

Republic of Rwanda



# Government of Rwanda Internal Audit Procedures Manual

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# Foreword

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The Government of Rwanda, through the Ministry of Finance and Economic Planning, is committed to achieve the highest standards of accountability and transparency in public financial management. By launching the PFM reform strategy 2008-2012, the Government is aiming at having an “Enhanced PFM System that is efficient, effective and transparent” by the end of 2012.

In accordance with Article 12 of Organic Law No. 37/2006 on State Finances and Property which requires the Ministry in charge of Finance “to ensure adequate internal audit arrangements in government”, the Ministry of Finance and Economic Planning has set up independent Internal Audit Units across all government entities.

The Mission of the Internal Audit Unit is to help Ministries, Districts and other Agencies satisfy their statutory and fiduciary responsibilities and use public resources efficiently. Government Internal Auditors shall ensure an independent and systematic evaluation of risk management, control and governance processes in government.

Various instruments have been put in place to regulate and organize the IA function in government entities. While the Ministerial Order N°02/09/10/GP/A of 12/2/2009 outlines the regulatory framework for the conduct of internal audit in Government, this internal audit manual sets out the procedures to be followed by Government Internal Auditors in providing internal audit services to Ministries, Districts and Agencies (MDAs). Procedures set in this Volume are based on the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

In addition to these internal audit manuals, further guidance shall be issued by the Ministry of Finance and Economic Planning; e.g. guidelines for specialised audits, model of internal audit tests and other practice guides.

This internal audit procedures manual is applicable to all Government Internal Auditors in entities managing public resources.

For any clarification or guidance, the reader should get in touch with the Office of the Government Chief Internal Auditor based in the Ministry of Finance and Economic Planning.

  
**John Rwangombwa**

**Minister of Finance and Economic Planning**  
**July 2011**



# Distribution of this manual

This manual is strictly for use by all Government internal auditors in Ministries, Districts and other Government Agencies (MDAs) in the Government of Rwanda. No parts of this manual may be copied without the express written permission of its authors.

## How to use this manual

This manual has been prepared to conform to international standards for the professional practice of internal auditing (highlighted in grey in the manual). Internal auditors are encouraged to refer to the full text of the standards available at [www.theiia.org](http://www.theiia.org).

OGCIA forms are available separately in a CD. The forms are designed to assist auditors in implementing best practices in internal auditing and auditors may customize these further to suit their individual circumstances.

Auditors should refer to the acronyms and definitions of words provided to understand the meaning attributed to names, words and phrases used in this manual.

## Acknowledgement:

We are especially grateful to our development partners, for their financial and material support to the Public Financial Management reforms through which this manual was developed.

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# Glossary of definitions

- 1. Add Value** - The internal audit unit adds value to the entity (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes. Pages 1, 8
- 2. Adequate Controls** – these are present if management has designed and implemented internal controls which provides reasonable assurance that the organization’s risks have been managed effectively so that the organization’s goals and objectives will be achieved efficiently. Page 11
- 3. Analytical review procedures** test the reasonableness of account balances and transactions, involving comparisons of recorded amounts with expectations developed by the auditor, and scrutinizing for unusual items. Involves use of ratios, trends and other statistics. Page 49
- 4. 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. Page 7
- 5. Appropriation** - is a provision in law approved by the Chamber of Deputies approving the maximum amount that a budget agency may incur in making commitments and payments for specific purposes during the financial year. Page 8
- 6. Audit Comfort** – the assurance derived by the auditor that sufficient appropriate audit evidence has been obtained for each significant business activity and related audit area with financial reporting significance to reduce audit risk to a level that will enable the auditor to issue his opinion on the financial statements or other review subject. Page 49
- 7. Audit Risk** - Audit risk refers to the potential threats to the attainment of audit objectives. Audit risk encompasses inherent risk, detection risk and control risk. Page 14, 70
- 8. Auditable Area** – a project, process, department, system or transaction that cluster possible audit projects in the audit universe form the basis for including audit assignment in the annual audit plan. Pages 19, 32, 33
- 9. Application Controls** – Programmed procedures in application software, and related manual procedures, designed to help ensure the completeness and accuracy of information processing. Examples include computerized edit checks of input data, numerical sequence checks, and manual procedures to follow up on items listed in exception reports. Pages 43, 74
- 10. Audit Evidence** – information used by the auditor in arriving at the audit opinions, conclusions and recommendations. The information supports planning, testing and reporting steps. Pages 30, 47
- 11. Audit Plan** – A high level description of the activities scheduled to be performed by the internal audit unit in one financial year. Also sometimes referred to as action plan. Page 19, 30, 34
- 12. Audit sampling** - Audit sampling is the application of auditing procedures to a representative group of less than 100% of the items within an account balance or class of transactions for the purpose of evaluating some common characteristic of the population. Pages 22, 40, 45

# Glossary of definitions

**13. Business process** - Any sequence of transactions that takes place in order to get work done and achieve the business' objectives. These may range, in order of complexity, from a simple procedure, such as paying a bill, to functional, such as maintaining an organization's financial records, to cross functional, like application of human resources. Pages 40, 41, 43

**14. 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. Pages 1, 2

**15. 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. Page 2

**16. Compliance** - Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements. Page 4, 14

**17. 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. Page 8, 23

**18. Consulting Services** - Advisory and related auditee service activities, the nature and scope of which are agreed with the auditee, 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. Page 8, 23

**19. Control** - Any action taken by management, the supervisory 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. Page 7, 10, 31, 33

**20. Control Environment** - The attitude and actions of the supervisory 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: Page 11, 22

- 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.

**21. Control Processes** - The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process. Page 25

## Glossary of definitions

- 22. Control Risk** - the level of business risk not being prevented or detected by the internal control environment as a whole. One of the three components of audit risk, control risk is the risk that a material misstatement that could occur in an account or cycle will not be prevented or detected and corrected on a timely basis by the entity's internal controls. This risk is a function of the effectiveness of the design and operation of internal control in achieving the entity's objectives relevant to the preparation of the entity's financial statements. Page 46
- 23. Corporate Governance** - The combination of processes and structures implemented by the supervisory board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. Page 8, 9
- 24. Corrective Action Plan** - List of specific corrective actions agreed with management to close gaps in internal control, governance or risk management processes within an agreed period of time. Internal audit validates implementation of the actions with responsible managers and reports on progress to top management and the supervisory board. Page 20, 28, 44
- 25. Detection Risk** - Detection risk is the risk that the auditor will not detect a material misstatement that exists in an account balance or class of transaction. This risk is a function of the effectiveness of the auditing procedures and their application by the auditor. Detection risk is considered when determining the nature and extent of audit work. Page 46
- 26. Effectiveness** - of risk management, control, and governance processes is present if management directs processes in such a manner as to provide reasonable assurance that the organisation's objectives and goals will be achieved. Page 12, 40
- 27. 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. Page 30, 32, 38
- 28. Engagement audit plan memorandum** – A document that describes the overall audit strategy for an audit engagement. The document should be approved by the head of the internal audit function. Pages 39, 43, 45
- 29. Engagement Objectives** - Broad statements developed by internal auditors that define intended engagement accomplishments. Page 24, 39
- 30. Engagement Work Program** - A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan. Also referred to as Audit Programs. Page 39, 45
- 31. Entity** – An organization of any size established for a particular purpose. An entity, for example, may be a business enterprise, not-for-profit organization, government body, or academic institution. Terms used as synonyms include organization and enterprise. Page 45, 49
- 32. Entity Objectives** – The reason for any risk management framework is to enable an organization to meet its objectives. Objectives should be assessed at the operational unit level and linked to the overall entity mission. Page 7, 8, 9, 10
- 33. External Assurance Service Provider** - A person or firm outside of the organization

# Glossary of definitions

that has special knowledge, skill, and experience in a particular discipline. Page 28, 39

**34. 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. Page 14, 24, 28, 43

**35. Government** – shall mean the Government of Rwanda

**36. Head of Internal Audit Unit** - HIA describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the Standards. The HIA or others reporting to the HIA will have appropriate professional certifications and qualifications. The specific job title of the HIA may vary across organizations. Page 12, 13, 15, 18

**37. IT General Controls** - Controls used to manage the IT activities and computer environment, covering the following areas: Maintenance of existing systems, Development and implementation of new systems, information security, and computer operations. Page 43

**38. IIA Standards** – The purpose of the International Standards for the Professional Practice of Internal Auditing (IIA Standards) is to:

- Delineate the basic principles that represent the practice of internal auditing as it should be;
- Provide a framework for performing and promoting a broad range of value-added internal audit activities;
- Establish the basis for the evaluation of internal audit performance;
- Foster improved organisational processes and operations.

The Standards consist of Attribute Standards, Performance Standards and implementation standards: Page 3, 21

**Attribute Standards** address the characteristics of organisations and parties performing internal audit activities. Page 21

**Performance Standards** describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. Page 26

**Implementation standards** expand upon the attribute and performance standards, by providing the requirements applicable to assurance (A) or consulting (C) activities.

**39. Independence** - The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. Page 21, 22

**40. 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). Page 21

**41. Information Technology Controls** - Controls that support business management and governance as well as provide general and technical controls over information technology

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infrastructures such as applications, information, infrastructure, and people. Page 43

**42. Inherent risk** - Inherent risk is one of the three components of audit risk. The susceptibility of an account balance or cycle to material misstatement, assuming there were no related internal controls. These risks are specific to the client and can relate to macro-economic, industry or entity level conditions or to characteristics of the entity's controls. Page 30, 33

**43. Internal Audit Unit/ 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. Page 26, 31

**44. Key Controls** - The controls in which the most reliance is placed with respect to mitigating risk and which is the focus of audit tests. Page 12, 42, 44

**45. Materiality** – the degree of relevance or significance of an absent, inappropriately designed or ineffective control or management arrangement, in relation to the business risk of the organisation. Materiality is the magnitude of an omission or misstatement of accounting information that may change or influence the judgement of a reasonable person. Page 24, 25

**46. 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. Page 8, 21, 23

**47. Professional Scepticism** - an attitude, which means that the auditor should not accept explanations at face value, but should validate or corroborate explanations with sufficient and appropriate evidence. Page 24, 25

**48. Reasonable Assurance** – The concept that enterprise risk management and internal control, no matter how well designed and operated, cannot provide an absolute assurance regarding achievement of an entity's objectives. This is because of Inherent Limitations in enterprise risk management and internal control. Page 62

**49. Risk Assessment** – The process of identifying and rating potential events that may negatively impact the achievement of entity objectives. Page 14, 32, 34, 43

**50. Risk Appetite** – The broad-based amount of risk a company or other entity is willing to accept in pursuit of its mission (or vision). Page 31

**51. Residual Risk** - The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk. Page, 30, 33,43

**52. 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. Page 10, 13, 14

**53. Risk Management** - A process to identify, assess, manage, and control potential events

# Glossary of definitions

or situations to provide reasonable assurance regarding the achievement of the organization's objectives. Page 9, 31, 67

**54. Sampling Risk** – the risk that sampling techniques will lead the auditor to an incorrect conclusion, compared to the conclusion reached if the whole population were tested. This is the risk that the conclusions drawn from an audit sample testing might be different from those that would have been reached if the auditing procedures were applied to all the items in the account or population. Page 45

**55. 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. Page 20, 21, 33

**56. Statement on internal control** - A statement regarding the adequacy and effectiveness of the entity's internal control system during the fiscal year covered by financial statements signed the entity's Chief Budget Manager. Page 12, 63

**57. Substantive Tests** – an evaluation of an individual transaction, asset or liability in comparison to its recorded or expected value or state. Substantive tests include substantive analytical procedures and tests of details of transactions and account balances. Their purposes if to provide evidence supporting management's implicit financial statement assertions or, conversely to discover misstatements in the financial statements directed to management information capable of being related to financial statement assertions. Page 44

**58. Supervisory Board** - an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the Supervisory Board to whom the HIA may functionally report. Page 27, 67, 68

**59. Team Leader** – the auditor leading a team in an audit assignment. Page 42,48, 54

**60. Test of Controls** – the evaluation of the design and operation of an identified internal control. Page 44, 74

**61. Terms of reference** – an audit planning document prepared to outline the objectives, scope, responsibilities and other expectations of a consulting engagement agreed between the auditor or the auditee especially in consulting engagements. Page 45

**62. Top Management** – Top management in local authorities include Mayors and Executive Secretaries, and/or in ministries and agencies, they include permanent secretaries or/and chief budget managers. Page 3, 7, 15

**63. Value for Money** refers to the economy, efficiency and effectiveness of an organisation's operations. Page 14

**64. Walk Through Test** – the process of confirming an auditor understands of a system and its related controls by following one transaction through the entire system, from start to finish. Page 43

# Acronyms and abbreviations

**ACCA:** Association of Chartered Certified Accountants  
**ACFE:** (Association) Certified Fraud Examiners  
**CAAT:** Computer Assisted Audit Techniques  
**CBM:** Chief Budget Manager  
**CIA:** Certified Internal Auditor  
**CGAP:** Certified Government Audit Professional  
**CISSP:** Certified Information System Security Professional  
**CISA:** Certified Information Systems Auditor  
**CISM:** Certified Information Systems Manager  
**CRMA:** Certification in Risk Management Assurance  
**COBIT:** Control Objectives for Information and related Technology  
**COSO:** Committee of Sponsoring Organizations of the Treadway Commission  
**CWPF:** Current Working Paper File  
**ERM:** Enterprise Risk Management  
**G CIA:** Government Chief Internal Auditor  
**GoR:** Government of Rwanda  
**HIA:** Head of Internal Audit Unit  
**IA:** Internal Audit  
**IAUs:** Internal Audit Units  
**ICT:** Information Computer Technology  
**ICFR:** Internal Control over Financial Reporting  
**IDEA:** Information Data Extraction and Analysis  
**IIA:** Institute of Internal Auditors  
**INTOSAI:** International Organization of Supreme Audit Institutions  
**ISACA:** Information System and Control Association  
**ISSAI:** International Standards of Supreme Audit Institutions  
**IPPF:** International Professional Practice Framework  
**IPSAS:** International Public Sector Accounting Standards  
**ISPPIA:** International standards for the professional practice of internal auditing  
**MDAs:** Ministries, Districts and Agencies  
**MINECOFIN:** Ministry of Finance and Economic Planning  
**PAF:** Permanent Audit File  
**PFM:** Public Financial Management  
**OAG:** Office of the Auditor General  
**OBL:** Organic on State Finances and Property  
**OGCIA:** Office of the Government Chief Internal Auditor  
**RBIA:** Risk Based Internal Auditing  
**VfM:** Value for Money

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# Audit Forms

Form	Description	Purpose	Mandatory Template	Preparer	Reviewer
OGCIA Form 1	Internal control questionnaire	Conduct survey of the entity level controls	To be completed for each audit	IA	HIA
OGCIA Form 2	Example audit opinions	Different audit opinions for different types of audits	To be completed for each type of audit	IA	HIA
OGCIA Form 3	Fraud incidence reporting template	To report identified fraud incidences for further action	Only completed when applicable, but in such cases it is mandatory	IA	HIA
OGCIA Form 4	Standard job descriptions	Describe the roles and responsibilities of each job position			
OGCIA Form 5	Statement of auditor's objectivity and ethics	To document conflict of interests and threats to the auditors objectivity	Only completed when applicable, but in such cases it is mandatory	IA	HIA/GCIA
OGCIA Form 6	Tick marks	Symbols indicating audit test carried out		IA	
OGCIA Form 7	Risk Model	To categorise risks based on their source for analysis			
OGCIA Form 8	Risk control matrix template	To map risks and internal controls	To be completed during entity wide and engagement level risk assessment	IA	HIA
OGCIA Form 9	Heat map	To give a graphical view of risks per auditable area		IA	HIA
OGCIA Form 10	Three year rolling plan	Three year rolling plan covering the audit universe	To be completed every year.	IA	GCIA
OGCIA Form 11	Annual audit plan	List of audit assignments to be undertaken in the year	To be completed every year.	HIA	GCIA
OGCIA Form 12	Audit notification letter	To Inform auditee of commencement of an audit	To be completed for assurance engagement	IA	HIA
OGCIA Form 13	Auditor Appointment letter	To introduce internal auditors from OGCI to auditee		GCIA	
OGCIA Form 14	Request for audit information	A list of documents to be prepared in advance by the auditee for the auditor	To be completed for each audit	IA	HIA
OGCIA Form 15	Minutes template	To record minutes e.g. entrance, closing etc	To be completed for each meeting	IA	HIA
OGCIA Form 16	Standard flow charting symbols	To document flow of activities in a process		IA	HIA
OGCIA Form 17	Information request monitoring checklist	To track when information requested was provided	To be completed or updated for each audit	IA	HIA
OGCIA Form 18	Business process analysis template	To document understanding of the process	To be completed or updated for each audit	IA	HIA
OGCIA Form 19	Understanding the IT environment	To document understanding of the IT environment and assess IT complexity	To be completed or updated for each audit	IA	HIA
OGCIA	Assessing IT general	To conduct a high level assessment of IT	To be completed or for	IA	HIA

# Audit Forms

Form	Description	Purpose	Mandatory Template	Preparer	Reviewer
<b>Form 20</b>	controls and application controls	general controls and application controls	updated each audit		
<b>OGCIA Form 21</b>	Fraud risk assessment checklist	To document fraud risk assessment by the team and plan appropriate audit steps	To be completed for each audit	IA	HIA
<b>OGCIA Form 22</b>	Audit objectives and criteria template	To identify key controls, control objectives, develop audit objectives and audit tests to be carried out	To be completed for each audit	IA	HIA
<b>OGCIA Form 23</b>	Audit planning memorandum template	Summarise audit objective, scope, key risks, controls, audit approach, auditee, team etc for consideration and approval	To be completed for assignments two weeks fieldwork or two or more team members.	IA	HIA
<b>OGCIA Form 24</b>	Terms of reference for internal audit engagements	To inform the auditee of the scope	To be completed for consulting assignments	IA	HIA
<b>OGCIA Form 25</b>	Audit program template	List of audit procedures to be carried out	To be completed for each audit	IA	HIA
<b>OGCIA Form 26</b>	Sampling template	Document how samples are selected		IA	HIA
<b>OGCIA Form 27</b>	Working paper	Document work carried out	To be completed for each audit	IA	HIA
<b>OGCIA Form 28</b>	Quality control checklist	Used in wrapping up audit file to ensure completion of audit tests and working paper file	To be completed for each audit	HIA	
<b>OGCIA Form 29</b>	Review notes working paper	To record supervisors comments and disposal of the comments	To be completed for each audit	HIA	
<b>OGCIA Form 30</b>	Record of control weaknesses	Form for evaluating audit finding	To be completed for all high and medium risk issues	IA	HIA
<b>OGCIA Form 31</b>	Internal audit report template	Audit report format ( issues, issue ratings, audit opinions etc)	To be completed for each audit	IA	HIA
<b>OGCIA Form 32</b>	Issue tracking database template	Database for monitoring disposal of audit findings	To be completed for all high and medium risk issues	HIA	
<b>OGCIA Form 33</b>	Supervisory board report template	Summarise significant observations, unresolved audit findings and audit recommendations	To be prepared quarterly	HIA	
<b>OGCIA Form 34</b>	Auditee satisfaction survey	To obtain feedback after the end of the assignment on internal audit service	To be completed for each entity annually	IA	HIA
<b>OGCIA Form 35</b>	Work allocation and time budget template	To assign work and time to staff in an audit assignment	To be completed for each audit	IA	HIA
<b>OGCIA Form 36</b>	Resource calendar or Chronogram	To assign work and time to assignments in the audit plan		IA	HIA
<b>OGCIA Form 37</b>	Staff engagement appraisal template	To establish objectives of team members and assess performance on each engagement	To be completed for each audit	IA	HIA



# **Chapter 1: Introduction**

# Chapter 1: Introduction

## 1.1 Internal audit manuals and guidelines

1.11. This internal audit manual sets out the procedures to be followed by Government Internal Auditors in providing internal audit services to Ministries, Districts and Agencies (MDAs).

1.12. The **Ministerial Order** No.02/09/10/GP/A of 12/2/2009 (as may be updated) setting out Regulations for Internal Control and Internal Audit in Government outlines the regulatory framework for the conduct of internal audit in Government entities.

1.13. The **Government of Rwanda Internal Audit Charter** describes the purpose, authority, and responsibility of internal audit function in Government of Rwanda. It defines the relationship between the Office of the Government Chief Internal Auditor (OGCIA) based in the Ministry in charge of Finance (MINECOFIN) and various Internal Audit Units in individual government entities. The Charter also defines the scope of internal audit, the audit universe, and the required coordination with the Office of the Auditor General of State Finances (OAG).

1.14. The **Government of Rwanda Code of Ethics for Government Internal Auditors** puts in place the guidelines governing the conduct of Internal Auditors in Government.

1.15. Procedures set in this Internal Audit Procedures Manual are based on the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, (IIA).

1.16. In addition, further guidance shall be issued by the Ministry in charge of Finance; e.g. guidelines for specialised audits, model of internal audit tests and other practice guides.

### 1.17. Internal Audit Definition

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”

## 1.2. Background of Internal Audit Units in Government

1.21. Organic Law No. 37/2006 of 12th September 2006 on State Finances and Property (OBL), and the associated Ministerial Order No. 002/07 of 15th February 2007 on government financial regulations devolved internal control responsibilities to the budget agencies.

Budget agencies are thus required to put in place enabling environment for the design and implementation of sound internal control systems and a mechanisms for obtaining assurance that those systems are operating as intended, and if otherwise, take appropriate and timely remedial measures.

Further, Article 12 of Organic Law No. 37/2006 requires the Ministry in charge of Finance “to ensure adequate internal audit arrangements in government”.

1.22. Article 36 of the Ministerial Order No. 002/07 requires the establishment of internal audit units (IAU) within “all government institutions”.

1.23. Consequently, the former department of “Inspection Générale des Finances (IGF)” in

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MINECOFIN was transformed into the Office of Government Chief Internal Audit (OGCIA), headed by the Government Chief Internal Auditor (GCIA) with broader scope and mandate over budget agencies but also any other entities which benefit in any way from State resources.

1.24. The GCIA is responsible for supervising and supporting all internal audit units in government and reports administratively to the Permanent Secretary and Secretary to the Treasury (PS/ST) and functionally to the Minister in Charge of State Finances.

## 1.3. Mission of IA Units in Government

The Mission of the Internal Audit Unit is to help MDAs satisfy their statutory and fiduciary responsibilities and use public resources effectively and efficiently. Government Internal Auditors shall ensure an independent and systematic evaluation of risk management, control and governance processes in Government.

## 1.4. Values of Government Internal Auditors

The main values of the Government Internal Auditors are:

- Integrity;
- Objectivity;
- Professionalism; and
- Quality service.

## 1.5. Internal Audit Charter

### 1.51. Applicable IIA Standard: 1000 – Purpose, Authority, and Responsibility

1.52. The purpose, authority, and responsibility of Internal Audit (IA) in GoR is laid out in the standard Internal Audit Charter issued by the Minister in charge of Finance. The Charter applies to internal audit units in all government entities. However, government entities may adapt the Charter to their specific circumstances.

The Charter provides that all internal auditors:

- Shall audit all activities of the MDAs;
- Shall have full and complete access to all records, physical properties, and personnel relevant to the performance of an audit;
- Shall have full access to top management and the Supervisory Board;
- Shall be entitled to appropriate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- Shall obtain the full cooperation of personnel in MDAs.

1.53. Internal auditors are not authorised to:

- Perform any operational duties for the entity;
- Initiate or approve accounting transactions external to IAUs; and
- Direct the activities of any employee in the entity not employed by IAUs, except to

# Chapter 1: Introduction

the extent such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

## 1.6. International Standards for the Professional Practice of Internal Auditing (ISPPIA)

1.61. Applicable IIA Standard: 1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter

1.62. Internal Audit in Government of Rwanda (GoR) has adopted ISPPIA through Ministerial Order N° 02/09/10/GP/A of 12/2/2009 (as may be updated) establishing internal control and risk management in government, internal audit and Supervisory Board. The Office of GCIA will promote awareness of these standards and internal audit profession among its stakeholders.

1.63. The ISPPIA comprises:

- Mandatory guidance – Definition, Standards and Code of Ethics; and
- Recommended guidance – practice advisories, practice guidance and position papers

IIA standards as at January 2011 are referenced in relevant sections of this manual in greyed-text. The full standards can be obtained at The IIA website, [www.theiaa.org](http://www.theiaa.org).

## 1.7. Code of Ethics for Government Internal Auditors

1.71. The Code of Ethics for Internal Auditors is published by Ministerial Instruction. The code is guided by Organic Law n°61/2008 of 10/09/2008 on the leadership code of conduct; law n° 23/2003 of 07/08/2003 aims at prevention, suppression and punishment of corruption and related offences; and the Code of Ethics issued by the Institute of Internal Auditors.

1.72. Government Internal Auditors are required to comply with the following fundamental principles:

- Integrity;
- Objectivity;
- Professional competence; and
- Confidentiality.

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

1.74. Heads of Internal Audit Units shall ensure that the definition of internal auditing, the code of ethics, and the standards are well understood by top management and the supervisory board.

1.75. Internal auditors must acquaint themselves with the ISPPIA and the Code of Ethics for

# Chapter 1: Introduction

internal auditors. All auditors will be required to sign the Code of Ethics declaration confirming their understanding and commitment to compliance with the Code of Ethics for Government Internal Auditors. Heads of Internal Audit must report any non compliance to the Standards and Code of Ethics for internal auditors within their internal audit units quarterly to the GCIA and Supervisory Board for appropriate assistance and action.

## 1.8. Applicability

1.81. This internal audit procedure manual is applicable to all Government Internal Auditors in entities managing public resources including government ministries, legislative organs, autonomous and semi-autonomous public entities and local government entities.

1.82. Detailed guidelines will be issued for performance, financial, risk assessment, forensic, IT audits and other audit subjects.

## 1.9. Organisation of the manual

Chapter	Description
Glossary of definitions	This section provides definitions and meanings of words and phases as used in the manual
Acronyms and abbreviations	This section provides acronyms used are explained..
1. Introduction	Outlines internal audit purpose and how it is regulated in Government of Rwanda.(this chapter)
2. Nature of work	Establishes the rationale, context and role for the internal audit function.
3. Organisation and management of the internal audit unit	Identifies the organization structure of internal audit function in Rwanda and assigns responsibilities for the fulfilment of the tasks necessary for an effective internal audit activity and identifies the competencies required to fulfil those tasks.
4. Risk Assessment and Annual Audit Plan	Outlines the processes that should be followed to identify the most appropriate internal audit engagements to be undertaken.
5. The Audit Engagement cycle 5.1 Overview 5.2 Engagement planning 5.3 Performing 5.4 Communicating engagement outcomes 5.5 Monitoring	Describes the steps that should be followed in planning, performing, reporting individual audit engagements and monitoring outstanding findings.
6. Administrative matters	Describes how internal audit should manage the internal audit function.
7. OG CIA Forms	These are provide tools and working papers to be used by internal auditors and are distributed separately in electronic form.

# Chapter 1: Introduction

## 1.10. Audit Management System


The Government of Rwanda has acquired 30 user licences of CCH TeamMate audit management software. The software is being piloted by the Office of the Government Chief Internal Auditor at MINECOFIN and select internal audit units from central and local government.

The procedures outlined in this manual will be automated in TeamMate software by the pilot internal audit units. TeamMate modules and corresponding sections in this manual or OG CIA forms are listed below.

- TeamRisk – audit universe and risk assessment – Chapter 4, risk assessment and audit plans
- TeamSchedule – project and resource scheduling, Paragraph 4.40 Resource planning, OG CIA Form 35.
- TeammateEWP – electronic working papers – Chapter 5, internal audit process and Chapter 6.4. Current Audit file
- TeamTec – time and expense capture – Chapter 6, paragraph 6.24, OG CIA Form 35.
- TeamCentral – project and exception capturing, Chapter 5, internal audit process - monitoring

## 1.11. Effective date

The manual becomes effective on the day of its approval by the Minister of Finance and Economic Planning.



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

# Chapter 2: Scope and nature of work

## 2.1. Introduction

This chapter describes the nature and scope of internal audit work to be carried out by Government Internal Auditors.

### 2.11. Applicable IIA Standard: 2100 – Nature of Work

2.12. It is the responsibility of top management and other personnel in the entity to establish and implement effective risk management, internal controls and governance processes in the entity, as stipulated in Article 9 of Ministerial Order N° 002/07 of 9/2/2007 relating to financial regulations.

2.13. The Supervisory Board or equivalent body have an oversight role to determine whether appropriate management processes are in place and that the processes are adequate and effective.

2.14. As provided for by Article 9 and 11 of the Ministerial Order N° 002/09/10/GP/A of 12/02/2009 (as may be amended), the nature of work of the IAUs is to evaluate the adequacy and effectiveness of an entity's existing risk management, control and governance processes in order to provide:

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

## 2.2. Internal Audit Services

### 2.21. Assurance Services

Assurance service is an objective examination of evidence for the purpose of providing an independent assessment on risk management, control or governance processes of the entity. IAU fulfils its audit obligations by:

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

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

### 2.22. Consulting services

2.22.1. IA units shall provide consulting services, the nature and scope of which are agreed upon with management and which according to IA judgement are intended to add value and

## Chapter 2: Scope and nature of work

improve an entity's operations. Examples include counsel, advice, facilitation, process design, training, etc.

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

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

2.22.4. Auditors may receive minutes of meetings or act in an ex-officio capacity to provide advice on specific issues and concerns, taking into account previous audit recommendations, internal control practices, and risks that the entity may face. It should be made clear to the audited entity that IA would not be associated with or endorse the final policies arrived at by the entity as a result of attending such meetings/presentations.

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

2.2.6. The Office of GCIA shall provide further guidance on consulting services.

### 2.3. Role of Government IA in Corporate Governance

#### 2.31. Applicable IIA Standard: 2110 – Governance

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

2.33. Effective governance processes should embrace the following principles:

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

- Handled properly and honestly;
- Spent responsibly and in accordance with statutory, regulatory and appropriation provisions, and not used for personal gain; and
- Used economically and efficiently to deliver programs that effectively meet the Government's goals.

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

iii.) Supporting the focus on outputs, outcomes, service plans and performance reporting;

iv.) Promoting openness, fairness and transparency in the conduct of Government business and activities;

## Chapter 2: Scope and nature of work

v.) Promoting and encouraging consistent and best practices in the management and administrative processes in Government; and

vi.) Ensuring that public funds are used in the amounts and for the purposes authorised by Parliament.

2.34. Internal Audit shall evaluate the effectiveness of governance processes against the principles outlined above and leading best practices.

2.35. Corporate governance practices have a pervasive influence on the control environment in any entities and internal auditors shall understand and assess the effectiveness when carrying out assignments.

2.36. Internal auditors shall have an understanding of the strategic objectives of government entities, how their entities are managed, governing legal and regulatory framework and different stakeholders and their influence.

2.37. In consultation with top management and the Supervisory Board, Internal Auditors can assist in facilitating board education, and providing, to the Audit Committee, secretarial services among others.

2.38. The role of internal audit in corporate governance will be elaborated in a separate guideline.

### 2.4. Role of Government IA in Risk Management

2.41. Applicable IIA Standard: 2120 – Risk Management

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

2.43. The elements of an effective risk management framework include:

- Policy framework and procedures;
- Risk management structure;
- Risk assessment process;
- Portfolio view of risks;
- Board oversight; and
- Risk awareness.

2.44. The Government of Rwanda adopts the IIA's position paper 'The Role of Internal Auditing in Enterprise-wide Risk Management' which identifies the nature of assurance and consulting services that IA can provide.

2.45. The main role of IA is to provide independent and objective assurance to top management and the Board, on the adequacy and effectiveness of the risk management processes in MDAs and recommend improvements. IA should be guided by COSO Enterprise Wide Integrated Risk Management Framework.

## Chapter 2: Scope and nature of work

2.46. Where management has not put in place a formal risk management framework; IA acting in a consulting role, and with sufficient safeguards, can assist the entity in identifying, evaluating risks and implementing risk management methodologies and controls to address risks.

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

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

2.48. The role of internal audit in risk management will be elaborated in a separate guideline.

### 2.5. Internal Controls

2.51. Applicable IIA Standard: 2130 – Control

2.52. As stated in Article 9 of Ministerial Order N° 002/07 of 09/02/2009 (as may be updated), it shall be the responsibility of the CBM and other personnel in the entity to establish and implement effective internal controls in the entity.

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

Internal control is intended to prevent financial loss and waste, promote efficient public financial management and accountability, prevent or detect and deter fraud or other irregularities, prevent or detect error, safeguard the entity's assets, promote ethical, orderly, efficient and effective government programmes or projects, enhance reliability of financial information and reports, and promote compliance with laws and regulations.

As provided in Article 21 of the Organic Law n° 37/2006 of 12/09/2006 on state finances and property and article 5 of the Ministerial Order n° 002/09/10/GPIA of 12/02/2009 setting out regulations for internal control and internal audit in Government, the responsibility to establish and maintain an effective and adequate controls in the Ministry, rests with its Chief Budget Manager and other personnel.

#### 2.54. Components of the internal control system

Ministerial Order N° 002/07 of 09/02/2009 (as may be revised) requires internal control systems to be based on COSO Internal Control Integrated Framework which has the following five components.

## Chapter 2: Scope and nature of work

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

(ii) **Risk assessment:** is the identification and analysis of relevant risks that threaten the achievement of objectives; it forms the basis for determining how the risks should be managed.

(iii) **Control activities:** entailing the specific controls put in place in the entity. The following are the examples of such controls: procedures for transaction authorization, transaction verification, segregation of duties, spending ceilings, system access passwords, earmarking expenditures, tendering processes, bank reconciliation, monthly review of budget execution reports, "imihigo" performance reviews, etc.

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

(iv) **Information and communication:** this entails the reliability and timeliness of reported information, the frequency of internal communication regarding the need and objectives effective internal controls in the entity, and the effectiveness of the mode of communication and reporting practices in the entity.

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

### 2.55 Evaluating the System of Internal Controls

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

2.55.2. The *Internal Control Questionnaire for government entities, OGCIA Form 1* be used to assess the components of the COSO internal control model.

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

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

## Chapter 2: Scope and nature of work

- **Authorization** – approved party authorised the transaction
- **Validity** – the activity or underlying event occurred
- **Accuracy** – the terms, amounts ,etc were correct
- **Timeliness** – information was recorded in the proper period
- **Confidentiality** – information was kept private
- **Integrity** – information is free from corruption and alteration
- **Availability** – information is stored and readily available

2.55.5. Based on this review and other audit evidence gathered in that year, the HIA shall form and issue an **overall annual opinion on the effectiveness of internal controls** in the entity to the audit committee to support the **assessment of the adequacy and effectiveness of the internal control system** by the committee. Ministerial Order N° 002/07 of 09/02/2009 (as may be updated), requires that the head the Internal Audit unit in a government entity makes an annual independent statement about the overall adequacy and effectiveness.

2.55.6. The annual overall opinion on the effectiveness of internal controls in committee shall be timed to support the Statement on Internal Control.

2.55.7. The internal control reviews shall follow the audit approach described in Chapter 5.

2.55.8. The Office of the Government Chief Internal Audit shall prepare guidelines on implementation on internal control frameworks.

### 2.56. Review of Financial Information

01.) Ministerial Order N° 002/07 of 09/02/2009 (as may be updated), requires that internal auditors:

- Within 10 working days after the end of the month, the Head of Internal Audit Unit shall submit to the Chief Budget Manager a review report on the financial information of the previous month. The purpose of this monthly review is to advise management on its completeness, reliability and consistency with accounting records.
- On a quarterly basis, within 21 working days after the submission of the financial report to the Accountant General's Office, the Head of Internal Audit shall submit a review report on the financial information submitted by the government entity. This report is submitted to the Board, or District Council or the Supervisory Board and the Government Chief Internal Auditor. The Chief Budget Manager shall receive copies of the quarterly financial review reports.
- Within 30 days after the submission of the annual financial statements to the Accountant General's Office, the Head of Internal Audit shall submit a report on the review of the accounts of the whole financial year.

02.) Internal audit review of financial information is aimed at supporting management assertion over internal controls in the entity alongside the financial reports. Internal audit opinion must be timed to support the management opinion. Generally, internal audit opinion should be issued within a month of the management opinion as the continuing effectiveness of internal controls can change over time.

03.) Internal audit should review the reliability of financial information against the following management's assertions made by management.

## Chapter 2: Scope and nature of work

- **Occurrence** - all transactions and events that have been recorded in the financial statements have actually occurred or happened and relate to the entity.
- **Completeness** - all transactions and account balances that should have been recorded have actually been recorded.
- **Accuracy** that all data and transactions have been accurately recorded.
- **Cut-off** - transactions have been recorded in correct accounting period.
- **Classification** - transactions and events have been recorded in the proper accounts.
- **Rights and obligations** - assets and liabilities are owned by the entity.
- **Valuation and allocation** - all assets, liabilities and equity interests are included in the financial statements at appropriate amounts including any resulting valuation adjustments.
- **Understandability** - Information is appropriately presented, described and clearly expressed.

04.) A financial audit guidelines modeled on International Public Sector Accounting Standards (IPSAS) will be issued for conducting financial reviews.

05.) A negative assurance opinion will be issued on completion of each review. Example *Audit opinions are attached as OG CIA Form 2.*

**2.6. Risk based approach** - The Government of Rwanda has adopted a risk based audit approach and uses the other audit approaches described below where appropriate to meet specific audit objectives. Risk based approach focuses on the areas of highest risk to attaining the entity objectives.

### 2.7 Types of Audits

The internal audit objective shall be pursued through the following audit missions: Systems Audit, Financial Audit, Performance Audit, Compliance Audit and Forensic Audit which are described below.

**2.71. Compliance auditing** – approach where focuses on whether or not laws, regulations, procedures and policies are being adhered to.

**2.72. Systems approach** - evaluation of the design and operation of an organisation's systems and process rather than locations or departments. It follows an horizontal rather than a vertical approach by reviewing an activity across the entity e.g. Order –to- pay cycle.

**2.73. Value for money** – review for processes to determine whether resources have been used efficiently, effectively and economically.

#### 2.74. IT Audits

Audit of information systems. A detailed guideline will be issued for conducting IT Audits.

**2.75. Financial review** – This type of audit involves verification of the correctness, entirety, legitimacy, provability and regularity of financial transactions, revenue and expenditure, account balances of assets and liabilities, including physical verification of tangible fixed assets, and integrity of accounting books and records.

## Chapter 2: Scope and nature of work

### 2.8. Fraud detection and investigations

2.81. Applicable IIA Standard : 1210.A2

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

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

2.84. Any confirmed cases of fraud shall be reported to the Supervisory Board, the Office of the GCIA. Internal audit shall also report the findings to top management except where top management is suspected of involvement in the fraud.

2.85. The internal auditor should draw the immediate attention of the HIA and the GCIA soon after discovery of any irregularities for direction. For this purpose, the internal auditor should complete *Audit Fraud Reporting template, OG CIA Form 3*, and submit it to the officials indicated. In collaboration with the GCIA, the HIA should immediately give direction on the way the irregularity should be investigated and reported.

2.86. The internal auditors shall note that an irregularity is punishable under the penal code and thus a criminal offence. Therefore, the internal auditors should exercise due professional diligence to distinguish irregularities from ordinary non-compliance with prescribed procedures. The dividing line should be that: whilst an irregularity is characterised by intentional deception, ordinary non-compliance with procedures should be unintentional.

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

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

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

2.89. Guidelines for conducting fraud investigations will be issued by the Office of the GCIA.

# **Chapter 3: Organisation and management of the internal audit units**



# Chapter 3: Organisation and management of the internal audit units

## 3.1. Internal Audit Structure

### 3.11. Applicable IIA Standard: 2000 – Managing the Internal Audit Activity

### 3.12. Office of the Government Chief Internal Auditor (OGCIA)

Internal Audit in Government is supervised by the Office of the GCIA. The GCIA is administratively accountable to the Permanent Secretary of the Ministry in charge of Finance and functionally to the Minister in charge of State Finances. Currently, the OG CIA has two sections, namely local and central government. An organisation structure for the department is provided below.

### 3.13. The main functions of the Office of the GCIA are to:

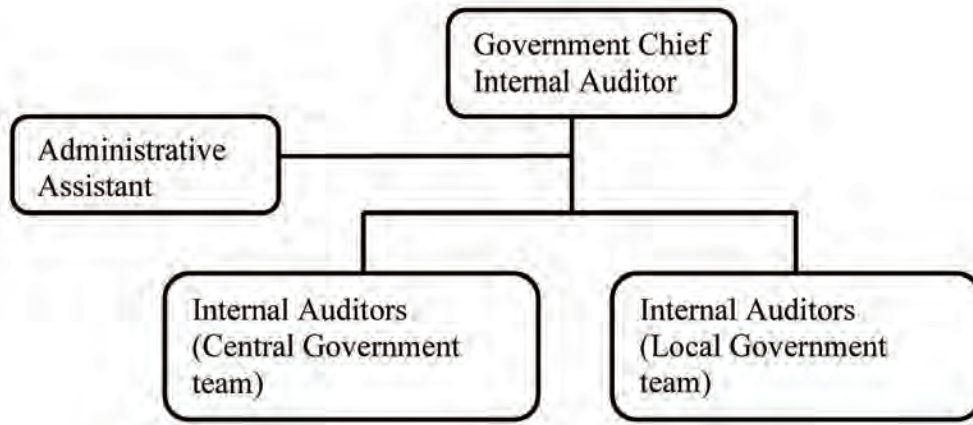
- i.) Supervise and support internal audit function across all government entities;
- ii.) Formulate and disseminate internal audit regulations, policies, guidelines, audit methodology, etc;
- iii.) Ensure the recruitment, development and maintaining of an audit staff with sufficient knowledge, skills and experience to execute the audit plan and highlight significant risks;
- iv.) Arrange appropriate continuous professional development for Internal Auditors;
- v.) Organise quality assurance reviews;
- vi.) Produce consolidated semi-annual and annual internal audit report to the PS/ST;
- vii.) Monitor implementation of the internal audit recommendations;
- viii.) Coordinate internal audit work with the Auditor General of State Finances;
- ix.) Promote relationships with professional bodies;
- x.) Lead in knowledge management and networking; and
- xi.) Perform any ad hoc investigative assignments in any government entity.

### 3.14. Roles and Responsibilities of the Local Government and Central Government teams:

- Supervising and directing Internal Audit units in his/her area of responsibility;
- Leading an annual risk assessment and planning in his/her area of responsibility;
- Ensuring quality reports;
- Analysing quarterly reports;
- Following up implementation of audit recommendations; and
- Quality control of the GIA function: hot and cold reviews.

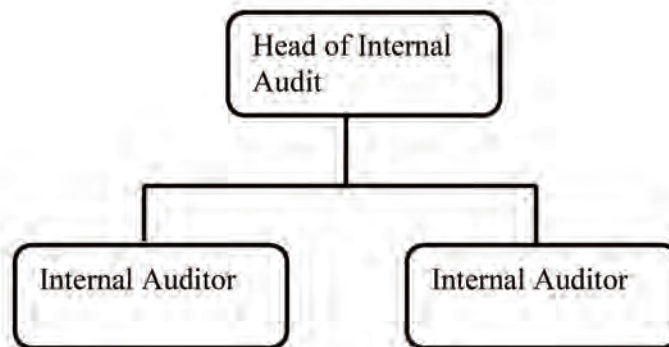
# Chapter 3: Organisation and management of the internal audit units

## Organisation structure of the Office of the Government Chief Internal Auditor



### 3.15. Internal Audit Units in Ministries and Districts

The Internal audit units in central government and districts are headed by a Head of Internal Audit and are organised as provided below.



### 3.16. Roles and Responsibilities of the Head of Internal Audit (HIA) in MDAs:

- Supervise internal auditors under his/her areas of responsibility;
- Prepare annual audit plan and engagement plans;
- Compiling internal audit reports coming from IA under his/her area of responsibility;
- Prepare Supervisory Boards audit reports and on request provide secretarial services; and
- Carrying out internal audit assignments among other duties.

## 3.2. Standard Job Descriptions

3.21. **Internal Audit Unit operations** will be guided by the internal audit charter and the following standard job description.

3.22. **Overall objective of the Internal Audit function:**

## Chapter 3: Organisation and management of the internal audit units

The overall objective of government internal audit function is to help Ministries, Districts and Agencies (MDAs) satisfy their statutory and fiduciary responsibilities, and use public resources efficiently through a systematic evaluation of their risk management, control and governance processes.

### 3.23. Main duties and responsibilities:

Internal auditors in MDAs are requested to perform the following tasks in order to fulfil their responsibilities.

DESCRIPTION		EXPLANATIONS
1	Prepare annual audit plan	Identify and evaluating the entity risks in all auditable areas. Prepare a risk based annual audit plan.
2	Carrying out Financial review ( monthly and quarterly)	Conduct quality review of financial statement by carrying out audits that evaluate the controls over revenues, expenditures, assets and liabilities designed to optimise the efficient use of resources and effectiveness of operations. To put much emphasis on the appropriateness of accounting records and reliability of the financial reporting.
3	Carrying out Systems audit (annually)	<ul style="list-style-type: none"> <li>- Assess whether current controls are adequate to identify risks and provide assurance on the adequacy and effectiveness of risk management practices;</li> <li>- Help management to improve efficiency and to ensure that governance, risk management and internal control systems are operating efficiently and effectively</li> <li>- Reviewing the existing and new information systems to assess the quality of controls and the relevance and reliability of the systems output</li> </ul>
4	Carrying out compliance audits ( Semi annually)	Examine adherence to any policy, contractual, regulatory and legislative requirements
5	Conducting investigative assignments	Where appropriate, assess any allegations of wrongdoing or breaches of government standards of conduct
6	Providing advisory services ( any time)	Participate in significant initiatives and priorities and providing solutions to financial and other internal control issues. Auditors should safeguard their objectivity and ensure they do not play management roles.
7	Following up Audit recommendations	Review management responses to internal audit and Office of the Auditor General recommendations and prepare a monitoring report indicating status of implementation of recommendations and corrective action plans (Quarterly)
8	Preparing consolidated quarterly IA report	Summarise IA activities in a consolidated report to be submitted to the Audit Committee (or Board or District Council as appropriate) with copies to the concerned Chief Budget Manager and the Office of the GCIA and represent internal audit in committee meetings

## Chapter 3: Organisation and management of the internal audit units

9	Maintaining Records of work done	Maintain quality of work by preparing engagement plans, audit programs, working papers and obtaining adequate audit evidence to support work done and findings.
10	Performance management	Agree performance targets with the Chief Budget Manager and report on achievement on a quarterly basis
11	Preparing annual I A report	Prepare IA annual report to be presented to the Board /Audit Committee with copy to the CBM
12	Carrying out Other tasks	Perform any other duties as may be deemed appropriate.

Assignments will be drawn from the entity audit universe, however, the GCIA may require from time to time internal auditors from various entities to perform other national audit assignments or attend trainings that are not in the individual entity audit plan.

3.24. For further details, *Standard Job Descriptions* for different levels of internal audit staff are attached as *OGCIA Form 4*.

### 3.3 Reporting to Top Management and the Supervisory Board

3.31. Applicable IIA Standard: 2060 – Reporting to Senior Management and the Board

3.32. On a quarterly basis, each HIA shall prepare a consolidated report to be submitted to the audit committee at least five (5) days prior to the meeting with a copy to the GCIA and the management of the entity.

Quarterly consolidated reports shall be in a summary form indicating:

- i.) Audit assignments carried out during the period;
- ii.) Key audit findings, recommendations since issuance of the last audit committee report;
- iii.) Status of the implementation of agreed actions;
- iv.) Recommendations in previous reports on which corrective action has not been completed;
- v.) Recommendations on which agreement could not be reached with management, or where requested information or assistance was denied;
- vi.) Areas of the organisation's environment that pose the highest risk; and
- vii.) Significant changes to the annual audit plan.

### 3.4 Attribute standards

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

#### 3.41. Independence and Objectivity

# Chapter 3: Organisation and management of the internal audit units

## 3.42. Applicable IIA Standards

- 1100 – Independence and Objectivity
- 1110 – Organizational Independence
- 1111 – Direct Interaction with the Board
- 1120 – Individual Objectivity
- 1130 – Impairment to Independence or Objectivity

3.43. To discharge his/her responsibility effectively, the HIA must have free and unfettered access to the entity's top management.

3.44. Internal Audit's independence is reinforced further through a properly structured and effective Supervisory Board Audit Committee.

The HIA must also establish effective communication with, and have free and unfettered access to the Chair of the Supervisory Board Audit Committee.

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

Internal audit independence may be impaired by:

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

## 3.46. Organisational Independence

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

- i) The internal audit unit is organizationally located under an operational department e.g. Finance;
- ii) The reports of the internal auditor are subject to the prior approval of Top Management of the audited entity before being released;
- iii) The internal auditor serves the audited entity in management or operational capacity;

## Chapter 3: Organisation and management of the internal audit units

- iv) The internal auditor's recruitment, performance appraisal, promotion and dismissal is influenced by Top Management of the audited entity;
- v) The internal auditor is not readily accessible to those charged with governance;
- vi) The internal auditor is unable to conduct audits and report findings, opinions, and conclusions objectively without fear of reprisal.

Consequently, Top Management shall place the Internal Audit Units in the position which prevent the occurrence of the above mentioned scenarios.

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

Internal auditors should report threats to independence to the GCIA for appropriate intervention. Where appropriate, the GCIA would draw the attention of the Minister for appropriate course of action. Internal audit independence may be impaired due to:

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

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

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

Internal auditors should safeguard their independence when providing consulting services.

## Chapter 3: Organisation and management of the internal audit units

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

3.48. Auditors shall not be placed in situations in which they feel unable to make objective professional judgments and shall not be assigned to audits where any perceived or actual conflicts of interest and bias are present. During planning, auditors shall consider any potential conflict of interest and declare to the Head of Internal Audit for appropriate action using the *Statement of Auditor's Objectivity and Ethics template, OG CIA Form 5*. The HIA and the GCIA shall report the same to Top Management and the Supervisory Board as considered appropriate for assistance and action.

### 3.5. Professional Responsibilities

#### 3.51. Applicable IIA Standards:

1200 – Proficiency and Due Professional Care

1210 – Proficiency

3.52. IA staff shall collectively possess the knowledge and skills essential to the practice of the internal auditing profession within the entity. These attributes include:

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

3.53. The GCIA shall endeavour to recruit audit staff that are qualified in disciplines needed to meet the Unit's responsibilities. S/he shall ensure suitable criteria have been established for the required level.

# Chapter 3: Organisation and management of the internal audit units

## 3.54. Due Professional Care

Applicable IIA Standard : 1220 – Due Professional Care

3.55. Internal Auditors shall apply care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances in performing their work and relationships with staff of the audited entity. They shall exercise professional scepticism in carrying out their work and 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; and,
- Inadequate control situations.

3.56. 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; and,
- Likelihood of material irregularities or non-compliance.

3.57. Professional judgement: in the planning and performance of their audit work, internal auditors must exercise appropriate professional judgment. This means exercising reasonable care and professional scepticism.

Reasonable care requires acting diligently and systematically in compliance with applicable ethical and professional standards, while professional scepticism entails an investigative attitude in the conduct of audit and critical assessment of the evidence obtained.

The rationale behind professional scepticism is the assumption that the auditee is neither dishonest nor of unquestionable honesty until sufficient evidence has been obtained to support either way.

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

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

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

# Chapter 3: Organisation and management of the internal audit units

## 3.59. Continuing Professional Development

Applicable IIA Standard : 1230 – Continuing Professional Development

Using an appropriate training curriculum, the OG CIA shall 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 provided to staff at all levels and shall cover:

- i.) Basic training providing the knowledge which all Internal Auditors in Government should possess.
- ii.) Development training in general audit skills, techniques and behavioural aspects, to improve the effectiveness of those currently employed as Internal Auditors.

Professional training such as Certified Internal Auditor (CIA), Association of Certified Chartered Accountants (ACCA), Certified Fraud Examiner (CFE), Certified Information Systems Auditor (CISA), Certified Government Audit Professional (CGAP), Certified Information System Security Professional (CISSP), Certified Information Systems Manager (CISM), Certification in Risk Management Assurance (CRMA) and other equivalent qualifications.

iii.) Management training for Internal Auditors with responsibility for managing and directing Audit Teams, together with those staff members who show potential for management positions.

iv.) Specialist training for those Internal Auditors responsible for a particular activity such as IT and forensic auditing which require special skills.

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

## 3.6. Quality Assurance Review

### 3.61. Applicable IIA Standard

1300 – Quality Assurance and Improvement Program  
1310 – Requirements of the Quality Assurance and Improvement Program  
1311 – Internal Assessments  
1312 – External Assessments  
1320 – Reporting on the Quality Assurance and Improvement Program  
1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”  
1322 – Disclosure of Non-conformance

3.62. Experienced members of Government Internal Audit Units, led by the Principal Internal Auditor Quality Assurance, shall undertake internal quality reviews of the Audit Units in MDAs. Review team members should be independent of the Internal Audit Unit. During the reviews a range of completed and current audit assignments should be reviewed.

## Chapter 3: Organisation and management of the internal audit units

3.63. **Internal quality review** should be conducted on each Audit Unit at least once **every three years**. Reviewers should appraise:

- i.) The quality of audit work.
- ii.) The quality of supervision and monitoring.
- iii.) Compliance with departmental policies and audit manual.
- iv.) Compliance with the Code of Ethics and the Standards for the Professional Practice of Internal Audit of the Institute of Internal Auditors and other professional guidelines.
- v.) The achievement of stipulated performance standards for:
  - Meeting the annual audit plans;
  - Performance of field work;
  - Quality of reports; and
  - Follow up

Annually the HIA shall communicate results of the internal quality assurance improvement program to the senior management and the Supervisory Board.

3.64. The GCIA shall engage **Independent External** professionals to do the External Quality Assurance Review at least once **every five years**. The review shall:

- i.) Check whether the Unit is meeting its Mission and Strategic Objectives.
- ii.) Check whether Internal Auditors are fulfilling their mandated roles and responsibilities.
- iii.) Identify and correct sub-standard practices.
- iv.) Check whether the Internal Auditors are observing:
  - The Code of Ethics and the Standards for the Professional Practice of Internal Audit of the Institute of Internal Auditors (IIA Inc);
  - Other Professional Guidelines; and;
  - Unit Policies and Audit Manual.

3.65. The GCIA shall disclose non conformance to the definition of internal auditing, the code of ethics, or the standards and results of the independent external quality assurance assessment to senior management and the Supervisory Boards.

### 3.66. Client satisfaction survey

IA units should conduct surveys of audited entities/units annually to obtain feedback on the effectiveness of the IAU's audit and advisory services, and identify potential opportunities for improvement.

The Office of the Government Chief Internal Auditor will issue further guidelines on quality assurance and improvement program.

## Chapter 3: Organisation and management of the internal audit units

### 3.7. Coordinating with the Office of the Auditor General (OAG)

#### 3.71. Applicable IIA Standard: 2050 – Coordination

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

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

#### 3.73. The GCIA will facilitate periodic meetings between internal audit units to:

- i.) Determine audit/oversight coverage;
- ii.) Provide access to each other's work plans;
- iii.) Exchange reports and management letters;
- iv.) Obtain a common understanding of techniques, methods, and terminology used;
- v.) Identify areas where the OAG could rely on the work carried out by IA.

3.74. In case of professional disputes with the External Auditor or other assurance service providers, Internal Audit will consult with or refer the matter to the Office of the GCIA and relevant Supervisory Board Audit Committee.

### 3.8. Relationship with External Assurance Service Providers

3.81. The GCIA and HIA should also maintain contacts and cooperate with external assurance service providers. These may include, development partner auditors, procurement auditors from Rwanda Public Procurement Authority etc.

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


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

# Chapter 3: Organisation and management of the internal audit units

## 3.9. Audit Tick Marks

Tick marks are distinctive characters usually indicated in a distinctive colour which have specific meanings and are understood by auditors. Use of standardised audit tick marks increases audit efficiency.

Tick marks do not need to be standardised throughout the set of workpapers, but must be consistent throughout a particular workpaper. A key and tick mark legend explaining the significance of the tick mark must be a part of the workpaper or is included in a separate tick mark legend workpaper. Examples of *Tick Marks* are provided in *OGCIA Form 6*.



# **Chapter 4: Risk Assessment and Audit Plans**

# Chapter 4: Risk Assessment and Audit Plans

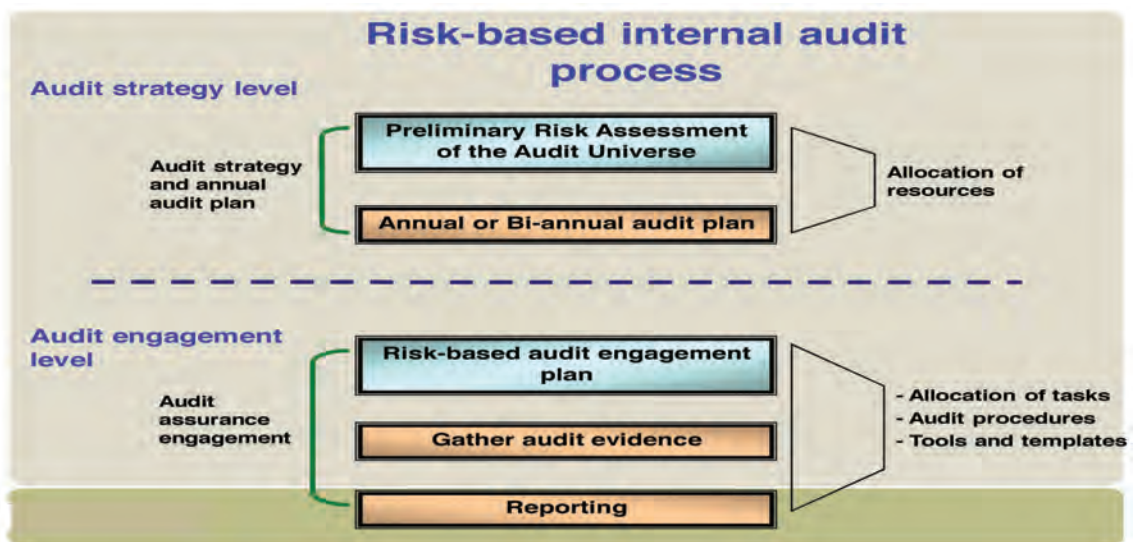
## 4.1. Risk based audit approach

The Government of Rwanda has adopted a “Risk based audit” in order to ensure the limited resources available are directed to areas of greater risk to achievement of organisational objectives. This helps to prioritise limited audit resources.

### 4.11. Applicable IIA Standards:

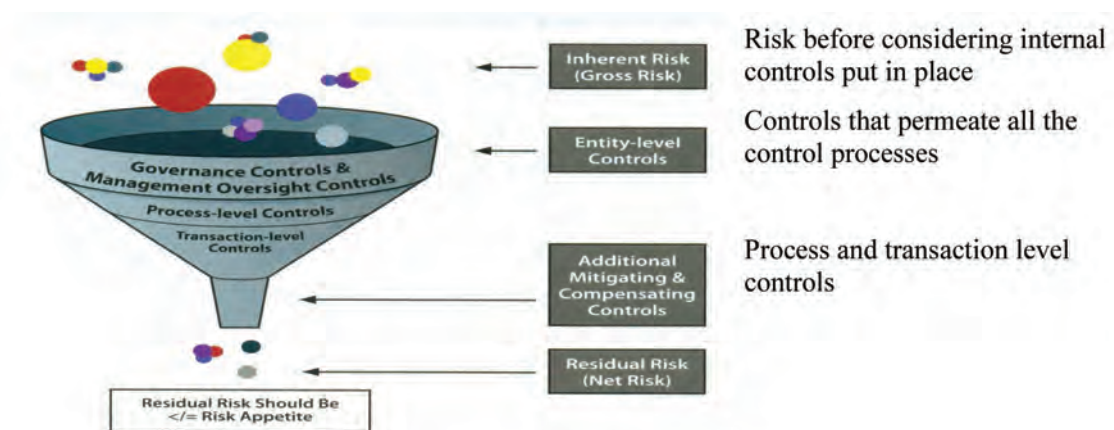
- 2010 – Planning
- 2020 – Communication and Approval

For more efficiency, all Government Internal Auditors shall adopt the following risk based internal audit process :



## 4.2. Residual risk

Internal controls mitigate inherent risk but there will always be a residual risk that it would not be cost effective to deal with.



# Chapter 4: Risk Assessment and Audit Plans

## 4.3. Annual Planning Process

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

### 4.32. The purpose of the plan is to communicate:

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

4.33. Where the entity’s management has performed its own risk assessment internal audit may choose to rely on risk registers. However, where entities do not have a formal risk management process, IAUs shall conduct an annual risk assessment to establish its annual audit plans. The following steps will be followed in conducting annual risk assessments.

### Overview of Annual Planning Process (Figure 3)

Below is an overview of the annual planning process.



### 4.34. Identification of the Audit Universe

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

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

## Chapter 4: Risk Assessment and Audit Plans

### 4.35. Grouping of Audit Universe into Manageable Auditable Units

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

### 4.36. Risk Assessment of Manageable Auditable Units

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

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

#### i.) Understanding the processes and objectives

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

#### ii.) Identifying risks

The entity's strategic, financial, operational, regulatory and reputational risks at both an entity-wide and operational level are identified. Risks whether from external or internal sources are categorised using a suitable risk model. A risk model template is attached as OG CIA Form 7. Information on risks can be gathered through:

- From interviews of top management;
- By consulting external audit;
- By reviewing recent audit reports;
- From planning documents such as budgets, strategic plan etc;
- From the external environment; and,
- From other stakeholders.

#### iii.) Risk analysis

**Inherent risk assessment** - Risks are identified and assessed before considering the controls management has put place.

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

Where management has implemented a risk management framework, internal auditors should make use risk assessment conducted by management in developing internal audit plans.

A *risk control matrix template, OG CIA Form 8*, will be used to analyse the risks and arrive at a consensus of the risk rating.

Individual risks are profile by combining the estimated risk likelihood and impact to give the

## Chapter 4: Risk Assessment and Audit Plans

significance of each risk. Risks shall be assessed as high, medium or low where.

**High**- A fundamental objective is not met or there is a critical weakness in controls. Resolution would help avoid a potentially critical negative impact involving loss of material assets, reputation, critical financial information, or ability to comply with the most important laws, policies, or procedures.

**Medium** - An important objective is not met or there is a significant weakness in controls. Resolution would help avoid a potentially significant negative impact on the unit's assets, financial information, or ability to comply with important laws, policies, or procedures.

**Low** - Objectives are mostly met but further enhancement of the control environment is possible. Resolution would help improve controls and avoid problems in the unit's operations. Individual risk scores are grouped for each auditable area (process) to give the relative significance of each auditable area in the audit universe. Overall risk ratings can be classified as lower, moderate and higher risks and plotted on a *heat map, OG CIA Form 9*.

IA should consider the risk assessments conducted by management when preparing the annual audit plan.

### 4.37. Three Year Strategic Audit Plan

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

- Existing controls
- Expertise of management
- Historical problems
- Interval since the last audit review
- Conditions found during recent reviews
- Adherence to the budget
- Complexity of operations and technology
- Overall effectiveness and efficiency of operations

Other considerations for selecting assignments include:

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

A three year *strategic rolling audit plan template* is attached in *OG CIA Form 10*.

### 4.38. Prioritisation of audit assignments in Annual risk based audit plan

Audit assignments are proposed for areas that are of higher or moderate risk and that can be performed with the available resources.

Carry – over assignments that are in progress and will be completed during the period of the audit plan indicating the remaining number of man days required to complete the assignment.

## Chapter 4: Risk Assessment and Audit Plans

The available audit resources and the frequency of audits should also be considered.

The following minimum information should be included in the annual audit plan:

- i.) Name of the entity and audit area;
- ii.) Risk assessment rating;
- iii.) Objective of the assignment
- iv.) Quarter or month assignment will be performed;
- v.) Estimated number of man-days required based on the size and complexity of the area to be audited.

An *annual audit plan template* is attached in *OGCIA Form 11*.

### 4.39. Approval of the Annual Audit Plan

The GCIA or HIA shall submit audit plans to the top management for review and Supervisory Boards for approval by 31st July of each fiscal year. HIA should send a copy of the approved audit plan to the GCIA.

The HIA shall submit any proposed significant change in audit scope or objectives, to add or cancel an assignment, or to increase the budgeted days of an assignment by 25 per cent or more to the top management or / and Supervisory Board for approval.


The HIA shall review the plan to ensure inter alia that:

- The assignments are justified based on risk registers;
- The selection of assignments from other sources is justified;
- The annual audit plan is achievable and the Audit Unit has the competencies required to conduct the assignments;
- The total audit man days available to the Audit Unit have been fully utilized;
- There is no duplication with oversight areas proposed by the Auditor General's Office;
- Priority is given to higher risk areas in the earlier years of the work plan; and
- There is an appropriate mix of audits of focus areas scheduled in a particular year.

### 4.40. Resource Planning

Once the annual plan is approved, resource plans should be developed to ensure available resource are optimally utilised. *OGCIA Form 34, Resource calendar or Chronogram* should be prepared showing the scheduling of resources and projects and allocated man days.

The resource plan shall also show where IA plans to rely on the work of other auditors for certain aspects of the internal audit responsibilities. For example, due to skills gap, an IAU may plan to procure the support of the auditors from the Office of the GCIA to perform part of its audits or outsource.



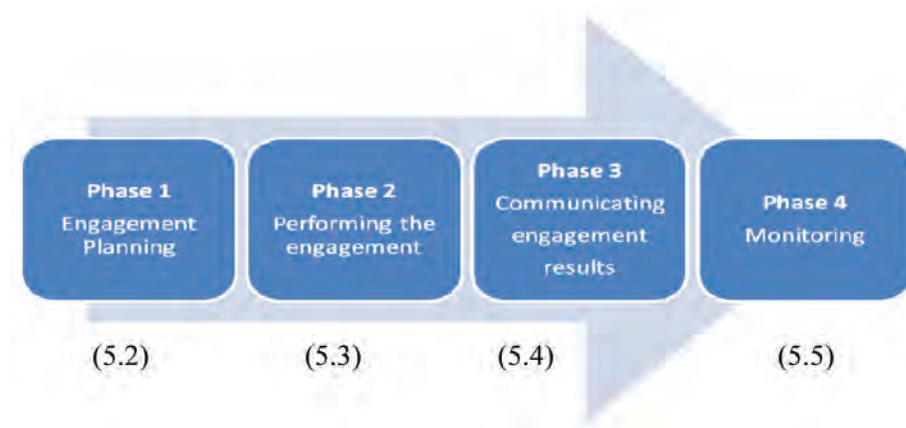
# **Chapter 5: Audit Engagement Cycle**

# Chapter 5: Audit Engagement Cycle

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

## 5.1 Overview of an Assurance engagement cycle

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



### Phase 1: Risk based audit engagement planning:

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

### Phase 2: Performing the engagement:

- Hold opening meeting
- Identifying sources of audit evidence
- Gathering audit evidence
- Documenting audit evidence
- Analyzing audit evidence
- Forming preliminary audit findings
- Hold exit meeting


### Phase 3: Communicating the engagement outcomes:

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

### Phase 4: Internal Audit Monitoring

- Follow up survey and tests
- Reporting on implementation status

Forensic, consulting and other audit assignments will follow a separate approach.



# **Chapter 5.2: Engagement Cycle – Engagement Planning**

# Chapter 5.2: Engagement Cycle – Engagement Planning

## 5.2. Engagement Planning

### 5.21. Applicable IIA Standards:

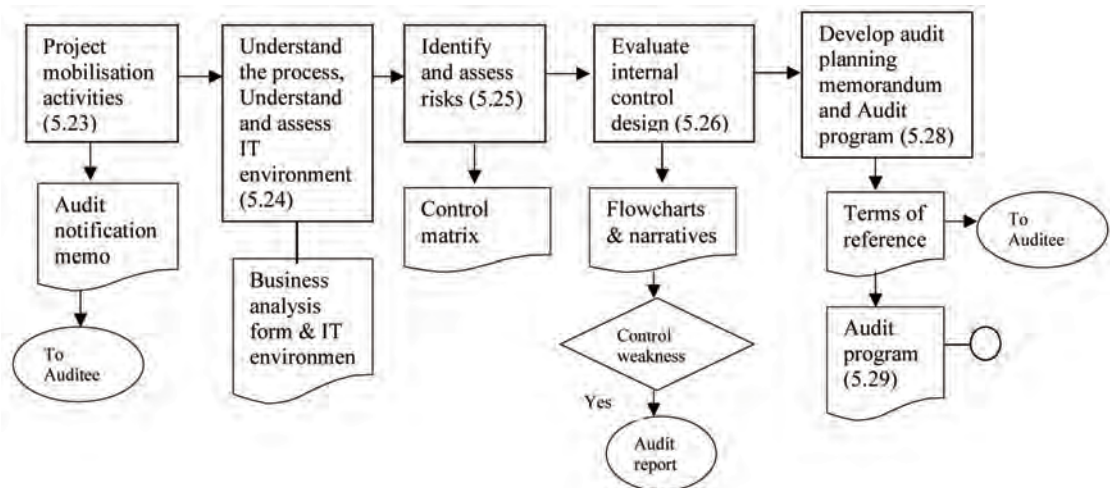
- 2200 – Engagement Planning
- 2201 – Planning Considerations
- 2210 – Engagement Objectives
- 2220 – Engagement Scope
- 2230 – Engagement Resource Allocation
- 2240 – Engagement Work Program

### 5.22. Objectives of the risk based audit planning

The objectives of engagement planning are to:

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

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



### 5.23. Project Mobilisation Activities

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

#### 01.) Selecting the assignment

The HIA should select individual assignments from the approved annual audit plan. If a pro-

## Chapter 5.2: Engagement Cycle – Engagement Planning

posed assignment is not in the annual audit plan, the HIA should inform top management and / or Audit Committee. Assignments may also be performed on the request of management, due to regulatory or legal requirement, recent event or a change in business process or system.

### 02.) The HIA determines the objectives and scope of the assignment

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

### 03.) Selecting the Team

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

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

### 04.) The HIA sends an “audit notification” letter to the head of the entity or unit to be audited

The notification letter informs of IA intention to conduct an audit and must reach the head of the entity or unit to be audited at least seven working (7) working days ahead of the commencement of the audit.

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

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

The letter should also outline the respective roles and responsibilities of IA and the audited entity during the course of an audit, and an overview of the audit process and the broad timeframes for key milestones of the assignment. An **audit notification letter template** is attached as **GCIA Form 12**.

Auditors from MINCOFIN going to audit other entities will be introduced by way of an **auditor appointment letter**, see template attached as **OGCIA Form 13**.

### 05.) Requesting for audit information

The audit notification letter should be accompanied by a **request for audit information template**, **GCIA Form 14**, showing the time when the information is required. An exception to this practice will be on forensic audit as advance notice could be unproductive.

However, the use of initial information request does not prevent the auditor from requesting

## Chapter 5.2: Engagement Cycle – Engagement Planning

for additional information during the audit visit as deemed necessary. The internal auditor should ask the auditee to appoint a focal person for coordinating the audit.

The auditor should maintain an *information request monitoring checklist, OG CIA Form 15*, and update it on receipt of the requested information.

In the event that the information flow is persistently ineffective, the internal auditor should inform top management accordingly as well as the head of the internal audit unit on the impact of the delays on the reporting deadline.

### 06.) Opening Meeting

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

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

- (i) The scope and objectives of the intended audit and the roles of each party towards the achievement of those objectives;
- (ii) Any specific “value addition” audit coverage that may be requested by top management and his/her team;
- (iii) The status of previous audit recommendations;
- (iv) Information requirements and timelines for providing the information;
- (v) The major deliverables from the audit and the persons to whom they will be addressed to;
- (vi) The projected timetable for the audit;
- (vii) The key contact persons for the audit and the communication methods;
- (viii) Logistics e.g. accommodation, office space and transport as appropriate;
- (ix) Introduce the audit team.

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

#### 5.24. Understanding the activities of the audited entity

On the first day of fieldwork, the Team Leader should hold an **entry meeting** with senior personnel to introduce the team. The team commences to review information requested and to gather information on the audited entity's objectives, its organizational structure and operations. *Minutes template* is attached as *OG CIA Form 16*.

## Chapter 5.2: Engagement Cycle – Engagement Planning

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

- Plans, e.g. strategic plans, policies, directives, budgets, funding sources;
- Organizes e.g. organisation chart, job descriptions of key personnel, staff competency, delegation of authority;
- Directs, e.g. copies of relevant regulation and rules, minutes; authority levels;
- Controls e.g. operational manual; and
- Weaknesses or strength reported in the previous audits, implementation status of previous audit recommendations.

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

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

- Questionnaire
- Flowcharting. *Standard flow charting symbols* are attached as *OGCIA Form 17*.
- Narrative notes
- Internal control survey
- Walkthroughs test
- Preliminary analytical review procedures
- Data analysis
- Physical observation

The *internal control questionnaire OG CIA Form 1* should be used to assess the entity level control environment and COSO internal control components at the process level.

A business process analysis is prepared to document this understanding. A *Business Process Analysis Template* is attached as *OGCIA Form 18*.

### Significant information system components

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

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

**Understanding the IT environment template, OG CIA Form 19 and Assessing IT general controls and application controls template, OG CIA Form 20** should be completed to assist in assessment of the Information system controls.

## Chapter 5.2: Engagement Cycle – Engagement Planning

Internal auditors should remain alert to indicators of fraud and include steps to detect if fraud has occurred. The *Fraud Risk Assessment template, OG CIA Form 21* should be completed to assist in this assessment.

### 5.25. Identify and assess residual risks

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

A **Risk Control Matrix (RCM)** is used to record the risks, key controls and audit objectives and the audit program (refer to *OG CIA Form 8*).

### 5.26. Evaluating the adequacy of the internal control system design – Test of controls

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

Using the results obtained, the auditors finalize the audit objectives and scope of the audit, and determine the extent of testing i.e. sample sizes, that will be required to enable reach a conclusion on the audit objectives, and the methodology to be adopted to extract samples using *Audit Objectives And Criteria template, OG CIA Form 22*.

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

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

### 5.27. Review of previous audit findings

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

### 5.28. Develop audit plan memorandum and audit programme

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

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

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

## Chapter 5.2: Engagement Cycle – Engagement Planning

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

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

An *audit planning memorandum template* is attached as **OGCIA Form 23**.

For *consulting engagements* terms of reference are developed outlining respective responsibilities and sent to the client management. An outline *Terms of Reference* is attached in **OGCIA Form 24**.

### 5.29. Engagement Audit Program

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

An *Engagement Work Program Template* is attached as **OGCIA Form 25**.

### 5.30. Audit Sampling

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

The main considerations during sampling include:

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

## Chapter 5.2: Engagement Cycle – Engagement Planning

A *Sampling Template* is attached as *OGCIA Form 26*. The Office of the GCIA will issue further guidance on sampling.

### 02.) Audit Risk and Materiality

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

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

Audit risk comprises:

- Inherent risk – the risk of material error occurring in the first place;
- Control risk – the risk of internal controls failing to prevent or detect material error; and,
- Detection risk – the risk of audit procedures failing to detect material error(s).

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


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

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

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

03.) The HIA shall review and approve the audit program before the team undertakes significant fieldwork.

Where appropriate, the audit program shall be revised to incorporate additional procedures that were not foreseen during the planning stage. The Team Leader of the assignment shall present these changes to the HIA for approval.



# **Chapter 5.3: Engagement Cycle – Performing**

# Chapter 5.3 : Engagement Cycle – Performing

## 5.3. Performing the Engagement

### 5.31. Applicable IIA Standards

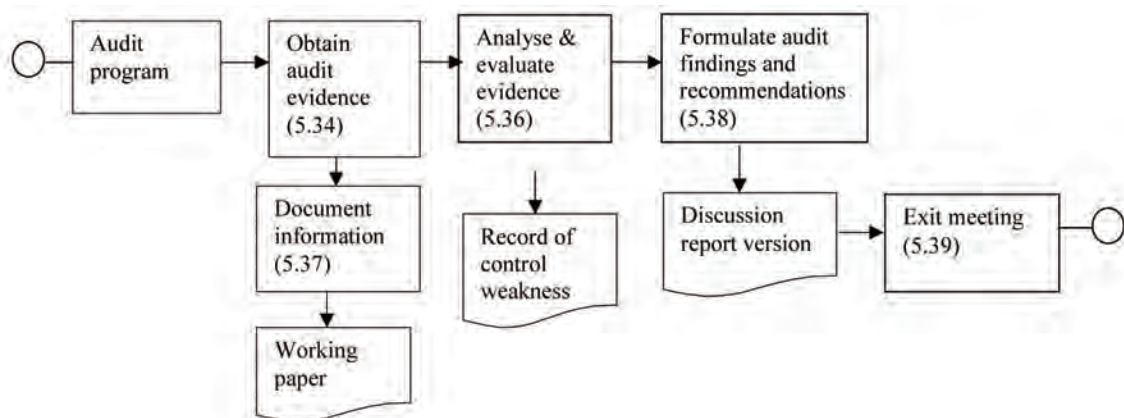
2300 – Performing the Engagement  
2310 – Identifying Information  
2320 – Analysis and Evaluation  
2330 – Documenting Information  
2340 – Engagement Supervision

### 5.32. Overview of Performing the Engagement Phase

Performing the engagement is the process of collecting, analyzing, interpreting and documenting information on matters related to the audit objectives and scope.

The objective is to obtain sufficient, competent, relevant, and useful information to provide a sound basis for audit findings and recommendations.

The diagram below gives an overview of the performing phase.



### 5.33. Orienting the team

At the start of the fieldwork phase, the Team Leader should ensure that the audit team understands the audit objectives, scope and methodology, the procedures developed to accomplish the audit objectives, and the estimated timeframes.

In this meeting the team should discuss fraud considerations. Based on the understanding of the likely important issues arising from planning activities, the team should start developing a structure of the report.

### 5.34. Obtaining evidence

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

### 5.35. Types of audit evidence

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

## Chapter 5.3 : Engagement Cycle – Performing

i) **Physical evidence** - Physical evidence is obtained by direct inspection or observation of people, property or events. Inspection of tangible assets provides reliable audit evidence about their existence, but not necessarily as to their ownership or value.

ii.) **Documentary evidence** - Documentary evidence consists of information that exists in some permanent form such as letters, contracts, accounting records, invoices, and management information on performance. It may be internal, external or a combination of both. The source of documentary evidence affects its reliability.

iii.) **Testimonial evidence** - Testimonial evidence is obtained through inquiries, interviews, or questionnaires. Inquiry and confirmation consists of seeking information from knowledgeable persons inside or outside the organization. Testimonial evidence is less persuasive and may not always be conclusive and should be supported by other forms of information where possible.

iv.) **Analytical evidence** - Analytical evidence arises from the application of analytical review procedures which focus on: (1) relationships between financial and or statistical data; (2) comparison with previous years, and (3) comparison with budget, management information, etc. Conclusions are based on examining data for consistencies, inconsistencies, cause-effect relationships etc. Unusual analytical results are investigated.

Auditor shall obtain sufficient appropriate audit evidence, **audit comfort**, for each significant business activity and related audit area to enable the auditor reach a conclusion on the activity or operations reviewed. Internal auditors should strive to get the right evidence. Generally,

- Independent externally generated evidence is better than evidence generated within the entity or Unit under review;
- Evidence obtained directly by the auditor is more reliable than evidence obtained indirectly;
- Documentary evidence is better than oral evidence; and
- Original documentation provides more reliable evidence than photocopies, facsimiles, etc.

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

i.) **Vouching** – testing recorded amounts by examining supporting documents to determine whether they represent an actual transaction.

ii.) **Tracing** – following a document through its processing cycles to the accounting records to determine whether all transactions have been recorded

iii.) **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.

iv.) **Scanning** – searching for obvious exceptions in a large quantity of data.

Internal auditors shall use of computer assisted audit techniques (CAATS) e.g. IDEA to improve audit efficiency.

### 5.36. Analyse and Evaluate

## Chapter 5.3 : Engagement Cycle – Performing

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

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

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

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

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

### 5.37. Documenting Information

#### 5.37.1. Developing appropriate working papers

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

- (i) To facilitate effective conduct and management of the audit assignment
- (ii) To ensure adequate coverage of the audit and control of the field work, providing coherence to the numerous individual procedures comprising any given audit, and facilitating quality control.
- (iii) To provide written evidence that supports the audit report.
- (iv) To guide follow-up actions and future audits.
- (v) They provide evidence of professionalism, objectivity, due diligence, or lack thereof.
- (vi) To provide information to third parties such as the Office of the Auditor General who may intend to rely on the work of internal auditors, courts of law, prosecutors, crime investigators etc.

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

Each working paper should:

- Identify the assignment and describe the contents or purpose of the working paper;
- Bear the initials of the auditor performing the work and the date prepared;
- Contain an index or reference number and cross-referenced related working papers as appropriate;
- Explain any tick marks (in red or green ink) used;
- Clearly identify the source(s) of data and personnel who provided the information and dates;

## Chapter 5.3 : Engagement Cycle – Performing

- Be clear, concise and understandable, not requiring supplementary oral explanation;
- The specific audit objective, timing, extent and nature of tests;
- A description of the related risks identified;
- A description of the population tested and extent of sampling; and
- Have clear findings, conclusions reached and indicate any limitations.

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

A **working paper template** is attached as *OGCIA Form 27*.

### 5.37.2. Filing Principles

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

- i) Several auditors to work concurrently on different segments of an audit assignment in a co-ordinated manner. This is achieved by partitioning the audit files according to the distinct segments of the audit assignment.
- ii) Discipline in the conduct of the audit to eliminate possible omission of planned audit tasks. The “*Quality Control checklist*”, *OGCIA Form 28*, should be signed off in each phase of the audit to ensure the audit is conducted in a systematic and sequenced approach.
- iii) Smooth review of the audit working papers. Besides file partitioning, this achieved by unique indexing of audit working papers. Any completed partition of the audit file may be reviewed without interrupting audit tests for other partitions.
- iv) Linking the audit programmes (list of planned audit tests) to the working papers where the associated audit tests and findings are recorded and linking the audit report to the supporting working papers. This is achieved through indexing and cross-referencing of the audit working papers. “Lead” sheets or control sheets which act as a form of “table of contents” should be used for easy retrieval of audit evidence from the audit file.

### 5.37.3. Audit file: working paper references and cross-referencing

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

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

If a working paper consisted of several pages, the references should be done in a manner that clearly shows the total number of the pages in the working paper. Thus, if A1 consisted of ten

## Chapter 5.3 : Engagement Cycle – Performing

(10) pages, its references would be as follows: A1: 1/10, A1: 2/10, A1: 3/10, etc up to A1: 10/10.

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

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

As a general principle, working papers should build upwards from source data to the final audit report.

All working paper cross-references should be in red ink to make them conspicuous.

### 5.37.4. Review of working papers

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

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

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

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

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

The reviewer's questions or required additional audit work are summarised on *review notes*

## Chapter 5.3 : Engagement Cycle – Performing

*working paper, OG CIA Form 29.* The working paper is then handed to the auditor to resolve. After resolving the questions or performing the additional work, the auditor indicates (against each review note) the working paper reference on which each of the review questions has been resolved), and then re-submits the working paper to the reviewer. The reviewer then signs-off the clearance of the review notes. The “cleared” review notes are retained on the audit file.

### 5.38. Formulate Audit Findings and Recommendations

#### 5.38.1. Record of control weaknesses (RCW)

As reportable issues arise during the course of the audit, auditors should record their findings on RCWs and submit them to Team Leader for review. All elements of the finding as described above shall be provided.

The Team Leader shall review the RCW to confirm that each element of the finding is clear, correctly identified, factual and reflect the attributes outlined above.

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

Then the RCWs shall be updated with any explanations or clarifications provided, and the name and title of the official with whom the RCWs is discussed and the date of the meeting indicated. *A Record of Control Weakness Template is attached as OG CIA Form 30.*

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

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

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

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

- i) “**Inconsequential**” in which case it is a simple deficiency in design or implementation weakness with insignificant impact on the entity’s operations.

It would be sufficient to discuss the simple deficiency or implementation weakness with the respective managers of the entity. However, repetitive occurrences should be reported in writing stating the times it was previously reported.

- ii) “**Significant**” meaning that the deficiency in design or implementation weakness raises considerable concerns.

## Chapter 5.3 : Engagement Cycle – Performing

A significant deficiency or implementation weakness, including the recommended remedies, must be brought to the immediate attention of the top management of the entity in writing.

iii) “**Material**” which means that the deficiency in design or implementation weaknesses are very significant to the entity’s control system.

A material deficiency or implementation weakness, and the recommended remedies, must be promptly reported in writing not only to the top management but also to the other organs charged with the governance of the entity.

### 5.38.2. Elements of IA findings

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

i.) **Criteria** - The standards, measures, or expectations used in making an evaluation and/or verification (what should exist). The criteria should be credible, convincing and objective.

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

iii.) **Risk** - The exposure the organization and/or others encounter because the condition is not consistent with the criteria (the impact of the difference). The risk should be logical and likely to occur. The auditor shall determine the possible financial implications of outcomes such as:

- Cost savings, making scarce human financial and operational resources available for other programme/mission-related use;
- Cost avoidance by reducing expenditures and making funds available for other essential purposes;
- Recovery of any amounts overpaid or incorrectly paid; and
- Possibilities for income generation.

iv.) **Recommendations** - call for action to correct existing conditions, mitigate risk or improve operations. They should address the cause of the finding, be implementable and capable of being monitored. Recommendations shall be constructive, practical, action oriented and thoroughly discussed with the auditee as to their feasibility and practicality.

### 5.38.3. Rating audit findings

Every audit issue will be rated as High, Medium or Low based on the following criteria.

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

## Chapter 5.3 : Engagement Cycle – Performing

### 5.39. Exit meeting

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

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

Where possible, this draft should be reviewed by the head of the concerned internal audit unit before it is presented to the client personnel.

A copy of the “discussion version” should be filed on the administration section of the audit file and each audit issue raised therein should be cross-referenced to the supporting audit working papers.


For larger groups, the summary of findings may be presented in power point presentations.

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

Besides the key audit issues, the “exit meeting” should cover the tentative timetable for the issuance of the draft audit report and what the entity would be expected to do after the receipt of the draft report – that is to provide the written comments on the report and submit them to the auditor within the prescribed timeframe.

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

The exit meeting marks the end of audit fieldwork.



# **Chapter 5.4: Engagement Cycle – Communicating engagement outcomes**

# Chapter 5.4: Engagement Cycle – Communicating engagement outcomes

## 5.4. Communicating the engagement outcomes

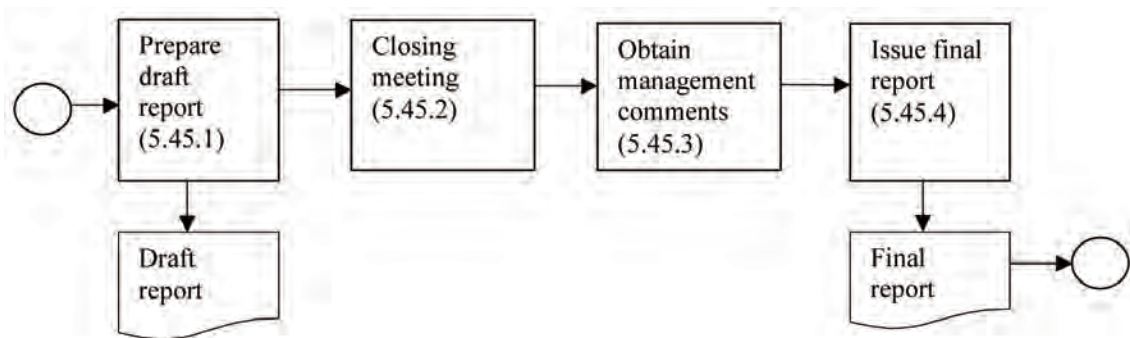
### 5.41. Applicable IIA Standards

2400 – Communicating Results  
2410 – Criteria for Communicating  
2440 – Disseminating Results  
2420 – Quality of Communications  
2421 - Errors and Omissions  
2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”  
2431 – Engagement Disclosure of Non-conformance  
2450 – Overall Opinions

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

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

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



### 5.43. Contents of an audit report

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

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

## Chapter 5.4: Engagement Cycle – Communicating engagement outcomes

### 5.44. Report structure

The internal audit reports for the specific assignment shall be prepared in the following structure using the *Internal Audit Report Templates* provided in *OGCIA Form 31*.

- a.) Submission letter
- b.) Cover page indicating the audit title, and date of the audit report, audit team and the assignment reference and report reference number. *E.g. Entity code/Name of entity / Month fieldwork started /Year / no. assignment in the year*
- c.) Executive summary and/or opinion
- d.) Table of contents
- e.) Introduction covering audit objectives, scope and methodology
- f.) Detailed audit findings and recommendations
  - Areas of best practice
  - Areas of improvement
- g.) Conclusion
- h.) Annexes

### 5.45. Reporting Processing and Issuing Timelines

#### 5.45.1. Step 1: Draft Version

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

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

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

#### 5.45.2. Step 2: Closing meeting

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

#### 5.45.3. Step 3: Management comments

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

In the event that the comments have not been received by the deadline, the auditor should

## Chapter 5.4: Engagement Cycle – Communicating engagement outcomes

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

### 5.45.4. Step 4: Final Version

The final version of the audit report shall be issued 5 working days after receiving management comments.

The final version of the report shall contain not only the content of the “draft version” but also the client comments thereof. The auditor should avoid paraphrasing the client comments.

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

### 5.46. Review of audit reports

#### 2440 – Disseminating Results

The HIA or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated. Report reviewers should be senior than the auditor who prepared the report and should complete OG CIA Form 28 Quality Control section of report pre-issuance review.

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

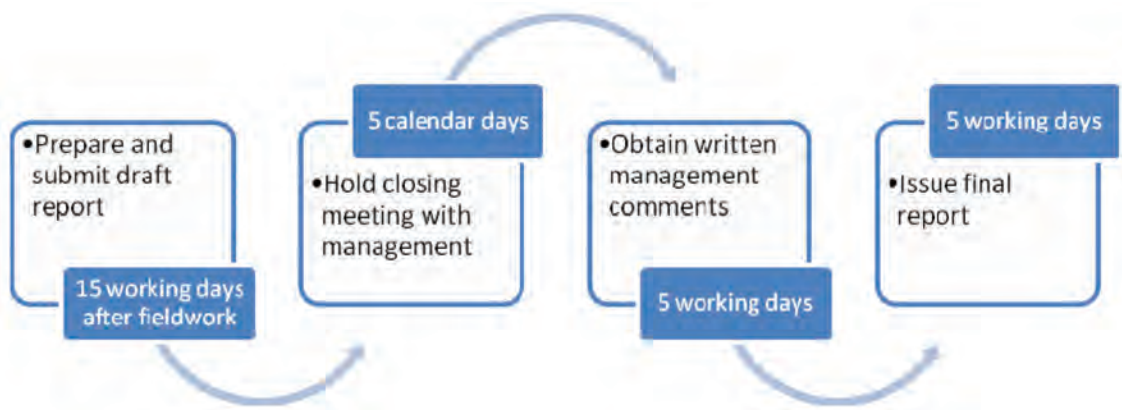
REVIEWED/ APPROVED:

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

### 5.47. Report processing timetable

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

## Chapter 5.4: Engagement Cycle – Communicating engagement outcomes



- Within working fifteen (15) working days after completion of audit tests, the auditor shall initially issue the audit report in a draft form to the Head of the entity or unit audited.
- The head of the audited entity or unit shall organize a closing meeting with the Audit Team within 5 calendar days after receiving the report.
- The head of the audited entity or unit shall send written management comments within 5 working days.
- The Head of internal audit unit shall issue the report in final form five (5) working days thereafter.

### 5.48. Audit Opinions

5.48.1. Applicable IIA Standards: Criteria for Communicating, 2410.A1

5.48.2. Internal auditors will express opinions on the design and effectiveness of controls for individual audits e.g. financial audit and for the entity as a whole.

Audit opinions will be based on the severity and number of audit findings.

Opinion can be unqualified, unqualified with exceptions and/or limitations, qualified. The alternative to expressing an opinion is to formally disclaim an opinion.

5.48.3. Article 23 of the Ministerial Order No 002/09/10/GP/A of 12/02/2009 (as may be amended) regarding internal control and audit regulations requires the internal auditor to state an independent opinion about the “effectiveness” of the internal control system of the audited entity. Essentially, the opinion should reflect the “aggregate” of the audit findings about the design and implementation of the control system, and should provide an independent assurance, or lack of it, about whether the audited entity’s system of internal control is satisfactory.

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

## Chapter 5.4: Engagement Cycle – Communicating engagement outcomes

5.48.5. Such an opinion should express clearly:

- The evaluation criteria and structure used e.g. COSO;
- The scope over which the opinion applies e.g. areas audited and COSO components;
- Who has responsibility for the establishment and maintenance of internal controls; and
- The specific type of opinion being expressed by the auditor.

### 5.49. Types of audit opinions

Audit opinions will be expressed on:

- Individual reports or processes audited
- Overall internal control systems
- Financial reviews

#### 5.49.1. Opinion on Individual reports or processes audited

When expressing an opinion on individual reports or processes audited, the auditor shall use a three- tier graded system as follows:

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

#### 5.49.2. Overall internal control systems

In expressing an opinion, the HIA shall gather sufficient competent supporting evidence, in conformity with the Standards.

The following should be considered in evaluating the whether sufficient competent supporting evidence has been obtained:

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

## Chapter 5.4: Engagement Cycle – Communicating engagement outcomes

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

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

### 5.49.3. Opinion on Financial reviews

**“Unqualified opinion”** - the auditor shall use the statement that “nothing has come to our attention to cause us to believe that the financial reporting controls are inadequate or the financial reports of the entity are not reliable”.

**“Except for opinion”** – the internal auditor has noted some findings that need management attention impact. After stating the findings concerned, the internal auditor states that “Except for the effect of the findings mentioned above, nothing has come to our attention to cause us to believe that the financial reporting controls are inadequate or the financial reports of the entity are not reliable”.

**“Adverse opinion”** - the internal auditor shall state the specific adverse findings observed and state that “Due to the above mentioned findings, we believe that the entity XXX’s financial reporting controls need substantial improvement to meet the entity’s financial reporting objectives”.

**5.49.4. Disclaimer** - The auditor can also disclaim issuing any of the opinions indicated above when the auditor is unable to gather sufficient and appropriate audit evidence to express any form of opinion and decides to clearly state that fact.

Examples of *audit opinions* are provided in *OGCIA Form 2*.



# **Chapter 5.5: Engagement Cycle – Monitoring**

# Chapter 5.5 : Engagement Cycle – Monitoring

## 5.5. Monitoring

### Applicable IIA Standards

2500 – Monitoring Progress  
2600 Resolution of Senior Management’s Acceptance of Risks

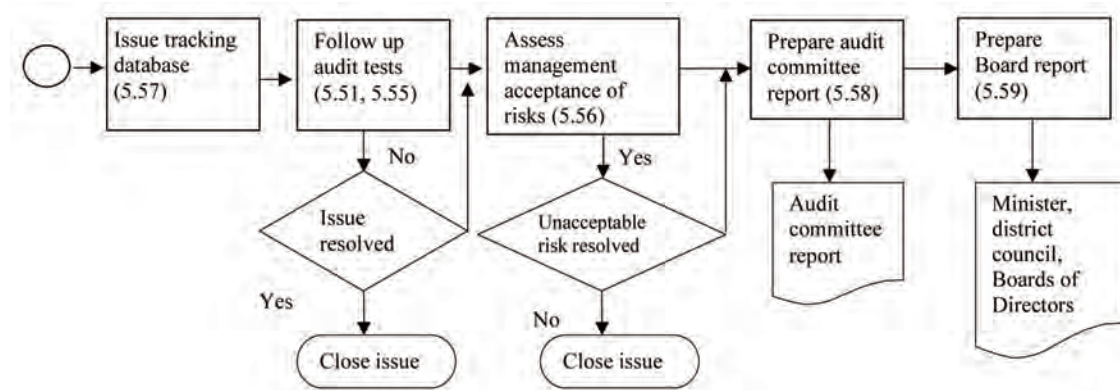
#### 5.51. Follow up Audit Tests

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

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

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

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



#### 5.55. Escalation procedures

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

#### 5.56. Assess Management Acceptance of Risks

5.56.1. The primary function of IA is to assist the entity to accomplish its objectives by evalu

## Chapter 5.5 : Engagement Cycle – Monitoring

ating its risk management, control and governance processes, and making recommendations to mitigate risks or improve effectiveness. The audited entity's management is responsible for deciding the appropriate action to be taken in response to reported audit findings and recommendations.

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

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

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

### 5.57. Issue Tracking Database

The office of the GCIA and HIAs shall maintain all recommendations issued on an issue tracking database. In addition to capturing the text of the recommendation and other administrative information, the Issue tracking database will include details of the impact, focus area, risk category and rating, cause and financial implication.

The issue tracking database will be the source of data for annual; semi-annual and quarterly reporting.

The HIAs shall submit every quarter a copy of their issue tracking database to the Office of the GCIA for consolidation.

A copy of the *issue tracking database template* is attached as **OGCIA Form 32**.

### 5.58. Reporting to the supervisory board

The HIA shall submit on a quarterly basis a progress report to the Supervisory Board with a copy to the GCIA detailing:

- i.) All Internal Audit assignments that have been undertaken during the quarter.
- ii.) Summary of significant findings and recommendations that have been made.
- iii.) Unresolved audit queries.
- iv.) Any problems the IAU has met.
- v.) Details of how the Unit has spent his / her time in the quarter.

A *Supervisory Board report template* is attached as **OGCIA Form 33**. The OGCIAs will review the progress reports and raise any queries with the HIA and assist with any problems that they may have.

## Chapter 5.5 : Engagement Cycle – Monitoring

### 5.59. Semi Annual Report to the Permanent Secretary Ministry of Finance

The Office of the GCIA will prepare and submit a summary report of audit findings to the Permanent Secretary.



# **Chapter 6: Administrative matters**

# Chapter 6 : Administrative matters

## 6.1. Supervision and Review of Audit Assignments

6.11. Applicable IIA Standard: 2340 – Engagement Supervision

6.12. The HIA unit shall ensure that audit assignments are properly supervised to achieve the quality standards set out in this manual.

6.13. Supervision is a continuing process throughout an audit assignment and includes:

- Providing guidance and instructions to junior auditors, by the senior auditors, during audit planning, approval of audit tests to be undertaken and selection of audit techniques.
- Seeing that the approved audit tests are fully performed unless deviations are justified and also authorized.
- Reviewing the audit working papers to ensure that they adequately support the audit findings, conclusions, and reports.
- Making sure that audit reports are accurate, objective, clear, concise, constructive, and timely.
- Ensuring that the overall audit objectives are met.

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

6.15. **Quality improvement program:** detailed review of various phases of the internal audit process is the major quality control method used by the department.

The major review points and the persons responsible for these are indicated below.

- i.) Risk assessment, IA strategic plan and IA annual plan – Top management and Supervisory Board
- ii.) Engagement planning - HIA
- iii.) Working papers of field work - HIA
- iv.) Audit Reports - HIA
- v.) Annual review of IAU – Supervisory Board
- vi.) External review of the IA Function – Independent reviewers

Reviewed should complete form **OGCIA Form 28 Quality Control Checklist** at every phase of the audit to evidence their review.

Internal audit shall survey auditee's annually. An **auditee satisfaction survey template** is attached as **OGCIA Form 34**.

The Office of the GCIA shall give specific guidelines on conduct of periodic internal and external quality assurance program.

# Chapter 6 : Administrative matters

## 6.2. Managing Audit risks

6.21. Applicable IIA Standard: PA 2120 –2 Managing the risk of the internal audit activity

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

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

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

(i) The internal auditor may misunderstand the scope of the audit. A too wide scope may not be covered within the available timeframe and resources, and a too narrow scope may not fully address the audit objectives. This risk should be addressed by proper audit “scoping” during the planning process;

(ii) Conflict of interest may exist between the internal auditor and his/her work, which may impair objectivity and undermine the audit results. In mitigation, any threat to independence and objectivity must be disclosed at the planning stage or any other time and the affected internal auditor removed from the specific audit assignment;

(iii) The audit may not meet the expectations of the users. This should be addressed by thorough audit planning, continuous reference to the plan and audit objectives and discussions with management throughout the audit testing;

(iv) Less than adequate audit testing or inadequate audit evidence obtained, hence incorrect audit conclusions, due to lack of expertise, experience and proper supervision of the audit team. Close supervision during audit execution can provide timely and invaluable feedback and direction to the audit team.

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

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

(vi) The audit timetable may be missed due to lack of cooperation from the audited entity’s personnel. This issue must be addressed during the audit planning meeting to obtain commitment from the personnel;

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(vii) The audit timetable may be missed due to poor time management by the audit team.

This issue should be mitigated by close supervision of the assignment, improved time plans and management on the part of the auditors – use of weekly time charts and daily action checklists are useful tools.

(viii) Quality of audit reports could be inadequate, contain errors or even be inaccurate. Appropriate review and completing the quality control questionnaire at each stage of the audit will mitigate reporting errors.

### 6.24. Time management

To enhance time management on audits, a time budget should be prepared for each audit assignment and used as a “benchmark” for the actual hours spent on the assignment.

Furthermore, the internal auditors should prepare daily time sheets which show the tasks accomplished on each working day and the number of “person-hours” spent on each task.

Those time sheets should be reviewed and approved by the HIA and filed in the administration section of the audit file.

A *Work allocation and time budget template* to be completed on individual assignments is attached as *OGCIA Form 35*.

A *Resource calendar or Chronogram* to be completed for all activities in the annual plan is attached as *OGCIA Form 36*.

## 6.3. Custody and disposal of working papers

### 6.31. Applicable IIA Standards:

2330.A1 – Access to engagement records.

2330.A2 – Retention requirements.

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

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

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

## Chapter 6 : Administrative matters

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

6.36. At the end of any working day, internal auditors must not leave audit files lying idle on working desks.

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

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

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

### 6.4. Current Audit file

6.41. For every audit engagement a current working paper file (CWPF) should be maintained.

6.42. The audit file should be partitioned into several sections separated by specifically designed hard paper dividers pre-printed with the content of the respective sections. The following illustrates the audit file partitioning:

#### Section A: Administration and Reporting

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

#### Section B: Audit planning

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

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## Section C: Assessment of entity level controls

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

## Section D: Project risk assessment

- Risk control matrix

## Section E: Assessment of IT systems

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

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

- Completed audit program
- Tests of control
- Substantive tests

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

## 6.5. Permanent Audit File

6.51. The permanent audit file (PAF) contains information that should be relevant to the current and future audits. Documents may include organisational charts, circulars, relevant regulations and manuals.

A PAF is useful for the following reasons:

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

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

- Organisation charts;
- Entity’s Strategic plans;
- Latest Corrective Action Plan;

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- Legal and regulatory issues impacting the Ministry, Department or District;
- Entity Wide Risk assessment; and
- Correspondence of continuing interest to future audits.

### 6.6. Performance appraisal

6.61. The HIA should appraise the performance of the individual auditors on each assignment. The appraisal should cover the quality of working papers, time management and quality of reports – all benchmarked as required by this manual. The appraisal would be a useful tool for determining skill gaps and thus part of the continuous training needs assessment.

6.62. Staff appraisals shall be conducted at the end of each assignment for all members of the audit team who spent five days or more on the audit. Their purpose is to record the performance of the audit team member while this is still fresh in the minds of the appraiser.

Such appraisals can then be used to provide input into the annual performance appraisal.

6.63. The Office of the GCIA shall issue further guidelines on engagement appraisal procedures.

*A Staff Engagement Appraisal Template* are attached as *OGCIA Form 37*.

6.64. Managing IA Unit performance

The IA Units shall have performance measures discussed and agreed upon with top management and approved by the supervisory board.

The Office of the GCIA shall provide a competency framework and guidelines on reviewing the performance of IA Units.

### 6.7. Dealing with senior personnel of the auditee

6.71. Government internal auditors must ensure that for any specific audit engagement they have sought the audience of the top management in charge of the audited budget agency.

6.72. Internal auditors should seek formal appointment with top management and plan the meeting to cover the agenda of the meeting.

6.73. The HIA shall attend assignment opening meeting and exit meeting with the top management of the audited entity.

6.74. The GCIA and HIA shall ensure they keep a contact program with management and are updated on strategic, business and operational plans and planned changes to plan appropriately. HIAs are part of management in their respective entities and should maintain an appropriate contact program with top management.

### 6.8. Confidentiality

6.81. All staff members in the IAU at all levels are responsible for the confidentiality of audit

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related documentation. Unauthorized disclosure of any IAU official information is prohibited. Each working paper or document relating to an audit is confidential and all staff should respect the confidentiality of information acquired during the audit.

6.82. Confidential documents should be locked and kept inside drawers, or scanned and saved in computer files of each staff for ongoing assignments. On completion of the assignment, staff should obtain guidance from their Service/Section Chiefs on the continued retention of such documents. Staff members should ensure that no confidential document is left unattended or left out openly on desks, printers, copiers or fax machines.

6.83. Shredders should be used to dispose of confidential documents.

### **6.9. Administration**

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

- i.) Minutes of staff meetings
- ii.) Training
- iii.) Final audit reports
- iv.) Reports to the Supervisory Board
- v.) Correspondence with top management
- vi.) Correspondence with Office of the GCIA
- vii.) Staff planning
- viii.) Travel logistics
- ix.) Staff personnel files including appraisal forms.



