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# **KONZA TECHNOPOLIS DEVELOPMENT AUTHORITY**

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## **INTERNAL AUDIT & ASSURANCE POLICY AND PROCEDURES MANUAL**

**APRIL 2023**



## FOREWARD

Konza Technopolis Development Authority (KOTDA) is a State Corporation established on 28<sup>th</sup> March 2012, under Legal Notice No. 23 under State Corporation Act (Cap 446). The mandate of KoTDA is to develop the Konza Technopolis (Konza Techno City), a vision 2030 flagship project.

Under the KOTDA Internal Audit Policies & Procedures Manual, the Board Audit & Risk Committee is responsible for establishing an Internal Audit function that is appropriately resourced and that operates in accordance with the International Standards for the Professional Practice of the Internal Auditing (ISPPIA).

The requirements in this Manual have taken cognizance of the Public Finance Management Act, 2012. The Manual embodies the general conditions and terms outlining the obligations and rights of the Authority as a public agency. In developing the manual, efforts have been made to make it as comprehensive as possible, covering a wide range of financial management-related issues. Attention has been given to ensure that there is validation, objectivity, transparency and consistency in the way audit decisions are made.

In implementing this manual, the management at all levels is called upon to consider the implications of their decisions. They are also called upon to ensure that the full impact of audit processes is considered in the interest of both the employees and the Authority.

The Authority recognizes the need for its employees to be well-informed and to understand their obligations as indicated in this manual. The manual is dynamic and will therefore be reviewed from time to time for it to be responsive to emerging trends and challenges in the International Auditing Standards. The provisions in this manual shall be subject to the relevant Government circulars and notices as issued from time to time.

The Authority will be responsible for the interpretation and application of this Internal Audit Policies & Procedure Manual.

**DR. PACIFICA CHEPKOSGEI**

**DATE:.....17/05/2023.....**

**CHAIRPERSON, AUDIT & RISK COMMITTEE**

**KONZA TECHNOPOLOIS DEVELOPMENT AUTHORITY**

## ACKNOWLEDGEMENT

We wish to express our gratitude and sincere thanks to all the persons and institutions that contributed in the many ways to the review of this manual. The shared technical knowledge, experiences, and perspectives have produced a tool that will have a significant positive impact on the capability the Authority's Internal Auditing activity.

Special thanks to the KoTDA Board Audit & Risk Committee, Management, Staff and entire Internal Audit and Assurance team for their forward-looking contribution.

The review of this manual would not have been possible without the support provided by the Board.

Your efforts, contribution and commitments are highly appreciated.



**JOHN PAUL OKWIRI**

**AG CHIEF EXECUTIVE OFFICER**

**KONZA TECHNOPOLIS DEVELOPMENT AUTHORITY**

DATE.....*11/4*.....2023

**AMENDMENT SHEET**

<b>Issue/Revision No</b>	<b>Subject of Amendment</b>	<b>Reviewed by</b>	<b>Authorized by</b>	<b>Date</b>



## **LIST OF ACRONYMS AND ABBREVIATIONS**

ACCA	Association of Chartered Certified Accountants
AIC	Auditor in Charge
ARC	Audit & Risk Committee of the KoTDA
Authority	Konza Technopolis Development Authority
Board	Konza Technopolis Development Authority Board of Directors
CAATTs	Computer Assisted Audit Tools and Techniques
CAD	Current Audit File
CAE	Chief Audit Executive
CEO	Chief Executive Officer of the Konza Technopolis Development Authority
Committee	Audit & Risk Committee of the KoTDA
CIA	Certified Internal Auditor
CPA (K)	Certified Public Accountant of Kenya
Division	Internal Audit and Assurance Division
HIA	Head of Internal Audit Division
IAAD	Internal Audit and Assurance Division
IAS	International Accounting Standards
ISSPIA	International Standards for Professional Practice of Internal Auditing
ICPAK	Institute of Certified Public Accountants of Kenya
ICT	Information and Communication Technology
KoTDA	Konza Technopolis Development Authority
OAG	Office of the Auditor-General
PFM	Public Finance Management
The Mission	Internal Audit Mission
The Vision	Internal Audit Vision

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## **EXECUTIVE SUMMARY**

Konza Technopolis Development Authority (KOTDA) is a State Corporation established under Legal Notice No. 23 of 2012. The mandate of KoTDA is to develop the Konza Technopolis, a vision 2030 flagship project. The Authority is a body corporate, with perpetual succession and a common seal and is in its corporate name capable of suing and being sued, purchasing or otherwise acquiring, holding, charging, or disposing of movable and immovable property; and doing or performing all such other acts necessary for the proper performance of its functions which may lawfully be done or performed by a body corporate. In line with the Public Audit Act of 2003; revised 2009 (Cap 412A) of the Laws of Kenya, the Authority has put in place an Internal Audit and Assurance Division to be able to report as required with the National Treasury on the use of public funds.

IIA 2040 on Policies and Procedures requires the Chief Audit Executive (CAE) to establish policies and procedures to guide the internal audit activity. In this regard, KoTDA has developed this Internal Audit Policies & Procedures Manual to provide direction, advice and information on the provision of internal auditing services to the Authority. The manual consolidates and brings up-to-date existing guidelines and supports the development of the internal auditing function in the Authority.

The manual is for use by the Authority's internal auditors and is tailored to meet the Division's needs in discharging its duties and responsibilities towards those being audited in the Authority. The manual also provides useful reference material to other stakeholders including Accountants, IT staff and external auditors among others.

The manual reflects international best practices in internal auditing as promulgated by the Professional Practices Framework of the Institute of Internal Auditors (IIA Inc.).

The Internal Audit and Assurance Division (IAAD) is responsible for conducting an appraisal of all the Authority's activities, financial and otherwise and giving assurance to the administration on the competence and efficacy of all control systems. However, it remains the duty of management, not the IAAD, to operate an adequate system of internal controls.

The manual will be used by the Internal Audit and Assurance Division of KoTDA in carrying out its duties. It will also be relied on by the KoTDA management and other stakeholders to understand the key role that internal audit plays in enhancing good corporate governance, transparency and prudent allocations and utilization of public resources.

The responsibility for ensuring compliance with the manual rests with the Head of Internal Audit.



## **1.0 INTRODUCTION**

### **1.1 Definition of Internal Auditing**

Internal auditing is an independent, objective assurance and consulting activity 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 risk management, control and governance processes.

### **1.2 The Purpose**

A center of excellence in promoting best practices in Internal Auditing & Assurance.

### **1.3 The objective**

To accomplish its mandate by providing assurance and consulting services designed to add value and improve the Authority's operations/systems and governance processes.

### **1.4 Internal Controls**

Internal control is defined as a process that is implemented by the management to provide reasonable assurance regarding the achievement of objectives in the following categories:

- i. Effectiveness and efficiency of operations
- ii. Reliability of financial reporting
- iii. Compliance with applicable laws and regulations.

Effectiveness and efficiency of operations includes the safeguarding of assets, that is, the prevention or timely detection of unauthorized acquisition, use or disposal of KoTDA's assets. It also includes responding appropriately to the business risks that face the organization.

#### **1.5.1 Management's Responsibility for Internal Controls**

Establishment of Internal Controls is a function of management and is an integral part of the overall process of managing operations. It is therefore the responsibility of managers at all levels of the Authority to:

- i. Identify and evaluate the exposures to risk that relate to their particular spheres of operations

- ii. Specify and establish policies, plans and operating standards, procedures, systems and other disciplines to be used to minimize, mitigate, and/or limit the risks associated with the exposures identified
- iii. Establish practical controlling processes that require and encourage all staff to carry out their duties and responsibilities in a manner that achieves the five control objectives.
- iv. Maintain the effectiveness of the controlling processes they have established and foster continuous improvement to these processes.

## **1.6 Risk Assessment**

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. Risk is defined in the glossary to the IIA Standards as “the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.”

### **1.6.1 Risk Management Framework**

The framework describes the Authority’s governance arrangements, key management responsibilities, policies, procedures, and protocols. The document aims at providing Audit and Risk Committee assurance that risk management is being approached in an effective manner by the Authority.

### **1.6.2 Facilitation of Risk Assessments**

Ownership of Authority’s risk assessments resides with the CEO and responsible line managers. Internal Audit may provide a service to line management by helping to facilitate certain risk assessment processes including the Authority Strategic Risk Assessment.

## **1.7 Governance**

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- a. Promoting appropriate ethics and values within the organization;
- b. Ensuring effective organizational performance management and accountability;
- c. Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

## **1.8 Mandate**

### **1.8.1 Internal Audit Charter**

*See the Appendix 1. A paragraph about the charter*

### **1.8.2 Divisional organization structure**

The Internal Audit and Assurance Division is headed by the Head of Internal Audit who reports functionally to the Audit & Risk Committee and administratively to the Chief Executive Officer (See Appendix 2)

### **1.8.3 Objectives**

The objective and scope of the internal audit activity is to ensure the Authority's network of risk management, control, and governance processes, as designed and represented by the management, is adequate and functioning appropriately. The specific objectives include to assess whether:

- i. Risks are appropriately identified and managed
- ii. Interaction between various governance processes occurs as needed.
- iii. Significant financial, managerial and operating information is accurate, reliable and timely.
- iv. Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- v. Resources are acquired economically, used efficiently, and are adequately Secured.
- vi. Programmes, plans and objectives are achieved.
- vii. Quality and continuous improvements are fostered in the Authority's control process.
- viii. Significant legislative or regulatory issues impacting on the Authority are recognized and addressed properly.

### **1.8.4 Accountability**

The Head of Internal Audit, in discharging his/her duties, shall be accountable to the CEO, and the Board Audit & Risk Committee. His/her duties shall be to:

- i. Provide an annual valuation of the appropriateness and effectiveness of the Authority's processes for controlling its activities and managing its risks in the areas set forth under the Mission and scope of work.
- ii. Report quarterly on the major concerns related to the processes of controlling the Authority's activities, including potential improvements to those processes.
- iii. Provide quarterly information on the status and results of the annual audit plan and the sufficiency of the Division's resources.
- iv. Coordinate and provide oversight on other control and monitoring functions (risk management, compliance, security, ethics and external audit).

#### **1.8.5 Independence**

To provide for the independence of the Division, the Head of Internal Audit reports administratively to the CEO and functionally to the Board Audit & Risk Committee as per the Public Finance Management Act 2012.

#### **1.8.6 Responsibilities of the Division**

The Division is charged with the responsibility of determining that the ongoing processes for controlling the operations throughout the Authority are adequately designed and are operating efficiently. The Division is also responsible for reporting to the Management and the Board Audit & Risk Committee on the adequacy and effectiveness of the Authority's systems of internal control and provide recommendations to improve the systems.

The Head of Internal Audit and staff of the Internal Audit and Assurance Division have the responsibility to:

- i. Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by the Management and submit that report to the Audit & Risk Committee for review and approval.
- ii. Implement the annual audit plan as approved, and including any special tasks or projects requested by the Management, the Audit & Risk Committee or the Board.
- iii. Maintain professional audit staff with sufficient knowledge, skills, and experience and professional certifications to meet the requirements of this Manual.

- iv. Establish a system by which the Head of Internal Audit ensures the quality of internal auditing activities and processes.
- v. Perform consulting services beyond internal audit's assurance services to assist Management in meeting its objectives.
- vi. Issue quarterly reports to Management and the Audit & Risk Committee.
- vii. Keep the Audit & Risk Committee informed of emerging trends and successful practices in internal auditing.

#### **1.8.7 Authority**

The Head of Internal Audit is authorized to:

- i. Have unrestricted access to all functions, records, property and personnel of the Authority.
- ii. Have full and free access to the Audit & Risk Committee.
- iii. Subject to the budget ceilings approved by the Board, allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- iv. In liaison with the CEO, obtain necessary assistance from relevant employees as required to support the internal audit activity in fulfilling its roles and responsibilities as well as other specialized services from within or outside the Authority.

The Head of Internal Audit and staff of the Internal Audit Division are not authorized to:

- i. Perform any operational duties of the Authority that may directly influence their objectivity in execution of assigned audit tasks.
- ii. Initiate or approve accounting transactions external to the Internal Audit Division.
- iii. Direct the activities of any Authority's employee not working for the Internal Audit Division, except to the extent that such employees have been appropriately assigned to the audit teams or to otherwise assist the internal auditors.

#### **1.8.8 International Standards of Professional Practice for Internal Auditing**

The Division will meet or exceed the International Standards of Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA) Global. (*See Appendix 3*)

### **1.8.9 Code of Conduct**

An auditor is expected to be of the highest ethical and moral standard. Further, he/she must comply with the following:

- i. Code of Professional Standards and Ethics of the Institute of Internal Auditors;
- ii. Code of professional standards and ethics of a professional association that he/she is a member;
- iii. The KOTDA's code of conduct and Ethics.

*(See Appendix 4)*



## **2.0 MANAGEMENT OF THE INTERNAL AUDIT DIVISION**

### **2.1 Planning**

IAAD shall prepare a three-year Internal Audit Strategic Plan, primarily based on risk assessment exercises, but also considering any resolutions from the Audit & Risk Committee and other relevant criteria. The risk-based work plan shall reflect IAAD's general audit strategy and objectives for the period.

### **2.2 Communication and Approval**

#### **2020 - Communication and Approval**

The HIA shall communicate the internal audit activity's plans and resource requirements, including significant interim changes, to Management and the Board for review and approval.

### **2.3 Resource Management**

The HIA shall determine the level of human and other resources required by IAAD to achieve its mandate and audit objectives economically, effectively and efficiently. In making this determination, the HIA shall take the following into account:

- a. The results of constantly updated risk assessments of the activities forming part of IAAD's audit universe and the knowledge, skills and qualifications, and experience to meet the audit objectives;
- b. Total IAAD resources required to:
  - i. Carry out the audits set out in the annual work plan, which involves a significant amount of travel by audit staff to various destinations;
  - ii. Staff training fund and professional development programmes, as well as audit research and development efforts; and
  - iii. Meet administrative and logistical requirements, including office and communication facilities, travel, supplies and equipment.

The HIA shall establish, maintain and continuously update a personnel management system for recruiting, training, developing, evaluating, and properly administering and utilizing IAAD staff.

To help ensure the efficient functioning of the personnel management system, the HIA shall issue written instructions, guidelines or other communications that deal with or provide for:

- a. The development of written job descriptions for each level of the audit staff. The general job description for each position in IAAD.
- b. The selection of qualified and competent individuals;
- c. Providing continuing training and educational opportunities for each staff member;
- d. Appraising each staff member's performance on an annual basis for the period or appraising staff members' performance on individual audit assignments.
- e. Counseling staff on their performance and professional development;
- f. Promptly notifying IAAD staff of career development opportunities;
- g. Conducting regular staff meetings to discuss issues of interest or concern to IAAD personnel; and
- h. Advising staff of policies and procedures regarding leave, attendance reporting and record keeping, and other Authority's administrative requirements.

#### **2.4 Coordination**

In the preparation and implementation of the annual work plan, the HIA should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

#### **2.5 Performance Appraisal**

Performance management shall be based on the Authority's Human Resource policy on performance appraisal. Performance evaluation of staff should take account of the time budget and quality of work. It is vital that auditors keep track of and manage their time. Auditors shall complete the time variance schedule upon completion of an audit assignment and hand it over to the audit supervisor.

The HIA shall do annual reviews and prepare a documented evaluation of the auditor's performance. Strengths and weaknesses shall be noted and supported by specific instances. In this way, the auditor should receive the most objective assessment and at the same time focus on specific areas for improvement.

The evaluation shall be based on the officers overall performance and the quality of the work that was accomplished. Some of the items considered when making the evaluation for auditors are:

- i. The ability to identify and raise quality issues in an audit
- ii. Good and well-reasoned audit recommendations
- iii. Audit completion dates versus the scheduled completion dates
- iv. Department
- v. Communication skills
- vi. Report writing skills.

If the evaluator identifies weaknesses, an action plan shall be developed to assist in making the necessary improvements to achieve a satisfactory level of performance. Training needs shall also be identified to address areas to be strengthened.

## **2.6 Continuing Professional Development**

All Internal Auditors are required to undertake continuing professional development to maintain and develop their skills.

The HIA should prescribe detailed training standards and programs for Internal Auditors. He should ensure that appropriate budgetary provision is made for training and development, and that each Internal Auditor receives the training required by his / her duties and responsibilities.

Training should be a planned and a continuous process at all levels, and should cover:

- a. Basic training providing the knowledge which all Internal Auditors should possess.
- b. Development training in general audit skills, techniques and behavioural aspects, to improve the effectiveness of those currently employed as Internal Auditors.
- c. Management training for internal Auditors with responsibility for managing and directing Audit Teams, together with those staff members who show potential for management positions.
- d. Specialist training for those Internal Auditors responsible for a particular activity such as computer and forensic auditing, which require special skills or knowledge.

Other forms of training for auditors should be considered in order to meet short-term needs or other special requirements.

Internal auditors are responsible for continuing their education in order to maintain their proficiency. They should keep themselves informed about improvements and current developments in Internal Auditing.

Training and professional development programs should be co-ordinated and subject to at least an annual review to ensure continued relevance and value. Records of training and professional development activities, including training plans and achievements, should be maintained for the individual Internal Auditors

## **2.7 Knowledge, skills and exercise of due professional Care**

Internal Auditors should have first-hand understanding of the Authority's operations and the environment in which they are operating.

An internal Auditor should be initiative, mature and have reasoned outlook. He/she should be capable of following investigations through to their logical conclusion by a persistent but tactful approach. He needs to be able to gain the respect and co-operation of those whose work he is auditing.

Internal Auditors should be able to understand and appraise systems and controls quickly, make sound judgements, write cogent reports and argue their conclusions to senior levels if necessary.

Internal Auditors should be able to apply Internal Auditing methods, procedures and techniques in situations they are likely to encounter without extensive recourse to technical research or assistance. Specialists must additionally be proficient in applying their special skills in audit environment.

### **2.7.1 Exercise of Due Professional Care**

Internal Auditors should exercise due professional care in performing their duties. The term due professional care means and includes the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances.

In exercising due professional care, internal auditors should be alert to the following:

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

In exercising due professional care, the Internal Auditor is required to consider the following:

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

## **2.8 Decision Making Procedures in Internal Audit and Assurance Division**

To enhance the efficient running of the Division, there is need to have a clear decision-making process.

The final authority is vested on the HIA. The supervisors shall also hold meetings with staff under them regularly to communicate decisions made in such meetings.

## **2.9 External Auditors**

External Audits perform periodic reviews of internal controls and performance of such tests to enable the expression of an opinion as to the reliability of the Financial Statements. The External Auditor provides an independent opinion on the fairness of the Financial Statements contained in the Annual Report. External audits of the Authority are carried out by OAG or an auditor appointed by them. The HIA shall liaise with the External Auditors appointed to carry out the statutory audit. The liaison involves maintaining contact during the external audits, sharing of information, audit working papers, programs, flow charts and reports, where necessary. The liaison helps to:

- i. Foster a co-operative working relationship between the internal and external auditors;
- ii. Reduce incidences of duplication of effort;
- iii. Ensure appropriate sharing of information; and
- iv. Ensure coordination of the overall audit function.

## **2.10 Quarterly Reporting**

The IAAD will maintain a formal process for communicating to the Senior Management and ARC the audit findings and recommendations for all audits conducted. All audit reports prepared upon completion of an audit assignment shall be circulated to relevant senior management with a copy to the CEO. However, Quarterly reports to the CEO and ARC of the Board shall be prepared showing the performance of the Division in terms of audit assignments completed during the quarter compared to the targeted performance. Collectively, the reports also show the Division's

performance from the beginning of the financial year. The report will also show the details of audit assignments/reports for which audit recommendation implementation status reports have not been received from various divisions/Divisions.

## **2.11 Quality Standards for Internal Audit Division**

Internal Auditors should also maintain the quality standards required by the IIA.

### **2.11.1 Independence & Objectivity**

Internal Auditors should be sufficiently independent of the activities that they audit to enable them to perform their duties in an impartial manner and offer unbiased judgements and recommendations.

Audit staff should have an impartial, unbiased attitude characterised by integrity and objective approach to work. They should also avoid conflicts of interest and not allow any external factors to compromise their professional judgement.

A key issue indicator of professional independence is that Internal Auditors shall not have any executive (management) or other functional responsibilities at the Divisions they audit.

Consequently, audit staff should maintain an independent attitude and appearance, and an objective and impartial mental attitude during audit assignments. Relationships between the audit staff and the audited body must be such that the audit staff will be seen to be independent by the authorities that rely on their audit work.

Audit opinions and reports should only be based on the evidence obtained during the review; hence staff should not pre-judge an issue. Internal Auditors should not knowingly misrepresent facts or subordinate their judgment to others. They should offer constructive, value-adding advice.

Staff should refrain from entering into any activity which may be in conflict with the Public Ethics Officers' Act 2003, or which could prejudice their ability to carry out their audit responsibilities and duties objectively.

Independence may be impaired in fact, or in appearance, by a number of factors including:

- a Restriction of access to sources of information;
- b Actions or persuasion designed to influence the conduct, or scope of an audit, or the content of an audit report;



- c Previous deployment by the Division being audited, or association with its executive decision-making mechanisms, unless a suitable period (at least two years) has elapsed since the Auditors involvement with the Division being audited;
- d Relationships, particularly with the staff of the Divisions which might cause the auditor to fail to carry out his / her duties to the full;
- e Pre-conceived ideas towards individuals or audited bodies of their projects or programmes;
- f Financial interest by the auditor or close association in the audited body, or its activities.

If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to the HIA and the CEO.

### **2.11.2 Propriety & Integrity**

Audit staff should maintain a high standard of professional and personal conduct in performing their work and in their relationships with staff of an audited body.

The following are some of the areas, which audit staff should pay particular attention in carrying out their official duties:

- a Staff should not make financial commitments beyond their means and should declare any gifts accepted from the audited body;
- b Staff should take care not to discriminate on the grounds of gender, marital status, race or religion;
- c Staff should adopt high standards of personal discipline, and punctuality, and avoid any forms of over-indulgence or addiction, which may adversely affect their conduct or impair the performance of their official duties;
- d Staff should be careful in their personal relationships not to cause embarrassment for the office, the audited body or their colleagues;
- e Staff should be reserved in matters of public and political controversy so that the impartiality of Internal Audit is not in doubt;
- f Staff should seek to prevent any conflicts arising between their duties and private interests and must not make use of their official position to further their private interests.

### **2.11.3 Proficiency**

Internal Auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.

The Internal Auditors shall seek to maintain and develop their professional knowledge, skills and competencies. They should seek the highest levels of proficiency and take personal responsibility for self-improvement and professional development.

A staff member who considers that he/she is not competent to perform an assigned audit activity should obtain such advice and assistance as will enable him / her to carry out the task competently.

#### **2.11.4 Due Professional Care**

Internal Auditors should apply the care and skill expected of a reasonably prudent and competent internal Auditor. Staff should exercise due professional care in planning and carrying out their audit work, in gathering and evaluating evidence, and in reporting findings.

Exercising due professional care means working with competence and diligence. It also means the use of audit skills and judgement based on appropriate experience, training (including continuing professional development), ability, integrity and objectivity.

Due professional care should be appropriate to the objectives, complexity, nature and materiality of the audit being performed. This means evaluating the nature and risks involved in the audit and taking appropriate steps to obtain and evaluate necessary evidence and to prepare audit reports.

The audit staff need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditures, unauthorised operations, waste, inefficiency or lack of probity.

##### **2.11.4.1 Attributes that demonstrate independence & exercise of due professional care**

Attributes that will demonstrate that the Internal Auditor is conducting his / her work with due professional care include:

- a Being fair and not allowing personal prejudices to override objectivity;
- b Declaring any conflicts of interest;
- c Not accepting any gifts, inducements, or other benefits from employees of the Unit being audited, or their suppliers and other third parties;
- d Considering and documenting the work needed to achieve audit objectives, and the work performed in the course of the audit;
- e Considering and documenting the criteria that they use in evaluating audit findings;
- f Using all reasonable care and attention in obtaining sufficient, relevant and reliable evidence on which to base audit conclusions;

- g Being alert to the possibility of intentional wrong-doing, errors, and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with Government policy, laws and regulations, and conflict of interest;
- h Having sufficient knowledge to identify indicators that fraud may have been committed;
- i Disclosing any indicators that fraud may have been committed and recommending any further investigations that may be appropriate;
- j Disclosing all material facts known to the Auditor(s) which if not disclosed could distort the reports or conceal unlawful practice;
- k Not using any information obtained in the course of audit duties for personal benefit or gain;

#### **2.11.5 Declaration of Conflict of Interest**

Individual Internal Auditors should declare any conflicts of interest arising from audit work assigned to them to the HIA. Such conflicts of interest include situations where:

- a The Internal Auditor has had an executive role / responsibility in the Division being audited;
- b The Internal Auditor has done a consulting project for the relevant Division;
- c The Internal Auditor's spouse, child and other close kin or business associate who is working in the Division.

The HIA should plan the allocation of Internal Audit work to minimise the risk of conflicts of interest wherever possible.

### **3.0 THE INTERNAL AUDIT PROCESS**

#### **3.1 Annual Audit Planning**

The Division operates under an approved plan. The plan is developed in accordance with the Standards for the Professional Practice of Internal Auditing which requires internal auditors to plan for each audit. The plans will be developed after assessing the risks of auditable activities of KOTDA as well as inputs received from the top management, the Authority's Management, the Board's Audit Committee and the external auditors.

Audit work planning schedules should include the activities to be inspected, when they will be audited and the estimated time required, taking into account the scope of the audit work planned and the nature of audit work performed by others. The work schedules should be adequately flexible to cover anticipated demands on the IAAD.

##### **3.1.1 IAAD Staffing Plans and Financial Budgets**

The staffing plans and financial budgets shall include the number of auditors and the knowledge, skills and discipline required to perform their work. This should be determined from audit work schedules, administrative activities, education and training requirements and audit research and development efforts.

Overall devotion to the audit plan is best achieved by tracking the components of individual audits in addition to each audit. Each audit is logically allocated into audit-hours required for planning, preliminary survey, internal control evaluation, testing, reporting, supervision and review and final reporting.

Detailed time reporting is used as an incentive for auditors to perform efficiently since there is awareness that performance is being measured against expectations or set standards. The planning is documented and includes:

- i. Establishing the audit objectives and scope of work
- ii. Obtaining background information about the activities to be audited
- iii. Determining the resources necessary to perform the audit
- iv. Communicating with all who need to know about the audit

- v. Performing as appropriate an on-site survey to become familiar with the activities and controls to be audited; to identify areas for audit emphasis and to invite auditee's comments and suggestions.
- vi. Writing up the audit programme
- vii. Determining how, when and to who the audit results will be communicated
- viii. Obtaining approval of the audit work plan

The auditors submit reports on a quarterly basis to the Board Audit Committee. These reports compare the performance with the Divisional goals and the audit work schedules and expenditures with financial budgets. They should explain the reasons for major variances and indicate any action taken or needed. It is important that the audit plan be adhered to as much as possible, so that a sufficient depth of audit coverage is accomplished.

### **3.1.2 Approval of the Annual Work Plan**

The HIA shall communicate the internal audit activity's work plan and resource requirements, including significant interim changes, to senior management and the Board for review and approval through the Audit Committee.

Changes in work plan shall only be made with the approval of the Committee. The HIA shall make the proposal to amend to work plan for any proposed significant change scope or objectives, to add or cancel an assignment and present to the Committee for approval.

## **3.2 Allocation of Resources in Audits**

### **3.2.1 Audit Teams**

The HIA shall constitute a team taking into consideration educational background, experience, skills and level of training on particular areas. In the absence of certain expertise, the HIA, in consultation with the CEO, can look for an external expert who is skilled in certain areas. This should be done taking into consideration the professional competence and integrity of the external expert. For more complex assignment(s), audit teams are likely to consist of senior officers including the HIA.

### **3.2.2 Time Budget**

A detailed time budget analysis should be completed at the conclusion of the initial review. Each audit assignment shall have a time budget that is approved by the HIA. This budget specifies all the

time necessary to complete the audit from assignment through issuance of the final report. The budgeted time shall be distributed as follows:

Audit Phase	Days (Working)
Planning	5
Field Work	10
Reporting and Audit Closure	5
Total Days	20

Table 1: Distribution of budgeted time on an audit

### 3.3 Preliminary Review

The objective is to gain sufficient knowledge of the unit being audited so that the auditor can design an audit programme that will accomplish the desired objectives. The review helps the auditor to determine if the assigned objectives are attainable within the allocated resources and what audit procedures to be performed based on assessed risks and exposures to achieve the audit objectives. The preliminary review work can be broken down into four distinct phases:

- i. **Familiarization:** This review shall normally include review of permanent and current audit file, review of previous audit working papers, reports and management letters, review of financial statements, review of organizational structure and staffing levels and review of rules and regulations and other manuals in use.
- ii. **Activity-level risk assessment:** This involves assessment of risks that threaten the objectives of each process or sub-focus area within the activity to be audited should be identified and classified into the respective risk categories
- iii. **Evaluation of internal controls:** This entails the review of the unit's internal control structure. A variety of techniques may be used such as use of internal control questionnaires, narratives, flow charts, interviews and data gathering and analysis techniques.
- iv. **Planning the detailed audit:** This stage enables the auditor to design tests to be performed in the fieldwork section of the audit.



### **3.4 Audit programme**

An audit programme outlining the detailed procedures for collecting, analyzing, interpreting, and documenting information during the fieldwork, should be developed. Collectively, the procedures should enable the auditor to reach a conclusion on each objective. The steps reflected in the procedures are developed based on the work done during the planning activities phase of the audit. The audit plan should be prepared in a format given.

#### **a. Risk summary**

Identify risks that are directly related to the objectives of the audit. The risks listed in the audit programme should address as a minimum, the higher risk exposures. Significant variations and trends as well as questionable results that were identified while conducting the planning activities (i.e. analytical procedures, data analyses etc.) should also be reflected here.

#### **b. Risk category:** Indicate the category to which the risk belongs.

#### **c. Risk rating:** Indicate the overall rating of the risk.

#### **d. Control component:**

Identify the control component to which the potential risk or control weakness pertains. This can be obtained from planning documents; for example strategic plan, vision 2030 document, medium term plans, economic development plan

#### **e. Existing controls**

Describe the controls that directly manage/address the risk identified. Generally, these should be phrased to first identify the person/function responsible for the control activity, followed by a description of the action to mitigate the risk.

#### **f. Control design adequacy**

Conclude with *Yes/No* on whether controls to mitigate the risk are well designed. The audit team should evaluate the adequacy of the control design during the planning activities, assuming the controls are working the way they were designed to work. Generally, a control is well designed if it is preventive and provides for adequate segregation of duties and supervision.

**g. Audit objective:** Indicate the relevant audit objective in the audit plan that addresses the risk(s).

**h. Tests to be performed**

Design and perform procedures to test controls deemed adequate/well designed, to determine whether the controls are operating as intended. State clearly what the test procedures intend to achieve. Doing so would also provide the criteria on what constitutes an error/exception. Test procedures must be phrased beginning with a verb. Test procedures and scope will vary depending on the nature and criticality of controls, and the significance of risks.

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

On completion of the audit plan and audit programme, they should be submitted to the HIA for review and approval, prior to the commencement of the audit fieldwork.

**3.5 Audit Notification**

The auditee shall be informed of the audit assignment through an announcement letter from the HIA. However, the Internal Audit will not provide advance notifications for investigative audits. Additionally, the Division may not send an announcement letter for requested consulting services.

**3.6 Audit Commencement Meeting**

During the entrance meeting, the auditor explains the audit process, identifies the auditee's concerns and suggestions; generally opening the channels of communication that are necessary for a successful audit assignment. The HIA and any other team member may attend the entrance meeting.

Topics of discussion may include:

- a Planned audit objectives and scope of work;
- b The timing of audit work;
- c Internal auditors assigned to the audit;
- d The process of communicating throughout the audit, including the methods, time frames, and individuals who will be responsible;

- e Business conditions and operations of the activity being audited, including recent changes in management or major systems;
- f Concerns or any requests of management;
- g Matters of particular interest or concern to the Internal Auditor;
- h Description of the IAAD's reporting procedures and follow-up processes.

A summary of matters discussed at meetings and any conclusions reached should be prepared, distributed to individuals, as appropriate, and retained in the work papers. (*See Appendix 5*).

### **3.7 Fieldwork**

It is during this phase that the auditor will determine whether the controls identified during the preliminary review are operating properly and, in the manner, described by the auditee. The fieldwork stage concludes with a list of significant issues from which the auditor will prepare a draft of the audit report.

#### **3.7.1 Audit Sampling**

Audit sampling is performing an audit test on less than 100 percent of a population. In sampling, the auditor accepts the risk that some or all errors will not be found and the conclusions drawn (e.g. all transactions were proper and accurate) may be wrong.

Sampling enables auditors to obtain and evaluate audit evidence about some characteristic of the sample in order to form or assist in forming a conclusion about the population from which the sample is drawn.

#### **3.7.2 Audit Testing**

##### **3.7.2.1 Analytical Review**

This is the basic audit practice for considering methodically the dependability of such relationships and forming conclusions about the likelihood of weaknesses and errors in fundamental systems. However, audit indication provided by analytical review is anecdotal in that it only suggests whether the figures are reasonable. Analytical reviews alone rarely provide adequate reliable evidence on which to base an audit conclusion. However, analytical review provides an efficient tool for directing the focus of audit work. For systems or balances considered material, the auditor will need to obtain additional audit evidence. Therefore, analytical review complements rather than replaces other auditing techniques.

Analytical review may take the form of a contrast of related numbers, trends and ratios, or an assessment of the overall rationality of the account figures. Analytical review processes include the study of relationships such as:

- i. Elements of financial information that would be expected to conform to a predictable pattern based on the audited units experience, for example KOTDA's payroll
- ii. Financial and relevant non-financial information, such as a comparison of monthly payroll costs with the head count of employees together with a review of the average employee's pay.

The selection of appropriate comparisons and ratios, and the proper interpretation of results, requires a degree of experience and professional judgement. Proper use of analytical review techniques should help to reduce the level of detailed testing done.

Analytical review procedures are more effective when applied to balances or figures that have been broken down into smaller groups of related balances (e.g. an analysis of payroll costs by Division and grade, split into basic salary and allowances). In general, the greater level of detail the more reliable the procedures are likely to be.

There are two stages during an audit where analytical review procedures may be used:

- i. At the planning stage to assist in focusing the audit work
- ii. During the detailed review of individual systems to provide substantive evidence towards meeting the general audit objectives.

### **3.7.2.2 Compliance Testing**

Compliance testing is primarily concerned with assessing the effectiveness of the unit systems of internal control. The different categories of internal controls are discussed in Section 3 of this manual.

### **3.7.2.3 Substantive Testing**

Substantive testing is primarily concerned with the accuracy of transactions and balances. To provide a sound basis for audit findings and recommendations, auditing standards require that sufficient evidential matter be obtained through inspection, observation, inquiries and confirmation. To do this, the auditor's testing plan should consider the inherent control and detection risks applicable to a particular entity under audit.

The evidential matter required by auditing standards is obtained through two general classes of auditing procedures: (a) tests of details of transactions and account balances, and (b) analytical review of significant ratios, trends and the resulting investigation of unusual fluctuations and questionable items. These procedures are referred to as substantive tests.

In performing an audit, several substantive tests may be combined and performed in a single test. The following list includes the most common analytical review and test of detail procedures.

#### Interviews

##### **3.7.3 Obtaining Audit Evidence**

Audit evidence refers to all the information used by the auditor in arriving at the audit opinions, conclusions and recommendations. The information is obtained through observing conditions, interviewing people and examining records. In adhering to the International Standards for the Professional Practice of Internal Auditing (ISPPIA) regarding performance of audit work, auditors shall collect, analyze, interpret and document information to support audit results.

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

- a. Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. There should be enough of it to support the auditor's findings. In determining the sufficiency of evidence, it may be helpful to ask such questions as: Is there enough evidence to persuade a reasonable person of the validity of the findings?
- b. Competent information is reliable and the best attainable through the use of appropriate engagement techniques such as statistical sampling and analytical audit procedures. Information is more competent if it is;
  - i. obtained from an independent source,
  - ii. corroborated by other information,
  - iii. obtained directly by the auditor, such as through personal observation,
  - iv. documented, and
  - v. An original document rather than a copy.
- c. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Relevant information should have a logical, sensible relationship with the associated audit finding.
- d. Useful information helps the institute meet its goals.

### **Physical Evidence**

This is evidence obtained by observing people, property and events. It can take the form of photographs, charts, maps, graphs or other pictorial representations. Graphic evidence is credible. All observations should, if possible, be supported by documented examples. When the observation is the sole evidence, it is preferable to have two or more auditors make important physical observations. If possible, representatives of the auditee should accompany the auditors on such inspections.

### **Testimonial Evidence**

This takes the form of letters or statements in response to inquiries or interviews. These standing alone are not conclusive and they should be supported by documentation if possible. The auditee's statements can be important leads not always obtainable by independent testing.

### **Documentary Evidence**

This is the most common form of evidence. It may be external or internal. External documentary evidence includes letters or memorandums received by the auditee, suppliers' invoices and packing sheets. Internal documentary evidence originates within the auditee organisation. It includes accounting records, copies of outgoing correspondence, receiving reports and the like.

### **Working Papers**

Audit evidence should be relevant, reliable and accurate. Audit work papers should record all audit evidence during the audit review. Work papers are contained in two types of files: the permanent audit file and the current audit file.

#### **3.7.4 Analysis and Evaluation Data**

After data is collected, it should be analysed and evaluated. Analysis means breaking down data/activities/processes into smaller, more manageable parts to determine attributes, relationships, cause, effect, etc. and make inferences or determine whether further examination is required. Evaluation is the systematic determination of the merit, worth, or significance of the subject matter to arrive at a judgment in terms of adequacy, efficiency or effectiveness.

##### **3.7.4.1 Analysis of financial data**

During fieldwork, analytical procedures should be used to support the results of the assignment. Auditors should consider various factors in determining the extent to which analytical audit

procedures should be used. These factors will inform the need to the use of additional audit procedures to achieve the engagement objectives; they include:

- a. The significance of the area being examined;
- b. The assessment of risk and effectiveness of risk management in the area being examined;
- c. The adequacy of the system of internal control;
- d. The availability and reliability of financial and non-financial information;
- e. The precision with which the results of analytical audit procedures can be predicted;
- f. The availability and comparability of information regarding the industry in which the organization operates; and
- g. The extent to which other engagement procedures provide support for engagement results.

When analytical audit procedures identify unexpected results or relationships, internal auditors should examine and evaluate such results or relationships. This examination and evaluation should include making inquiries of management and applying other engagement procedures until internal auditors are satisfied that the results or relationships are sufficiently explained.

Unexplained results or relationships from applying analytical audit procedures may be indicative of a significant condition such as a potential error, irregularity, or illegal act. Results or relationships that are not sufficiently explained should be communicated to the appropriate levels of management. Internal auditors may recommend appropriate courses of action, depending on the circumstances.

#### **3.7.4.2 Analysis of other data and processes**

The principles applied in analyzing financial data can also be utilized in examining other data, activities and processes. Directives, policies, contracts and other procedures may be analyzed to determine their significant elements, and these assessed against best practices, standards or benchmarks.

The work of committees/teams/working groups may be analyzed to determine their mandate, functions, areas of responsibility, reporting lines, frequency of meetings and how decisions are implemented. By breaking activities into their composite elements, auditors may conduct analyses by observing trends, making comparisons and isolating unusual transactions and conditions for follow-up.

### **3.7.5 Detailed Audit Procedures**

Auditors may perform the following detailed audit tests during the fieldwork:

- a. Vouching – testing recorded amounts by examining supporting documents to determine whether they represent an actual transaction.
- b. Tracing – following a document through its processing cycles to the accounting records to determine whether all transactions have been recorded
- c. Re-computation – verifying the mathematical accuracy of figures. The value of this procedure is limited as the reliability of the evidence obtained depends on the validity of the underlying input.
- d. Scanning – searching for obvious exceptions in a large quantity of data.

### **3.7.6 Evaluation**

Evaluation enables an auditor to arrive at a professional judgment. As auditors compare circumstances observed against relevant criteria, they evaluate the significance of any variance and determine whether corrective action is necessary.

Auditors should draw conclusions for each audit objective. Conclusions should be specified and not left to be inferred by readers. The strength of a conclusion depends on the persuasiveness of the evidence supporting the findings, and they should be free from personal biases or prejudices and be objective. The conclusion reached by audit team should be the same as would have been reached by a similar experienced professional reviewing the same evidence.

Throughout the course of the audit, the HIA should assess whether the audit team has collected enough appropriate evidence to address the risk in the activity being audited, as well as the agreed audit objectives.

### **3.7.7 Recording Information during Audit**

Auditors should record all elements of the assignment in the working paper file, in accordance with the format outlined. The contents of the file should clearly support the bases of the observations and recommendations to be reported to the Management and provide evidence that the audit was performed in accordance with IIA Standards. Working papers should be developed in a timely manner as the audit progresses. They help to enhance the quality of the audit and facilitate effective review and evaluation of the audit evidence obtained and conclusions reached before the audit report is finalized.



- i. The IAAD working paper file should be restricted to matters that are relevant to the audit. Superseded drafts of working papers, documents, and preliminary ideas not fully developed should be eliminated from the file. The file should be detailed enough to enable an experienced auditor, having no previous connection with the audit, to understand the:
- ii. Nature, timing, and extent of the audit procedures performed;
- iii. Results of the procedures and the audit evidence obtained; and
- iv. Significant matters arising during the audit and the conclusions reached. The working papers should also explain why any audit programme step was not executed.

Each working paper should:

- a. Identify the assignment and describe the contents or purpose of the working paper;
- b. Bear the initials of the auditor performing the work and the date prepared.
- c. Contain an index or reference number and cross-referenced to related working papers as appropriate;
- d. Explain any tick marks used; and
- e. Clearly identify the source(s) of data.

### **3.7.8 Audit Findings**

IAAD auditors should report audit findings i.e. significant deviations from relevant criteria to Management so that corrective action can be taken. A reportable finding is a significant condition which:

- a. Warrants the attention of management;
- b. Is documented by facts, not opinions, and by evidence that is sufficient, competent and relevant;
- c. Is objectively developed without bias or preconceived ideas;
- d. Is relevant to the issue involved; and
- e. Is convincing enough to compel action to correct the defective condition.

Audit findings should contain the elements of criteria, condition, cause effect and recommendation.

**a. Criteria**

The standards, measures, or expectations used in making an evaluation and/or verification (what should exist). The criteria should be credible, convincing and objective. They should be designed to meet a management

**b. Condition**

The factual evidence that the internal auditor found in the course of the examination (what does exist). The condition should include sufficient information to promote an adequate understanding of the matter(s) being reported.

**c. Cause**

The reason for the difference between the expected and actual conditions i.e. why the difference exists. The cause should be complete and go to the heart of the problem; not just the symptom.

**d. Effect**

The risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (the impact of the difference). The effect should be logical and likely to occur.

**e. Recommendations**

Recommendations are based on the internal auditor's observations and conclusions. They call for action to correct existing conditions or improve operations. Recommendations may suggest general or specific approaches to correcting or enhancing performance as a guide for management in achieving desired results. They should address the cause of the finding, be implementable and capable of being monitored.

**3.7.9 Audit recommendations**

The main objective of an audit is to provide assurance as to the efficiency and effectiveness of established internal controls, to develop recommendations for improving them, and to ensure compliance with the Authority's regulations, rules and policies. Recommendations should be made when there is a potential to improve performance, to enhance policies and procedures, to mitigate risks identified, and in cases when significant instances of non-compliance or weaknesses in internal controls were noted. Generally, audit recommendations are most effective and acceptable to the audited entity when they are:

- a. Constructive and directed at improved or enhanced performance audited entity when they are
- b. Directed at correcting the cause of the problem identified;
- c. Action oriented in that they suggest specific steps that should be taken to change, modify, or otherwise perform some action;
- d. Addressed to officials that are empowered to act;
- e. Feasible, achievable, practical, cost effective;
- f. Aiming to recover or save resources.

#### **3.7.10 Supervising the Audit**

Each phase of the audit shall be supervised by HIA. He/she required to review and approve specific documents and working papers as indicated in the IAAD policies and procedures and provide general guidance as necessary, based on the competency and experience of the auditors. In addition, the HIA should put measures in place to ensure that the milestone dates in the approved audit plan are met. The HIA should monitor the submission of the draft report for his/her review by the due date and take action on any delays.

The HIA shall review the Planning Activities, audit plan and programme, fieldwork Activities, records of control, summary of internal control weaknesses, exit meeting briefing and notes.

#### **Assignment completion**

An "Assignment Completion Checklist" should be used to assist the audit team in ensuring that the objectives and scope of the audit as established in the audit plan have been met. Matters to consider in completing the Project Completion Checklist include:

- a Document your follow-up of any third-party reports (e.g. external auditor's reports, consultant's systems reviews, etc.);
- b Document your follow-up of the comments in the most recent prior Internal Audit report. Ensure any unresolved issues have been included in the current Audit;
- c Ensure all Internal Audit programme steps are performed. Include cross-references to supporting work papers;
- d Ensure all review notes have been cleared;
- e Ensure findings / exceptions have been documented and adequately disposed of;

- f Ensure all work papers have been signed-off by the preparer and reviewed by the relevant supervisor;
- g Complete staff performance evaluation forms (this process should be used to evaluate the performance of Internal Auditors);
- h Conduct an Exit Meeting with audit client. Document the items discussed at the meeting.

#### **3.7.11 Exit Meeting**

A formal exit meeting concludes the audit fieldwork. The purpose of the Exit meeting is to outline the Internal Auditor's opinions and provisional recommendations, ensure factual accuracy and clear any misconceptions that may have arisen during the audit. The opportunity should be taken to ensure that the proposed recommendations are a practical solution to identified weaknesses within the system. The views of the officers obtained at this meeting should be taken into account when writing the final internal Audit report.

Auditors should ensure that when discussing or reporting their findings that they make clear to officers that the audit recommendations are not mandatory but advisory. However, if officers do not accept a recommendation, they should explain how they propose to overcome the weakness identified by audit or explain why they do not consider the risk particularly significant. (*See Appendix 6*)

#### **Exit Meeting notes**

A designated team member should take note of the points discussed and comments made during the exit meeting minutes. The Exit meeting notes should be filed in the current audit file.

#### **3.7.12 Reporting audit results and audit closure**

This phase provides IAAD the opportunity to communicate the results of the audit assignment. IAAD audit reports have the following objectives:

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

IAAD reports must therefore be:

- a. **Accurate:** Free from errors and the data and evidence gathered are presented with care and precision.
- b. **Objective:** Fair, impartial and unbiased, and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances.
- c. **Clear:** Easily understood and logical. All significant and relevant information are provided, and unnecessary technical language and jargon are avoided. Clarity can be improved by the use of tables, graphs, diagrams and pictures.
- d. **Concise:** To the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness.
- e. **Constructive:** Helpful to the audited entity and lead to improvements where needed.
- f. **Complete:** Include all significant and relevant information and observations necessary to support recommendations and conclusions.
- g. **Timely:** Opportune and expedient. Audit reports should be presented to the audited entity without undue delay to enable prompt, effective action for careful consideration by those tasked with implementing the recommendations.

## **4.0 AUDIT REPORTING**

### **4.1 Contents of Audit Report**

#### **4.1.1 Cover**

The cover of the final report indicates the audit title and date of the audit report, and the assignment number.

#### **4.1.2 Executive Summary**

The executive summary is a brief synopsis of the entire audit report and should not exceed one page. It should provide top management with IAAD overall opinion/assessment on the adequacy and effectiveness of internal controls in the area audited and a quick understanding of the major findings and recommendations of the audit. Any positive observations or best practices should also be presented to give a balanced view of the audit results.

The executive summary should be comprehensive, compelling, and clear enough for readers to capture the essence of the matters reported without referring to the body of the report. The summary should include the overall audit objective and not repeat the detailed objectives that are in the body of the report. Before giving the overall assessment, auditors should provide a brief description of the operations under review to enable the reader to put the audit results in perspective.

#### **4.1.3 Table of Contents**

The table of contents provides a guide to the chapters and major segments of the report, and the titles of the Appendixes

#### **4.1.4 Introduction**

The introduction will start with a statement on the subject matter of the audit and, in the full report, indicate that the audit was conducted in accordance with IIA standards. It provides a background information to give the reader a basic understanding of the Division or activity that was audited, and how this area relates to the audited entity's business or operations. It should include a brief description of the audited entity's objectives, organization structure, and relevant human resource, financial or other information.

#### **4.1.5 Audit Objectives**

The objectives should inform the reader why the assignment was conducted and what it was expected to achieve; not what was done. Any modifications to the objectives as indicated in the audit plan will be included. Only the major objectives will be included in the audit report.

The findings should provide answers to the audit objectives and there should be no gaps that may be subject to different interpretations. Where the observations relating to a particular audit objective indicate that there are no major deviations from the audit criteria, then these result in positive findings and the satisfactory performance of the audited entity should be acknowledged.

#### **4.1.6 Audit Scope and Methodology**

The audit scope should describe the processes or activities reviewed, the period covered by the audit and the volume of transactions examined. Related activities that are not covered by the audit should also be indicated. Significant constraints caused by limitations in scope such as unavailability of data, and inability to visit certain locations should also be reported.

The methodology used to accomplish the audit's objectives should be described and the data gathering and analysis techniques used clearly explained. These would include any questionnaires or surveys conducted, site visits or physical observations performed or CAATs used. Any significant assumptions made in conducting the audit should also be described. When sampling techniques are used, the sampling method adopted should be indicated as well as the population and the sample size.

#### **4.1.7 Overall Assessment**

The overall assessment summarizes the most significant findings of the audit and expresses an overall opinion on the adequacy and effectiveness of the system of internal control of the area or activity audited. It should also include any positive observations and best practices.

#### **4.1.8 Audit Findings and Recommendations**

This section of the report describes the results of the audit. The findings should be limited to those issues that assist the reader in understanding the basis for IAAD's overall assessment of the system of internal control. The auditor should develop an outline for this section of the report to ensure the findings are presented in a manner that flows logically and is easy to understand.

The principal guideline is that the most important findings should be reported first. However, where it is not necessary for the findings to be laid out in a particular order because understanding

one issue does not depend on understanding the preceding one, then the most important finding should be discussed first.

#### **4.1.9 Audit Findings**

Audit findings should reflect the following attributes:

- a. Criteria;
- b. Condition;
- c. Cause;
- d. Effect; and
- e. Recommendation.

The findings should be developed to flow logically through the various attributes; and should set the stage for the recommendation.

#### **4.1.10 Audit Recommendations**

Audit recommendations suggest actions management could undertake to correct internal control weaknesses or enhance performance. They should be specific, clear and concise, address the underlying cause of the problem and not subject to different interpretations. They should include a description of the potential benefit from implementing them

In cases involving financial implications such as loss, savings and recoveries, every effort should be made to quantify the financial implication and the amount stated in the text of the recommendation. Recommendations should be discussed with the audited entity to ensure they are feasible and cost effective. They should be addressed to the office(s) responsible and authorized to act on them.

If an audited entity is already taking action to address an identified internal control weakness, the auditor should reconsider whether the matter needs to be included in the audit report. There may however be a few instances where IAAD does not have the expertise or is unable to devote the resources required to enable it to propose a specific recommended action. In such limited cases, it may be appropriate to ask for a further study to be conducted.

On finalization of the audit report, the recommendations will be recorded in the monitoring database, there will be periodic feedback from the audited entity to advise IAAD of the progress



made towards implementing them. Distinctive corrective actions required should not be combined in the same recommendation but stated in separate recommendations.

#### **4.1.11 Management Action Plan**

IAAD requests audited entities to respond formally to the draft report by providing general comments on the report and specific comments on whether they accept the recommendations and how they intend to implement them. The audited entity's comments are incorporated in the final report.

Management action plan should be received within a period of 7 days after issue of the management letter. A reminder is made if the management action plan is not received within the timelines. If the management action plan is not received after the reminder, escalation is done through a memo sent to the CEO.

#### **4.1.12 Acknowledgement**

The acknowledgement states IAADs' appreciation for the assistance and cooperation extended to the auditors by the management and staff of the audited entity.

#### **4.1.13 Appendixes**

The auditor may attach Appendixes to the report to provide additional information as may be required.

### **4.2 Draft Audit Report**

After the exit meeting has been conducted and the findings are cleared with the audited department or division, the Audit Team Leader should prepare the draft audit report. While there may be input from other members of the team, the responsibility to draft the audit report within this timeframe rests with the AIC. The draft report should be cross-referenced to the working papers. On completion of the draft report, the AIC should prepare an audit working paper file. File with the draft report should be submitted to the HIA for review. The HIA review should focus on the readability, correctness and appropriateness of the report.

- a. Readability – The IAM should ensure that the structure of the report is appealing, individual sentences are well constructed and the language is free of jargon. Thoughts should flow freely and logically and the message should be clear.

- b. Correctness – Grammar, spelling and punctuation are correct and IAAD reporting policies should be followed. The report should accurately reflect the evidence gathered and the working papers should support the findings, conclusions and recommendations.
- c. Appropriateness – The tone of the report should be tactful, objective and constructive. Opinions should be separated from facts and there should be proper balance between major and minor deficiencies.

The HIA should aim to complete his/her review and, if required, return the draft report for any improvements. AIC should return the reviewed report with comments to the HIA. The HIA should perform a final review of the report and if s/he has no further concerns, sign the report.

#### **4.3 Distribution of Draft Reports**

The distribution of draft reports should be limited to those staff members of the audited department or division who directly participated in the audit and are in a position to comment on the accuracy of the audit findings, accept or decline the recommendations and provide an action plan and estimated implementation date.

The report should also be distributed to other Divisions that may be responsible to implement specific recommendations to give them an opportunity to provide their comments. Since the report is yet to be finalized and both audit findings and recommendations are subject to change, care should be taken to limit its distribution only to the appropriate officials.

Draft audit reports should never be disclosed to individuals outside IAAD or the audited entity without the express permission of the HIA. (*See Appendix 7*)

#### **4.4 Final Audit Reports**

It is IAAD's policy that final audit reports should incorporate comments provided by audited entities to the draft report. IAAD is also able to rectify any misunderstandings or misinterpretations of fact, and to consider alternative perspectives to reported findings and/or recommendations.

The HIA should monitor the receipt of comments from the audited entity within the timeframe allowed. If the comments are not received by the due date and after informal follow-ups, the HIA should issue a reminder to the audited entity, giving them an additional five working days to respond. If the comments are still not received, the audit report should be finalized without the

audited entity's comments. When the HIA receives the audited entity's response, s/he should send it to the AIC (AIC) to be incorporated in the final report.

#### **4.5 Report Processing and Issuance Timelines**

The time required for preparing, reviewing and finalizing audit reports depends on the type of report, the complexity of the audit subject, the nature of the findings, conclusions, and recommendations, and other factors such as report processing workload.

The standard timeline established by IAAD for the submission of the final audit report to the audited entity is 14 working days from the exit meeting. In rare cases where IAAD has to send a reminder memorandum to the audited entity or issue revised findings and/or recommendation, the HIA at his/her discretion may extend this timeline

The HIA should review, approve, and sign the final audit report before issuance and should decide to whom the report will be distributed. A record of report distribution should be kept.

Audit reports should be distributed to those members of the Authority who are able to ensure that audit results are given due consideration (i.e. those who are in a position to take corrective action or ensure that corrective action is taken). The final audit report should be distributed to the CEO/CEO. Certain information may not be appropriate for disclosure to all report recipients because it is privileged, proprietary, or related to improper or illegal acts. Such information, however, may be disclosed in a separate report.

#### **4.6 Audit Closure**

Within one week of issuance of the audit report, the AIC should check that each working paper has been reviewed by someone other than the preparer and has a reviewer approval. S/he should also check that all other mandatory documents have the approval of the HIA. The HIA will review the file and confirm that the file is complete and supports the audit report.

#### **4.7 Audit Client Satisfaction Survey**

- a. **Transactional Survey** - This type of survey shall be used to elicit the auditee's perception of the service rendered and identify opportunities for improvement in those instances where a report is issued. A standard rating scale should be implemented in order to facilitate the measuring of results. Transactional surveys should be sent to the addressee of the audit report and other audit participants, as considered appropriate, not later than 30 days after issuance of the final audit report. The surveys shall be returned to the HIA. Results of the surveys shall be

tabulated and shared with the IAAD professional staff, and at least annually, to the AR Committee and CEO.

- b. **Management Survey** -This type of survey is used to elicit management's perception of the IAAD's ability to fulfil its mission of assisting members of the Authority in the effective discharge of their responsibilities. The Auditee Satisfaction Survey can be used to conduct management surveys. Management surveys are sent by the HIA to senior management, including the CEO and ARC members at least annually. A standard rating scale will be implemented to facilitate the measuring of results. Surveys will be returned to the HIA. Results of the surveys should be tabulated and shared with the ARC Committee and the CEO, along with copies of the individual survey documents.

*(See Appendix 8)*

#### **4.8 Audit Follow-up**

IAAD has the responsibility to follow up and determine whether or not the audited entity has taken steps to adequately, effectively and timely address the matters reported in audit findings and recommendations. The ultimate success of the audit occurs when the audited entity takes appropriate steps to reduce risks or improve operations as recommended by the audit.

IAAD therefore monitors on a quarterly basis, the status of implementation of open recommendations until the reported issue is either solved or the appropriate level of management has accepted the risk.

The HIA should send the extracts to audited entities, requesting them to insert their comments on the status of implementation of recommendations in the relevant column, and provide any documentation to substantiate their response. The audited entities should be given up to 5 working days to respond.

On receipt, the HIA should request IAAD staff to review the audited entity's response. The following steps should be taken:

- a. If the audited entity indicates that the recommendation has been implemented, the auditor should evaluate the response and supporting documents provided and determine whether the audited entity's action remedies the underlying cause of the deficiencies reported.

- i. If the audited entity's action is appropriate, the auditor should record in the history of IAAD comments column that the recommendation has been implemented.
  - ii. If the audited entity's action is not satisfactory, the auditor should describe in the history of IAAD's comments column, the specific actions that are still required from the audited entity to enable IAAD close the recommendation.
- b. If the audited entity indicates that the recommendation has not yet been implemented, the auditor should review the age of the recommendation. If the recommendation was issued within the previous 3 months and the audited entity indicates it is in the process of implementing it, decision on the status of the recommendation should be deferred to the next follow-up period. If the audited entity has not yet commenced action to implement the recommendation, the status should be open.
- c. If the audited entity's response indicates that the recommendation has been overtaken by events or other circumstances that make it impractical to implement the recommendation and the auditor concurs, the recommendation should be closed without implementation. The auditor should indicate this fact in the history of IAAD's comments column.

The HIA should determine the nature, timing, and extent of follow-up. Factors that should be considered in determining appropriate follow-up procedures include:

- a. The significance of the reported finding. The following approach could be adopted:
  - ***Fundamental recommendations*** – follow-up promptly after the agreed date for implementation and if necessary again before the next annual Audit report and report any recommendations not implemented by the agreed date
  - ***Significant recommendations*** – follow-up during the annual follow-up review before the annual Audit report is produced
  - ***Advisable recommendations*** – follow-up during the next systems review of the relevant system.
- b. The degree of effort and cost needed to correct the reported condition;
- c. The risks that may occur should the corrective action fail;
- d. The complexity of the corrective action;
- e. The period involved.

Certain reported findings may be so significant as to require immediate action by management. These conditions should be monitored by Internal Auditors until corrected because of the effect they may have on the organization. However, all audit reports should be followed up within 12 months of issue of each of the final reports.

The HIA is responsible for scheduling follow-up activities as part of developing audit work schedules. Scheduling of follow-up should be based on the risk and exposure involved, as well as the degree of difficulty and the significance of timing in implementing corrective action.

Follow up procedures should include the following:

- a. A time frame within which management's response to the audit finding is required;
- b. An evaluation of management's response;
- c. A verification of the response (if appropriate);
- d. A follow-up audit (if appropriate);
- e. A reporting procedure that escalates unsatisfactory responses/actions, including the assumption of risk, to the appropriate levels of management.

Techniques used to effectively accomplish follow-up include:

- a. Addressing audit report findings to the appropriate levels of management responsible for taking corrective action.
- b. Receiving and evaluating management responses to audit findings during the audit or within a reasonable time period after the report is issued. Responses are more useful if they include sufficient information for the HIA Unit to evaluate the adequacy and timeliness of corrective action.
- c. Receiving and evaluating reports from other organizational unit's assigned responsibility for procedures of a follow-up nature.
- d. Reporting to senior management or the Accounting Officer on the status of responses to audit findings. For each recommendation, the auditor should determine whether it has been:
  - Implemented;
  - Partially implemented;
  - Not implemented; or,
  - Superseded.

An overall opinion should be provided on the degree of satisfaction with the action that has been taken by the system's officers on the agreed recommendations. This opinion should be included in the Annual Audit report. Where the auditor is not satisfied with the actions taken by the system's management completing appropriate action, this should be reported to the CEO & Audit Risk Committee.

A database should be maintained of all fundamental and significant recommendations. These recommendations should be followed-up periodically to ensure that all recommendations are eventually implemented, as long as they are still relevant.

#### **4.9 Resolving Non-implemented Recommendations**

When the HIA believes that senior management has accepted a level of residual risk that may be unacceptable to the Authority, the HIA must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the HIA must report the matter to the Board for resolution.

#### **4.10 Disputes arising from the audit engagement**

The exercise of professional judgment involved in determining reportable conditions and the expression of conclusions in audit reports may lead to differences in professional opinions. A process is needed to resolve such differences while respecting both the chain of command within IA&RD and the obligation of the staff to exercise independent professional judgment.

This process applies only to disagreements having to do with the contents and conclusions in audit reports. It is not intended for personnel matters such as job assignments and performance appraisals where separate Authority policies exist. It is likewise not intended for administrative matters such as audit budgets and Divisional management matters.

#### **4.11 Dispute within the Internal Audit Team**

In the event that there is a disagreement of professional opinion between the Team Leads and Internal Auditors in the normal course of an audit engagement, the HIA shall reach an independent conclusion on the matter and attempt to forge a consensus or compromise among the members in the audit engagement. No specific record of dispute resolution at this level needs to be created or maintained. If this process is unsuccessful, or if the disagreement originally involves the HIA and other IAAD personnel, a written record of this dispute resolution process, efforts, and outcomes shall be created and maintained outside of the working papers. If consensus or compromise is not

achieved from these processes, the final judgment of the HIA will prevail in so far as the issuance of the audit report is concerned. However, no individual's rights as an employee of the Authority will be compromised by invoking this process or its outcome.

#### **4.12 Dispute between the Audit client and Internal Auditors**

Disputes which may arise between IAAD auditors and audit client can be generally categorized into those regarding the factual accuracy of reported findings, and those dealing with the appropriateness of conclusions or recommendations (the "fairness" of the audit report in total or specific matters). Such disputes are different from those occasioned by scope limitations imposed by the audit client. Every effort shall be made to resolve all questions of factual accuracy before the final audit report is issued. Conclusions and recommendations represent the professional judgment of internal auditors and cannot be overridden or unduly influenced by auditee. The judgement of the HIA is the prevailing position. Therefore, auditees do not have the authority to "appeal" an audit report to the CEO or to the ARC. The written response to the audit report is the recourse and appropriate avenue for auditees to communicate their views. However, in exercising their professional judgement, the HIA should aggressively seek compromise and consensus views that communicate issues clearly and completely and deal with identified audit issues effectively.

#### **4.14 Disputes occasioned by Scope Limitation**

Scope limitations include situations in which an audit client is un-cooperative, attempts to limit the scope of planned work or denies access to records, personnel, assets or other information necessary to complete the audit.

The Internal Audit Charter provides the IAAD with unrestricted access to all assets, information, reports, records, and personnel of the Authority required to perform its role and responsibilities. The Internal Auditor should bring all matters involving scope limitations to the attention of the HIA. If the HIA is unable to resolve the matter, the ARC should be notified and involved in the process to assist in its resolution. The matter should be brought to the attention of the CEO as warranted. All scope limitation discussions should be documented in the audit work papers.

In the event that a scope limitation significantly impacts the planned scope of the audit and is not resolved to the satisfaction of the IAAD; the audit report should state that the audit team was unable to perform the planned tests. Audit reports with significant limitations on scope will be distributed to the ARC, CEO and other members of senior management as determined by the HIA.



## **5.0 WORKING PAPERS MANAGEMENT**

### **5.1 Introduction**

Working papers will comprise all physical documents and electronic format files obtained or prepared during an IAAD assignment. There should be proper control over working papers at all times.

There are two types of working papers, Permanent and Current Audit files.

#### **5.1.1 Permanent Audit Files**

The Permanent Audit File (PAF) contains information that should be relevant to the current and future audits.

A PAF is useful for the following reasons:

- i. It ensures that important documents are not overlooked, and it consolidates such documents at one location.
- ii. It provides a basis for consistency in testing. Carry forward schedules, which compare ratios, averages, etc., can be used as an auditing tool.

There is no standard organizational rule for the PAF. However, the following types of documents should normally be included in the file:

- i. Organizational charts
- ii. Description of activities, systems, procedures and business plans
- iii. Key analytical ratios
- iv. Latest Corrective Action Plan
- v. Legal and regulatory issues impacting KOTDA
- vi. Risk assessment
- vii. Correspondence of continuing interest to future audits
- viii. Updated audit programmes

### 5.1.2 Current Audit Files

The Current Audit File (CAF) contains schedules and documents relevant to the current audit. It contains a record of all the audit work completed and any conclusions arrived at. Current work paper files should have consistent organisation and documentation irrespective of the type of audit.

There is also no standard organizational rule for the CAF. However, it should contain, as a minimum, following work papers:

- i. Significant findings and issues identified during the audit and how they were resolved
- ii. Audit Planning Memorandum (APM) and related documentation
- iii. Administration/Correspondence memos and documents
- iv. Follow-up of prior audit reports and matters that have not been resolved
- v. The tailored and updated audit programmes
- vi. Analytical review. Any significant trends, material account balances and other conclusions reached in the course of the analytical review should be documented along with their effect on audit scope
- vii. Detailed testing schedules.

The working papers should represent a clear record of the audit process, procedures, findings, conclusions and reports. Working papers should be capable of standing on their own without requiring any supplemental oral explanation from the Auditor(s) who did the work.

Consequently, an independent reviewer should be able to understand all the audit work performed, the findings and how exceptions and other issues were resolved and the conclusions drawn from the work.

The work papers are used for a number of important functions:

- i. They demonstrate whether the audit was done in compliance with the relevant standards
- ii. They aid in the organisation, control, administration and review of the audit work
- iii. They form the evidence of the audit work performed and the conclusions drawn from that work
- iv. They support the audit report.

## **5.2 Review of Working Papers**

All work papers should be reviewed to ensure that they properly support the audit report and that all necessary procedures have been performed. The review should be conducted at a level of responsibility higher than that of the preparer of the working papers. Work paper review is part of the quality control process. Evidence of supervisory review should be documented in the work papers. Such evidence should consist of the reviewer initialing and dating each work paper after it is reviewed.

The HIA should review selected audit files. Where appropriate, especially with more junior or inexperienced staff, this review should include spot checks on the relevant documentation to ensure that the work has been performed carefully and diligently.

When the Audit Manager visits an audit team on a review mission he or she should also review the work papers for all Internal Audit assignments completed and discuss any issues arising from the review with the internal auditors on the job.

As a further quality check, a second level of review should also take place. This should include reviews by the HIA. The review should consist of a random spot check of work papers to ensure compliance with Internal Audit Standards and to identify areas where the reviewer's wider experience can be utilised to improve the audit process. Responsibility for first and second stage review will depend on the seniority of the auditor who performed the detailed audit work.

Irrespective of the person performing the first and second stage review, some key tasks must be performed at certain levels:

- i. The HIA must review all written Internal Audit reports
- ii. All written Internal Audit reports, memos and letters must be reviewed and vetted by the Head of the Internal Audit Unit

When performing the first stage review, the reviewer should: -

- i. Ensure that work papers have been dated and appropriately initialed
- ii. Undertake spot checks on the transactions checked by the Auditor to ensure that these checks have been undertaken properly and where appropriate the payments were correctly passed for payment.

Issues arising from the review, which are not resolved immediately, should be noted on a review sheet by the Audit Supervisor. The auditor concerned should answer the review questions. If satisfied with the response, the reviewer should sign off the review sheet. However, care should be taken to ensure that the work papers provide adequate evidence that questions raised during the review have been resolved. Acceptable alternatives with respect to disposition of review notes are as follows:

- i. Retain the review notes as a record of the questions raised by the reviewer and the steps taken in their resolution
- ii. Discard the review notes after the questions raised have been resolved and the appropriate audit work papers have been amended to provide the additional information requested.

The reviewers should use the review sheets to provide feedback to auditors and to ensure that lessons are learnt for future audits. To be effective, this feedback should be provided as promptly as possible. (*See Appendix 9*)

### **5.3 Ownership of and access to working papers**

All working papers produced by IAAD are owned by the Authority. Access to IAAD working papers shall be always restricted to authorized IAAD staff members. Requests for access to assignment working papers by management may be granted after the approval of the HIA. Management and staff of IAAD must observe the confidentiality of information acquired during the audit and not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

### **5.4 Retention of working papers**

All IAAD working papers shall be retained electronically and in the current file. The file should be archived five years after the date of closure.

Internal audit shall save a weekly backup on an external hard disk for continuity in case of a disaster or an incidence resulting to data loss.

Auditors shall be responsible for maintaining backups of their desktop files on separate media. Auditors may wish to back up non-sensitive data to the 'audit' folders on the shared drive on the Authority's server, relative to the need for security of the files.

## **5.5 Confidentiality**

All staff members in the Division at all levels are responsible for the confidentiality of audit related documentation. Unauthorized disclosure of any IAAD official information is prohibited. Each working paper or document relating to an audit is confidential and all staff shall observe the confidentiality of information acquired during the audit. Confidential documents should be locked and kept inside drawers or scanned and saved in computer files of each staff for ongoing assignments.

On completion of the assignment, Auditors should obtain guidance from the HIA on the continued retention of such documents. Auditors should ensure that no confidential document is left unattended or left out openly on desks, printers, copiers or fax machines. Shredders should be used to dispose of confidential documents.

HIA should ensure that these confidentiality principles are adhered to. IAAD staff shall officially report to the HIA any cases where its reports or other official documents are leaked to unauthorized third parties

## **5.6 Handover of Duties**

Each IAAD staff member leaving a position on transfer, promotion or separation should prepare comprehensive handover notes to assist his/her successor to carry out their duties and to provide key knowledge and information regarding the position. This also serves to preserve the institutional memory of the Division, ensure that the transition period is as short and smooth as possible and to avoid the successor having to refer to the predecessor on ongoing issues.

The staff member should send the handover note to his/her successor before departing and supplement the note with phone conversations or e-mail as necessary. If the successor has not yet been appointed, the staff member should leave the handover note with his/her supervisor. When staff members assume duties at new positions, they should request the handover note from their predecessors, if one was not received already.

The handover note should include the following minimum information:

- a. Description of duties;
- b. Status of ongoing assignments and initiatives/projects;
- c. Critical issues/challenges/priorities;

- d. Regular/recurring meetings or reports and a calendar of major activities;
- e. Location of hardcopy and electronic files; and
- f. Other information of continuing relevance

## **6.0 TYPE OF AUDITS**

### **6.1 Financial Audits**

During a financial audit the assertions for which the Auditor seeks evidence relate to the reliability and integrity of financial and operating information. The information is intended to be used by management for internal decision-making purposes and may include operating and financial data.

### **6.2 Compliance Audits**

Compliance audits are intended to determine whether an entity has complied with specific policies, procedures, laws, regulations, or contracts that affect the business. As with all audits, a compliance audit requires the existence of established criteria against which the relevant assertions can be measured.

### **6.3 Operational Audits**

An operational audit may cover the review and evaluation of the processes that management has established to ensure:

- a. The achievement of the objectives and goals;
- b. The economical, effective and efficient use of resources;
- c. The safeguarding of assets.

### **6.4 Project Audits**

A project audit essentially examines whether the project staff have observed laid down procedures/requirements and exercised reasonable and adequate professional skill in carrying out their duties in line with requisite standards, applicable laws and due regard to Authority policies. The following objectives should be borne in mind when carrying out project audits:

- a. To check whether laid down procedures/requirements are strictly complied with by project staff, and if not, the reasons for non-compliance
- b. Where appropriate, to check objectively whether reasonable skill and care have been exercised by project staff in carrying out their technical; and
- c. Where laid down procedures/requirements and applicable standards are not being followed by project staff, to recommend measures which may be applied to prevent future repetition. Project audits of works, contracts shall, as far as practicable, cover various stages of a contract. These stages include:

- i. Planning stage – Feasibility studies, Tender documents preparation, tendering; Evaluation and contract award
- ii. Project Execution stage – Commencement and Actual construction phase;
- iii. Defects Liability Period – Project completion & handover of Facilities.
- iv. Closure stage - Final account including claims settlement and Project completion reports

## **6.5 Information Technology Audits**

Information technology is a whole system constituted by the software and hardware technologies used in collecting, processing, storing, transferring from one place to another via networks, offering for user service and managing the information.

Auditing of information technologies is the process of examining information technologies systems; collecting and evaluating the related evidence and; reporting the results obtained, with the aim of ensuring an objective assurance about the adequacy of the information systems used to achieve aims and control objectives of the administration and about the adequacy of the controls related with this system. In this framework, auditor shall evaluate the controls on the existing information technologies in terms of effectiveness, efficiency, confidentiality, integrity, accuracy, accessibility, compliance and reliability criteria.

Information technologies audits shall be carried out on the basis of the guides issued by international professional organizations such as the Institute of Internal Auditors (IIA), and the Information Systems Audit and Control Institution (ISACA). The Division may carry out the following IT reviews; strategy & governance reviews, general computer controls reviews, and computer application controls reviews, IT system acquisition, development and implementation reviews and environmental audit

## **6.6 Fraud & Investigative Audits**

The Institute of Internal Auditors Attribute Standard 1210.A2 requires the Internal Auditor to have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud will be detected. Consequently, Internal Audit should not have responsibility for the



prevention or detection of fraud. However, Internal Auditors should be alert in their work to risks and exposures that could allow fraud.

Managing the risk of fraud is the responsibility of Senior Management. The HIA should be informed of **all** suspected or detected frauds. Upon receiving such information, the HIA should:

- a. Consider the adequacy of relevant controls, i.e. whether the fraud occurred due to inadequate controls or failure to comply with existing controls;
- b. Recommend additional controls to address gaps in the existing internal control structures;
- c. Consider whether more detailed investigations should be made and whether line management or Internal Auditors should do the investigations.

When fraud is detected in a Division that has been covered in a recent Internal Audit review, the HIA should assess whether review should have identified the relevant control weaknesses and other fraud indicators and reported these to the relevant officers.

In the event that Internal Audit procedures failed to detect the control weakness or fraud indicators, the HIA should arrange appropriate training to enhance Internal Audit skills.

#### **6.6.1 Conducting a Fraud Investigation**

Investigation of fraud consists of performing extended procedures necessary to determine whether fraud, as suggested by the indicators, has occurred. It includes gathering sufficient information about the specific details of a discovered fraud.

#### **6.6.2 Initiating an Investigation**

While the specific reasons for initiating an investigation will vary, there must be an adequate basis for suspecting a possible improper act. The primary factors to consider are:

- a. The allegation or suspicion if true constitutes an improper governmental activity under law or a serious or substantial violation of Authority's policy. If not, then no matter how egregious a situation or behavior may appear, it would not provide a basis for an investigation under this standard.
- b. An allegation should be accompanied by information specific enough to be investigated. For example, "There is fraud in the division X" by itself, is not sufficient to begin an investigation.

- c. An allegation should have or directly point to, corroborating evidence that can give the allegation credibility. Such evidence may be testimonial or documentary.
- d. Matters referred to IAAD for investigation that do not meet the above criteria may be appropriately reviewed as an advisory service to management provided the requisite expertise exists within or is available to IAAD. Matters that result from the normal exercise of management judgment are rarely susceptible to investigation, and frequently not appropriate for review as an advisory service (e.g. "fairness" of compensation, adequacy of supervision, etc.).

When an investigation is undertaken based on reported allegations by a person making an informal whistleblower report, care should be taken to clarify the matters to be reviewed. The Whistle Blowing Policy should be adhered to while undertaking such investigations. If the initial communication is verbal, it is advisable to document your understanding of the whistleblower's allegations and obtain their concurrence with your articulation of their assertions. In addition to assuring that all the whistleblower's allegations are captured, this documentation will assist in referral of matters outside of IAAD's jurisdiction. A decision to end an inquiry without an investigation or to discontinue an investigation must be documented.

#### **6.7 Audit Consultancy Services**

Consultancy services are defined as activities designed to mitigate risk, improve operations, and/or assist the Authority's Heads of Divisions (HoDs) in achieving its business objectives. The nature and scope of the engagements are agreed upon with the audit client. The IAAD should perform consultancy services in a manner consistent with the Internal Audit Charter. Policies for the types of consulting service assignments, which are performed, by the IAAD, and issues concerning objectivity and independence are discussed in this section. The IPPF defines Consultancy services as "services that are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties:

- i. The person or group offering the advice — the internal auditor, and
- ii. The person or group seeking and receiving the advice — the engagement client.

When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility.

### **6.7.1 Types of Consultancy Services**

**6.7.1.1. Formal consulting engagements** – planned and subject to written agreement. Examples include training the Authority’s personnel on effective systems of internal controls; systems development and re-engineering where IAAD auditors are involved in a consultative manner during the design and development phase helps to ensure that sound business practices, including effective internal controls, are built into the system and processes;

**6.7.1.2 Informal consulting engagements** – routine activities, such as, participation on standing committees, limited-life projects, ad-hoc meetings, and routine information exchange with the external auditors;

**6.7.1.3 Special engagements** - such as system conversion assignments undertaken by the IAAD with HoDs to assist in the Authority’s continued efforts to develop and implement new systems or re-design processes to be more effective and efficient. Other examples include special management studies, advisory participation on the Authority’s process and systems reengineering teams and consultation on other issues for instance regulatory compliance matters. These may be done to assist HoDs in dealing with issues before they become audit or investigation problems; and

**6.7.1.4 Emergency consulting engagements** – participation on a team established for recovery or maintenance of operations after a disaster or other extraordinary event or a team assembled to supply temporary help to meet a special request or unusual deadline.

### **6.7.2 Consultancy Services Inclusion in the Audit Plan**

The IAAD Strategic & Annual Audit plan shall include anticipated consultancy services. The audit planning process may include consideration of consulting service assignments to address areas considered high risk. Specific assignments that have been accepted should be included in the Annual Audit Plan along with unallocated hours for non-specified but anticipated consultancy services assignments. Internal auditors should incorporate knowledge of risks gained in audit assignments into the process of identifying and evaluating significant risk exposures of the Authority.

### **6.7.3 Service Limitations**

Consultancy services, assignments should be accepted when the assignment’s objectives are consistent with the current or prospective values and goals of the Authority. IAAD auditors should refrain from providing consultancy services for assignments where they feel that they cannot be

objective. Further, if an IAAD auditor lacks the knowledge, skills, or other competencies needed to perform all or part of the assignment, the HIA should decline to perform the assignment or should obtain the necessary competence either through internal or external sources.

Disclosure of potential impairments to independence and objectivity of IAAD auditors shall be communicated to the relevant HoD in a timely manner prior to commencement of the consultancy services by the IAAD. However, in the event that impairment(s) subsequently develop during the assignment, disclosure should be made immediately.

Independence may be compromised for assignments relating to operations for which the IAAD had previous responsibilities or had conducted audit assignments. Steps can be taken to minimize the effects of impairment. These steps include:

- a. Assigning different IAAD auditors to perform the consultancy services instead of auditors who were involved in conducting earlier audit or investigative assignments;
- b. Establishing independent management and supervision through assigning Internal auditors or the HIA, internal auditors who were not involved in supervising earlier audit or investigative assignments; and
- c. Disclosing the presumed impairment to the division/Division staff who had requested the services.

#### **6.7.4 Exceptions to Policy**

In most cases, consulting service assignments will be treated in accordance with this policy. However, the requirements for production of a consultancy services plan, notification to Authority staff who have requested the assignment, work papers, and a formal report may be waived by the HIA for fairly informal consultations such as brief telephone conversations or individual committee meetings involving limited scope contact with the Authority's management or staff who have requested for the services.

#### **6.7.5 Planning a Consultancy Services Engagement**

The IAAD should develop and record a plan for consultancy services engagements. This will assist in:

- a. Identifying the needs of the IAAD staff who have requested the consultancy services, including the nature, timing, and communication of assignment results.
- b. Understand possible motivations and reasons of the subject in requesting the service;

- c. Determine the extent of work needed to achieve the assignment's objectives and the skills and resources needed to provide the consultancy services;
- d. Assessing the effect on the scope of the Annual Audit Work Plan and potential impact on future audit assignments. The consideration will be on whether to include the services provided as a regular item in the Audit Plan; and
- e. Identify potential organizational benefits to be derived by the Authority from the assignment.

Adequate engagement planning requires that the Internal AIC of the advisory assignment establish an appropriate scope that addresses concerns of Division/staff that had requested the consultancy services, and considers relevant risks of the activity, office or Division being reviewed. The Internal Auditor shall then develop a consultancy services plan, obtain the approval of the HIA and communicate this plan to the Authority's management or employee who has requested these services. Documentation of these planning activities is also required.

#### **6.7.6 Communication of the Consultancy Services to Management**

The review timing and preliminary objectives of the consultancy services should be mutually agreed with the sponsor of the assignment in advance of the beginning of fieldwork.

#### **6.7.7 Notification**

A formal notification should be sent by the internal auditors involved in the assignment to the appropriate HoD summarizing the agreement for the scope of work that has been entered into.

#### **6.7.8 Entrance Conference**

For larger engagements, an entrance conference/meeting should normally be conducted with the audit client in order to reach mutual agreement on the scope, objectives, timing, and reporting of the review. The following individuals should be invited and encouraged to attend the meeting:

- HoD responsible for the operation/activity/process being audited;
- Staff who work in the specific area being reviewed; and
- The HIA for all high-risk assignments.

#### **6.7.9 Consultancy services Work Plan Development**

The Internal AIC of the consultancy services assignment shall obtain and review relevant information about the consultancy services area being reviewed.

#### **6.7.10 Risk Assessment**

As part of planning for the engagement, the Internal Auditor should address risk consistent with the engagement's objectives and should be alert to additional significant risks. Various tools and techniques useful for audit engagements may also be useful for consultancy services, such as flowcharts, questionnaires, and interviews or other inquiries, in order to identify key controls and gain an understanding of the related risk. The possibility of fraud should be considered in the preliminary assessment of risk related to the engagement.

#### **6.7.11 Consultancy Services Work Plan**

Work plans for consultancy services assignments should vary in form and content depending upon the nature of the assignments. In general, a consultancy services work plan shall be prepared in advance of field work and outline:

- i) Division (of the auditee) objectives and goals;
- ii) Policies, plans, procedures, laws, regulations and contracts having significant impact on operations;
- iii) Organizational information, such as number and names of employees, job descriptions, process flowcharts, details about recent changes, etc.;
- iv) Budget information, operating results and financial data;
- v) Results of prior reviews (including reports of external auditors and other external parties), correspondence files and relevant authoritative and technical literature;
- vi) Engagement objectives;
- vii) Scope and degree of testing required to achieve the objectives in each phase of the review;
- viii) Procedures for collecting, analyzing, interpreting and documenting information during the review; and
- ix) Technical aspects, risks, processes and transactions which should be examined.

#### **6.7.12 Documentation**

Documentation to evidence the planning procedures should include:

- i) A record of mutual agreement with the Division staff requesting the consultancy services, of the procedures to be performed. This may take the form of service terms of reference or other communication.

- ii) For larger assignments requiring over 40 hours, an assignment sheet or work plan with scope, objectives, purpose, timing, budget, and contacts of Division staff requesting the services should be developed and signed by the HIA

#### **6.7.13 Conducting a Consultancy Services Engagement**

The IAAD should maintain adequate work paper documentation to support the consultancy service conclusions reached. Every consulting service assignment shall be properly supervised to ensure that IAAD staff are adequately guided and have the requisite knowledge and skills to meet the engagement objectives.

Conducting consultancy services involves examining, evaluating and documenting the information pertinent to the area under review in order to support review results.

Supervision and work paper documentation and review throughout the consulting service process ensures goals, objectives, risks and observations are addressed and resolved.

Due professional care is exercised by considering the:

- i) Expressed expectations of the Division staff requesting the services, including the nature, timing, and communication of assignment results;
- ii) Relative complexity and extent of work needed to achieve the assignment's objectives;
- iii) Cost of the consultancy services assignment in relation to the potential benefits;
- iv) Possible motivations and reasons of those requesting the service;
- v) Skills and resources needed to conduct the assignment;
- vi) Effect on the scope of the audit plan previously approved by the ARC;
- vii) Potential impact on future audit assignments; and
- viii) Potential benefits to the Authority as a whole and the Division to be derived from the assignment.

The IAAD shall confirm that those receiving the service understand and agree with the guidance contained in the Internal Audit Charter, the IAAD's policies and procedures, and other related guidance governing the conduct of consulting assignments.

The IAAD should decline to perform consulting assignments that are prohibited by the terms of the Internal Audit Charter, conflict with its policies and procedures, or do not add value and promote the best interests of the Authority.

#### **6.7.14 Scope of work in Consultancy Service Assignments**

The IAAD shall reach an understanding about the objectives and scope of advisory service assignments with those receiving the service. Any reservations about the value, benefit, or possible negative implications of the consultancy services should be communicated to those receiving the service.

The scope of work should be designed to ensure that professionalism, integrity, credibility, and reputation of the IAAD is maintained. During planning, internal auditors should design objectives to meet the appropriate needs of Division receiving these services.

In the case of special requests by Management, internal auditors may consider the following actions if they believe that the objectives that should be pursued go beyond those requested by Management:

- Persuade management to include the additional objectives in the scope of work;  
OR
- Document the fact that the objectives were not pursued and disclose that observation in the final communication of the results of the consultancy services; and include the objectives in a separate and subsequent audit assignment.

Work programs for formal advisory service assignment should document the objectives and scope of the assignment as well as the methodology to be used in satisfying the objectives. The form and content of the work plan may vary depending on the nature of the assignment.

The objectives, scope, and terms of the assignment should be periodically re-assessed and adjusted during the course of the work. IAAD auditors should be observant of the effectiveness of risk management and control processes during advisory service engagements. Substantial risk exposures or material control weaknesses should be brought to the attention of the Internal Auditor and HIA as well as the Authority's Management if deemed necessary.

#### **6.7.15 Work paper Documentation**

##### **6.7.15.1 Purpose**

The work paper file documents the work the auditor has done. The work papers serve as the connecting link between the work performed by the auditor and the final report. Work papers contain the work plan, fieldwork and other documents relating to the review.



#### **6.7.15.2 Contents**

Work papers may include the work plan along with documentation supporting interviews, analyses and conclusions reached. All changes to the scope or consultancy services work plan should be documented and approved by the HIA.

#### **6.7.15.3 Format**

Consultancy services engagement work papers may be in any form prescribed by audit management (paper, tapes, diskettes, etc.). If work papers are in a form other than paper, appropriate backup procedures should be developed and followed.

#### **6.7.16 Work Paper Review**

All working paper shall be independently reviewed to ensure there is sufficient evidence to support conclusions and that consultancy services objectives have been met.

Responsibilities for work paper review are summarized as follows:

**6.7.16.1 Internal Auditor's Responsibilities** - The supervisor of the engagement audit team shall perform a detailed review of the work papers. The HIA shall also review and approve all changes to the scope of the engagement and the approved consultancy services work plan.

**6.7.16.2 HIA- Responsibilities** - For each larger consultancy service assignment, the HIA should perform at least a summary review. A summary review consists of a review of planning documents, the work plan, and the summary of observations and conclusions. The HIA should review and approve significant changes to the scope of the engagement and to the approved consultancy services work plan.

**6.7.16.3 Timing and extent of review** - The level and frequency of review and communication during a consultancy services assignment depends upon the experience of the assigned staff and the risk associated with the review. Work papers should be signed off and dated by the preparer and the reviewer.

**6.7.16.4 Communication** -The HIA and the lead Internal Auditor should communicate the goals and objectives, risks and other relevant information to the internal auditors in order to provide the guidance and understanding necessary to conduct a high-quality assignment. Consultancy services objectives and other relevant information should be documented. The

Supervisor and staff shall maintain regular communication throughout the consultancy services engagement to ensure risks, observations, and conclusions are adequately addressed and resolved.

#### **6.7.17 Reporting results of a Consultancy Services Engagement**

The IAAD maintains a process for communicating the results and recommendations for all consultancy services assignments to the Division requesting the services and the CEO. Communication of the progress and results of consultancy services assignments should be tailored to meet the needs of the Division requesting the consultancy services and the CEO. The form and content of such reports may vary depending on the nature of the assignment and the services requested. The process for reporting results generally includes draft report preparation and reviews, quality assurance reviews and final report issuance and distribution.

##### **6.7.17.1 Written Report Elements**

Reports can be issued in a variety of formats. In drafting a consultancy services report, the auditor shall consider whether the inclusion of any and all traditional audit report elements such as purpose, scope, background, summary, and observation statements would be useful to Management. All results shall be reviewed with Management prior to being placed in final format to ensure that Management's needs and expectations have been met.

##### **6.7.17.2 Oral Report Elements**

In some circumstances, with the agreement of the HIA, consultancy services results may be communicated orally. In these cases, presentations should be reviewed in advance with the HIA. In these cases, the work papers should contain a record of communications with the auditee.

#### **6.8 Consultancy services Report Quality Assurance**

For larger consultancy services projects, a pre-issuance quality assurance review of draft and final written reports should normally be performed by the Internal AIC of the assignment or an independent party and be reviewed by the HIA. The HIA should review and approve the final report prior to issuance

##### **a. Report Timelines**

Written and oral reports should be issued as soon as practical following the completion of consultancy services work.

#### **b. Management Responses**

A management response to a consultancy services assignment is not required.

#### **c. Report Distribution**

Written consultancy service reports should be addressed to the HoD requesting the services and the CEO. In addition, Information copies should be provided to the Internal Auditor, in charge of the consultancy services assignment as well as the HIA. Other personnel may receive a report copy, at the discretion of the HIA in consultation with the CEO. When reports are distributed by electronic means, a hard copy version signed by the HIA should be kept on file.

### **6.9 Significant Internal Control Concerns**

Significant internal control concerns coming to the attention of the Internal AIC of the assignment during the course of the consultancy services assignment should be communicated in writing by internal auditors to appropriate personnel who can ensure that the results are given due consideration.

Use of professional judgment to determine the significance of exposures / weaknesses and the actions taken to mitigate or correct these exposures weaknesses, and, to ascertain the expectations of Management, CEO and the ARC in having these matters reported.

#### **Performing follow-up for Consultancy Services**

The Internal AIC of the assignment shall conduct follow-up only in instances where Management or staff of the division/Division requesting the consultancy services also request for follow-ups or where significant internal control concerns have come to the attention of the IAAD during the course of the assignment. In these cases, normal follow-up procedures as described in prior section should be followed.

#### **Other Consultancy Services Matters**

The IAAD maintains policies for managing administrative and other matters related to the advisory service process in order to facilitate the continuing effective and efficient operation of its function. Advisory service projects are considered audit work products for records retention purposes. For consultancy services projects requiring over forty hours to complete, management surveys should be processed.

#### **6.10 Quality Assurance and Improvement Programme**

The HIA shall develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

The HIA shall communicate the results of the quality assurance and improvement program to senior management and the board.

#### **6.11 Audit Quality**

The establishment and implementation of a quality assurance and improvement programme for Internal Audit is required by the Standards for the Professional Practice of Internal Auditing (the Standards). The HIA shall establish and maintain a quality assurance programme to evaluate the operations of the Division.

The purpose of the programme is to provide reasonable assurance that the internal auditing work conforms to the International Standards for the Professional Practice of Internal Auditing (the Standards), the IAAD's Charter and other applicable standards. A quality assurance programme shall include the following elements:

#### **6.12 Internal Assessments**

Internal assessments include

- i. Ongoing monitoring of the performance of the internal audit activity. This includes continuous supervision focusing on individual audits. It provides assurance to both the HIA and the top management that auditors are doing what they are supposed to be doing in their assignments.

The assurance given shall include not only that auditors conform to the Division's policy as outlined in this manual but also that the work is completed in accordance with the standards adopted by the Division. Properly supervised audit assignments are the first and perhaps the most important step in the process of quality assurance.

- ii. Periodic self-assessment or assessments by other persons within the organization with sufficient knowledge of the internal audit practice.

Experienced members of the IAAD shall undertake the **internal** Quality Reviews of the internal audit function. The reviews should be guided by the principles of objectivity and shall be

conducted by reviewing a range of completed and current audit assignments. The review shall appraise:

- a. The quality of audit work;
- b. The quality of supervision and monitoring;
- c. Compliance with Divisional Policies and Audit Manual;
- d. Compliance with the Code of Ethics and the Standards for the Professional Practice of Internal Audit of the Institute of Internal Auditors and other professional guidelines;
- e. The achievement of stipulated performance standards for:
  - Meeting the annual and monthly work plans;
  - Performance of field work;
  - Issue of reports; and,
  - Follow-up

#### **6.13 External Assessments**

The purpose of external assessments is to provide an independent assurance of quality to the audit management and staff, the top management, the Board of Management and the Audit Committee and others such as external auditors who may rely on the work of internal auditors.

The CEO, in consultation with HIA, shall identify and appoint an appropriate body of person(s) to carry out external assessments. In compliance with Institute of Internal Auditors (IIA) standards, the external assessments of the Division will be performed every five years to appraise the quality of its operations. Upon completion, the Division will receive a formal, written report expressing an opinion on the Division's compliance with the Standards and will include recommendations for improvement as appropriate. Independent external professionals should be engaged to do the **External Quality Assurance**. The review shall:

- a. Check whether the Division is meeting its Mission and Strategic Objectives;
- b. Check whether Internal Auditors are fulfilling their mandated roles and responsibilities;
- c. Identify and correct sub-standard practices;
- d. Check whether the Internal Auditors are observing:
  - The Code of Ethics and the Standards for the Professional Practice of Internal Audit of the Institute of Internal Auditors (IIA Inc);

- Other Professional Guidelines and;
- Divisional Policies and Audit Manual

## **Glossary**

### **Add Value**

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

### **Adequate Control**

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

### **Assurance Services**

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

### **Board**

The highest-level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

### **Charter**

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

## **Chief Audit Executive**

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.

## **Code of Ethics**

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

## **Compliance**

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

## **Conflict of Interest**

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

## **Consulting 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 organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

## **Control**

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that



objectives and goals will be achieved.

### **Control Environment**

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

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

### **Control Processes**

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

### **Core Principles for the Professional Practice of Internal Auditing**

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

### **Engagement**

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

### **Engagement Objectives**

Broad statements developed by internal auditors that define intended engagement accomplishments.

**Engagement Opinion**

The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

**Engagement Work Program**

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

**External Service Provider**

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

**Fraud**

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

**Governance**

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

**Impairment**

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

**Independence**

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

**Information Technology Controls**

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information,

infrastructure, and people.

### **Information Technology Governance**

Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives.

### **Internal Audit Activity**

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

### **International Professional Practices Framework**

The conceptual framework that organizes the authoritative guidance promulgated by the IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended.

### **Must**

The *Standards* use the word “must” to specify an unconditional requirement.

### **Objectivity**

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

### **Overall Opinion**

The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

### **Risk**

The possibility of an event occurring that will have an impact on the achievement of objectives.  
Risk is measured in terms of impact and likelihood.

### **Risk Appetite**

The level of risk that an organization is willing to accept.

### **Risk Management**

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

### **Should**

The *Standards* use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

### **Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

### **Standard**

A professional pronouncement promulgated by the International Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

### **Technology-based Audit Techniques**

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).