



**Islamic Republic Of Afghanistan
Kabul Municipality**



INTERNAL AUDIT STANDARD OPERATING PROCEDURE

H.E Mohammad Yonus Nawandesh

Signature: _____



Islamic Republic Of Afghanistan Kabul Municipality



Acronyms

CAO	Control and Audit Office
DG	Director General
IAD	Internal Audit Department
IIA	Institute of Internal Auditors
KCI	Kabul City Initiative
KM	Kabul Municipality
M&A	Monitoring and Analysis
MoF	Ministry of Finance
SOP	Standard Operating Procedures

Definitions: The following definitions apply to this Standard Operating Procedure:

Add Value

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Adequate Control

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

Assurance Services

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

Board

A board is 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 non-profit organization, or any other designated body of the organization, including the audit committee, to whom the chief audit executive may functionally report. In case of Kabul Municipality it can be referred to Administrative Council.

Charter

The charter of the internal audit activity is a formal written document that defines the activity's purpose, authority, and responsibility. The charter should (a) establish the internal audit activity's position within



Islamic Republic Of Afghanistan

Kabul Municipality



the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of engagements; and (c) define the scope of internal audit activities.

Chief Audit Executive

Top position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. In the case of KM, the Director of Internal Audit is the Chief Audit Executive. In the situations, where internal audit activities are obtained from outside service providers, the Chief Audit Executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results. The term also includes such titles as General Auditor, Chief Internal Auditor, and Inspector General.

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 behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services.

Conflict of Interest

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

Control

Any action taken by management, the 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.

Risk

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

Risk Management

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

Background

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Kabul Municipality's operations. The purpose of this Standard Operating Procedure (SoP) is to establish a sound and standardized internal audit procedure for the KM's internal audit department in accordance with International Audit Standards. Based on the KM internal audit policy, this SoP applies directly to the Internal Audit Department (IAD) of KM and all KM's central and district offices are required to assist the IAD in properly carrying out the objectives of this internal audit.

Developing Internal Audit Annual Plan



Islamic Republic Of Afghanistan Kabul Municipality



The KM’s Internal Audit Annual Plan shall be developed according to the risk assessment and to the KM’s priorities. Internal Audit undertakes a risk assessment in order to set priorities for the work to be undertaken. An effective risk-based auditing program will cover all of a KM’s major activities.

Following is an example of the priority areas after the risk assessment is performed:

“During our internal audit activities in the year 1390, we identified that the departments of Property Registration, Revenue and Work and Maintenance of KM represent high risks in areas of revenue collection, issuing property ownership documents and construction of infrastructural activities.”

- 1- The first step is to identify the set of activities based on the results of the risk assessment to be performed during the year.

“With the agreement of the Mayor/Deputy Mayor for Finance and Administration, we decided to plan our Internal Audit activities during the year 1390-1391 as following”:

1. Activity
2. Activity
3. Activity

- 2- The second step is to prepare a risk analysis that is required by the Standards for the Professional Practice of Internal Auditing. The risk assessment must be undertaken at least annually with the scope and advice of the senior management and the board in this process.

Risk is defined as the probability that an event or action may adversely affect the KM or activity and the purpose of the risk analysis is to develop an audit plan for performing audit tasks that will predict the risks on the areas that were found during the process of the risk assessment.

This risk assessment process will provide a platform to use audit staff and time in an effective and efficient manner; and to determine the nature, timing, and extent of audit steps and procedures in direct relation to the amount and nature of the risk.

The risk methodology consists of the following four phases:

- 1) Identification of auditable areas;
- 2) Risk analysis.
- 3) Audit Plan
- 4) Audit Program

The following table shall be used to record the results of the risk assessment which will summarize the areas that needs detailed investigation and analysis.

Table A.1: Risk Assessment Table

S. No	Activity	Risks Identified	Explanation of Risk	Grade of Risk	Effect of the Risk	Advices to mitigate the risk
1		o				



Islamic Republic Of Afghanistan Kabul Municipality



		o					
2		o					
		o					
3		o					
		o					
4		o					
		o					
5		o					
		o					
6		o					
		o					

3- In the third step, objectives have to be defined for each single activity planned to be carried out within a year. The internal audit activity evaluates and contributes to the improvement of the system’s risk management, control and governance systems by addressing the following objectives:

Risk Management: Internal audit activity will assist the system by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

Internal Control: Internal audit activities will assist the system in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Governance: Internal audit activity will contribute to the system’s governance process by evaluating and improving the process through which 1) values and goals are established and communicated, 2) the accomplishment of goals is monitored, 3) accountability is ensure, and 4) values are preserved.

Objectives for activity shall be defined in the following order:

Activity 1

.....

Activity 2

.....

Activity 3

.....

Activity 4



Islamic Republic Of Afghanistan Kabul Municipality



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

- 4- The fourth step is to decide on the scope of Internal Audit and Internal Audit coverage. Internal Audit scope refers to the extent of activities covered by an Internal Audit. Internal Audit scope includes, where appropriate:
 - Internal Audit Objectives,
 - Nature and extent of Internal Auditing procedures to be performed,
 - Time period of Internal Audit tasks,
 - Related activities not audited in order to delineate the boundaries of the Internal Audit.
- 5- In the fifth step, the annual plan shall outline the quality assurance aspect of the Internal Audit operations. The Quality Assurance is a program by which the director of internal auditing evaluates the operations of the internal audit department. The purpose of the quality assurance program is to provide reasonable assurance that internal audit work conforms to the Standards for the Professionals Practice of Internal Auditing, the IAD's charter, and other applicable standards.
- 6- The Annual Audit Plan shall also define the type and timing of the reports to be submitted during the year to the Mayor. There are two types of reporting systems i.e. Management reporting and communication reporting. The reporting system will take in the account, centrally and district offices, four essential elements:
 - Weekly wrap up of remarks and recommendations from the central and the district offices Internal Audit teams.
 - Development of monthly internal audit conclusion papers to be used for the quarterly audit report; centrally and district wise.
 - Development of regular quarterly internal audit reports for the Mayor, Audit Committee and other users;
 - Development of an annual internal audit report for the Mayor, Audit Committee and other users.

KM Internal Audit Activities	No. of Person. Central	No. of Person. District Offices	% Hours Year	Central Hours Year	District Offices Hours Year	Total Hours Year
 <p style="text-align: center;">Islamic Republic of Afghanistan Kabul Municipality</p> <p>Supervision, and</p> <p>Reporting:</p>						
Internal Auditor General Director Central Hours: Per day. Districts Hours: Per day.						
Internal Audit Supervisor for central internal audit team Central Hours:Per day.						
Internal Audit Supervisors for District audit team District Hours:Per day.						
Subtotal:						
Audit Services:						
<ul style="list-style-type: none"> • Subject 1. 						
<ul style="list-style-type: none"> • Subject 2. 						
<ul style="list-style-type: none"> • Subject 3. 						
<ul style="list-style-type: none"> • Subject 4. 						
Internal Auditors central team Central Hours: 8/day.						
Internal Auditors district team District Hours: 8/day.						
Subtotal:						
Other Audit Activities:						
<ul style="list-style-type: none"> • Quality Assurance 						
<ul style="list-style-type: none"> • IA Staff Capacity Building Program 						
<ul style="list-style-type: none"> • Liaison with External Auditors 						
Internal Audit General Director <ul style="list-style-type: none"> • Quality Assurance 						
Central Hours: Per day.						
District:Per day.						
<ul style="list-style-type: none"> • IA Staff Capacity Building 						
Central Hours: Per day.						
District:Per day.						
<ul style="list-style-type: none"> • Liaison with External Auditors 						
Central Hours: Per day.						
District:Per day.						
Total Hours:						



Islamic Republic Of Afghanistan Kabul Municipality



Internal Audit Supervisor for central internal audit team • Quality Assurance Central Hours: Per day.						
• IA Staff Capacity Building Central Hours: Per day.						
• Liaison with External Auditors Central Hours: Per day.						
Total Hours:						
Internal Audit provincial coordinators • Quality Assurance District Hours: Per day.						
• IA Staff Capacity Building District Hours: Per day.						
• Liaison with External Auditors District Hours: Per day.						
Total Hours:						
Subtotal:						
Gross Total:						

7- In this step, the internal audit members shall develop the timeline of the activities to be performed during the year. The timeline shall include the number of hours during the year; the IAD staff will spend on different activities. The sample timeline may look as follows:

Table A.2: Summary Timeline

Internal Audit Activities For the Year.....	% Hours Year	Central Hours Year	District Offices Hours Year	Total Hours Year
Administration, Planning, Supervision, and Reporting:				
Audit Services:				
Other Audit Activities:				
Total:				

Table A.3: Detailed Timeline

Table A.4: Sample Annual Audit Plan



**Islamic Republic Of Afghanistan
Kabul Municipality**



Activities	Audit of	Audit of	Audit of	Audit of
Objectives				
Risk Assessment				
Scope of work and audit coverage				
Quality assurance and scope of review				
Reporting				

- 8- The audit plan of IAD will be approved by the Mayor/ DM for Finance and Administration. A copy of the approved plan will be sent to the CAO of the president office (15 days before starting audit) for information and coordination of Internal Audit activities.
- 9- CAO will review the KM’s audit plan and will inform officially the KM of their audit plan within KM departments; departments that will be audited by CAO will be excluded from KM’s IAD annual plan.

Performing Internal Audit Activities

- 1- After the annual Internal Audit Plan is approved by the Mayor/Deputy Mayor for Finance and Administration, the IAD director assembles the audit teams based on the annual plan for 22 Districts and 12 Service Directorates. Each Internal Audit team shall consist of one Team Leader and two Assistant/Officers.
- 2- In the second step, the Internal Audit teams create individual Internal Audit plans in conformity with the approved annual plan, which would identify specific districts and departments that will be audited, when and estimated length of time to be spent in each location. Internal Audit plans are then sent to the IAD for revision/approval.
- 3- The actual work starts in step 3. After DG approval, Internal Audit Teams begin auditing districts and directorates as planned. During Internal Audit, departments are required to provide any documents and reports to the Internal Audit team for study and analysis.
- 4- During the audit, the Internal Audit team may decide on compensation for any damage or loss, misconduct or other problems in coordination with the head of the departments.
- 5- The Internal Audit team is required to officially document any findings, misuse of organization property, illegal misconducts and report it to the IAD director. These cases then have to be introduced to the Attorney General Office through the Mayor/Deputy Mayor.



Islamic Republic Of Afghanistan Kabul Municipality



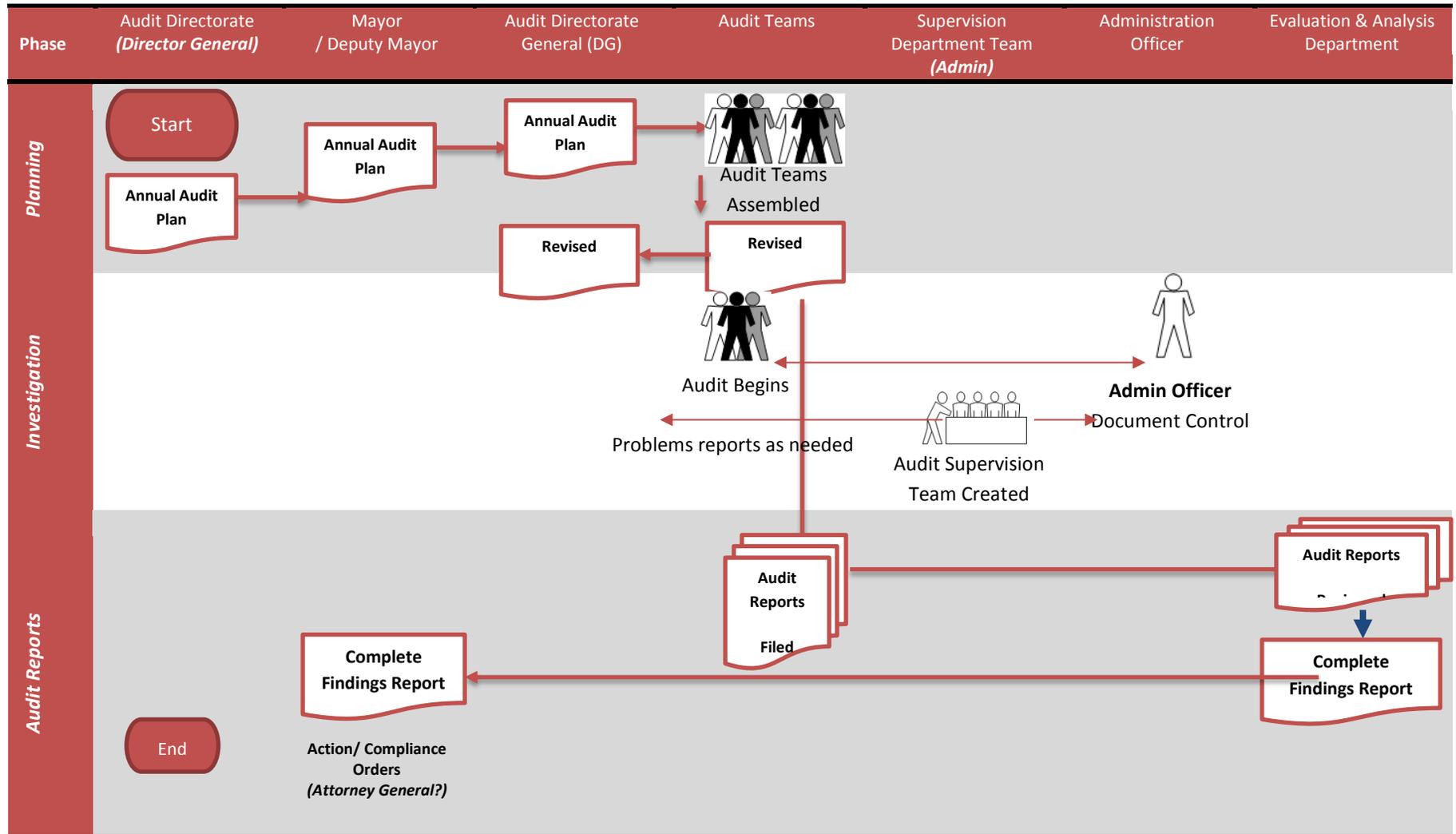
- 6- As part of the quality assurance mentioned in the annual plan, the department of Supervision under the directorate of IAD creates an Audit Supervision Team to observe and report any problems associated with the performance of the Audit to the DG of IAD.
- 7- The Administration office monitors the flow of files and information transmitted between departments; districts and the Auditors to assure accurate record keeping and flows of information.
- 8- The final steps are on the reporting. When Internal Audit teams completed the audit, Audit Reports as outlined in the Annual Audit Plan are provided on weekly, monthly, quarterly and annual basis. The Audit Reports are analyzed by the M&A department for further analysis.
- 9- The M&A department reviews and evaluates the Audit Reports and provide a detailed report for the Mayor/Deputy Mayor. Small problems will be solved internally through the IAD department. However, if large problems exists (corruption), the Mayor/Deputy Mayor will instruct the Internal Audit Directorate to send the reports to the Attorney General.
- 10- According to the policy, the IAD department has to report to MoF and CAO too.



Islamic Republic Of Afghanistan Kabul Municipality



Figure B1: Summary of Internal Audit Procedures





**Islamic Republic Of Afghanistan
Kabul Municipality**



PREPARED BY:

APPROVED BY:

DG Policy and Coordination

Mohammad Yonus Nawandesh
Kabul City Mayor