

# Internal Audit Manual

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Acronyms .....	5
Section 1: Purpose of the Internal Audit Manual .....	6
Section 2: Introduction to Internal Auditing .....	7
2.1 Objectives of Internal Auditing .....	7
2.3 Independence of the Internal Auditor .....	7
2.4 Ethics and Professional Code of Conduct .....	7
2.5 Duties and responsibilities of an Internal Auditor .....	8
Section 3 : Risk Based Approach to Planning and Audit.....	9
3.1 Introduction.....	9
3.2 The Risk Based Approach.....	9
3.3 Risk Assessment.....	9
3.4 Internal Control System .....	10
Section 4: Management of the Internal Audit .....	11
4.1 Introduction.....	11
4.2 The planning Phase.....	11
4.3 Notifying the Unit to be audited.....	11
4.4 Development of the audit objectives .....	11
4.5 Determining the scope of the audit .....	12
4.6 Regular Communication with internal audit staff .....	12
4.7 Budgeting for the audit.....	12
4.8 Developing the audit plan .....	12
4.9 Initiating the Audit Engagement .....	13
4.10 Staff monitoring and mentoring .....	13
4.11 Capacity development .....	13
4.12 Developing an audit program .....	14
4.13 Closing the Audit .....	14
Section 5: The Conducting Phase .....	15
5.1 Introduction.....	15
5.2 Audit Testing.....	15
5.3 Sampling to be applied.....	16
5.4 Testing Techniques .....	16
Section 6: The Audit Programme .....	18
6.1 Introduction.....	18
6.2 Purpose of the Audit Programme .....	18
6.3 Executing the Audit Programme.....	18
Section 7: Audit Evidence .....	19
7.1 Introduction.....	19
7.2 Obtaining audit evidence .....	19
7.3 Reliance on Audit Testing Techniques.....	19
7.4 Reliability of Evidence .....	20
7.5 Sufficiency of Audit Evidence.....	20
Section 8: Working papers.....	21
8.1 Introduction.....	21
8.2 Audit Files.....	21
8.3 Classification of Working Papers .....	22
8.4 Standards of Working Papers .....	22
8.5 Indexing of Working Papers .....	23
8.6 Cross Referencing of Working Papers .....	23

Session 9: The Audit Report .....	24
9.1 Introduction .....	24
9.2 Purpose of the Audit Report .....	24
9.4 Standards of Reporting.....	24
9.5 The Final Report .....	24
9.6 Quarterly Report.....	24
Annex A: Audit Programmes.....	25
1. Government Transfers.....	25
2. Budgets and Budgetary Control .....	27
3. Revenue Collection, Receipting and Banking.....	29
4. Expenditure Payroll Payments .....	31
5. Non- Salary Payments.....	33
6. Fixed Assets.....	35
7. Cash and bank balances .....	38
8. Audit Programme - Liabilities .....	41
9. Review of the financial statements.....	42
Annex B: Sample Internal Audit Report .....	44
Annex C: Specimen Quarterly Reports.....	45
Annex D: Specimen Audit Working Papers.....	46
Glossary .....	47

## Acronyms

DIA	Director of Internal Audit
GoSS	Government of Southern Sudan
ICQs	Internal Control Questionnaires
IAS	International Auditing Standards
IIA	Institute of Internal Auditing
MOFEP	Ministry of Finance and Economic Planning
MOFTI	Ministry of Finance Trade and Industry

## Section 1: Purpose of the Internal Audit Manual

The internal audit manual is intended to fulfil the need brought about by recent public financial management reforms set out in the GoSS strategy for improving the capacity of State Internal Audit Units.

Reforms in internal auditing will assist State governments to improve their systems of internal controls in order to reduce the incidence of waste, corruption and fraud.

The manual is designed as a guide for use by internal audit staff involved in the day to day activity of conducting audit assignments and therefore the main focus has been on the conduct of the audit.

The contents of the manual reflect international "Best Practices" in internal auditing and comply with International Auditing Standards (IAS) and have been adapted to suit the local State environment.

The focus of this manual, therefore, is on the internal audit execution phase, providing guidance on the appropriate audit programmes required for conducting routine audits, audit testing techniques, the compilation of working papers and report writing.

## Section 2: Introduction to Internal Auditing

The Institute of Internal Auditors (IIA) defines Internal Auditing as “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.”

Objectivity is an independent mental attitude which requires internal auditors to conduct audits in such a manner that they have an honest belief in their work and make no significant compromises.

### 2.1 Objectives of Internal Auditing

The Internal Audit unit should appraise the soundness and application of accounting, financial and operational controls and review and report on the following:

- Correct classification of revenue and expenditure
- Effectiveness of accounting procedures
- Adequacy of controls over the receipt, custody and use of financial resources
- Compliance with financial and operational procedures
- Reliability of and integrity of financial and operational data to ensure accurate preparation of financial statements and other reports
- The systems for safeguarding assets and their verification
- Adequacy of management’s reaction in response to internal audit reports and
- Adequacy of controls built into computerised systems

### 2.3 Independence of the Internal Auditor

The IIA emphasises that the “internal auditors should be independent of the activities they audit” as this would impair their independent status.

The internal auditor should be responsible to the Minister or other head of organisation with no responsibilities for managerial functions.

In order to operate efficiently and maintain objectivity, the Internal Auditor must:

- have direct access to all departmental heads and to all records and information
- be independent of all financial systems operating within the department being audited and
- Have the right to report on any aspect of the financial work, including that of the finance department

### 2.4 Ethics and Professional Code of Conduct

The internal auditor is expected to:

- Behave with integrity and honesty
- Strive for objectivity with regard to all professional and business judgements

- Not accept or perform work that he is not competent to do
- Carry out his work with due skill, care, and diligence
- Conduct himself with courtesy and consideration towards all persons that he comes into contact with during the course of audit work
- Observe confidentiality rules

## **2.5 Duties and responsibilities of an Internal Auditor**

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

In discharging his responsibilities, the Director of Internal Audit (DIA) is required to:

- Maintain an effective and efficient internal audit unit
- Maintain an internal audit plan to ensure appropriate use of resources to priority audit areas
- Identify, assess and evaluate risks and make recommendations for improvements
- Review the system of internal controls in order to provide the necessary assurance that all applicable laws, financial regulations, policies and procedures are being complied with
- Review financial and accounting systems for adequacy and effectiveness
- Supervise the conduct of audits
- Review draft reports and working papers prepared by the internal audit staff for submission to the Director General Finance and/or an Audit Committee
- Prepare responses to internal audit enquiries from the DG of Finance
- Maintain a good working relationship with the Supreme Audit Institution (SAI), the Audit Chamber



## Section 3: Risk Based Approach to Planning and Audit

### 3.1 Introduction

Risk is a useful concept in planning all audit work and auditor needs to have a clear understanding of potential audit risks in order to determine audit priorities and allocate scarce resources effectively.

### 3.2 The Risk Based Approach

Under the risk based approach, the whole control environment is assessed, in order to determine if it is adequate to manage potential risks which may impede the organisation from meeting its objectives.

Auditors will be required to assess whether compliance with existing financial regulations, rules and procedures is adequate to mitigate the risks identified and to make recommendations for improvements in the internal control system if necessary.

Resource constraints mean that auditors are unable to conduct 100% audit on every transaction. It is therefore important that auditors set audit priorities to assist them in the allocation of resources to audit areas with the greatest need.

#### Determining audit priorities

In order to allocate scarce resources in the audit unit efficiently it is important to determine audit priorities.

The Director of Internal Auditor is required to carry out risk analyses to assess the relative risks of error or loss in each audit area and the audit entity as a whole. The impact of any error or loss highlighted should be measured and areas considered to be high risk/high value must receive high priority ratings and the appropriate resource allocation.

The steps involved in the risk based approach to auditing can be summarised as follows:

- a) Identifying key risks and controls, assessing the importance and likelihood of each
- b) Prioritising identified risks and controls and
- c) Assessing the effectiveness of the identified controls in addressing risks

### 3.3 Risk Assessment

Risk assessment is the identification, analysis and management of relevant risks which may impede the attainment of goals and objectives. It enables the auditor to evaluate the vulnerability of a particular system and help to identify areas of high exposure.

The factors that will increase risk in an area of audit include:

- a) The volume of transactions – the higher the number of transactions the higher the risk is increased
- b) The sums of money involved - the higher the value, the higher the risk

Based on the results of the assessment, the auditor will subject high risk areas to more frequent audits.

A detailed risk assessment is undertaken during the planning phase of the audit engagement to confirm that the lines of enquiry and the initial objectives have focussed on the most important risks associated with the program or activity being audited.

The management of risks will take into account:

- a) Assessment of the nature and extent of the risks associated with operations
- b) Decision on an acceptable level of loss or degree of failure
- c) Decision on how to manage or minimise the risk
- d) The monitoring, reporting and, reassessing of the level and implications of the risk exposure.

The auditor needs to update the risk assessment at least annually to reflect changes to the internal control or work processes. The level of risk should be one of the most significant factors considered when determining the frequency of audits.

### **3.4 Internal Control System**

As part of its activities, internal audit will examine and objectively appraise the adequacy and effectiveness of internal controls and report to senior management regarding the functioning of its systems.

Having gained an understanding of the entity's objectives and control environment and identified the key risks to the achievement of objectives the internal auditor is in a position to identify and assess the related controls and their effectiveness in mitigating risks.

The Director of Internal Audit should document the process or activity for which the control is intended, evaluate the expected effectiveness, efficiency and cost effectiveness of the control and test whether it is working as intended.

## Section 4: Management of the Internal Audit

### 4.1 Introduction

The responsibility to ensure an effective and efficient internal audit unit lies with the Accounting Officer who should ensure that adequate resources are made available to enable audit plans to be implemented.

Efficient management of the Internal Audit Department relies on:

1. Good audit planning
2. Effective execution of the plan, making efficient use of resources
3. Staff monitoring, mentoring and appraisal and
4. Capacity building of professional staff

### 4.2 The planning Phase

The planning phase has three distinct but overlapping activities:

1. The internal auditor gains an understanding of the nature of the programme, activity, organisation being audited
2. Determines and assess the risks
3. Determines the most appropriate audit objectives and scope of the audit

### 4.3 Notifying the Unit to be audited

During the planning phase, audit objectives and scope are developed and appropriate members of the entity to be audited are notified that their unit has been selected for audit. In notifying the entity to be audited, the DIA will generally communicate the following information:

- The activity name, or brief description of the function, or unit to be audited
- The type of audit to be conducted and the audit objectives and scope
- The dates of the planned audit and
- A request for any relevant documentation

### 4.4 Development of the audit objectives

The first step in the planning stage is to develop the initial objectives and the required audit methodology to satisfy those objectives. The audit objectives should clearly:

- state what the audit is expected to accomplish (the audit purpose)
- establish the direction for detailed audit work and
- provide the focus for formulating subsequent findings.

#### What are audit objectives?

The audit objectives are often referred to as the questions that the audit seeks to answer in relation to:

- Accuracy and reliability of the Financial and operating information

- Compliance with policies, laws, regulations, procedures and plans
- Safeguarding of assets against loss and theft
- Economic and efficient use of resources
- Achievement of established programmes and operating goals and objectives

#### **4.5 Determining the scope of the audit**

The scope of operations is expansive and will differ from Government to Government. However, the scope should be wide enough to provide reasonable assurances that:

- Risks are identified and managed
- Government resources are used efficiently and are adequately safeguarded
- Government transactions are in accordance with adequate internal controls, good business judgement and high ethical standards
- Internal control processes are subjected to continuous improvements and communicated to Senior Management and/or Audit Committee.

The DIA will then decide on:

- Areas to be examined i.e. what specific areas to look at,
- Systems that will be reviewed
- The depth of examination and testing and
- The time period to be covered by the audit

Efficient resource allocation and deployment of audit staff to priority audit entities is a key element in the management of the internal audit department.

#### **4.6 Regular Communication with internal audit staff**

Regular meetings between audit staff and Director of Internal audit should be held for the purpose of deployment and operations of the audit unit staff. The meetings should also address issues of staff, logistics and lessons learnt.

#### **4.7 Budgeting for the audit**

The Director of Internal Audit will be required to compile a budget for the unit to include:

- Salaries for the department's staff
- The direct costs of executing each audit
- Staff capacity building
- Capital /development expenditure

#### **4.8 Developing the audit plan**

Based on the results of the risk assessment, detailed audit plans are prepared and presented to the Management or an Audit committee (if any) for approval.

A typical audit plan should have the following components:

- A list of all audit projects to be undertaken and their objectives
- The level of resources required to conduct audits

- The staffing and logistical requirements available
- The resource gap if any and how it will be dealt with
- A summary of the actual jobs that are planned for execution and the allocation of staff to conduct the audits
- A summary of capacity development that is planned
- The estimated number of hours for each project
- The type of review to be carried out

At this stage, the process of identifying the various information and documentation required to gain a good understanding will include:

- Organisational Charts, job descriptions, departmental manuals and relevant reports.
- Legislation and regulations, policies and procedures
- Process and system maps or flowcharts and lists of key personnel
- Pertinent contracts and agreements
- Minutes of pertinent senior management meetings and results of previous audits

The main output of this phase is the preliminary audit program which may be subjected to modifications as necessary.

## **4.9 Initiating the Audit Engagement**

Before starting the auditing process, the entity being audited must be informed in writing and the terms of reference of the audit must be included.

### **Opening Meeting**

Director of Auditing should organise an opening meeting to clarify with the entity, details of the programme, activity or organisation to be audited e.g. mandate, resources, structure and should explain the entity's responsibilities in the process.

At this stage a request can be made to obtain copies of documents which are relevant in gaining a good understanding of the entity's activities.

## **4.10 Staff monitoring and mentoring**

Audit staff should be monitored and mentored on an on going basis. The Director of Internal Audit (DIA) by holding a deployment meeting should be able to keep check of progress on completion of audits and by carrying out a review of staff audit working papers will be able to monitor the standards and quality of auditing. Staff and performance issues arising should be addressed immediately by discussion.

## **4.11 Capacity development**

It is very important that the audit staff involved in audits develop a wide range of audit skills including basic technical skills, professional skills and specialist skills.

#### **4.12 Developing an audit program**

The audit programme will specify who is doing what, why it is being done, how it is to be done, when it is being done and where.

The Audit Programme documents the audit tests and procedures that the Director of Internal Audit has designed as the approach to collecting and analysing audit evidence in the most cost effective manner while ensuring objectivity, independence and uniformity. See Chapter 6 for audit programmes.

#### **4.13 Closing the Audit**

A closing meeting will be held with members of staff of the audit entity to discuss the Draft Report and reach an agreement on each of its components.

Specifically, the meeting provides an opportunity to clarify points and issues, resolve any misunderstandings and agree on follow-up activities.

## Section 5: The Conducting Phase

### 5.1 Introduction

The purpose of this phase is to gather sufficient, relevant and appropriate evidence to reach a conclusion on each of the objectives identified in the planning phase.

Field work is regarded as the beginning of this phase and is interpreted as the point at which the audit team is implementing the audit program usually on site at the entity being audited.

It involves the execution of all the audit programmes specified in the audit plan and the compilation of working papers detailing the audit work completed to satisfy each step of the audit programme.

### 5.2 Audit Testing

Testing procedures can be categorised into three areas, namely compliance testing, substantive testing and analytical reviews.

#### a) Compliance Tests

These are tests used to obtain audit evidence about the existence of accounting systems and internal controls and whether they are functioning as intended and being applied.

For each audit carried out according to international auditing standards, the auditor must obtain an understanding of the system of internal controls, by making inquiries, inspecting manuals and other documentation and observation. The auditor may assess the reliability of the system of internal control by using Internal Control Questionnaires (ICQs) which contain key questions to test the system.

For example, to test the effectiveness of the payroll system, the auditor will pose such questions as "can wages be paid for work not done"? The system will then be inspected to see if it includes procedures to ensure that this could not happen. If the system is deemed effective at preventing and detecting errors, then the auditor needs to confirm that the system is applied as recorded by testing a sample of transactions.

Based on the reliability or otherwise of the system, conclusions will be drawn that will enable the auditor to decide on the level of substantive testing required.

#### b) Substantive tests

These tests seek direct evidence of the validity and propriety of the accounting treatment of a transaction and the correctness of balances shown in the accounting records, an asset, a liability or any item in the books of accounts. Substantive tests are used to carry out detailed verification of particular transactions and balances and examples include:

- Payment of goods/services will require the auditor to examine the LPO, GRN, copy invoice, payment request, cash book etc

- Confirmation of balances may require direct confirmation from the bank for bank balances or suppliers for creditor balances

### c) **Analytical Reviews**

These procedures are substantive tests of financial information made by a study and comparison of relationships among data. These procedures are usually carried out at the beginning of an audit as part of the audit planning process and may take the form of:

- Comparing current balances with prior year balances or
- Breaking down of individual accounts so that unusual or significant items are highlighted and selected for review
- Carrying out variance analyses ( budget against actual expenditure)

## 5.3 **Sampling to be applied**

A number of different methods of sampling may be used for both substantive and compliance testing and include random, stratified, statistical sampling. The techniques for sampling prior to testing are described in the next section.

The size of the test sample will depend on several factors such as the size of the transactions, whether high risk or high value. Large volume of transactions may require statistical sampling, whilst low risk or low value items may be subjected to analytical reviews for reasonableness.

Typically, sampling is based on transactions representing up to 80% of the value of the items e.g. expenditures.

## 5.4 **Testing Techniques**

There are several categories of audit testing techniques available for use. The Director of Internal Audit will decide on the most appropriate technique when designing tests of controls. The techniques available include the following:

### 1. **Observation**

This involves the auditor observing an operation or procedure being performed with a view to determining if the task is being done properly  
Example: Observing a physical stock take or the procedures for paying wages.

### 2. **Enquiry**

The auditor asks relevant questions from knowledgeable persons both within and outside of the entity about a particular transaction  
Example: asking about procedures for unclaimed wages.

### 3. **Analysis and Review**

This technique may take the form of:

- Comparing current balances with prior year balances or
- Breaking down of individual accounts so that unusual or significant items are highlighted and selected for review

An example is comparing fuel costs to the total fleet of vehicles to determine if the individual running costs are reasonable.



#### **4. Inspection**

The Director of Internal Audit has the authority to review or examine all records, documents, physical assets or any evidence to support the data under review. Inspection can be performed by verifying transactions using the following basic techniques:

##### **a) Re computation**

This is the process of recalculating the arithmetical accuracy of accounting records or performing independent calculations.

Example include: re-working bank reconciliation or a payroll calculation to ensure its accuracy.

##### **b) Vouching**

Involves the verification of entries, by comparing them to the original source documents and examining supporting documents in detail.

Example: the vouching of purchase invoices

##### **c) Tracing of book keeping procedures**

Involves the tracing of postings from the original books of entry to ledgers and vice versa

##### **d) Physical Examination and Counts**

Involves the substantiating the reliability of records, by identifying and determining the existence, condition and quantity of items.

Example: Test count stocks; Cash counts; physical examination of fixed assets

##### **e) Confirmation**

Involves the request for direct confirmation from third parties, in order to validate items shown on records. An example is the verification of the bank balances by the bank in writing.

Example: Requesting confirmation of year end bank balances

## Section 6: The Audit Programme

### 6.1 Introduction

The audit programme is a tool to be used by the internal audit staff to perform the audit assignment.

### 6.2 Purpose of the Audit Programme

The purpose of the audit programme is to provide:

- A guide for conducting and coordinating the audit work to be done and
- A framework for assigning audit work

The key component of an effective audit programme is the tests and procedures to be followed in gathering and analysing audit evidence. The tests and procedures should be structured and described so that it is clear to which criterion and to which audit objective each procedure is directly linked. The format should also make it possible to record cross references to working papers

The programme should detail for each audit area, the required scope and resources, a selection of audit procedures, the extent of testing and the basis for the conclusions.

Resource needs should be identified and the estimated hours required to execute procedures should also be determined.

### 6.3 Executing the Audit Programme

The DIA must approve the audit programme before the beginning of the audit work.

As the audit progresses, each of the steps should be cross referenced to the corresponding working paper.

On completion of each of the audit steps, the auditor should initial the audit program in the appropriate box indicating its completeness.

Before the beginning of each audit programme, there should be a table showing budgeted time, actual and variance and explanations if any.

Specific sampling guidance for each audit area is provided in the audit programme.

Detailed Audit Programmes covering different audit areas are show in Annex A of this manual.

## Section 7: Audit Evidence

### 7.1 Introduction

All information gathered to support the internal audit and the conclusions drawn from them should be considered audit evidence.

The Auditor gathers substantive evidence to be able to provide assurance about completeness, accuracy and existence.

Sources of internal evidence include, accounting systems, documents to support transactions, tangible assets, management and employees, suppliers, as well as external evidence from third parties (e.g. bank balances etc).

### 7.2 Obtaining audit evidence

Evidence can be compliance or substantive in nature and obtained by carrying out audit tests classified according to their primary purpose.

Compliance evidence is used to make an assessment of the effectiveness of internal controls and will enable the auditor to reduce the extent of substantive testing.

Reliance on a particular type of evidence will depend on the approach taken for each area of audit work and the two most common approaches are:

- a) **Systems Based Compliance Audit** – the auditor seeks to obtain an adequate level of assurance that there are effective controls throughout the period under audit.  
Examples: the auditor may test the system of receipting and banking of cash and the system of acquiring and payment of goods/service. If the systems are satisfactory, the amount of substantive testing may be reduced accordingly.
- b) **Direct substantive Testing** – The auditor reaches an opinion on the reliability of the accounts, by obtaining evidence directly from substantive testing. An example of this type of approach is the verification of bank reconciliation with the bank statement, or the physical inspection of a fixed asset.

The major sources of substantive evidence are:

- Internal Evidence – documentary evidence sourced from accounting records, purchase invoices and other statements
- External evidence – Statements made by third parties
- Physical evidence
- Re-performance and direct
- Direct personal knowledge – the most reliable

### 7.3 Reliance on Audit Testing Techniques

As described in Section 5, audit testing techniques are available to enable the auditor to obtain the required audit evidence. The following examines the level of reliance that the auditor can place on these techniques

### **a) Observation and Enquiry**

Observation will determine performance only at the time of the observation and this may not be sufficient because the staff may be performing better as a result of being watched. Evidence obtained from enquiry should be rated according to the auditor's opinion of the competence, experience and integrity of the person interviewed.

Both the above techniques can only be used to obtain compliance evidence and care should be exercised.

### **b) Inspection**

Inspection of documents or physical assets will provide evidence of varying degrees of reliability, depending on the nature of the source. Physical evidence can be used to obtain substantive evidence of items such as assets, liabilities, revenues and expenses.

### **c) Computation**

The checking of the arithmetical accuracy of accounting records or the re-performance of independent calculations will provide substantive evidence for the existence and completeness of balance sheet items e.g. checking a list of creditor balances to ensure there are no omissions or duplications.

## **7.4 Reliability of Evidence**

High-quality evidence depends on the source and circumstances under which it is obtained. The presumptions are that:

- Documentary is more reliable than oral evidence
- Independently sourced evidence ( e.g. a bank letter) is more reliable than internally sourced evidence ( from the cash book)
- Evidence originated by the auditor as a result of analyses, testing and physical inspections is more reliable than one obtained from another source ( auditors always say "show me" not "tell me" )

## **7.5 Sufficiency of Audit Evidence**

Determining what is sufficient is a subjective exercise, so the auditor's judgement should be influenced by:

- His knowledge of the entity/department under review
- The degree of audit risk, nature and materiality of the items in the financial statements (e.g. inventories are material and difficult to measure)
- The nature of the accounting and internal control systems and the control environment and
- Persuasiveness of the evidence

## Section 8: Working papers

### 8.1 Introduction

Working papers provide the link between audit fieldwork and the final audit report and contain the necessary evidence to support the findings, judgements and conclusions in the Final Audit Report.

The term “working papers” which will provide the basis and support for the conclusions reached by the DIA includes all documents and papers collected or prepared during a given audit and must be preserved and included in the working paper files maintained by the audit staff.

The Standards for the Professional Practice of internal auditing states that, internal auditors should “collect, analyse, interpret and document information to support audit results”. The audit working papers will provide the main evidence that these standards have been applied and the audit has been performed in a professional manner.

### 8.2 Audit Files

For an efficient internal audit, it is necessary to have a sound system of filing and working paper maintenance. The files will contain the auditor’s audit evidence to support his report and one way of ensuring that all documentation is filed properly.

The internal auditor should record his activities in working papers on a daily basis and prepared according to the following principles:

- Each working paper must specify the audited area, the time limit for the audit, title contents, and name of the person compiling the list and the index, marked with cross references to enable a rapid search
- The working papers provide details of problems encountered and adequate evidence of work performed and conclusions drawn
- Audit working papers should be sufficiently complete and detailed to enable an experience auditor with no previous connection with the audit to ascertain the work performed to support the conclusions reached
- The compilation of the working papers should be continuous as the audit progresses to avoid omissions
- Should include a summary of all significant matters identified which may require the exercise of judgement together with the auditors’ conclusions.

The Director of internal audit needs to be able to review working papers prepared by the audit staff in order to satisfy himself that delegated work has been properly executed.

Standardise working paper templates have been developed and are attached in annexes.

### 8.3 Classification of Working Papers

Working papers can be any form but the usual division is between permanent file and the current file.

The following minimum required internal audit files must be maintained to show the depth of audit work and audit evidence on each audit job.

#### a) Permanent File

The file contains all permanent, background information for the entity being audited. It will include:

- Copies of documents of continuing importance and relevance to the auditor - e.g. organisation charts, copies of minutes and correspondence with the auditors, statutes, rules, regulations and procedures
- Descriptions, flowcharts, internal control questionnaires if used
- Description of the accounting records, basis of accounting and names of key personnel

#### b) The Control File

The file records how the internal control system operates usually displayed in the form of a flowchart.

#### c) The Current file

The file contains matters pertinent to the current year's audit and should include:

- All completed audit programmes filed, using the standard working paper forms WP/1 – IV (see annex C)
- An audit programme
- A schedule of items e.g. bank confirmation letters
- A record showing queries during the audit and brought forward from previous audits

### 8.4 Standards of Working Papers

All working papers ideally should be prepared using a format that pays attention to layout, design and legibility and with complete headings, explanations and verification of work performed.

The following rules should be observed when preparing working papers:

- The heading with name of entity being audited, a description of the information presented and the period covered by the audit should be detailed
- Should be linked to the audit programme
- The source of the data presented should be clearly stated
- The nature of the work carried out should be indicated and
- Where symbols are used their significance should be explained

## **8.5 Indexing of Working Papers**

The objective of indexing working papers is to make it easy for anyone not part of the audit to retrace the steps taken to complete the audit and to make the working papers easier to locate.

The working paper must be indexed in the upper right corner with the index.

## **8.6 Cross Referencing of Working Papers**

In order to make it easier to review the work carried out, all working papers developed during the audit assignment should be cross-referenced to the audit programme.

The DIA may recommend using a standard numbering and indexing system for all working papers.

## Session 9: The Audit Report

### 9.1 Introduction

The audit concludes with the drafting of the audit report. The DIA will prepare the Findings Summary for the whole audit assignment and finally draft the Audit Report.

The draft will be discussed with the auditors involved in the audit before being formally issued.

Internal auditors must report on their findings on a regular basis, which can be monthly or quarterly depending on the requirements of current legislation.

### 9.2 Purpose of the Audit Report

The objective of the audit report is to inform management of the results of the audit and to make necessary recommendations,

The report should detail individual departments' compliance with policies and procedures and should state whether operating processes and internal controls are effective and describe deficiencies as well as suggested corrective actions.

The preparation and submission of an internal audit report should be made a mandatory requirement by law and should:

- Identify the audits conducted
- The findings from the audits
- Follow up actions on previous audits if any
- Audit planned for the next period

### 9.4 Standards of Reporting

All findings, recommendations and opinions must be expressed objectively. The reports must be organised in such a way that it is clear, relevant, and timely and can be used to enhance or improve relevant aspects of government operations

Detailed minutes should be kept to provide evidence of management's response to the issues raised and these should be filed in the working papers.

### 9.5 The Final Report

Once the final report has been issued, the audit is closed and the working papers are finalised and archived

### 9.6 Quarterly Report

The report summarises the points arising from the audit of all entities undertaken during the quarter and should be kept precise and concise.



## Annex A: Audit Programmes

The following are detailed audit programmes for various areas under audit and include:

1. Government Transfers
2. Budgeting
3. Revenue Collection, Receipting and Banking
4. Expenditure Payroll Payments
5. Non- Salary Payments
6. Fixed Assets
7. Cash and bank balances
8. Audit Programme - Liabilities
9. Review of the financial statements

### 1. Government Transfers

#### Main Activities

The focus of the audit is on transfers made by GoSS to the States in the form of conditional and block grants. The Ministry of Finance and Economic Planning transfers conditional grants and block grants to the State Ministry of Finance Trade and Industry who is responsible for the transfer of these funds to the relevant State Agency.

The conditional grants are used mainly for the payment of salaries and operating expenses.

#### Key Objectives

The main objective is to ensure that transfers are spent according to the approved budget and accountabilities are submitted to the State Ministry of Finance Trade and Industry.

#### Audit Techniques

Physical examination	Re-performance	Observation
Enquiry	Scrutiny	Confirmation
Vouching	Inspection	Analysis

#### Key Risks

The key risk is poor controls over transfers which may lead to funds not being received on time, or not used for their intended purposes.

#### Underlying Risks

The underlying risks are:

- Late receipt of grants that impact on the implementation of planned programmes
- Failure to adequately record and account for transfers
- Failure to report on how funds have been used
- Failure to use transfers for activities specified in the approved budget

#### Records required for the audit

The following records should be requested before the commencement of the audit.

- Current Approved budget
- Bank Statements
- Bank advice notes
- Revenue transfer notifications from GoSS
- Accounting records

### Sampling instructions

A 100% check on transfers of conditional and block grants.

### Time schedule

Budgeted time for task	Actual time spent	Variance	Explanation

Government Transfers	
Ref	Audit Programme Tasks
	Prepare a schedule of expected transfers from GoSS from the approved budget estimates
	From the MOFEP notification of transfers, obtain details of amounts released, dates of transfers, and compare with the schedule of expected transfers, investigating any variances
	Check notification of transfers for the stated purpose of the transfer and compare with actual use (cash book or petty cash book)
	From the cash book, confirm the correct recording of the receipt of funds
	Check that the receipt of transfers from the bank statement
Conditional Transfers	
	Confirm transfer of conditional transfers to the correct Agency accounts
	Check the timing of the actual receipt of the grant according to the cash book
	Check accounting records that the funds have been expended in accordance with approved budget estimates

## 2. Budgets and Budgetary Control

### Key Activities

The main focus is on budget formulation, approval, execution and control. It also covers the audit of the Vote Books

### Key Objectives

The key objectives of the audit are to:

- ensure that the approved budget is prepared according to the prescribed guidelines and procedures
- Revenue and expenditure are monitored against estimates
- There is effective budgetary control
- All entries in the Vote Book reflect accurately the financial transactions of the entity

### Audit Techniques

Physical examination	Re-performance	Observation
Enquiry	Scrutiny	Confirmation
Vouching	Inspection	Analysis

### Key Risks

The Key risks are that:

- The budget allocations may have been over or under estimated resulting in inefficient budget execution and failure to meet policy objectives
- Vote books have been inadequately maintained affecting the reliability of accounting data

### Underlying Risks

Incorrect recording of budget provisions/estimates in the budget vote book results in poor budget monitoring

- Inadequate budget monitoring and reporting will result in overspending and under-collections
- Incorrect or incomplete recording of information in the vote book, resulting in commitments and payments exceeding the balance of available funds and overspending
- The Vote Book is not promptly reconciled monthly with the Finance Department's records

### Records required for the audit

Before the start of the audit the auditor should request for the following documents:

- The Approved Budget
- Budget work plans
- Budget vote books
- Budget audit programme
- Expenditure warrants/supplementary estimates/reallocation Warrants
- Payment Vouchers

### Sampling Instructions

- Check on the largest programme heads that cover at least
- 80% in value of the largest programmes and vote heads of all income and expenditure

- 100% of key programmes and key votes as defined by the Director of Internal Audit
- 10% of remaining vote heads

### Time Schedule

Budgeted time for task	Actual time spent	Variance	Explanation

Budget Preparation	
Ref	Audit Programme Tasks
	<b>Budget Preparation</b>
	Obtain all relevant budget preparation documents and confirm that the procedures set out in the guidelines were followed in the budget preparation process and in accordance with the timescales laid down
	Review the composition of the Budget Sector Committee
	Review the adequate submission of annual work plans and budgets
	Review the consolidation of annual budgets, to ensure that they fall within the budget framework Paper
	Discuss with Budget holders for confirmation that all estimate headings were agreed with them and included in the development plans and budget preparation working papers
	<b>Budgeting, Monitoring and Control</b>
	Examine the budget vote books and confirm that they record amounts according to the approved budget estimates
	Examine the budget vote books to confirm that the expenditure budget is being complied with
	Examine the estimates of revenue and compare actual collections against estimates, noting and investigating significant variances
	Ascertain that budget revisions have been recorded and whether timely action was taken when applying budget revisions
	Review appropriate reports to confirm that actual expenditure against budget estimates are monitored by the relevant parties (Budget Execution Committee)
	Confirm that there is monitoring of actual revenue against the set revenue estimates through review of relevant reports and discussions with Head of Finance
	<b>Vote Book</b>
	Use the budget estimates books appropriate warrants and supplementary allocations provisions to confirm that the Vote Book correctly records vote account details, supplementary provisions; imprests, approved estimates, warrants, or re-allocations
	Confirm that the entries are correct for both commitments and payments by checking the Vote Book entries against payment vouchers
	Confirm whether any of the votes are overspent
	Confirm all codes have been properly entered
	Confirm that every entry in the vote book has been initialled
	Confirm that the vote Book has been properly and promptly reconciled monthly with the General Ledger
	Recalculate the year to date balances to confirm that they are correct

### 3. Revenue Collection, Receipting and Banking

#### Main Activities

- The focus is on all revenue collection, receipting, remittance and recording and covers the following sources of revenue:
- Business profits tax
- Tax on goods
- Royalties
- Trade licences and
- Other fees and charges

#### Key Objectives

The objectives are to ensure that all revenues collected on behalf of the State Ministry of Finance Trade & Industry have been deposited into State Revenue Accounts

- All revenue collected is receipted and accurately recorded
- All revenue collected is banked intact and promptly
- All cash receipts during the year have been recorded properly
- Recorded receipts are mathematically correct and summary statements are accurately totalled
- There is proper segregation of duties between cashiers, accountants responsible for the cash book and safe keeping of cash

#### Audit Techniques

Physical examination	Re-performance	Observation
Enquiry	Scrutiny	Confirmation
Vouching	Inspection	analysis

#### Key Risks

The main risk is a shortfall of revenues caused by inaccurate or incomplete assessment, collection, and recording.

#### Underlying risks

- Incorrect assessment of taxes/charges/fees
- Failure by revenue collectors to issue the prescribed receipts
- Incorrect revenue recording and accounting of revenues
- Failure to collect revenues
- Poor physical control over the cash collected
- Failure to follow-up arrears and late payments

#### Records required for the audit

Before the start of the audit the auditor should request for the following documents:

- Revenue, collection, remittance and reporting procedures
- Register of receipt books
- Used receipt books - Financial form 15s
- Internal cash transfer forms - Financial form 39
- Daily cash summaries - Financial form 67

- Paying books/ deposit slips
- Cash Books
- Bank statements

### Sampling Instructions

Based on the risk rating, it is usual to select 100% of all receipt books for auditing.

### Time Schedule

Budgeted time for task	Actual time spent	Variance	Explanation

Revenue Collection, Remittance and Recording		
W/P Ref	Signoff	Audit Programme Tasks
		<b>Receipting of collections</b>
		Check that the list of receipt books in the register is sequentially numbered
		Ensure that all receipt books issued are signed for by both the receiving and issuing officer
		Check that the details on the duplicate receipts are legible
		Ensure that the signature of the authorised person responsible for issuing receipts is on each receipt
		Check that all "cancelled" receipts are voided and attached to form 67
		Check the sequence of current receipt books against the main receipts register
		Physically inspect the stock of unused receipt books, checking the sequence of numbers back to the receipt register to ensure they are recorded as unused
		Physically inspect the stock of unused receipt books, checking the sequence of numbers back to the receipt register to ensure they are recorded as unused
		<b>Banking of Receipts</b>
		Ensure all monies have been banked intact and into the specified revenue account and banking payslips issued
		Match the receipts to the amounts banked and the details on the bank statements
		<b>Recording of Receipts</b>
		Ensure all monies banked are recorded in the Form 67
		Check that all revenue classification is accurately shown on the form
		Each receipt book is subjected to a 100% validation/matching of receipts issued against: Form 39 entries – internal transfers; Form 67 entries – summary of all receipts
		Ascertain that the entries on Form 39 match with total receipts
		Ascertain that the entries on Form 67 match with total receipts
		<b>Arithmetical Accuracy and posting</b>
		Check casting and balance of receipts cashbook
		Post receipts totals to the general ledger
		<b>Cash Counts</b>
		Conduct a cash count of every revenue collector and cashier to ensure

		that cash held prior to banking tallies with the receipts issued and not banked
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## 4. Expenditure Payroll Payments

### Key Activities

The main focus is on:

- Gross salaries and pensions and deductions
- Appointments, Salary levels and leave payments

### Audit Objectives

The main objectives of the audit of payroll are to ascertain that:

- There are adequate internal controls to ensure the integrity of payroll preparation and recording and to prevent fraud and misappropriation of payroll
- All payments to employees are made according to the agreed pay scales
- The right security measures are in place to safeguard monies/cheques to be paid out
- All expenditure on payroll for the budget year has been recorded
- Recorded transactions relating to payroll are stated correctly
- Recorded transactions relating to payroll are shown in the cash book and summary of expenditures
- Unclaimed payroll, if any remaining at the end of the month is properly accounted for and in safe custody

### Key Risks

The key risk is that poor control over payroll may lead to salary payments to "ghost workers"

### Underlying Risks

- Failure to comply with the procedures for requesting salary payments
- Salary payments may not be authorised or fail to have adequate supporting documents
- The recording, payment and reporting of salaries may not follow prescribed rules
- Incorrect salary may have been calculated and the wrong persons may have been paid
- Salary payments have been wrongly posted in the cashbook

### Records required for the audit

Before the start of the audit the auditor should request for the following documents:

- The current Approved Salary Structure
- Establishment Register
- Staff records
- Overtime register
- Advances records
- Annual and sick leave records

### Sampling Instructions

- Select one month's salary payroll

## Time Schedule

Budgeted time for task	Actual time spent	Variance	Explanation

<b>PAYROLL PAYMENTS</b>	
Ref	Audit Programme Tasks
	Check all payroll payments against the establishment register, checking that all amounts tally
	Using the current approved salary structure confirm: <ul style="list-style-type: none"> <li>• That all posts are paid as per the established grades</li> <li>• Review the deductions made and ascertain that they are reasonable</li> <li>• Investigate large variances found</li> </ul>
	Get a list of the significant allowances and advances and ascertain that the transactions were approved by the relevant person and that the correct procedures were followed
	Check that entries were made in the advance register
	Check 100% of the net amounts on the payroll to the bank transfer instructions
	Cast amounts on the bank transfer instruction for accuracy of totals
	Ascertain that the total amount of the bank transfer instruction is reflected in the bank statement
	<b>Payroll Deductions</b>
	Review the casting of the payroll deductions to ascertain that the total is correct
	Ascertain that the deductions have been paid to the respective creditors e.g. revenue a/s; pension fund a/cs
	Check that advance recoveries have been adequately taken into account and entered on the advance register
	<b>Payroll Records</b>
	For a selected sample of employees, verify that: <ul style="list-style-type: none"> <li>• they are actually in existence</li> <li>• salary grade in each staff's record file is the same as the Establishment Register</li> </ul>
	Ascertain that there is a permanent record of each employee's service
	Ascertain that the necessary changes have been made to the Register, especially with regard to new employees, retiring and resigned
	<b>Pension Payments</b>
	Inspect the pensions ledger for payments made in the period
	For significant payments, check payment vouchers for compliance with approved procedures
	Vouch amounts paid and check name of payee against pensions list



## 5. Non- Salary Payments

### Key Activities

The audit covers the entire payment process, focussing on:

- Requisitions
- Authorisations
- LPOs
- Receipt of goods/services
- Payment vouchers
- Submitting Payment Requests
- Processing of Payment Requests
- Cash and Cheque payments
- Recording and allocation of expenditure
- Postings in the relevant books of accounts

### Key Objectives

The main objective is to ensure that all payments are within the relevant approved budgets and all expenditures are properly incurred and approved according to prescribed procedures

- There are procedures in place to control the payment of invoices
- The rules and regulations are adequate for the control of payments
- All relevant controls exists
- Payment process is efficient and economical

### Audit Techniques

Physical examination	Re-performance	Observation
Enquiry	Scrutiny	Confirmation
Vouching	inspection	analysis

### Key Risks

The key risk is that expenditure has been incurred without considering efficiency, effectiveness and economy and goods and services may have been paid for without being ordered or received or are of poor quality.

### Underlying risks

- There are no budget allocations for the payments made
- Spending Agencies' internal procedures have not been followed when ordering goods/ services
- The Payment Procedures, 2010 have not been complied with when processing payments
- Payments have been made to the wrong persons
- Incorrect accounts codes have been used
- Wrong postings of payments have been made in the cash book and ledgers
- Payment vouchers may not have supporting documents

The following records should be requested before the commencement of the audit.

- Requisitions

- Goods received notes
- LPOs
- Cash books
- Payment voucher files
- Copies of bank payment instructions
- Listing of all approved suppliers and contractors
- Approved signatories' list
- Records of Stores, accounting and fixed asset records

## Sampling Instructions

From the cash book all significant payments should be selected for audit.

### Time Schedule

Budgeted time for task	Actual time spent	Variance	Explanation

NON- SALARY PAYMENTS	
Ref	Audit Programme Tasks
	At Spending Agency -before submission of payment request
	Ensure payment requests are completed and signed by Accounting Officer or alternate
	Check requisitions, LPOs, GRNs for correct completion and signature of appropriate officials
	Check that the LPO was correctly recorded in the commitments register and the commitment is cancelled as soon as payment has been made
	For contracts above a specified limit, check for the relevant approvals and authorisations by Minister, MoLA
	Inspect suppliers' invoices for: Match between details on invoices and supporting documentation eg requisitions, LPOs, GRN etc All calculations and arithmetic is accurate Prices are according to the quotation
	Confirm that the expenditure has been charged to the correct budget line
	Ensure payment request goes through the stages of approval and authorisation by all the designated Budget officers; etc
	Inspect payment instructions to ensure that: <ul style="list-style-type: none"> <li>• They are signed by the authorised signatories and</li> <li>• directed to the correct payee as per the contract/ invoice and the correct bank account</li> </ul>
	Inspect the paid cheque where applicable, to ensure that: <ul style="list-style-type: none"> <li>• It was crossed</li> <li>• Signed by authorised signatories and</li> <li>• Made payable to the right payee</li> </ul>
	Ensure payment instruction is recorded in the payments register
	Trace payment and its classification into the cash book
	Where applicable, check that stores purchases have been correctly recorded in stores records by checking from the GRN to the stores records
	For fixed assets purchased, ascertain that they are correctly recorded in the fixed assets register by checking from the goods received note to the fixed asset register

## 6. Fixed Assets

### Activities

The audit covers the government's fixed assets and includes additions, disposals, title and ownership, physical inspections and the operation and usage of assets

Focus is on:

- Land & Buildings
- Roads and bridges
- Transport equipment
- Machinery and equipment
- Furniture and fittings

### Key Objectives

The main objective is to make sure that there is adequate management of all categories of fixed assets including acquisition, day to day operation, maintenance and disposal.

All assets have been recorded accurately

There are adequate controls over the security of all assets

There is no unauthorised use of assets

### Audit Techniques

Physical examination	Re-performance	Observation
Enquiry	Scrutiny	Confirmation
Vouching	inspection	analysis

### Key risks

- The main risk to government is that fixed assets acquired by the government
- may not be properly recorded in the books of account
- May be disposed of and proceeds misappropriated
- May not be used for their intended purposes.

### Underlying Risks

- Non-compliance with procedures laid down for procurement and disposal of fixed assets
- Inadequate control over the costs of operation and maintenance of assets
- Lack of control over the use and allocation of assets

### Important records required

The following records should be requested before the commencement of the audit.

- Asset Register
- Title deeds and registration documents
- Cash book
- Payment vouchers
- Policy relating to acquisitions and disposal of assets

### Sampling Instructions

Select all assets purchased during the financial year

## Time Schedule

Budgeted time for task	Actual time spent	Variance	Explanation

FIXED ASSETS		
Ref	Signed off	Audit Programme Tasks
		<b>Acquisition of assets</b>
		Obtain copy of policies and procedures and confirm that there is compliance with policies regarding acquisition of assets and vouch expenditure accordingly
		Examine the general ledger and ascertain that the asset was accurately recorded and vouch the cost reflected in the general ledger agrees with the payment voucher
		If an asset register is maintained, confirm that they have been maintained and updated correctly Check from GRN to the Fixed Asset Register to ascertain that correct asset details such as costs and ownership have been captured in the fixed asset register
		Obtain and review a schedule of the asset balances according to the fixed assets register, check additions, and ensure it has been reconciled with the related general ledger account. Investigate any variances
		Carry out physical inspections of a sample of the assets
		Note the physical condition of assets in the sample and record
		Ascertain that the title deeds, registration books etc are available and that the ownership is in the names of the entity
		<b>Maintenance</b>
		Confirm that a policy for repairs and maintenance of assets is in place and ascertain that it is being followed.
		Obtain copy of ledger accounts and review the maintenance costs and charges made to the ledger accounts for reasonability
		For assets in poor condition, confirm that there is a maintenance budget and if not discuss with management what action should be taken
		<b>Operations and Usage</b>
		Check log books and other registers to confirm that the assets are being used for the tasks that they were intended for (for day to day operations or revenue generating activities)
		Confirm there is adequate security arrangements for storage and custody of assets esp. vehicles and plant and equipment to prevent loss or unauthorised use
		For vehicles:
		Confirm from stores records for petrol, diesel, oil tyres etc
		Examine the log books of vehicles and investigate abnormal use
		Examine the record of kilometres per litre for each vehicle as well as overall cost of running a vehicle for anomalies
		Examine records for tyre and spare parts issues for anomalies and ensure steps are taken to investigate
		Confirm that there is adequate security for: <ul style="list-style-type: none"> <li>• parked vehicles</li> <li>• Spare parts and tools</li> </ul>
		Confirm that there is a system for recording all expenditure and costs

		of individual vehicles and total vehicles
		<b>Asset Disposals</b>
		Confirm that all disposals are recorded in the asset register

## 7. Cash and bank balances

### Key Activities

The audit programme covers the audit of key aspects of treasury management: The operation of the Cash books and bank accounts during the year and the end of year balances.

### Key Objectives

To ensure that there are adequate internal controls to ensure that cash is received, controlled, accounted for, deposited in a timely manner and in compliance with existing rules and procedures.

- All cash books are properly maintained
- There is regular reconciliation with the Bank statements

### Audit Techniques

Physical examination	Re-performance	Observation
Enquiry	Scrutiny	Confirmation
Vouching	inspection	analysis

### Key Risks

The key risk facing government is that there is a possibility of misuse of funds due to poor control mechanisms

### Underlying risks

- Misappropriation of bank and cash balances
- Unauthorised payments made from bank accounts and petty cash
- Non recording and accounting of receipts and payments
- 

### Records required for the conduct audit:

The following records should be requested before the commencement of the audit:

- Details of all Bank Accounts
- Certificates of Bank Balances
- Bank correspondences
- Cash books
- Cheque books and bank instruction records
- Bank reconciliation statements

### Sampling Instructions

100% of all bank accounts.

For the selected sample conduct the following checks:

### Time Schedule

Budgeted time for task	Actual time spent	Variance	Explanation

<b>BANK AND CASH BALANCES</b>	
<b>Ref</b>	<b>Audit Programme Tasks</b>
	<b>Bank Accounts</b>
	Obtain details of all bank accounts, account nos. and lists of authorised signatories
	Authenticate the list by requesting the bank to confirm in writing all accounts in operation
	Obtain copy of all correspondences with the bank
	<b>Controls over cheques and payment instructions</b>
	Confirm that unused cheques are safely stored
	Confirm that there is a cheque book register and all cheques are recorded
	Review the payment register and ascertain that all cheques/payment instructions are issued to approved and identifiable persons and acknowledged in writing
	Ascertain the signatures on cheques
	Confirm that the balance of cheques in stock is verified monthly
	Confirm that all cancelled or spoiled cheques were properly cancelled
	Confirm that any cheques returned as "unpaid" have been cancelled and a new cheque issued and the payment voucher annotated ( and approved) accordingly
	<b>Petty cash Payments</b>
	Review payments out of petty cash advance for compliance with petty cash procedures
	Check accountability records to ensure compliance with set procedures
	Check that all paid receipts stamped as "cancelled" to prevent future reuse
	Test completeness of cash transactions
	Test the arithmetical accuracy of cash records
	Carry out cash count on a surprise basis
	Confirm the safe custody of cash e.g safes, restriction of access
	<b>Reconciliation of cash books with bank statements</b>
	Confirm that the persons responsible for bank reconciliations are independent of the preparation and despatch of cheques and payment instructions
	Verify the arithmetical accuracy of bank reconciliations
	Confirm that bank reconciliations are made monthly or as bank statements are received
	Get direct confirmation of account balances directly from the bank and compare them with the cash book balances
	Get direct confirmation of account balances directly from the bank and compare them with the cash book balances
	Check the arithmetical accuracy of all cash books and check every cash book balance to the respective General Ledger accounts
	Verify the cash book balance and the bank statement balance with their respective sources
	Trace all outstanding cheques and deposits through the bank statement in the next accounting period and verify their validity
	Check the cashbook or bank statements for any unusual items (e.g contra entries, dishonoured cheques) and investigate
	For outstanding cheques: <ul style="list-style-type: none"> <li>• Examine the nature of the item not cleared</li> <li>• Examine the supporting documentation and authorisations to determine whether they were of a routine nature</li> </ul>
	<b>Year End Balances</b>
	Confirm that full bank reconciliations have been prepared for all bank accounts and scrutinise reconciliations for reasonableness.

	Obtain explanations for unusual items and validate as necessary
	Agree balances according to the cash book to the respective general ledger account
	Check that the imp rest balances at the end of the year, and agree with cash counts



## 8. Audit Programme - Liabilities

### Key Activities

The main focus is on liabilities i.e. invoices for goods or services received or rendered that have not yet been paid at year end.

### Key Objectives

To ensure that all liabilities have been correctly described, classified and taken into account in the records at the end of the year.

### Audit Techniques

Physical examination	Re-performance	Observation
Enquiry	Scrutiny	Confirmation
Vouching	inspection	analysis

### Key Risks

The recorded liabilities may not truly reflect all the amounts due to third parties, leading to inaccurate statements of liabilities

### Underlying Risks

- The liabilities recorded do not reflect pending liabilities
- The liabilities recorded may not belong to the entity being audited

### Important records for the audit

The following records should be requested before the commencement of the audit.

- Accounting records
- Commitments register
- Age analysis
- Schedule of all pending claims
- Commitments register

### Sample size

From the commitments register

- (a) The largest value items that cover at least 80% by value of all commitments.
- (b) 100% of the "key items" as defined by the Head of Internal Audit.
- (c) A balance 10% (by number) of the remaining commitments.

### Time Schedule

Bud. time for task	Act. time spent	Variance	Explanation

LIABILITIES	
Ref	Audit Programme Tasks
	Obtain schedule of liabilities
	Check accuracy of totals in the schedule and agree with lists of creditors ( control account) and carry out reconciliation if there is disagreement
	Check the commitments register to ensure that the amounts appear on the creditors' list, if not check to ensure that the goods or services were received after the period under audit

## 9. Review of the financial statements

### Main Activities

This covers the review of the operation and management of the accounting systems and the preparation of financial statements.

### Key Objectives

To confirm that the accounting systems, records and preparation of financial statements are in accordance with prescribed legislation and are accurate, reliable and complete.

### Audit Techniques

Physical examination	Re-performance	Observation
Enquiry	Scrutiny	Confirmation
Vouching	inspection	analysis

### Key Risks

The main risk is non compliance with prescribed legislation, rules and regulations and procedures.

### Underlying Risks

Inaccurate posting of financial information

- Inaccurate and unreliable financial statements
- Incorrect presentation of information in the financial statements
- Wrong and inconsistent application of accounting and principles

### Records required for the audit

The following records should be requested before the commencement of the audit.

- General and subsidiary ledgers
- Trial balance
- 

### Sampling Instructions

Select:

- The appropriate ledger accounts specified in the audit programme
- All monthly financial statements presented for the current year

### Time schedule

Bud. time for task	Act. time spent	Variance	Explanation

REVIEW OF FINANCIAL STATEMENTS	
Ref	Audit Programme Tasks
	<b>General Ledger</b>
	<b>Obtain copies of the general ledger and :</b>
	Check that all ledgers are posted and balanced on a monthly basis and at the year end
	Check that the balances carried forward from last year's ledger to the current year's ledger match
	Check the arithmetical accuracy of the total amounts in the general ledgers

	<b>Obtain copies of Financial Statements</b>
	Confirm that the financial statements are prepared in the format required by any accounting manual and discloses all relevant information
	Confirm by inspection that complete financial statements were prepared and submitted at the end of every month in a timely manner
	Confirm that major variances in Revenue and Expenditure are adequately explained in reports that support the monthly financial statements
	Ensure that the financial statements are submitted for audit within the time prescribed in the regulations

## Annex B: Sample Internal Audit Report

<b>To:</b> The Management (copied to Heads of Departments)	
<b>Audit Report for the period for XXX department for the period July 2010</b>	
<b>1. Introduction</b>	-Nature of the assignment ( routine or special assignment according to TORs) Period under review ( <i>period covered by the procedures</i> ) Timing of visit ( 5/01/2010 to 12/10/2010) Composition of the audit team Representatives from the audited dept/unit ( staff met and depts visited)
<b>2. Scope of the Audit</b>	Detail the audit programme areas e.g cash and bank, payroll, expenditure payments Follow up of previous audit recommendations Details of books and documents examined
<b>3. Major Findings and Recommendations</b>	Actions required Recommendations - an outline of suggested actions that management should consider to address an audit finding Recommendations in the audit report should: <ul style="list-style-type: none"> <li>• Be practical and provide constructive solutions to problems identified</li> <li>• followed up by the auditor to make sure that agreed actions have been implemented</li> <li>• Sufficiently detailed to act as a guide for action and facilitate the efficient achievement of the organisation's objectives</li> <li>• Prioritised based on the significance of the weakness identified</li> </ul> recommendations
<b>4. Follow up of previous audits</b>	The internal audit confirms that agreed recommendations have been implemented by line managers.
<b>5. Audits planned for the next period</b>	
<b>6. Guidance and Training required</b>	Staff development plans
<b>7. Conclusion by Director of Internal Audit</b>	
<b>8. Date and Signature</b>	<i>(month, date, year of completion of fieldwork )</i> <i>The report must be signed by the Director of Internal Audit</i>

## Annex C: Specimen Quarterly Reports

### Report to the Management

Title: The Quarterly Internal Audit Report for the period from XXXX to XXXX; ; ; ;

Contents

#### **Mandate:**

Authority and mandate of the Internal Audit

#### **Introduction:**

Matters brought from previous audits and action taken

Summary of current financial and administrative control situations

#### **Audits undertaken during the quarter:**

List of all entities audited in the quarter

Summary of main finding according to the areas (checklists or programmes)

Summary of any special investigations undertaken and reports

#### **Recommendations and Conclusions**

Summary of recommendations on findings

## Annex D: Specimen Audit Working Papers

### Audit Working Papers Index

Audit Entity .....

Auditors involved.....

Dates of Audits.....

Audit Entity's Staff seen.....

Ref.	Working Paper content	Tick and initial
<b>Schedule</b>		
1.	Findings Summary – The entire audit	
2.	Head of Internal Audit review	
3.	Points for Director of Audit's attention	
4.	Points for Next Audit	
5.	Audit Plan + all relevant job control schedules	
<b>Section</b>		
A	Job 1 – Working papers	
B	Job 2 - Working papers	
C	Job 3 – Working papers	
Working Papers	Each job will contain the standard Working Papers	
WP/i	Audit Job Control Record and Audit Programme	
WP/ii	Audit Test Schedule	
WP/iii	Exception/Error Analysis	
WP/iv	Findings Summary for each Audit Programme	

## Glossary

### **Accounting officer**

A person appointed to be accountable for the operations of the organisation and the preparation of its accounts, usually the Director General at State level of government

### **Added Value**

To add value to an audit by reducing exposures to risk and identifying improvement through assurance and consulting services in order to achieve goals

### **Audit Entity**

The government unit/department subject to an audit activity

### **Audit Objectives**

Specific objectives of the particular assignment or generic, underlying objectives of the internal audit

### **Audit Plan**

List of planned audit assignments for a set period, prioritised according to the organisational risk profile

### **Audit Programme**

States the objectives of the audit and how they can be achieved. It provides a listing of all the audit procedures that must be followed during the course of an audit

### **Audit Procedures**

Procedures for the collection, analyses, interpretation and documentation of information during the audit. Audit procedures are a means of achieving audit objectives.

### **Audit Report**

A signed written document presenting the findings, opinions and recommendations of the internal auditor

### **Audit Scope**

The activities covered by the audit. Includes audit objectives, nature and extent of the auditing procedures performed and time frame for carrying out the audit

### **Audit working papers**

A record the information obtained, the analysis made and the conclusions reached during an audit.

### **Code of Ethics**

Principles issued by the Institute of Internal Auditors (IIA) relevant to the profession and practice of internal auditing and the rules of conduct that describe the behaviour expected of internal auditors.

### **Compliance Testing**

Tests to evaluate application of controls to determine whether controls operate as intended

### **Control**

Any action taken by management to manage risk and increase the chances of established objectives and goals being achieved.

### **Control Environment**

The integrity, ethical values, competence, philosophy and operating style, organisational structure and written policies and procedures

### **Control Processes**

The policies, procedures, and activities that are part of the control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process

### **Exception**

Instance of a poorly designed or ineffectively operated control, of an error or of an inappropriate transactions

### **External Auditors**

The independent auditors who perform an independent annual audits of an organisation's financial statements

### **Fraud**

Any illegal acts characterised by deceit, concealment or violation of trust

### **Independence**

The concept requires that internal auditors to be independent of the activities they audit and to maintain objectivity always

### **Key Audit Findings**

Conditions that may adversely affect the organisation in the opinion of the Head of Internal Auditor

### **Head of Internal Audit**

The most senior member of the internal audit unit who has the responsibility of providing assurance on the reliability of the financial statements

### **Risk Assessment**

Process for assessing

### **Risk management**

A process of identifying, assessing, managing and controlling potential events in order to provide reasonable assurance regarding the achievement of the entity's objectives

### **Scrutiny**

The examination of a ledger to identify high value items.

### **Substantive testing**

Tests of actual transactions in order to evaluate the extent of loss or damage, usually done when control compliance is poor

### **Vouching**

A detailed review of information or financial data to reveal significant or unusual items