FINANCIAL MANAGEMENT KIT

FINANCIAL INSTRUCTIONS No 2 of 2026

VOLUME VI - INTERNAL AUDIT

[Issued in accordance with Section 22A of the Finance and Audit Act]

MINISTRY OF FINANCE
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Preface

Internal Audit is one of the key pillars of good governance. By providing Supervising Officer/Accounting Officer and management with independent, risk based and objective assurance, advice and insights on the adequacy and operating effectiveness of the governance, risk management and control processes, internal audit protects and enhances the organisational value. It strengthens the organisation's abilities to:

(a) achieve its strategic and operational objectives;

(b) enhance the decision making and oversight mechanisms;

(c) safeguard its assets, reputation and credibility with stakeholders;

(d) comply with laws, regulations, policies and procedures; and

(e) secure the completeness and accuracy of records, including reliability of its reporting processes.

Section 18A. of the Finance and Audit Act stipulates that the Ministry responsible for the subject of finance shall provide oversight and leadership functions for internal audit in Ministries, Departments or Divisions through the Internal Audit Cadre (IAC), and provides the legal framework thereof.

Furthermore, in the performance of the internal audit activities, officers of the Internal Audit Cadre are required to comply with the provisions of Financial Management Manual Kit (FM Kit) Vol VI on Internal Audit issued under the Finance and Audit Act in April 2013. The FM Kit Vol VI on Internal Audit is made up of two Manuals - one on Internal Audit Policy and the other on Internal Audit Operational matters. These Manuals are in line with the principles, standards and guidelines contained in "*Essentials: An Internal Audit Operations Manual"* published by the Institute of Internal Auditors Research Foundation.

The FM Kit Vol VI is being reviewed to take into account the changing needs of stakeholders, and the comments received from IMF/AFRITAC South Mission in February 2024. The revision also aims at enhancing the quality and effectiveness of internal audit by providing direction and guidance to officers of the IAC.

In the process, the two Manuals have been consolidated into one integrated document. It helps Supervising Officers/Accounting Officers and senior management of Ministries/Departments/Divisions in ensuring an environment that promotes internal audit exercises. It also provides authority to officers performing internal audit to operate across the Ministries/Departments/Divisions independent of their management.

When delivering internal audit services, all officers of the IAC must apply and comply with the provisions contained in the Internal Audit Policy and Operations Manual. In order to be responsive to the ongoing need for high quality internal audit, officers of the IAC are encouraged to develop innovative audit approaches and use their knowledge and experience to identify new audit initiatives.

List of Abbreviations and Acronyms

AFRITAC South	Africa Regional Technical Assistance Center South
AIAP	Annual Internal Audit Plan
CAATs	Computer-Assisted Audit Techniques
DDIA	Deputy Director(s), Internal Audit
DIA	Director, Internal Audit
ERM	Enterprise Risk Management
FM Kit	Financial Management Kit
FMRC	Financial Management Review Committee
FY	Financial Year
HOA	Head of Audit
IA	Internal Audit
IAC	Internal Audit Cadre
IAU	Internal Audit Unit
IC	Internal Control
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
KPI	Key Performance Indicator
MIS	Management Information System
MOF	Ministry of Finance
OIC	Officer in Charge
OPSG	Office of Public Sector Governance
QA	Quality Assurance
SMST	Sector Ministry Support Team

Glossary

Accounting Officer/ Supervising Officer	The Accounting Officer is an officer designated under section 21(1) of the Finance and Audit Act by the Minister and who is charged- (a) with the duty of controlling expenditure on any service in respect of which public funds have been appropriated; and (b) with the duty of collecting revenue and paying that revenue into public funds. The Accounting Officer is charged with the responsibility to oversee, direct and manage the Ministry's/Department's/Division's activities and, *inter-alia,*: ➢ accepts accountability to stakeholders for oversight of the Ministry/Department/Division; ➢ engages with stakeholders to monitor their interests and communicates transparently on the achievement of objectives; ➢ nurtures a culture of promoting ethical behaviour and accountability; ➢ establishes structures and processes for governance, including auxiliary committees as required; ➢ delegates responsibility and provides resources to management for achieving the objectives of the Ministry/Department/Division; ➢ exercises oversight of risk management including internal audit; ➢ maintains oversight of compliance with legal, regulatory and ethical expectations; and ➢ oversees an independent and objective internal audit function.
Advisory Services	Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Assurance	A statement intended to provide confidence about the adequacy (design) and operating effectiveness of governance, risk management and control processes for an area or activity under review.
Assurance Services	An objective examination of evidence for the purpose of providing an independent assurance on governance, risk management, and control processes. Examples may include controls review both in manual and technological environment, compliance engagements, operational review and financial statement assertions (also called management assertions): ➢ Existence or occurrence; ➢ Rights and obligations; and ➢ Completeness, valuation and allocation.
Internal Audit Charter	A document that provides the mandate of the internal audit function in terms of its purpose, authority, organisational position, responsibility, reporting relationships and scope of work.
Internal Control	Internal control is broadly defined as a process established by management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories- (a) Effectiveness and efficiency of operations (b) Reliability of financial reporting (c) Compliance with applicable laws and regulations. Internal Control is made up of control environment and control processes.
Control Environment	The Supervising Officers/Accounting Officers and management establish the tone at the top regarding the importance of internal control including expected standards of conduct. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: ➢ Integrity and ethical values; ➢ Management's philosophy and operating style; ➢ Organisational structure; ➢ Assignment of authority and responsibility; ➢ Human resource policies and practices; and ➢ Competence of personnel.

Control Activities	Any actions or activities established through policies, procedures (both manual and automated) that are part of a control framework designed and operated to ensure that risks are contained within the level that an organisation is willing to accept. Control activities occur throughout the organisation, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.
Fraud	Any intentional act characterized by deceit, concealment, dishonesty, misappropriations of assets or information, forgery or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by individuals 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 Accounting Officers/Supervising Officers to inform, direct, manage, and monitor the activities of the organisation toward the achievement of its objectives.
Officer In Charge (OIC) Internal Audit	The officer of the Cadre designated by the DIA to head the Internal Audit Unit (IAU) of a Ministry/ Department/Division.
Professional Skepticism	A critical assessment of the reliability of audit evidence.
Risk Management	A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the Ministry's/Department's/Division's objectives.
Root cause analysis	A process for understanding 'what happened' and solving a problem through looking back and drilling down to find out 'why it happened' in the first place. Then, looking to rectify the issue(s) so that it does not happen again, or reduce the likelihood that it will happen again.

Table of Contents

VI.1 INTRODUCTION

VI.1.1 Section 18A. of the Finance and Audit Act provides that:

1. The Ministry responsible for the subject of finance shall provide oversight and leadership functions for internal audit in Ministries, Departments or Divisions, through the Internal Audit Cadre.
2. The Director, Internal Audit shall ensure that internal audit functions are carried out in accordance with the Internal Audit Policy and Operations Manual.
3. The Director, Internal Audit shall, in respect of each Ministry, Department or Division-

   (a) prepare, in consultation with the accounting officer, an annual internal audit plan;

   (b) ascertain that effective systems of internal controls are in place to safeguard public funds and assets and minimise incidences of fraud, waste and misuse of public funds;

   (c) evaluate the effectiveness of governance, risk management and controls processes;

   (d) review the efficiency of operations and service delivery;

   (e) ascertain that the operations are administered in accordance with relevant laws, regulations and other requirements;

   (f) issue internal audit reports and recommend remedial measures to Accounting Officers;

   (g) promptly alert the Financial Secretary whenever a major weakness in a system is identified or an irregularity or a fraud is detected; and

   (h) follow up on any actions taken by accounting officers on shortcomings highlighted in the Reports of the Director of Audit and Internal Audit and report thereon to appropriate authorities.

VI.1.2 The Director Internal Audit (DIA), in discharge of the above duties, will be assisted by the Deputy Directors, Internal Audit (DDIA) and the Officers of the Internal Audit Cadre posted in Ministries/Departments/Divisions. In addition, the DIA will issue operational directives for the effective management of the internal audit activities.

VI.1.3 Internal audit protects and enhances organisational value by providing to Accounting Officers/Supervising Officer an independent, risk-based and objective assurance, advice, insight and foresight on the adequacy and effectiveness of governance, risk management, and internal audit process. Internal audit indeed strengthens the organisation's abilities to:

(a) achieve its strategic and operational objectives;

(b) enhance the decision making and oversight mechanisms;

(c) safeguard its assets, reputation and credibility with stakeholders;

(d) comply with laws, regulations, policies and procedures; and

(e) securing the completeness and accuracy of records including reliability of its reporting processes.

VI.1.4 The primary responsibility for the establishment of the organisation's internal control and risk mitigating measures rests with Accounting Officers/ Supervising Officers including management. FM Kit Volume 1 Duties and Responsibilities of Management of public finance at paragraph I.2.16 provides that:

"It is the responsibility of the Accounting Officer to put in place a sound system of internal control designed to provide reasonable assurance regarding –

(a) the effectiveness and efficiency of operations in the Department;

(b) safeguard of assets and data of the Department;

(c) reliability of financial and non-financial reporting;

(d) prevention of fraud and irregularities; and

(e) compliance with applicable laws, regulations and instructions as well as policies and established procedures."

VI.1.5 The officers of the Cadre, by virtue of their roles and responsibilities and their position within the organisation, are expected to contribute positively towards improving governance within the organisation, in particular accountability and transparency.

VI.1.6 Though detection of fraud or its prevention is not the primary responsibility of internal audit, the presence of officers of the Internal Audit Cadre in Ministries/Departments/Divisions places them in a position whereby they are expected to investigate and report any serious acts of omission or commission that come to their notice.

VI.2 INTERNAL AUDIT

Definition of Internal Auditing

VI.2.1 The Institute of Internal Auditors (IIA) provides the following definition of internal auditing-

"Internal auditing is an independent, objective assurance and advisory service designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes."

Vision and Mission

Vision

VI.2.2 To be a customer-oriented organisation providing value-added internal audit services in accordance with international professional and ethical standards.

Mission

VI.2.3 To provide quality internal audit services in a spirit of partnership with Accounting officers/Supervising Officers in the achievement of government's objectives through recommendations to improve governance, risk management and control processes and value for money.

Audit Objectives

VI.2.4 The objective of internal auditing is to independently and objectively examine and evaluate whether the design of the organisation governance, risk management and internal control processes are adequate and functioning properly, providing pertinent comments concerning the activities audited and recommending appropriate remedial actions.

VI.2.5 In the course of their internal audit in Ministries/Departments/Divisions, officers of the Cadre shall:

(a) review the effectiveness of risk management procedures and risk assessment methodologies of various projects, programmes and activities;

(b) review and appraise the adequacy and operating effectiveness of internal controls to mitigate risks and make recommendations for improved practices and techniques where appropriate to ensure achievement of objectives;

(c) determine that policies and procedures are being interpreted properly and carried out as established, and are adequate and effective, and make recommendations for revision where changes in operating conditions have made them cumbersome, redundant, obsolete, or inadequate;

(d) ascertain the effectiveness of systems of internal controls in place to safeguard public funds and assets and minimise incidences of fraud, waste and misuse of public fund;

(e) determine the reliability, effectiveness, and efficiency of procedures designed to ensure the organisation is compliant with applicable laws and regulations;

(f) determine whether appropriate procedures exist within operations for self-assessment and continuous improvements;

(g) review of the management and financial information systems as well as the accuracy and reliability of accounting records and financial reports and other documentation preserved in the organisation; and

(h) review and evaluate the process for safeguarding organisational assets and its interest are accounted.

VI.2.6 In carrying out these objectives, the internal audit duties shall be conducted with objectivity, proficiency, with due professional care and skepticism. All internal audit activities of the Ministry/ Department/Division shall be carefully planned taking into considerations its risks and objectives.

VI.2.7 To achieve the above objectives, the following types of internal audit will be performed by the Internal Audit Cadre at the level of Ministries/Departments/Divisions-

(a) **Operational Audit**

Provide an objective evaluation of an auditable area to ascertain the adequacy and effectiveness of controls designed to manage risks and ensure strategic objectives are met.

(b) **Financial Audit**

An evaluation performed for the purpose of attesting to the fairness, accuracy, and reliability of financial data. The focus will be on financial system controls to ensure its adequacy and effectiveness including the management assertions of existence or occurrence, rights or obligations, completeness, valuation and allocation.

(c) **Information System Audit**

Information system audit focuses on the controls that govern the development, operation, maintenance, and security of application systems in a particular environment.

(d) **Compliance Audit**

This audit ascertains the adequacy and effectiveness of control mechanism in place to ensure compliance with to laws and regulations, policies and procedures.

(e) **Follow-up Audit**

This audit is conducted to ascertain actions taken by Accounting Officers/Supervising Officers on shortcomings highlighted in the Reports of the Director of Audit and Internal Audit and report thereon to appropriate authorities.

(f) **Consulting (Advisory) activity**

Consulting activity refers to any advisory and related department service activity the nature and scope of which are agreed with the Accounting officer. It is intended to add value and improve an organisation's governance, risk management, and control processes without the officers of the Cadre assuming management responsibility.

Internal Audit Charter

VI.2.8 The provision of the Internal audit services by the Internal Audit Cadre to Ministries/Departments/Divisions will be set out in the Internal Audit (IA) Charter. This document defines the purpose, authority, and responsibility of the Internal Audit Cadre consistent with the Section 18A. of the Finance and Audit Act and the Internal Audit policy and operations manual. The IA Charter comprises:

(a) the scope of internal audit activities;

(b) the position of the internal audit within the Ministries/Departments /Divisions; and

(c) the authority to access to records, personnel, and physical properties relevant to the performance of internal audit engagements.

The IA Charter **(Appendix 1)** for each Ministry/Department/Division has to be endorsed by the respective Accounting Officer/Supervising Officer and the DIA.

Internal Audit Reports

VI.2.9 Prior to the distribution of final internal audit reports to auditees, it is imperative that discussion is held with relevant process owners:

(a) to confirm the correctness of the statement of facts and observations contained in the draft Internal Audit Report; and
(b) to agree on actionable improvement solutions.

VI.2.10 The final Internal Audit report shall include the agreed actionable improvement solutions, the officers responsible for their implementation and the key milestones including their timelines.

VI.2.11 Internal audit reports, whether draft reports or final reports, are confidential and have thus restricted distribution. Such reports, or any part thereof, should only be distributed to the Accounting Officer/ Supervising Officer and the Audit Committee of the respective Ministries/Departments/Divisions, the Financial Secretary and the Director of Audit.

VI.2.12 The DIA should issue the Internal Audit Reports.

Follow-up on Matters Reported by Internal Audit

VI.2.13 The Accounting Officer/Supervising Officer is responsible for the implementation of improvement actions according to implementation time schedule agreed with officer of the Cadre.

VI.2.14 The DIA shall, in respect of each Ministry, Department or Division follow up on any actions taken by Accounting Officers on shortcomings highlighted in the Internal Audit Reports.

VI.2.15 The OIC Internal Audit should regularly conduct follow up exercise to ascertain whether agreed improvement actions have been implemented and issue report to the Accounting Officer accordingly. The OIC Internal Audit should promptly notify any delay in implementation to the DIA.

VI.2.16 The DIA should alert the Financial Secretary through relevant SMSTs of any major recommendations not being implemented by the Accounting Officer.

VI.3 DUTIES AND RESPONSIBILITIES

Director Internal Audit (DIA)

VI.3.1 The DIA with the assistance of the DDIA is responsible to the Financial Secretary on government internal audit matters and for the provision and delivery of internal audit services to Ministries/Departments/Divisions, that is, central government departments.

VI.3.2 DIA is responsible to-

(a) manage the staff of Internal Audit Cadre including-

(i) assessment of staff requirement in Ministries/Departments/Divisions and taking appropriate action;

(ii) posting and transfer of staff;

(iii) maintaining a Management Information System (MIS) on issues relating to internal audit;

(iv) designing and organising training of officers of the Cadre;

(v) making recommendations with regard to creation of posts, promotions and disciplinary matters; and

(vi) maintaining a database of staff and preparing rotational plans, providing notice to staff at 3 least months in advance.

(b) examine proposals made by OIC Internal Audit with a view to improving the financial management system, and refer the proposals to FMRC;

(c) deal with cases referred by OIC Internal Audit on failures in internal audit systems, departures from instructions and provisions contained in the FM Kit, and irregularities and fraud;

(d) promptly alert the Financial Secretary whenever a major weakness in the system is identified or an irregularity or a fraud is detected in a Ministry/Department/Division;

(e) ensure that KPI standards applicable to officers of the Cadre are met;

(f) ensure that there is sufficient supervision at all levels of the internal audit process and uniformity in the application of internal audit procedures through: -

(i) periodic quality assurance reviews to ensure that audit work is being carried out according to the FM Kit Volume VI Internal Audit; and

(ii) regular meetings with OICs Internal Audit.

(g) finalise all Annual Internal Audit Plans (AIAPs);

(h) liaise with Accounting Officers/Supervising Officers, the National Audit Office and Office of Public Sector Governance (OPSG) on matters relating to internal audit;

(i) issue internal audit reports and recommend remedial measures to accounting officers;

(j) communicate the result of the internal audit engagements together with the remedial measures implementation plan to Accounting Officers/Supervising Officers;

(k) follow-up on any action taken by Accounting Officers/Supervising Officers on shortcomings highlighted in the Director of Audit Report and Internal Audit Report thereon to appropriate authorities;

(l) prepare and submit to the Financial Secretary an Annual Internal Audit Report highlighting major internal audit findings and recommendations together with Accounting Officers' responses thereto; and

(m) conduct special investigations or inquiries at the level of Ministries/Departments/Divisions at the request of the Supervising Officer/ Accounting Officer and the Financial Secretary.

Officer in Charge (OIC) Internal Audit

VI.3.3 The OIC Internal Audit is the Manager, Internal Audit or Assistant Manager, Internal Audit designated by the DIA to head the IAU of a Ministry/Department/Division in order to report and advise on the adequacy and operating effectiveness of governance, risk management and internal control processes as well as recommending measures to strengthen same.

VI.3.4 The OIC Internal Audit is responsible for-

(a) establishing an AIAP for the Ministry/Department/Division;

(b) preparing the internal Audit Engagement Plan at the start of an internal audit assignment;

(c) supervising audits by providing instructions, guidance and approving audit programs;

(d) reviewing audit work to ensure the adequacy of audit scope and tests performed as well as the accuracy of conclusions reached;

(e) assessing the quality of audit by ensuring adherence to internal audit policies, standards and procedures including ensuring that internal audit working paper files are adequately documented with proper cross referencing;

(f) documenting and maintaining evidence of supervision, such as review notes, to-do lists;

(g) immediately alerting the DIA for onward transmission to Supervising Officer/Accounting Officer and the Financial Secretary whenever -

(i) a failure in the internal control system(s) detrimental to the organisation is identified;

(ii) a departure from the instructions and enactments contained in the FM Kit is detected; or

(iii) an irregularity or a fraud is detected.

(h) Monitoring the execution of the approved annual internal audit plan and maintaining a data base in respect of audit status and any other information needed for the smooth operation of the unit as requested by the DIA;

(i) Reviewing and communicating the result of internal audit engagement together with the remedial measures implementation plan to DIA for onward transmission to Accounting Officers/Supervising Officers and Audit Committee;

(j) Conduct special assignment/investigation as and when required; and

(k) training, coaching and providing guidance to internal audit staff.

Head of Audit (HOA)

VI.3.5 The HOA is the officer designated by the OIC Internal Audit to conduct audit and report on findings and recommendations in line with FM Kit Volume VI Internal Audit.

VI.3.6 The HOA performs internal audit activities under the direct supervision and guidance of the OIC Internal Audit.

VI.3.7 Responsibilities of HOA include-

(a) conducting preliminary survey of audit engagement;

(b) carrying out the internal audit in accordance with the approved audit program and procedures;

(c) maintaining adequate documentations of audit work performed in line with FM Kit Volume VI Internal Audit including proper cross referencing;

(d) reporting on internal audit findings and proposing corrective measures; and

(e) conducting follow-up on actions initiated on reports of the National Audit Office and internal audits and report thereon.

Management Responsibilities

VI.3.8 Governance, risk management and internal controls processes are an integral part of managing operations and as such it is the responsibility of management at all levels of the Ministries/Departments/Divisions to -

(a) identify and evaluate the risk exposures related to the conduct of its operations;

(b) specify and establish governance structures, policies, operating standards, procedures, systems, and other disciplines to be used to limit the risks associated with the exposures identified;

(c) establish practical controlling processes that require and encourage employees to perform their tasks in a manner that achieves a positive control result; and

(d) maintain the adequacy and effectiveness of the control processes that have been established.

Governance

VI.3.9 Governance is concerned with the development, communication and implementation of Government policy and monitoring of performance. It comprises the structures and processes that support the realisation of overall objectives of Government and the strategies to achieve them.

Effective governance processes should embrace the following principles:

(a) Ascertaining that Public funds are controlled, accounted for and well managed by ensuring that funds are:

(i) handled properly and honestly;

(ii) spent responsibly and in accordance with statutory, regulatory and appropriation

(iii) provisions, and not used for personal gain; and

(iv) used economically and efficiently to deliver programs that effectively meet the government's goals.

(b) Ensuring effective implementation of Government policies and standards in a prompt, effective and consistent manner;

(c) Supporting the focus on outputs, outcomes, service plans and performance reporting;

(d) Promoting openness, fairness and transparency in the conduct of Government business and activities.

Risk

VI.3.10 Risk management is a fundamental element of governance. Risk is associated with possible events which, should they occur, could prevent a Ministry/Department from fulfilling its mission, meeting its commitments and achieving its objectives. Risks may adversely affect the Ministry/Department's strategy, people, assets, environment or reputation. Effective risk management supports good governance as it assists in determining priorities and setting objectives, in analysing uncertainties within decision-making arrangements, in clarifying accountabilities and in demonstrating how the public interest is best served.

Internal Control

VI.3.11 To have an adequate and effective process for controlling operations, Head of Sections at all levels of the Department have the following responsibilities-

(a) Foster an environment conducive to control.

Each Head of Section's behaviour and attitude towards control will influence the attitudes of other employees. The manager who demonstrates high ethical and personal standards, integrity, diligence, loyalty, and honor will create an environment that encourages adequate and effective controlling processes within his or her sphere of influence.

(b) Identify the exposures to loss and assess the risks involved in conducting operations.

Each exposure to loss or impediment to obtaining an objective, whether in the marketplace or internal, must be identified for each, function, activity, department, and/or system in the organisation. Each exposure must then be evaluated for its impact on the organisation, the probability of occurrence, and its controllability on a cost-effective basis.

(c) Establish an infrastructure of business fundamentals‖ comprised of policies, operating and performance standards, budgets, plans, systems, procedures, etc., that addresses the exposures identified and reduces them to an acceptable level of business risk.

(d) Establish practical (cost beneficial) controlling processes that motivate, channel, and/or otherwise direct employees to perform their work in a manner that achieves a positive control result.

(e) Establish an ongoing monitoring program to determine and report on the effectiveness with which the controlling processes accomplish their intended purpose.

Responsibilities of management towards the internal audit

VI.3.12 The responsibilities of management towards the internal audit include-

(a) taking improvement actions to address the recommendations made by officers of the Cadre, according to agreed implementation time schedule;

(b) where improvement action is not deemed appropriate by management, the reasons therefore, including any risks accepted, must be documented, and addressed in management's response to the internal audit report;

(c) actively supporting the internal audit activity as an executive tool.

(d) providing officers of the Cadre with full cooperation to ensure that its responsibilities can be accomplished in an effective and efficient manner.

(e) To authorize, at the request of the DIA, the assistance of personnel of other specialised units/sections of the Ministry/Department/Division in order to complete the internal audit engagements.

(f) informing officers of the Cadre of any matter concerning changes in the scope and operations of the organisation.

Relationship with External Auditors

VI.3.13 The DIA is the primary management official responsible for coordinating the external Audit relationship. An attitude of cooperation and collaboration best describes the relationship of internal audit to the organisation's external auditor.

VI.3.14 Coordination of internal audit activities with the external auditor principally involves working with each other to ensure-

(a) optimum audit coverage is obtained;

(b) there is an exchange of information;

(c) a minimum duplication of effort and expense; and

(d) cost-effective reliance on the work of the audit.

VI.3.15 Ongoing, direct communication between the OIC Internal Audit and the external auditor is to be maintained to foster coordination of audit work. Annual meetings are conducted with the DIA and Director of Audit to determine appropriate areas of mutual cooperation.

VI.4. INTERNAL AUDIT STANDARDS AND ETHICS

VI.4.1 The purpose of the standards, set out hereunder, is to provide guidance as well as establish policies and procedures for officers of the Cadre to follow in the conduct of internal audit. The standards also provide a basis for evaluating the performance of the internal audit activities. All Officers of the Cadre are required to comply and apply the standards in the conduct of internal audit. These include-

(a) professional code of conduct

(b) performance standards

(c) reporting standards

(d) quality assurance standards

PROFESSIONAL CODE OF CONDUCT

VI.4.2 The professional code of conduct sets out the behavioural standards expected from officers of the Cadre. All officers of the Cadre are expected to apply and uphold the following principles and rules laid down hereunder.

(a) **Integrity**

The integrity of officers of the Cadre establishes trust and thus provides the basis for reliance on their judgment. Officers of the Cadre shall-

(i) perform their work with honesty, diligence, and responsibility.

(ii) observe the law and make disclosures expected by the law and the profession.

(iii) 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.

(iv) respect and contribute to the legitimate and ethical objectives of the organisation.

(b) **Objectivity**

Officers of the Cadre exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Officers of the Cadre make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments. Officers of the Cadre shall-

(i) 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.

(ii) not accept anything that may impair or be presumed to impair their

professional judgment.

(iii) disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

If independence or objectivity of an officer is impaired in fact or appearance, the details of such impairment must be disclosed to the officer's immediate superior. The nature of the disclosure will depend upon the impairment. Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties, and resource limitations, such as funding.

(c) **Confidentiality**

Officers of the Cadre 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. Officers of the Cadre shall-

(i) be prudent in the use and protection of information acquired in the course of their duties.

(ii) 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.

(d) **Competency**

Officers of the Cadre apply the knowledge, skills, and experience needed in the performance of internal audit services. Officers of the Cadre shall-

(i) engage only in those services for which they have the necessary knowledge, skills, and experience.

(ii) perform internal audit services in accordance FM Kit Internal Audit.

(iii) continually improve their proficiency and the effectiveness and quality of their services by enhancing their knowledge, skills, and other competencies through continuing professional development.

(e) **Due Professional Care**

Due professional care requires planning and performing internal audit services with the diligence, judgment and skepticism possessed by prudent and competent officers of the Cadre. When exercising due professional care, officers of the Cadre must perform in the best interests of those receiving the internal audit services. Due professional care does not imply infallibility. Officers of the Cadre must exercise due professional care by considering the-

(i) the organisation's strategy and objectives;

(ii) the interests of those for whom internal audit services are provided and the interests of other stakeholders;

(iii) extent of work needed to achieve the engagement's objectives;

(iv) relative complexity, materiality or significance of risks to the activity under review;

(v) adequacy and effectiveness of governance, risk management, and control processes;

(vi) probability of significant errors, fraud, or noncompliance;

(vii) use of appropriate techniques, tools, and technology; and

(viii) cost of assurance in relation to potential benefits.

(f) **Professional Skepticism**

Officers of the Cadre must exercise professional skepticism when planning and performing internal audit services. To exercise professional skepticism officers of the Cadre must-

(i) maintain an attitude that includes inquisitiveness;

(ii) critically assess the reliability of information;

(iii) be straightforward and honest when raising concerns and asking questions about inconsistent information;

(iv) seek additional evidence to make a judgment about information; and statements that might be incomplete, inconsistent, false, or misleading.

PERFORMANCE STANDARDS

Managing the Internal Audit Activity

VI.4.3 The internal audit activity is effectively managed when:

(a) officers of the Cadre demonstrate conformance to the professional code of conduct;

(b) it is aligned with the strategies, objectives and risks of the organisation;

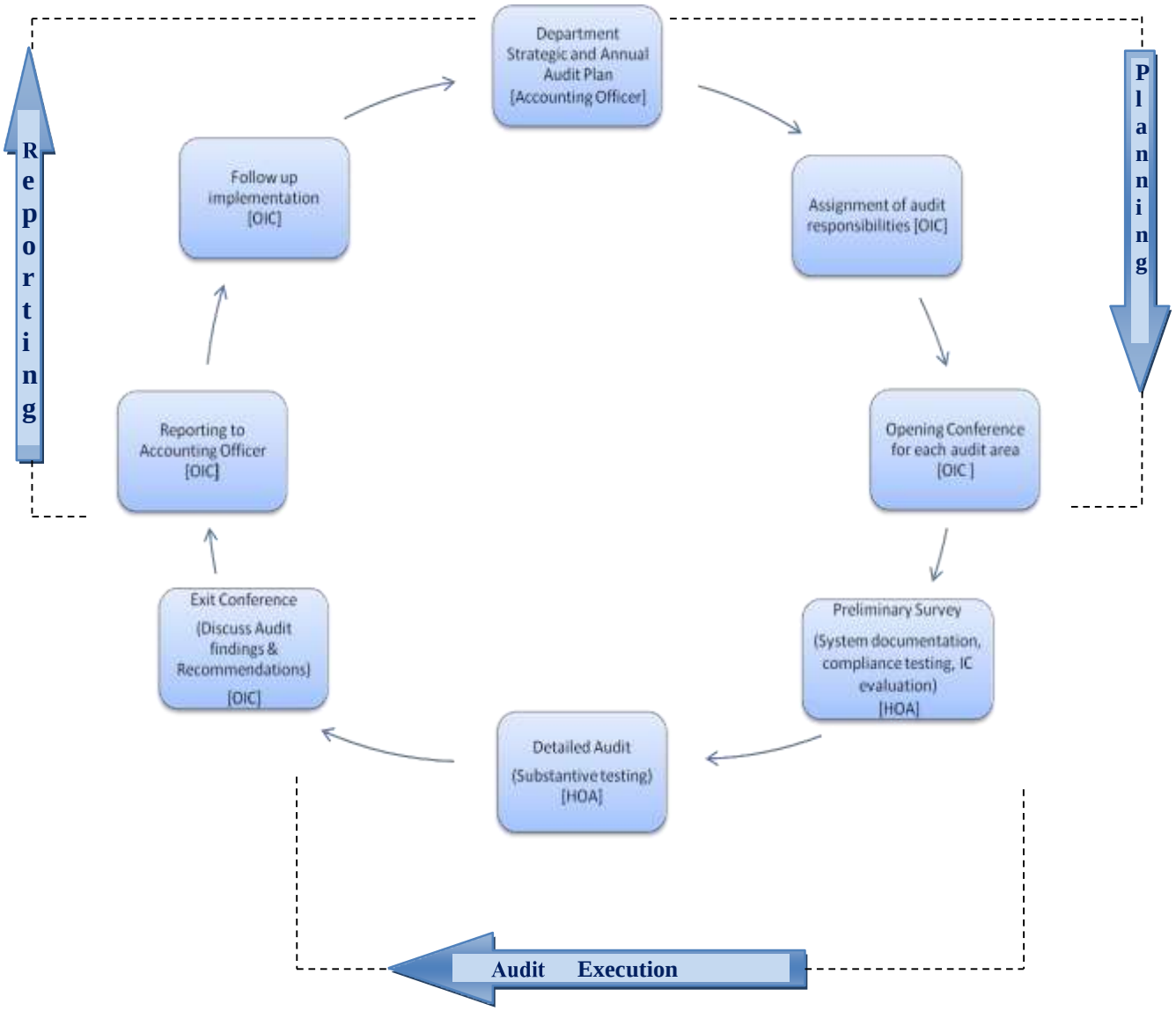
(c) it provides risk-based assurance;

(d) the results of the internal audit activities are communicated in a timely manner to the stakeholders;

(e) it demonstrates quality and continuous improvement; and

(f) it conforms with the policies, procedures and standards set out in the FM Kit Volume VI Internal Audit.

The diagram below provides an overview of the internal audit process described subsequently.



Annual Internal Audit Plan

VI.4.4 Prior to the start of the forthcoming financial year, the OIC Internal Audit should establish a risk-based annual internal audit plan to determine the priorities of the internal audit activity consistent with the organisation's strategies, objectives and risks and available resources. The OIC Internal Audit should prepare the annual internal audit plans in accordance with templates provided at (IC-1).

VI.4.5 The OIC Internal Audit should consider the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the OIC Internal Audit uses his/her own judgment of risks after consultation with senior management.

VI.4.6 The OIC Internal Audit should seek input from Accounting Officer/Supervising

Officer, Audit Committee, senior management and other relevant stakeholders including Sector Management Support Team (SMST) of MOF while preparing the AIAP.

VI.4.7 SMST should submit to the DIA a list of area of concern that may be included in the AIAP.

VI.4.8 The OIC Internal Audit should consider accepting proposals from stakeholders that may be included in the AIAP to improve management of risks and the organisation's operations.

VI.4.9 The OIC Internal Audit should share information and coordinate with other internal and external providers of assurance and (consulting services) (e.g. National Audit Office and OPSG) to ensure proper coverage and minimize duplication of efforts. The DIA will consult the Director of Audit on matters relating to the AIAP.

VI.4.10 The OIC Internal Audit should discuss and agree the AIAP with the Audit Committee and Accounting Officer. The agreed plan should be submitted to the Financial Secretary for approval.

Individual Audit Engagement

VI.4.11 The OIC Internal Audit must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. An Audit Planning and Execution Form (IC-2) and a Project Time Budget (IC-3) will have to be filled.

VI.4.12 In planning an engagement which form part of an approved AIAP, the OIC Internal Audit must consider-

(i) the objectives of the activity being reviewed and the means by which the activity controls its performance;

(ii) the significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;

(iii) the adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model; and

(iv) the opportunities for making significant improvements to the activity's risk management and control processes.

Special Assignment

Special assignments are internal audit engagements which may comprise, amongst others, investigations/enquiries and are not part of approved Internal Audit Plan. These are carried out at the level of the Ministries/Departments/Divisions at the request of the Accounting

Officers/Supervising Officers and the Financial Secretary. When such requests for the special assignments are made to OICs Internal Audit, they should:

(a) work out clear terms of reference, setting out audit objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the assignment and access to assignment records; and

(b) ensure the terms of reference are endorsed by the Supervising Officer/Accounting Officer/ and the Financial Secretary.

Engagement Objectives

VI.4.13 Engagement objectives must reflect the results of the preliminary assessment of risks relevant to the activity under review. Officers of the Cadre must consider the possibility of significant errors, fraud, non-compliance, and other exposures when developing the assignment objectives.

VI.4.14 Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

Engagement Scope

VI.4.15 The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties. If significant consulting opportunities arise during an assurance assignment, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached.

Resource Allocation

VI.4.16 Officers of the Cadre must determine appropriate and sufficient resources required to achieve engagement objectives based on an evaluation of the nature and complexity of each assignment, time constraints, and available resources.

Opening Conference

VI.4.17 During the planning stage of the internal audit assignment, and prior to commencing the preliminary survey, the OIC Internal Audit with his/her audit team should meet with the officer responsible for the unit to be audited. The opening conference provides the opportunity to begin building good relationships. Points that should be discussed during the opening conference include-

(a) Scope and Objectives - Review the basic scope and objectives planned for the audit. Outline the general audit work plan. Emphasize that the purpose of the audit is to add value to the organisation and assist management by providing analysis, appraisals, recommendations, and information concerning the activities reviewed - all designed to assist management in the attainment of their objectives.

(b) Internal Audit Findings - Explain how audit findings will be handled, e.g., resolution of minor findings, the discussion of all findings on a current basis to permit the audit customer to assist in developing the improvement actions and take timely improvement action, the exit conference at the completion of the fieldwork to reconfirm all findings and improvement actions planned, the review of the report draft, and the distribution of the formal audit report. Obtain update on status of prior audit findings.

(c) Audit Progress - Establish a clear understanding with auditee about keeping their personnel advised of the audit progress and findings. Determine the frequency of progress updates and management levels to be appraised of audit progress and findings and consulted on design of improvements. Consideration should be given to providing the audit customer with an audit event timeline. This timeline should include estimated dates of fieldwork, interim meetings, exit meeting, audit report issuance, and follow-up audits.

(d) Consulting Activities - Ask for suggestions of problem areas where the Officers of the Cadre can be of assistance to management. Officers of the Cadre can often be in the position to consult with audit customers about - best practices existing in other functions within the organisation.

(e) Cooperative Administration - Inquire about working hours, access to records, available work area for participating Officers of the Cadre, the audit customer's various work deadline requirements, and any other information that will help schedule the audit activities to fit into the office routine with minimal disruption to the audit customer's personnel.

(f) Introduction and Tour - Arrange to meet other personnel the Internal Audit Officers will be working with during the audit. Also arrange for a familiarization tour of the physical facilities, necessary security clearances, and a safety orientation where appropriate. Effective communication at the beginning of the audit fieldwork can significantly influence the atmosphere in which the entire audit is conducted. It deserves the Internal Audit Officers' careful attention and best efforts.

Preliminary Survey

VI.4.18 The HOA should carry out a proper preliminary survey to gather information required for the preparation of the audit program.

VI.4.19 The preliminary survey is made up of four distinct phases-

(a) familiarization;

(b) identification of potential areas of improvement;

(c) confirmation; and

(d) planning the detailed audit.

Familiarization

VI.4.20 This phase consists of obtaining significant background information and a practical working knowledge of the following-

(a) department or program objectives;

(b) applicable laws, regulations, and departmental policies and procedures;

(c) management, operating, and financial controls;

(d) operating procedures;

(e) size and scope of the activities under review; and

(f) organisation and staffing.

VI.4.21 Some of the specific data needed to obtain a practical working knowledge are statement of mission, current goals and areas of emphasis, specific objectives, significant programs and activities, delegations of authority, a concise picture of the organisational arrangement, particularly how the program, function, entity, or activity to be audited fits into the overall operation, unusual challenges being faced and changes being contemplated.

VI.4.22 Some sources of information are-

(a) audit programs

(b) prior audit workpapers

(c) public laws, legal opinions, and special rulings

(d) operating procedures

(e) organisational charts

(f) functional statements and position descriptions

(g) processing flow charts and system narratives

(h) management, budget, financial, and operating reports

(i) personnel

Identification of Potential Areas for Improvement

VI.4.23 An objective of the survey is the identification of areas for potential improvement. One of the first steps is to identify those programs, activities, and functions that are significant. These can be identified as those programs or activities-

(a) that are indicated by existing ERM processes.

(b) that are susceptible to fraud, abuse, or mismanagement.

(c) in which there is a large volume of transactions or large investments in assets that are subject to loss if not carefully controlled.

(d) about which management has expressed concerns.

(e) in which prior audits have disclosed major weaknesses or deficiencies.

Confirmation

VI.4.24 This phase consists of limited testing to confirm the critical improvement areas and the need for detailed audit work. A limited examination of documents, records, and reports is generally necessary to add supporting evidence to the preliminary findings observed during the first two phases of the preliminary survey. Tests to determine the extent and significance of such matters, however, are to be performed during the detailed audit. Indicated problem areas should be discussed with internal audit customer officials at this point to help ensure that the HOA has an accurate understanding of the situations in question and has obtained all available information needed to arrive at decisions on the extent of audit work needed.

Planning the Detailed Audit

VI.4.25 The elements of materiality and relative risk must be considered in performing the audit. The due professional care standards do not imply unlimited responsibility for disclosure of irregularities and other deficiencies. The HOA's principal effort should be in those areas where significant potential for improvement may exist, rather than in areas that are relatively unimportant. Time should not be spent examining or developing evidence beyond what is necessary to afford a sound basis for a professional opinion.

Evaluating Internal Controls

VI.4.26 The evaluation of the system of internal controls should provide reasonable, but not absolute, assurance that the fundamental elements of the system are sufficient to mitigate the related risks and contribute to the attainment of management’s objectives. The review and evaluation should be adequately documented and properly supported by results of tests, observations, and inquiries.

VI.4.27 Internal controls are identified and evaluated throughout the audit examination. The objective of the examination can be described as-

(a) evaluating the adequacy of design of controls in relation to the identified risks in order to develop tests to confirm the adequacy of design and continued effective operation.

(b) identifying weaknesses in controls or missing controls in order to design tests to evaluate the potential or actual effects of the weakness as input to designing improvement action to correct the weakness, if appropriate in relation to the cost and risk.

(c) identifying areas where additional information is necessary in order to carry out either of the above.

VI.4.28 The review of the system of internal controls is performed by discussing the adopted control procedures, methods, and plan of organisation with the auditee. The HOA may use internal controls questionnaires or checklists as well as written narrative memoranda flowcharts, transaction walkthroughs, and other applicable techniques in determining the adopted control procedures and the method and plan of organisation (see preliminary survey techniques). These techniques are preferred because they provide adequate documentation.

VI.4.29 In evaluating the system of internal control, the HOA should consider-

(a) types of errors and irregularities that could occur.

(b) potential to degrade likelihood of attainment of management objectives.

(c) control procedures to prevent or detect such errors and irregularities.

(d) whether the control procedures have been adopted and are being followed satisfactorily.

(e) weaknesses that would enable errors and irregularities to pass through existing control procedures.

(f) the effect these weaknesses have on the nature, timing, and extent of auditing procedures to be applied.

VI.4.30 Documentation supports the HOA's understanding of the internal control. Audit working papers provide the documented support for the conclusions reached by the HOA regarding the review and evaluation of internal controls. Only those internal control activities that are deemed critical or important related to management's objectives and related risks should be tested and evaluated. Working papers should be prepared to highlight the internal control attributes within the processes to be evaluated.

VI.4.31 HOAs should also be vigilant for opportunities to improve the efficiency of processes through the elimination of controls where duplication exists or risk levels do not justify control.

VI.4.32 Tests of compliance are performed to obtain sufficient evidence that the system is operating in accordance with the understanding the HOA obtained from the review. These are performed for those control procedures or methods upon which the HOA has chosen to rely. Conversely, when the HOA determines that certain controls cannot be relied upon, tests of compliance are not ordinarily performed. Rather, tests are carried out to evaluate the real or potential effect of the weakness in order to design improvement recommendations where appropriate in relation to costs and risks.

VI.4.33 The nature, timing, and extent of tests of compliance are closely related to the control

procedures and methods studied by the HOA. Additionally, the HOA must consider the availability of evidence and the audit effort required to test compliance. In considering the required audit effort, the HOA assesses whether precluding certain tests of compliance will reduce the reliance on the controls and procedures, and whether such reduced reliance significantly affects subsequent audit tests and procedures.

VI.4.34 The timing of compliance testing is applied to transaction cycles throughout the period under audit. With respect to control procedures and methods that depend primarily on segregation of duties and leave no audit trail, inquiries relate to the entire audit period.

VI.4.35 Tests of compliance may be applied either before or after the end of the period under examination. When tests are performed prior to the end of the period, the HOA determines whether control procedures are still in operation up to the end of the audit period. This may be accomplished by inquiry, observation, or further testing. Unless the HOA believes it is necessary, additional tests of compliance are not required.

VI.4.36 In summary, the procedures for the study and evaluation of internal controls include-

(a) preliminary survey to obtain internal familiarization with the audit customer's overall organisation, operation, objectives, risks, and control systems;

(b) application analysis;

(c) determine facts - Ascertain by analysis and inquiry what controls have been established. Draft tentative organisational charts, flowcharts, and narrative procedural memoranda;

(d) walk through - Trace selected transactions through the system to confirm whether it is functioning as described;

(e) document - Complete the organisational charts, flowcharts, and procedural memoranda;

(f) evaluate - Make a tentative evaluation of the effectiveness of internal controls; and

(g) test and reevaluate - Confirm, modify, or reject the tentative evaluation of internal controls through the use of test samples or data analysis techniques. Document the results of the tests and the conclusions as to the effectiveness of internal controls.

Preliminary Survey techniques

VI.4.37 The techniques discussed in this procedure should not be considered all-inclusive. officers of the Cadre should use only those techniques necessary for the specific program or activity to be surveyed. They should constantly strive to develop new and more effective techniques. In selecting the best method for surveying a particular activity, the officer should use the techniques that will produce the desired result and at the least cost. The most effective method may actually be a combination of several methods depending on the circumstance.

Interviewing

VI.4.38 The preliminary survey includes the use of interviews in each major functional area. Interviews must be planned in advance, keeping in mind that the purpose of the survey is to disclose areas with potential for improvement of risk management, control, governance, and operations.

Comparative Analysis

VI.4.39 This technique involves comparing data, sometimes from various sources, to identify unusual situations, deviations, or trends. Data can be compared to budget, prior periods, other departments, similar operations elsewhere in the organisation, financial to statistical, and vice versa. Creativity and business knowledge will enhance the variety of options to consider. This is similar to analytical review.

Flowcharting

VI.4.40 This technique involves using a diagrammatic network to chart steps that must be completed before a program or activity can be concluded successfully. This technique can be particularly useful to the HOA in documenting controls and in identifying bottlenecks and duplications in operations. Generally, there are four general control objectives a system should incorporate to provide reasonable assurance that information is reliable, accurate, and complete and that controls are adequate to support the attainment of management objectives. These control objectives are:

(a) **Authorization** - Transactions are authorized by a person with the appropriate level of authority and are executed in conformity with management's intentions.

(b) **Recording** - All authorized transactions are recorded in the appropriate records, accounts, sub-accounts, and accounting period.

(c) **Safeguarding** - Responsibility for security of business information is assigned to specific personnel.

(d) **Reconciliation** - Records are regularly compared with related assets, documents, control accounts, or other reliable comparable data.

Narratives

VI.4.41 This can often be the simplest and most effective way to describe a situation or process.

Analytical Review

VI.4.42 This technique involves comparing results such as income, expenses, etc., for the same entity from period to period. It also can be used when evaluating changes in results that are dependent or affected by other factors. For example, if the number of employees increased from the last period, the payroll costs should also go up in addition to the normal increase due to raises, inflation cost etc. Both Analytical Review and

Comparative Analysis above can be effective applications of Computer-Assisted Audit Techniques (CAATs).

Visual Observations

VI.4.43 A tour of the facilities of the entity to be audited may disclose material weaknesses in the operations in various areas, including supervision, housekeeping, safety, security, operational efficiency, and employee morale. Visual observations also include scanning records and reports for unusual items.

Risk and Control Matrices

VI.4.44 This tool is often an efficient way to document preliminary survey data in a visual way. It can match risks to controls, or lack thereof, and can further be customized or expanded to cross-reference to or show program steps or results of evaluation of the controls.

Audit Work Program

VI.4.45 On completion of the preliminary survey and on the basis of the Risk and Control Matrix (IC-4), the HOA must develop and document an audit work programs (IC-5) that achieve the assignment objectives. The work program must be reviewed and approved by the OIC Internal Audit prior to its implementation.

VI.4.46 Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the assignment. The audit program should be prepared after the completion of the preliminary survey. The audit program is a detailed plan for the work to be performed during the audit. A well-constructed program is essential to completing the audit project in an efficient manner.

VI.4.47 The audit program is intended to guide, among other actions, tests to-

(a) confirm the adequacy of the indicated design of controls;

(b) confirm the continued effectiveness of the operation of controls;

(c) evaluate the effects or potential effects of inadequately designed or missing controls in order to develop recommendations for improvement; and

(d) gather missing information needed to evaluate risks and their related controls and the overall control environment.

VI.4.48 Work programs for consulting assignments may vary in form and content depending upon the nature of the assignment.

Performing the Detailed Audit

VI.4.49 HOAs must collect, analyze, evaluate, and document sufficient information to achieve the assignment's objectives. Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the HOA. Reliable information is the best attainable information through the use of appropriate assignment techniques. Relevant information supports assignment observations and recommendations and is consistent with the objectives for the assignment. Useful information helps the organisation meet its goals. The HOA must base conclusions and assignment results on appropriate analyses and evaluations. HOAs must document relevant information to support the conclusions and assignment results. The OIC Internal Audit will have to review and approve the findings to be included in the working paper file. The audit findings should be based on the following attributes-

(a) Condition (What is!)

(b) Criteria (What should be!)

(c) Effect (So what?)

(d) Cause (Why did it happen?)

(e) Recommendation (What should be done?)

Condition

VI.4.50 The statement of condition identifies the nature and extent of the finding or unsatisfactory condition. It is the facts. It often answers the question: "What is wrong?" Normally, a clear and accurate statement of condition evolves from the internal auditor's comparison of results with appropriate evaluation criteria.

Criteria

VI.4.51 This attribute establishes the legitimacy of the finding by identifying the evaluation criteria, and answers the question: "By what standards was it judged?" In operational or management audits, criteria could be contribution to management objectives, compliance with objectives, plans, industry or company standards, contracts, policies, procedures, guidelines, laws or regulations, and expectations for efficiency, effectiveness, and economy. In financial audits, criteria could be accuracy, materiality, consistency, or compliance with applicable accounting principles and legal or regulatory requirements. In audits of efficiency, economy, and program results (effectiveness), criteria might be defined in mission, operation, or function statements; performance, production, and cost standards; contractual agreements; program objectives; policies, procedures, and other command media; or other external sources of authoritative criteria.

Effect

VI.4.52 This attribute identifies the real or potential impact of the condition and answers the question: "What effect did/could it have?"

VI.4.53 The significance of a condition is usually judged by its effect. In operational audits, reduction in efficiency and economy, or not attaining program objectives (effectiveness), are appropriate measures of effect. These are frequently expressed in quantitative terms; e.g., dollars, number of personnel, units of production, quantities of material, number of transactions, or elapsed time. If the real effect cannot be determined, potential or intangible effects can sometimes be useful in showing the significance of the condition.

VI.4.54 Accurate evaluation of the real or potential effect is crucial in determining the effort, resources or control that should be applied to improve the situation, as well as in getting management's buy-in on the issue.

Cause

VI.4.55 The fourth attribute identifies the underlying reasons for unsatisfactory conditions or findings, and answers the question: "Why did it happen?"

VI.4.56 If the condition has persisted for a long period of time or is intensifying, the contributing causes for these characteristics of the condition should also be described.

VI.4.57 Identification of the cause of an unsatisfactory condition or finding is a prerequisite to making meaningful recommendations for corrective action. The cause may be quite obvious or may be identified by deductive reasoning if the audit recommendation points out a specific and practical way to correct the condition. However, failure to identify the cause in a finding may also mean the cause was not determined because of limitation or defects in audit work, or was omitted to avoid direct confrontation with responsible officials.

VI.4.58 Failure to thoroughly investigate down to the real root cause can also contribute to a less-than-adequate recommendation, possibly fixing the wrong thing or correcting the symptom rather than the real cause. Frequently, the real root cause is a soft issue which otherwise would not be addressed.

Recommendations

VI.4.59 This final attribute identifies suggested improvement action and answers the question: "What should be done?"

VI.4.60 The relationship between the audit recommendation and the underlying cause of the condition should be clear and logical. If a relationship exists, the recommended action will most likely be feasible and appropriately directed.

VI.4.61 The quality and sustainability of the improvement action will be significantly enhanced if the internal audit client is brought into the discussion and takes part with internal audit in jointly developing the solution.

VI.4.62 Recommendations in the audit report should state precisely what improvement action has been agreed upon. More generalized recommendations (e.g., greater attention be given, controls be reemphasized, a study be made, or consideration be given) should not be used in the audit report, although they are sometimes appropriate in summary reports to direct top management's attention to specific areas.

VI.4.63 Unless benefits of taking the recommended action are very obvious, they should be stated. Whenever possible, the benefits should be quantified in terms of additional revenue, lower costs, or enhanced effectiveness or efficiency. The cost of implementing and maintaining recommendations should always be compared to risk.

VI.4.64 Recommendations should be directed to the individual with both adequate knowledge and effective responsibility or authority to ensure implementation of improvement action.

Exit conference

VI.4.65 The OIC Internal Audit should conduct an exit conference with Auditee/management.

VI.4.66 The purpose of the exit conference is to inform management about the audit results and the report process, reach final agreement on findings, and finalize planned improvement actions. The objective is also to confirm the accuracy of facts supporting the internal audit findings, enhance the quality of the proposed improvement actions, prevent any surprises and thereby contribute to the success and sustainability of the improvement actions.

VI.4.67 The purpose of this section is to define certain events which should take place prior to and during the exit conference.

VI.4.68 Prior to the exit conference, the HOA should-

(a) discuss all aspects of a potential audit finding with the person performing the function being sure to seek their input on potential solutions; and

(b) fully develop all audit findings.

VI.4.69 The OIC Internal Audit should work with management, where possible, to jointly develop improvement actions to address the finding for incorporation in the recommendation. Discuss audit findings and developed recommendations with the responsible department head. Also discuss any items requiring follow-up and document the auditee’s response to the finding. Management can also provide updates on any action already taken.

VI.4.70 The outcome of the Exit Conference should be documented.

Internal Audit Supervision

VI.4.71 Internal audit engagements must be properly supervised in terms guidance and instructions issued to ensure objectives are achieved and quality of audit is assured. The extent of supervision required will depend on the proficiency and experience of Officers of the Cadre and the complexity of the assignment.

VI.4.72 The OIC Internal Audit has overall responsibility for supervising an audit assignment. Appropriate evidence of supervisions in terms guidance and instructions issued should be documented and retained.

Internal audit working papers

VI.4.73 Working papers serve as tools to assist officers of the Cadre in performing the audit work and to communicate with auditees, and also as written evidence of work done to support the internal auditor's report. Working paper file could be electronic as well as paper based. All workpapers should include the title of the audit, audit project number, title of the workpaper, preparer's initials, date prepared, source of information, and purpose of the workpaper and reviewer initials and dates. The OIC Internal Audit should obtain approval of the Accounting Officer prior to releasing work papers to external parties.

VI.4.74 Information included in working papers should be sufficient, reliable, relevant, and useful to achieve the engagement’s objectives and to provide a sound basis for audit findings and recommendations. Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the internal auditor. Reliable information is attainable through the use of appropriate audit techniques. Relevant information supports audit findings and recommendations and is consistent with the objectives for the audit. Useful information helps the organisation meet its goals.

VI.4.75 In addition to serving as a reference when reporting findings or answering questions, working papers can be useful to other parties, such as external auditors. Working papers are also used as a basis for the review of the quality of audit, and for the performance evaluation of officers of the Cadre. Workpapers should be cross-referenced to the audit findings. Audit findings should be cross-referenced to the exit conference memo and/or the audit report to indicate final disposition of the item. These references readily provide direct access to the working papers.

VI.4.76 The quality as well as the security and control of working papers are outlined hereunder.

(a) **Complete** – Working papers must be able to "stand alone." This means that all questions must be answered, all points raised by the reviewer must be cleared, and a logical, well-thought-out conclusion must be reached for each audit segment.

(b) **Concise** –Working papers must be confined to those that serve a useful purpose.

(c) **Uniform** - Electronic working papers should be created and saved in the common formats adopted by the IAC. They should be promptly filed and readily accessible within the standard filing structure, thereby also becoming subject to standard systems backup routines. Any manual working papers produced should be of uniform size and appearance. Smaller papers should be fastened to standard work papers, and larger papers should be folded to conform to size restrictions.

(d) **Neat** - Working papers should not be crowded. Allow for enough space on each schedule so that all pertinent information can be included in a logical and orderly manner. At the same time, keep work papers economical. Copies, forms, and procedures should be included only when relevant to the audit or to an audit recommendation. Also, try to avoid unnecessary listing and scheduling. All schedules should have a purpose that relates to the audit procedures or recommendations.

(e) **Security and Control of Workpapers** - The audit workpapers are owned by the organisation's internal audit.

(f) **Physical Control/Access** - Workpapers are the property of the officers of the Cadre and should be kept under their control. Workpapers may contain confidential data as well as data related to internal audit concerns and development of recommendations that should be considered confidential. Access to electronic workpapers should be controlled via security controls (passwords, shared file controls, etc.), and portable computers should be subject to careful physical security measures. Officers of the Cadre should maintain close control of any manual workpapers and supporting documents during the audit. When not in use, they should be kept in a locked file or otherwise secured so they are not readily available to persons unauthorized to use them.

REPORTING STANDARDS

VI.4.77 The OIC Internal Audit must communicate the engagement results to the Accounting Officer/Supervising Officer. Communications must include the audit objectives and scope as well as conclusions, recommendations, and action plans. Internal audit reports, in general, must include:

(a) The date of the report, who the report is addressed to, and the title or subject of the audit.

(b) A brief description of the scope and objectives, background information of the audit and the time period covered. Background information should be used when the auditor believes the various report readers do not have the firsthand knowledge necessary to correctly interpret the audit report.

(c) Significant audit findings and recommendations for corrective action. If the report does not contain significant matters, the favorable results should be stated. For

example, "Our audit procedures and tests indicated favorable results and adequate controls. The minor deficiencies noted have been corrected."

(d) A paragraph stating the date that an exit conference was held and including the action plan discussed in the meeting as well as a follow-up date agreed with management.

VI.4.78 All reports should incorporate the following characteristics-

(a) **Accuracy -** Accurate communications are free from errors and distortions and are faithful to the underlying facts. All reports must be supported with facts. It is extremely important that the credibility of the internal audit activity and each internal auditor be maintained at the highest level by factual, unbiased, and objective reporting.

(b) **Objective -** Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Audit report observations, conclusions, and recommendations should be included without prejudice.

(c) **Clarity -** Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. All reports must be understandable and clear. Clarity is improved by avoiding unnecessary technical language or audit terminology and providing sufficient supportive information. Use of customer terms is helpful.

(d) **Quantification -** All comments must be quantified to the maximum extent possible to identify the significance and impact of the points made. Examples of quantification are monetary values, quantities, number of test exceptions, and scope of testing.

(e) **Conciseness -** Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. All reports must be to the point. This does not necessarily mean short.

(f) **Constructive -** Constructive communications are helpful to the assignment client and the organisation and lead to improvements where needed. Emphasis should be on improvement, not on criticism of processes, people, or the past.

(g) **Complete -** Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Internal audit reports should be complete. It is very important that audit reports do not require interpretation or oral comment to fill in the gaps. The report should stand by itself.

(h) **Timeliness -** Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action. All reports must be issued in a timely manner upon completion of the assignment.

(i) **Management action plan -** All reports must contain action plans and time frame for remedial actions.

Internal Audit Report follow-up

VI.4.79 Being an integral part of the internal audit process, follow-up should be scheduled along with the other steps necessary to perform the audit. However, specific follow-up activity depends on the results of the audit and can be carried out after the issuance of the final report. The OIC Internal Audit must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. The OIC Internal Audit must monitor the disposition of results of consulting assignments to the extent agreed upon with the Accounting Officer.

VI.4.80 There are two types of follow-up activities -

(a) **Limited -** This is the most basic form of follow-up and may be satisfied by review of the auditee procedures, or through telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical findings.

(b) **Detailed -** Detailed follow-up is usually more time-consuming and can include substantial auditor-customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit findings usually require detailed follow-up.

VI.4.81 Follow-up scheduling can begin when corrective action is confirmed by acceptance of an audit recommendation for improvement by management. Based on the risk and exposure involved, as well as the degree of difficulty in achieving the recommended action, follow-up activity should be scheduled to monitor the situation or confirm completion of the changes that were planned. Follow-up can be done when improvements have been implemented and can be reassessed for adequacy of design, and/or when implemented improvements have been operating for sufficient time to evaluate effectiveness.

VI.4.82 During follow-up auditing to assess the adequacy and effectiveness of improvement action, it is also important to consider whether changes to circumstances since the original audit observation may have affected the need for improvement.

VI.4.83 At the end of each quarter, a follow-up report is prepared.

VI.4.84 Additionally, this report highlights all outstanding findings from prior periods and their status. The intent of this summary report is to track all findings so that they are appropriately resolved.

QUALITY ASSURANCE STANDARDS

VI.4.85 A quality assurance program needs to cover all aspects of the internal audit activity and continuously monitors its effectiveness. The program should be designed to help the internal audit activity add value and improve the organisation's operations and to provide assurance that the internal audit activity is in conformity with FM Kit Volume VI Internal Audit.

VI.4.86 The three components in designing an effective quality program are-

(a) engagement supervision and reviews that ensures objectives are achieved, quality is assured, and staff are developed.

(b) ongoing performance measurements.

(c) reviews performed by others in the Cadre with knowledge of internal auditing practices and the Standards.

VI.4.87 The quality assurance program should evaluate and conclude on the quality of the internal audit activity and lead to recommendations for appropriate improvements. Assessments of quality programs should include evaluation of-

(a) compliance with the Standards and Code of Conduct;

(b) contribution to strengthening the organisation's risk management, governance, and control processes;

(c) whether the internal audit activity improves the organisation's operations and contributes to the attainment of objectives; and

(d) effectiveness of continuous improvement activities and adoption of best practices.

Supervision

VI.4.88 Supervision is a process that begins with planning and continues throughout the examination, evaluation, communicating, and follow-up phases of the engagement. Supervision includes-

(a) ensuring that the officers of the Cadre assigned the internal audit works possess the requisite knowledge, skills, and other competencies to perform the engagements.

(b) providing appropriate instructions, directions and guidance during the planning of the engagement and approving the engagement program.

(c) seeing that the approved engagement program is carried out unless changes are both justified and authorized.

(d) determining that engagement working papers adequately support the engagement observations, conclusions, and recommendations.

(e) ensuring that engagement communications are accurate, objective, clear, concise, constructive, and timely.

(f) ensuring that engagement objectives are met.

(g) providing opportunities for developing officers of the Cadre knowledge, skills and other competencies.

VI.4.89 The OIC Internal Audit should document appropriate evidence of supervision. When clearing queries, HOA should keep record accordingly.

Ongoing Performance Measurements and Reviews

Quarterly Return

VI.4.90 On going performance measures and reviews start with the monitor of the progress of annual internal audit plan. As and when the audit progresses the OIC Internal Audit should monitor the progress of the audits under his responsibility and ensure that internal audit activities are done in accordance with the FM Kit Volume VI Internal Audit. The OIC Internal Audit has to prepare Quarterly Return (IC-6) of all internal audit activities carried out during the period and submit same to the DIA by the seventh day of the following month.

Annual Report

VI.4.91 The OIC Internal Audit will prepare an annual report on all internal audit activities of his/her units for the previous financial year. The OIC Internal Audit should submit the Annual Report to the DIA within one month of the end of the previous financial year for onward transmission to Accounting Officers/Supervising Officers and Audit Committee.

The annual report will contain the following**:**

(a) Introduction

(b) Achievement for the year

(c) Constraints encountered

(d) Major Findings and Recommendations

(e) Conclusion

VI.4.92 The DIA should prepare an Annual Internal Audit Report for submission to the Financial Secretary, highlighting major internal audit findings and recommendations together with Accounting Officers' responses thereto as well as achievements of the Cadre.

Quality Assurance Review

VI.4.93 The DIA should develop and maintain a quality assurance program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. Quality assurance (QA) reviews are to be performed at two levels:

- Level One - by OIC Internal Audit on each internal audit engagement
- Level Two - at the level of headquarters

VI.4.94 Level One consists of detailed ongoing review of the working papers to ensure the accuracy of statements made and appropriateness of conclusions reached. The QA reviewer will also ensure that the report is in an acceptable format in accordance with

departmental policies and procedures.

VI.4.95 Level Two - A QA review will be completed after the OIC Internal Audit has completed their review of the work papers and the internal audit report has been issued. The QA review (IC-7) will be performed to ascertain -

(a) that the final report is in an acceptable format in accordance with established policies and procedures and is free of defects in grammar, punctuation and usage of numbers;

(b) supporting working papers and audit comments to ensure the accuracy of statements made and appropriateness of conclusions reached;

(c) all conclusions are based on solid evidence and all appropriate signoffs are present;

(d) entire report and working papers are in compliance with the FM Kit Volume VI Internal Audit; and

(e) internal audit engagement has enhanced governance, risk management and control processes.

VI.4.96 The reviewer is encouraged to make suggestions that will improve the quality of the audit report/work papers without significantly increasing time consumption.

Training

VI.4.97 The DIA should ensure that appropriate training is provided to officers of the internal Audit Cadre to ensure they are up to date with evolving internal Audit standards, procedures and best practices.

VI.5 INTERNAL AUDIT APPROACH TO FRAUD AND IRREGULARITIES

Responsibility for the Prevention and Detection of Fraud

VI.5.1 The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence.

Internal Audit Approach to Fraud

VI.5.2 Though the primary objective of Internal Audit is not to discover fraud, Officers of the Cadre should have sufficient knowledge to identify the indicators of fraud and maintain professional skepticism throughout the audit recognizing the possibility that fraud could exist.

What is Fraud?

VI.5.3 Fraud is defined as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. The fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. (International Standard on Auditing 240 issued by International Federation of Accountants)

VI.5.4 The International Standards for the Professional Practice of Internal Auditing specifies that officers of the Cadre should have sufficient knowledge to identify the indicators of fraud. Although audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Internal controls should be planned in such a manner that control weaknesses having fraud potential are identified. However, Officers of the Cadre are not expected to have knowledge equivalent to that of a person whose primary responsibility is detecting and investigating fraud.

VI.5.5 Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception perpetrated to the detriment of the organisation by persons outside as well as inside the organisation.

VI.5.6 Internal audit activities should be designed in a manner that provides review of the control environment and the inherent potential for fraud. Internal audit risk analysis and audit selection should be based on the degree of change and pressure in the operating units.

VI.5.7 Periodic audit training, distribution of audit publications, and other communication methods should be implemented to apprise Officers of the Cadre of the changing nature of fraud and the control environment in which fraud may occur.

VI.5.8 Officers of the Cadre should receive periodic training in the area of fraud indicators and related methods, and all Officers of the Cadre should remain aware of the potential for fraud in areas such as bribes, kickbacks, diversion, embezzlement, concealment, and misrepresentation. System reviews in the core business cycles (revenue, disbursement, conversion/inventory/cost, payroll/benefits, capital assets) should be carried out to evaluate the overall control environment and related potential for fraudulent actions to take place. When a specific concern is identified from the normal audit process or by an employee or management concern, Officers of the Cadre may become involved in audit or investigative work in these areas.

Prevention and Deterrence of Fraud

VI.5.9 Prevention and deterrence consist of those actions taken to discourage the perpetration of fraud and limit the exposure if fraud does occur. The principal mechanism for deterring fraud is control. Control includes all aspect of hard and soft controls beginning with the - tone at the top set by management and the overall control environment. Management is responsible for the maintenance of an effective control environment. Officers of the Cadre are tasked to evaluate the control environment at audited locations to determine the adequacy of internal audit in selected systems.

VI.5.10 Internal audit is responsible for examining and evaluating the adequacy and the effectiveness of controls, commensurate with the extent of potential exposure/risk in the various segments of the entity's operations. In carrying out this responsibility, Officers of the Cadre should, for example, determine whether-

(a) the organisational environment fosters control consciousness;

(b) the organisational environment is considered along with other appropriate factors in the risk analysis process leading to audit selection and audit program development; and

(c) realistic organisational goals and objectives are set.

Audit actions such as system reviews evaluate the adequacy of the total system of the internal controls, including review of strategic plans, annual plans, and quarterly budgets.

(d) written policies (e.g., code of conduct) exist that describe prohibited activities and

the action required whenever violations are discovered.

Certain audits include evaluation of location practices and supporting controls versus established standards of business conduct.

(e) effective procedures exist for the proper handling of complaints regarding accounting and auditing, and other matters and for the anonymous submission of the complaints. This includes receipt, retention, and treatment of complaints received at all levels of the Department to include the audit committee.

(f) appropriate authorization policies for transactions are established.

Authorization practices are commonly audited including procedure reviews, management interviewing to determine authorization expectations and detailed compliance testing to determine authorization compliance. Officers of the Cadre assess whether authorization policies specify personnel who are at an appropriate level and whether they are likely to have adequate knowledge of the nature of the transactions they are expected to authorize and their related inherent risks.

(g) policies, practices, procedures, reports, and other mechanisms are developed to monitor activities and safeguard assets, particularly in high-risk areas.

Audit objectives commonly include adequacy and compliance reviews of policies, procedures, reports, and monitoring activities. Asset safeguarding practices are evaluated in normal internal audit reviews and during asset audits.

(h) communication channels provide management with adequate and reliable information.

Two-way communication and reporting is commonly evaluated, and certain information system audits include tests for information adequacy and usefulness.

(i) recommendations need to be made for the establishment or enhancement of cost-effective controls to help deter fraud.

Whenever appropriate, potential risk/impact/effect statements in audit reports highlight irregularity risks. All recommendations are written with cost justification in mind. Often the audit customer is contacted to establish cost/benefit impacts.

Detection of Fraud

VI.5.11 Detection consists of identifying indicators of fraud sufficient to warrant recommending an investigation. These indicators may arise as a result of controls established by management, tests conducted by Officers of the Cadre, and other sources both within and outside the organisation. Officers of the Cadre should-

(a) have sufficient knowledge of fraud to be able to identify indicators that fraud might have been or could be committed. This knowledge includes the characteristics of fraud, the techniques used to commit fraud, and the types of frauds associated with the activities audited; and

(b) be alert to opportunities, such as control weaknesses, that could allow fraud. If significant control weaknesses are detected, additional tests conducted by Officers of the Cadre should include tests directed toward identification of fraud indicators with the concurrence of the OIC Internal Audit.

VI.5.12 All audit and investigation activity will be carefully coordinated with the approval/involvement of the Accounting Officer.

VI.5.13 The Officers of the Cadre should review potential fraud indicators derived from fieldwork or from employee or management contact, and agree with the Accounting Officer if investigative or further audit work is required.

Investigation of Fraud

VI.5.14 Investigation consists of performing extended procedures necessary to determine whether fraud, as suggested by the indicators, has occurred. It includes gathering sufficient evidential matter about the specific details of a discovered fraud. Officers of the Cadre, lawyers, investigators, security personnel, and other specialists from inside or outside the organisation are the parties that usually conduct or participate in fraud investigations.

VI.5.15 When an investigation is deemed necessary, the DIA will discuss with the Accounting Officer as to the appropriate mix of internal or external resources to complete the investigation based on required expertise or competency.

VI.5.16 Once a fraud investigation is concluded, officers of the Cadre should assess and analyse the facts in order to determine if controls need to be implemented or strengthened to reduce future vulnerability.

Reporting of Fraud

VI.5.17 The form, nature and timing of fraud investigation communication to management will be predetermined by the DIA and the Accounting Officer.

VI.5.18 A report may be made after a preliminary assessment of facts relating to the alleged/suspected irregularity. The report should include the internal audit conclusion as to whether there are sufficient grounds for further investigation.

VI.5.19 A final report should be submitted to the Accounting Officer to communicate the results of the fraud investigation. It will include findings, conclusions, recommendations, and, where appropriate, corrective action to be taken.

VI.5.20 In line with Section 18A(3)(g) of the Finance and Audit Act, the Financial Secretary will be promptly alerted in case a major weakness in a system is identified or an irregularity or a fraud is detected.

VI.6 AUDIT OF COMPUTERISED SYSTEMS

VI.6.1 The objectives, standards and the practice of internal audit apply irrespective of the method of processing and recording of information used by a department.

VI.6.2 However, computer systems do record and process information in a manner which is significantly different from manual systems giving rise to such possibilities as a lack of visible evidence and systematic errors.

Implications for Internal Audit Work

VI.6.3 Consequently, Officers of the Cadre will need to consider additional factors when deciding on the internal audit approach e.g.

(a) the audit techniques available to them (including CAATs);

(b) the timing of their work;

(c) the form in which information is maintained;

(d) the availability of information; and

(e) the length of time it is retained in readily useable form.

VI.6.4 When internal audit operates in a computer environment, Internal Audit Officers need to have a basic understanding of the fundamentals of data processing and a level of technical computer knowledge which, depending on the circumstances, may need to be extensive. This is because Internal Audit Officers knowledge and skills need to be appropriate to the environment in which they are auditing. Otherwise, they will not be able to exercise due professional care in the discharge of their responsibilities.

VI.6.5 When there is a computer-based accounting system, many of the internal audit procedures may still be carried out manually. For instance, the ascertainment of a department's systems will normally be performed manually and the Internal Audit Officers may also decide to select manual audit techniques in appropriate circumstances.

Computer Assisted Audit Techniques ("CAATs")

VI.6.6 The nature of computer-based systems may be such that the Internal Audit Officers is afforded opportunities to use either the departments or another computer to assist him in the performance of his work.

VI.6.7 Techniques performed with computers in this way are known as ('CAATs' of which the following are the major categories:

(a) Use of 'audit software' i.e computer programs used for audit purposes to examine the contents of the department's computer files; and

(b) Use of test data i.e. data used by the Internal Audit Officers for computer processing to test the operation of computer programs.

VI.6.8 At the planning stage, Officers of the Cadre should consider the appropriate combination of CAATs and manual procedures, taking account, inter alia, of the following:

(a) it will frequently not be practicable to perform manual tests in circumstances where computer programs perform functions of which no visible evidence is available;

(b) the respective efficiency of the alternatives having regard to the extent of testing required, cost and the ability to incorporate a number of different audit tests within CAATs;

(c) the time-scale for reporting;

(d) the availability of the required computer facilities, files and programs to ensure that CAATs can be used; and

(e) the use of some CAATs may require frequent attendance or access by Internal Audit Officers.

Internal Controls in a computer environment

VI.6.9 The principles relating to internal control are the same in a computer environment as in any other environment. However, there are additional considerations which need to be considered by the Officers of the Cadre.

VI.6.10 The Officers of the Cadre needs to be aware of internal controls over computer- based systems which can be divided into applications controls and general controls.

VI.6.11 Application controls relate to the transactions and standing data pertaining to each computer-based application and are therefore specific to each application. The objectives of application controls are to ensure the completeness and accuracy of information and its validity. The specific requirements to achieve this are:

(a) controls over completeness, accuracy and authorization of input and output;

(b) controls over the completeness and accuracy of processing; and

(c) controls over the maintenance of master files and standing data.

VI.6.12 General controls relate to the environment within which computer-based systems are developed, maintained and operated, and which are therefore applicable to all the applications.

VI.6.13 The purpose of general controls is to ensure the proper development and implementation of applications, and the integrity of program and data files, and of computer operations.

VI.6.14 General controls cover four main areas:

(a) **Installation -** the selection and installation of hardware and software and subsequent enhancements;

(b) **System development -** controls over programs and systems;

(c) **Administrative -** separation of duties, access control, stand by, back up, control over files and personnel; and

(d) **Documentation -** existence of standards, manuals, operating instructions, disaster plans.

VI.6.15 Application and general controls are inter-related. Strong general controls contribute to the assurance which may be obtained by Officers of the Cadre in relation to application controls. Weak general controls may well negate the effects of strong application controls.

VI.6.16 As with controls in other circumstances, the officers of the Cadre can evaluate application controls and general controls by using documentation designed to help identify and evaluate controls.

VI.6.17 The documentation may consist of questions asking whether there are controls in a system which meets specified overall control objectives or which prevent or detect the occurrence of specified errors or omissions.

VI.7. APPENDICES

SN	Description	Forms	Appendix	Page
1.	Internal Audit Charter		**1**	
2.	Annual Internal Audit Plan	**IC – 1**	**2**	
3.	Audit Planning & Execution Form	**IC – 2**	**3**	
4.	Project Time Budget	**IC – 3**	**4**	
5.	Risk and Control Matrix	**IC – 4**	**6**	
6.	Audit Work Program	**IC – 5**	**5**	
7.	Quarterly Return	**IC – 6**	**7**	
8.	Quality Assurance (QA) Review	**IC – 7**	**8**	

Appendix 1

Internal Audit Charter

In line with Section 18 A of the Finance and Audit Act, the Ministry of Finance shall provide oversight and leadership functions for internal audit in Ministries, Departments or Divisions, through the Internal Audit Cadre.

The Internal Audit Charter, as required in the financial Management (FM) Kit Volume VI - Internal Audit, sets out the framework within which the Internal Audit Cadre will provide internal audit services to the Ministries/Departments/Divisions. It lays down the purpose, authority, scope and responsibility of the internal audit which are spelt out in much more detailed in the FM Kit:

(i) Volume 1 - Duties and Responsibilities in Management of Public Finance; and

(ii) Volume VI - Internal Audit.

2. Purpose

The purpose of internal audit is to provide an independent, risk-based and objective assurance, advice and insights to the Accounting Officer/ Supervising Officer on the adequacy and operating effectiveness of the governance, risk management and control processes. This will strengthen the organisation's abilities to:

- achieve its strategic and operational objectives;
- improve the decision making and oversight mechanism;
- safeguard its asset, reputation and credibility with its stakeholders;
- comply with laws, regulations, policies and procedures; and
- secure the completeness and accuracy of records including reliability of its reporting processes.

3. Authority

The internal audit activities of the Ministries/Departments/Divisions fall under the direct responsibility of the Accounting Officer/Supervising officer. The Officer in Charge Internal Audit will:

- report to the Accounting Officer/Supervising Officer and Audit Committee and will be independent of any other section, branch, unit or officer;
- have direct access to the Accounting Officer/Supervising Officer and the Audit Committee;
- have no executive or managerial powers, functions or duties except those relating arrangement of the Internal Audit function;

- not be involved in the day to day operations of the Ministry/Department/Division; and
- not be responsible for the detailed development and or implementation of new systems but should be consulted during system development process on the control measures to be incorporated in new or amended systems.

To ensure that internal audit activity of the Ministry/Department/Division has sufficient authority to fulfill its functions:

- the Director, Internal Audit and staff of the Cadre posted in the Ministry/Department/Division are authorised to have full, free and unrestricted access to all the functions, records, property and personnel of the Ministry/Department/Division pertinent to carry out any engagement as duly approved in the internal audit plan or special assignments as requested by the Accounting Officer/ Director, Internal Audit.

- the Director, Internal Audit, subject to the approval of the Accounting Officer/Supervising Officer, may enlist the assistance of personnel of other specialised units/sections of the Ministry/Department in order to complete the internal audit engagements; and

- The Accounting Officer/Supervising Officer shall put at the disposal of the Internal Audit team adequate resource facilities including IT facilities for the smooth and proper conduct of all internal audit activities.

4. Scope of Internal Audit Activities

The scope of internal audit activities encompasses objective examinations of evidence for the purpose of providing independent assessments to the Accounting Officer/Supervising Officer on the adequacy and effectiveness of governance, risk management, and control processes of the Ministry/Department/Division. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Ministry's/Department's/Division's strategic objectives are appropriately identified and managed;
- The results of operations or programs are consistent with established goals and objectives;
- Operations or programs are being carried out effectively and efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws and regulations and governance standards;
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity; and
- Resources and assets are acquired economically, used efficiently, and protected adequately.

5. Responsibility

The Director Internal Audit shall be responsible for the effectiveness of the internal audit activities by ensuring that these are conducted in line with the policies, principles, standards and operating procedures set out in the FM Kits Volume 1 - Duties and Responsibilities in Management of Public Finance and Volume VI Internal Audit.

The Director, Internal Audit shall, in respect of each Ministry, Department or Division:

- prepare, in consultation with the Accounting Officer/Supervising Officer, an annual internal audit plan and same will be approved by the Financial Secretary;
- ascertain that effective systems of internal controls are in place to safeguard public funds and assets and minimise incidences of fraud, waste and misuse of public funds;
- evaluate the effectiveness of governance, risk management and controls processes;
- review the efficiency of operations and service delivery;
- ascertain that the operations are administered in accordance with relevant laws, regulations and other requirements;
- issue internal audit reports and recommend remedial measures to Accounting Officer/ Supervising Officer, audit committee, the Financial Secretary and the Director of Audit;
- promptly alert the Financial Secretary whenever a major weakness in a system is identified or an irregularity or a fraud is detected; and
- follow up on any actions taken by Accounting Officers on shortcomings highlighted in the Reports of the Director of Audit and Internal Audit Reports and thereon report to appropriate authorities.

The Director, Internal Audit will annually report to the Accounting Officer and the Audit Committee on the performance achievement relative to the plan, agreed recommendations implemented and the contribution made by the internal audit to:

(i) enhance service delivery;

(ii) improve processes, systems and procedures to eliminate inefficiency and waste to ensure, efficient, effective and timely implementation of projects;

(iii) maximise revenue collection; and

(iv) achieve efficiency gain.

……	**……**
Supervising Officer/Accounting Officer	**Director Internal Audit**
Ministry's/Department's	**MOF, Internal Audit Cadre**
Date:	**Date:**

Appendix 2
IC-1

Internal Audit Cadre

ANNUAL PLAN

Ministry/Department: …….

Sn.	Quarter	Auditable Unit	Auditable Areas	Objective of Audit	Remarks

…… **……**

Supervising Officer/Accounting Officer **Director Internal Audit**

Ministry's/Department's **MOF, Internal Audit Cadre**

Date: **Date:**

Appendix 3
IC-2

Internal Audit Cadre

AUDIT PLANNING & EXECUTION FORM

MINISTRY/DEPARTMENT OF …….

Audit Title: ……. Audit No.: ……

Name of OIC Internal Audit: ……. Name of HOA.: ……

Sn.	Tasks		Grade	W/P Ref	Date done
	PLANNING PHASE				
1	Mail auditee informing about the audit assignment		OIC	A-1	
2	A. Prepare Summary from: (i) prior Audit Reports (National Audit Office Management letters) (ii) prior Internal Audit Reports, the findings and conclusions reported (iii)Any other relevant reports B. Extract Previous "Keep in View" List (KIV), if any.		OIC/HOA	A-2	
3	Highlights: • *Areas of concern for audit assignment based on A2* • *Any specific follow up steps reviewed*		OIC/HOA	A-3	
4	Set objective/s and scope of the audit.		OIC/HOA	A-4	
5	Request Project number from HQ – (IC-3)		OIC	A-5	
6	Carry out opening conference with auditee and document same.		OIC/HOA	A-6	
	PRELIMINARY SURVEY				
7	Obtain and document the following: • *Organisation Chart* ☐ • *Key personnel and their major areas of responsibility* ☐ • *Approximate number of employees* ☐ • Unit/Section's o *Objectives* ☐ o *Mission Statement* ☐		HOA	B-1	

Sn.	Tasks		Grade	W/P Ref	Date done
	○ *Key performance indicators(KPI)* ☐ ○ *Acts/Laws/regulations* ☐ ○ *Annual Report* ☐ • *Written procedures/ Operation manual* ☐ • *Source of funding* ☐ • *Conduct a trend analysis on revenue/expenditure* ☐ • *Standard forms/logs/reports/registers/ledger* ☐ *Any other relevant information* ☐				
8	Review, analyze and conclude on information gathered and verify the accuracy of the flowcharts, data flow diagrams, or narratives through examination of documentation, observation, or inquiry. Maintain relevant documentation Perform and document walk through test and draw preliminary conclusion on the adequacy of the system of the control and effectiveness of the operation In the absence of any **documented procedure,** document each activity using narratives, Flowcharts and verify their accuracy. Perform and document walk through test and draw preliminary conclusion on the adequacy of the system of control and effectiveness of the operation.		HOA	B-2	
9	Prepare and submit brief to OIC for review		HOA	B-3	
10	Prepare **a Risk and Control Matrix *(IC-4)***		HOA	B-4	
11	Prepare a detailed **Audit Work Programme *(IC-5)***		HOA	B-5	
12	Review and approve: • *Risk and control Matrix and audit work programme*		OIC	B-6	
SAMPLING					
13	Document population, discuss and agree on audit sample		OIC/HOA	B-7	
FIELDWORK PHASE					
14	Perform and document the tests set forth in the audit program. Document the findings in relation to criteria, cause, and effect. Propose remedial actions.		HOA	C-1	
15	As and when audit is progressing , OIC to: • analyze audit findings and where necessary request HOA to further investigate • determine how findings and recommendations are to be reported (Verbal, Memo or Formal report)		OIC	C-2	

Sn.	Tasks		Grade	W/P Ref	Date done
16	Discuss the findings and recommendations with the auditee. Record comments and corrective actions planned or taken.		HOA/ OIC	C-3	
REPORTING PHASE					
17	Prepare & Submit report on findings and recommendations to OIC		HOA	D-1	
18	Prepare Draft Internal Audit Report.		OIC	D-2	
19	Issue draft report (stamped "Draft")		OIC	D-3	
20	Request for an Exit Conference to discuss findings and recommendations.		OIC	D-4	
21	Document results of exit conference.		OIC/HOA	D-5	
22	Submit Final Report to DIA for transmission to the Accounting Officer with copy to the Audit Committee/SMST where applicable.		OIC	D-6	
23	Complete the *Project Time Budget* ***(IC-3)***		OIC	D-7	
24	Prepare KIV List (if applicable)		OIC	D-8	
25	Ascertain completeness of the working papers are in compliance with the IC 2 Submit completed file to DIA for record & QA		OIC	D-9	

Appendix 4
IC-3

Internal Audit Cadre
PROJECT TIME BUDGET

MINISTRY/DEPARTMENT …….

Project Title:	
Project Number:	
Targeted start Date:	
Targeted completion date:	
Name of OIC:	
Name of HOA:	

To be filled when audit is completed:	
Actual Completion Date:	
Date Draft Report issued:	
Date Final Report issued:	
Remarks for variances:	

Appendix 5
IC-4

Internal Audit Cadre

Risk and Control Matrix

Risk and Control Analysis

Audit:…….. .

Date:……..

Business Activity,Function or Area:				**Risk Owner:**	
Risk No	**Risk identification**		**Risk Rating (L,M, H)**	**KEY Controls in Place**	**Auditing Testing Req? (Y/N)**
	What can Happen	**Consequences**			

Prepared by: **Reviewed by:**

…… **……**

**** To include legends for L, M, & H (to be used as per Risk Assessment in RMF)**

Appendix 6
IC-5

Internal Audit Cadre

AUDIT WORK PROGRAM

Ministry/Department: ……

Project Title: ……..
Project No: ……..……..

Index:		
	Initial & Date	
Prepared by		
Reviewed by		

Subject: ……..….
Period of Examination: …….
Starting Date: …… **Completion Date**: …….
Objectives: (1) ……..……
(2) ……
(3) ……
(4) ……

		WP Ref
	Steps for Objective1:	
1.		
2.		
3.		
	Steps for Objective 2:	
1.		
2.		
3.		
	Steps for Objective 3:	
1.		
2.		
3.		

Appendix 7
IC-6

Internal Audit Cadre
QUARTERLY RETURN

Ministry/Department:
Return as at:
Name of OIC:
Total No. of staff in Unit:

Sn.	Project Name	Project/ Assignment No.	Date started	Expected Completion Date	Actual Completion Date	Date draft report issued	Date Final report issued	No. of agreed Recom.
List of Planned Audits for FY:								
1								
2								
3								
4								
Total	-		-	-		-	-	-
Percentage of Annual Plan Completed								
Assignments approved in FY		**Project/ Assignment No.**	**Date started**	**Expected Completion Date**	**Actual Completion Date**	**Date draft report issued**	**Date Final report issued**	**No. of agreed Recom.**
1								
2								
3								
4								

Total			-	-		-	-	-
Follow up Audit (FUA)								
Sn.	**Follow up audit as per plan**	**Project No.**	**Date FUA Report submitted**	**No of reports follow up done**	**No. of Recom follow up done**	**No of Recom Impl.**	**No of recom. In progress**	**No of Recom not yet Impl.**
1	1st quarter							
2	2nd quarter							
3	3rd quarter							
4	4th quarter							
Total		-	-	-	-	-	-	-
Percentage of agreed Recommendations Implemented								
Has Audit Committee been set up:				**No. of Audit Committee Meetings Held**				
Has RMF been established?				**Whether Risk Registers have been prepared?**				

Prepared by: **Date:**

Signature of OIC :

Appendix 8
IC-7

Quality Assurance Review CHECKLIST

Department …….

Project Name and Number …….

Officer in charge ……..…

Head of Audit …….

Date ……..…...

Exp Co Date		**Bud Man**		**Drf Rep Date**	
Act Co Date		**Act Man**		**Final Rep Date**	
Comments					

Sn	Details	Comments
	Audit Planning & Checklist (IC 5) has been duly filled in.	
	Examine working paper file (WPF) to ascertain that supporting working papers and audit comments ensure the accuracy of statements made and appropriateness of conclusions reached.	
	Examine working paper file (WPF) to ascertain that all conclusions are based on solid evidence and all appropriate signoffs are present.	
	Final report is in an acceptable format in accordance with established policies and procedures and is free of defects in grammar, punctuation and usage of numbers.	
	Entire report and working papers are in compliance with the FM Kit Volume VI Internal Audit.	

OVERALL COMMENTS FOLLOWING QA

(a) Internal audit engagement has enhanced governance, risk management and control processes.

(b) Other comments:

Discussed with OIC:

OIC Signature :…… Date:

Reviewer Signature :…… Date: