review reports on legal and regulatory matters												
Effectiveness of Audit Committee	Review Committee and member performance												
	Review or confirm Audit Committee charter												
Production and Submission of Committee Reports	First quarter Report												
	Second Quarter Report												
	Third Quarter Report												
	Fourth Quarter Report												
	End of Year Report (annual)												

.....
Signature, Chair Audit Committee

.....
Signature, Secretary Audit Committee

Annex 6. Audit Committee Meeting Minutes Format

The minutes of an Audit Committee meeting should include the following agenda items:

- (i) Agenda no. 1: Opening of the meeting: The chairperson declares the meeting opened by welcoming all members to the meeting and wishing them constructive discussions. Any other announcement such as new members and apologies will be made.
 - (ii) Agenda no. 2: Adoption of the agenda: The Chairperson reads the agenda prepared by the Secretariat and asks members if they adopt them. (Any amendment, if any, will be made).
 - (iii) Agenda no. 3: Declaration of conflicts of interest by members of the Audit Committee and invitees/ observers. Declaration of conflicts of interest will be made on a particular agenda so that the member(s) should not form part of the decisions.
 - (iv) Agenda no. 4: Confirmation of the minutes of the previous meeting. Minutes are confirmed page after page on their correctness. *(This will not be an agenda item of the special meeting).*
 - (v) Agenda no. 5: Matters arising from the previous meeting. Issues that were directed for follow-up or actions are given report of their status or implementation. Presentation is done on one issue after another basis. *(This will not be an agenda item of the Special Meeting).*
- From Agenda 6 onwards, the order of the discussions will be as per the agreed annual Audit Committee action plan.*
- (vi) Agenda no. 6: Reports to be tabled. Reports will be tabled with regards to the main functions of the Audit Committee (financial reporting, internal controls, internal audit, external audit, compliance and other governance issues).
The Secretariat summarises issues discussed on each main function.
 - (vii) Agenda no. 7: Review of Audit Committee charter (annual item).
 - (viii) Agenda no. 8: Audit Committee self-assessment (annual item).
 - (ix) Agenda no. 9: Review of Audit Committee annual action plan (annual item).
 - (x) Agenda no. 10: Any Other Business (AOB) *(This will not be an agenda item of the Special Meeting).*
 - (xi) Agenda no. 11: Next Meeting. *(This will not be an agenda item of the Special Meeting).*
 - (xii) Agenda no. 12: Closing of the Meeting. The Chairperson thanks all members for their active and constructive discussions and declares the meeting closed.

Annex 7. Audit Committee Annual Report Format

The Audit Committee Annual Report includes the following:

Preliminaries:

COVER PAGE

SUBMISSION (TRANSMITTAL) LETTER — includes Chairperson's remarks and should be signed by the Chairperson.

- i. TABLE OF CONTENTS
- ii. ACKNOWLEDGEMENTS — general acknowledgement of officials and organs that helped the Audit Committee perform its activities during the year.
- iii. LIST OF ABBREVIATIONS
- iv. EXECUTIVE SUMMARY — highlights the key issues in the report. Should be kept short (max. 2 pages). May not be required if the report is short (1-5pages).

Main Document:

SECTION 1: INTRODUCTION — Includes establishment of the Audit Committee in the District, legal mandate and the general purpose of the Audit Committee.

SECTION 2: AUDIT COMMITTEE MEMBERS AND ATTENDANCE — List members of the Audit Committee, positions held in the Committee, and number of meetings attended.

SECTION 3: AUDIT COMMITTEE RESPONSIBILITIES — Mention key responsibilities of the Audit Committee.

SECTION 4: AUDIT COMMITTEE ACTIVITIES PERFORMED AND/OR ADVICE GIVEN DURING THE YEAR — key section of the report, highlight the Audit Committee's opinion, advice/recommendations given from its mandated activities during the year:

- a. Financial Reporting including Audited Financial Statements
- b. Relationships with management, internal and external auditors
- c. Compliance with legal and other regulatory requirements
- d. Other Governance issues

SECTION 5: SUCCESSES, CHALLENGES AND WAY FORWARD — Discussion of the successes, challenges and proposed recommendations for overcoming the challenges encountered by the Committee during the year.

APPENDICES — if any.

Annex 8. Auditor General's Report Format

The Auditor General's Report includes the following:

1. Background and General Information

Introduction

Brief history of the District's:

- Establishment
- Function and operational objectives
- Financing
- Audit mandate
- Audit objectives
- Audit methodology

2. Audit Report on the financial statements for the year/period in question

- Normally addressed to the District Mayor
- The opinion, with a sub-title of either unqualified / qualified / adverse opinion.
- The opinion followed by emphasis of matter, being matters which are drawn to the attention of users of the report. These matters will also be critical for the Audit Committee to focus on to ensure their implementation by management.
- Report on other legal and regulatory requirements, for example, compliance with the Public Procurement, Accounting Act and Regulations. The opinion on this area should also be the focus of the Audit Committee for action.

3. Annexures

- Annex 1. Statement of responsibility on the financial statements, signed by the Accounting Officer
- Annex 2. Audited financial statements and notes to the financial statements should be read thoroughly by members of the Committee.
- Annex 3. District's organisational structure.

Annex 9. Audit Committee Recommendations Format

S/N or MIN No.	Audit Issue	Audit Committee Advice / Recommendation	Responsible Official (Organ)	Implementation Status (by Management)
12/2018	Observed some errors in the year-end adjustment in respect of current financial year.	Rectify all errors in the year-end adjustments before final accounts are submitted to the Officer of Auditor General for audit.	Department of Administration and Finance	Not yet implemented
13/2018	Expressed concern about the inconsistent application of accrual accounting basis	Ensure consistent application of cash basis accounting.	Department of Administration and Finance	Not yet implemented

Annex 10. Audit Notification Letter Template

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
*insert name of unit / department as relevant*
 unit / department / station / section on*insert date*.....

The purpose of this audit is to examine and review.....
*insert audit assignment name*.....
 for the period.....*insert timeframe to be examined*.....

The auditors involved in carrying out the audit are *insert names of auditors*

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*insert number of working days*
 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):

Annex 11. 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):

Annex 13. 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. Members of the audit team:

.....
.....
.....

5. Staff members present:

.....
.....
.....
.....
.....
.....

6. Scope and Objectives of the audit:

7. Roles of each party towards achievement of the audit objectives.

8. Status of previous audit recommendations:

9. Information required about the unit/section/department operations and timeframes:

10. Detail any required assistance from the management:

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

12. Information or other requests by management for future audits:

13. Major deliverables from the audit and the persons to whom they will be addressed:

14. Audited unit contact person:

15. Summary of issues discussed:

	Name	Designation	Date
Prepared by:			
Reviewed by:			

Annex 14. Internal Control Questionnaire

Internal Audit Department/Unit

Internal control questionnaire

Initials: **Date:**

Department/Section: **Prepared by:**

Period of Audit: **Reviewed by:**

1. Control environment			
Description:			
Objectives:			
No	Question	Yes/No	Remarks
1			
2			
3			
4			

2. Risk Assessment			
Description:			
Objectives:			
No	Question	Yes/No	Remarks
1			
2			
3			

4			
----------	--	--	--

3. Control activities

Description:

Objectives:

No	Question	Yes/No	Remarks
1			
2			
3			
4			

4. Monitoring

Description:

Objectives:

No	Question	Yes/No	Remarks
1			
2			
3			
4			

5. Information systems and communication

Description:

Objectives:

No	Question	Yes/No	Remarks
1			
2			
3			
4			

Annex 15. Business Process Analysis Template

Internal Audit Department/Unit
Business process analysis template

Initials: **Date:**

Department/Section: **Prepared by:**

Period of Audit: **Reviewed by:**

Internal control component	Comments
Control environment	
Risk Assessment	
Control activity	
Monitoring	
Information systems and communication	

Annex 16. Understanding the IT Environment Templates

Note: The template can be adapted for each of the following uses:

- Understanding the IT environment Template
- Assessing IT general controls and application controls Template
- Fraud Risk assessment Template

Internal Audit Department/Unit

..... *Insert Purpose of Template*

Initials: **Date:**

Department/Section: **Prepared by:**

Period of Audit: **Reviewed by:**

Question	Yes/No	Remarks

Annex 18. Audit Objectives and Criteria Template

Internal Audit Department/Unit
Audit objective and criteria template

Initials: **Date:**

Department/Section: **Prepared by:**

Period of Audit: **Reviewed by:**

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	

Annex 19. Audit Planning Memorandum Template

Internal Audit Department/Unit Audit planning memorandum template

Initials: **Date:**

Department/Section: **Prepared by:**

Period of Audit: **Reviewed by:**

Overview of the audited unit/section department operations:

Audit Scope and Objectives:

Audit Objectives

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

Audit Scope

This should describe the processes or activities to be reviewed, the period to be covered and the nature and 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, including responsibilities for each member of the assignment team, and the estimated person 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.*
- (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*

Annex 20. Audit Engagement Program

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

Annex 25. Internal Audit Report Templates

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, 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
 - (b) Areas of improvement

- (vii) Conclusion

- (viii) Annexes

Annex 26. Audit Report Examples

Internal Audit Department/Unit

Audit reports

Guidelines for audit reports

Individual auditors issue audit reports on the design and effectiveness of controls for individual units. Audit reports are based on the severity and number of audit findings.

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 audit evidence means in terms of the adequacy of internal controls.

The report should express clearly:

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

Individual reports or processes audited

These reports use a three-tier graded system as follows:

1. **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.
2. **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 met.
3. **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 met.

Overall internal control system opinions

When expressing an opinion on internal control systems, the auditor uses the following:

1. **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.
2. **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.
3. **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.

Annex 31: 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

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

Annex 32. Guidelines on Working Papers and Filing

Working Papers

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.

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 (**see Annex 22**), 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.
- (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.

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.

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 (**see Annex 23**). 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.