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Internal Audit Manual

Sindh Basic Education Program – Project Management and
Implementation Unit

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Deloitte.

Deloitte Yousuf Adil
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1. Document Information

Document	Internal Audit Manual
Version	Version 1.00
Department	Internal Audit
Status	
Approved By	
Approval Date	
Effective Date	
Distribution	

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2. Revision History

Date	Version	Name	Designation	Description of Change

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3. Introduction

Purpose of the Manual

- 3.1 The purpose of the Internal Audit Manual (the Manual) of Internal Audit Department (IAD) is to set out internal audit policies and procedures and to provide essential guidelines to the internal audit staff in performing the internal auditing activities at Program Management and Implementation Unit (PMIU). The Manual will ensure the conformance of IAD with the International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute of Internal Auditors (IIA).
- 3.2 The Manual is intended to achieve the following objectives:
- To establish policies and standards for the planning, performance, and reporting of audit work to meet the IIA standards.
 - To establish procedures and guidelines to assist staff members in adhering to these standards.
 - To help achieve consistency in internal auditing activities and internal audit project execution.
 - To support the on-boarding and training of new internal audit staff.

Responsibility for Implementation

- 3.3 The Internal Auditor shall have the overall responsibility for the implementation of the Manual.

Custody and Confidentiality

- 3.4 The Manual shall remain in the custody of the Internal Auditor and Assistant IA. This is a confidential document and shall be kept secured by each of the recipient. The right for copy and its distribution is reserved with the Internal Auditor.
- 3.5 No recipient of the Manual is allowed to make a copy without obtaining formal approval from Internal Auditor. Access to the Manual is not allowed to any external party except with the prior approval of the Internal Auditor.

Distribution

- 3.6 It is the responsibility of the Internal Auditor to ensure that the copy of the Manual has been provided to Assistant IA and other staff of IAD (if any).

Revision of the Manual

- 3.7 The Manual is a live document and will be updated on a periodic basis. It will be amended as and when any changes occur that make it essential for its revision.
- 3.8 The review and updating of the Manual shall be an on-going process to ensure continuous alignment with PMIU's functions and SBEP's strategies and objectives. The responsibility for keeping the Manual up-to-date remains that of the Internal Auditor. He shall initiate all revisions to the Manual and ensure that the revised pages showing authorized changes have been circulated to all recipients of the Manual.

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Version Control

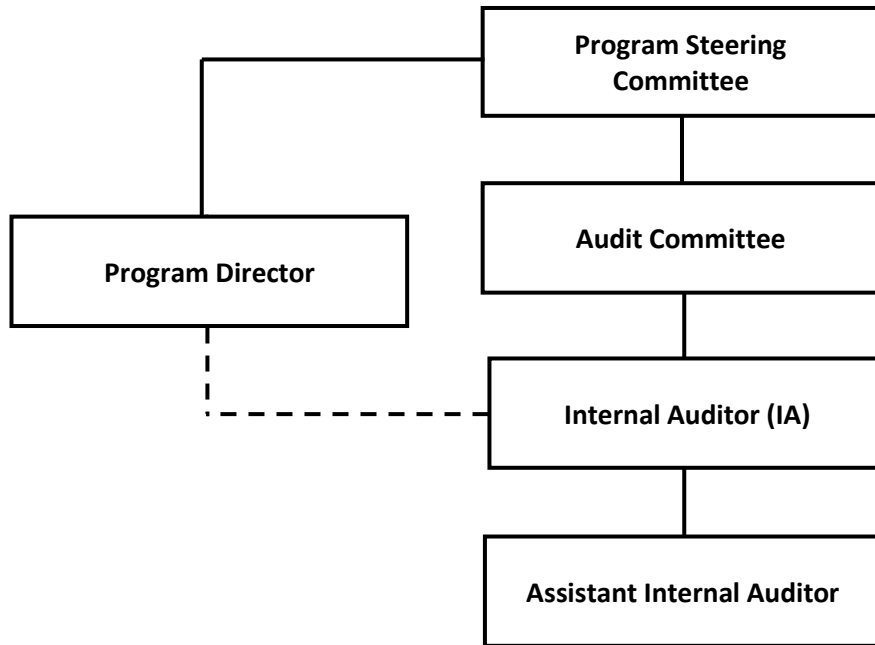
- 3.9 The Version of the Manual is mentioned at the top of each page. All the revised pages will show the version number in accordance with number of revisions made as illustrated below as this will help maintain record of all changes made in the manual subsequently.
- 3.10 Version number consists of two parts – the number before the decimal point denotes the version number of the entire Manual (Version No. 1.00) whereas the number after the decimal point represents revision of sections and pages (Version No. 1.00).
- 3.11 Any minor amendment shall be issued as revision and only affected pages shall be replaced. Version number(s) is in continuous increments of .00 (Ver. No. 1.01). Sequential control is maintained through revision history and control sheet.
- 3.12 A new version shall be issued in circumstances where cumulative revisions exceed approximately 30% of pages of procedural sections.
- 3.13 The Revision number after decimal is reset to “00” with issuance of each new version (e.g. Version No. 2.00).

Charter of Internal Audit and Audit Committee

- 3.14 Charter of Internal Audit and Audit Committee has been separately developed and approved by Audit Committee of PMIU.

4. Organizational Structure

Structure of IAD



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5. Internal Audit Risk Assessment

- 5.1 On an annual basis, IAD shall conduct a formal risk assessment of PMIU to understand and document the risk environment and to develop the Internal Audit Plan (IAP). IA shall lead the annual risk assessment process and Assistant IA shall participate in the process.

Developing the Audit Universe

- 5.2 It is vital to develop the Audit Universe of PMIU and ensure its completeness before initializing the risk assessment process. An Audit Universe represents the potential range of all audit activities that can be audited by the IAD.
- 5.3 The Audit Universe shall cover all processes, entities, technology platforms, and systems. IAD shall use the following types of information to develop, understand and maintain the Audit Universe:
- Organizational structure including departmental charts/organograms
 - Geographical locations
 - Financial Reports
 - IT systems, platforms, applications
 - Information from management discussions
 - Regulatory requirements
 - Policies and SOPs of PMIU
 - Previous audit work
- 5.4 IAD shall assess the above information to develop/re-confirm the Audit Universe. As a minimum, this shall be done at least annually; however, IAD shall also take into account any material changes in the PMIU continually throughout the year.

Ownership and Maintenance of the Audit Universe

- 5.5 IA shall ensure the completion and updating of Audit Universe with the help of the Assistant IA. He shall discuss the Audit Universe with the Program Director and obtain his/her concurrence on its completeness and accuracy. Audit Committee shall also review the Audit Universe at the time of approval of the IAP.

Risk Assessment of Audit Universe

- 5.6 IAD's risk assessment methodology consists of three phases with the overall objective of developing an integrated, risk based and focused IAP. Below are the three phases and corresponding activities for each of them:

Phase I: Planning

- Develop list of key management personnel to be interviewed
- Meet with the Program Director to understand the current priority risks and focus areas, obtain updated PMIU-wide risk assessment documentation as necessary to support the planning process, and assist with preparation for management interviews
- Obtain and review prior year risk assessment documentation and results.
- Schedule interviews with various functional heads

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Phase II: Conduct Risk Assessment Interviews

- Conduct risk assessment discussions with the management
- Obtain the following information during interview sessions with functional heads and process owners:
 - An updated overview of the function area identifying the notable changes therein
 - Primary risks related to their area of activity and
 - Areas where they would recommend an internal audit
- Compile risk assessment interview summaries and analyze results

Phase III: Analyze and Score Risks

- Based on the risk assessment, assign a numeric rating for each audit activity based on various risk factors
- Rate each audit activity into High, Medium, and Low, based on the risk scores

Risk scoring methodology is given in [Annexure A](#).

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6. Development of Internal Audit Plan (IAP)

- 6.1. IAD shall prepare an IAP based on risk assessment carried out in accordance with the guidance provided in the previous chapter. The objective of the IAP is to provide a scope of audit activities to be covered by the IAD in the Audit Universe and to ensure that critical activities of PMIU having high risk are given more audit frequency relatively to medium and low risk activities.
- 6.2. IA shall ensure that adequate understanding of the PMIU's functions and general activities, applicable laws and regulations, and controls designed by management thereon has been obtained.

Contents of IAP

- 6.3. IAP generally includes the following information:

Audit Calendar

Audit Calendar is a break-down of Audit Universe which identifies timeline and frequency of each audit activity. The frequency of each audit activity is determined according to risk rating assigned to it during the phase of risk assessment.

Human Resource Budget

IAP shall also ensure that resources of IAD are allocated to important auditable areas and audits are completed expeditiously. For this, it is important to include a human resource budget in the IAP. It identifies the man-hours required by the IAD to complete each audit engagement in the IAP economically, effectively and efficiently. When developing human resource budget, IA shall consider the following:

- Skills and qualifications of Assistant IA to carry out audits as per IAP
- Involvement of external consultants, if any
- Time allocation for training and development of Assistant IA
- Time allocation for carrying out other administrative tasks
- Time allocation of any surprise audit/special requirement of USAID or GoS

Review of IAP by IA

- 6.4. On completion, IA shall review the IAP and ensure that:
- Auditable activities/processes are justified, based on the risk assessment
 - The selection of requested engagements is appropriate
 - The work plan is achievable and IAD has competencies required to conduct the audit
 - Priority is given to higher risk areas

Sharing of Draft IAP with Program Director

- 6.5. When IA is satisfied that the IAP has been properly compiled, he shall submit a draft version of IAP to the PD for their input. IA shall make required changes in the IAP (if any) based on input received from PD.

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Approval of Audit Committee & Monitoring of IAP

- 6.6. IA shall submit the IAP to the Audit Committee for its input and approval. IA shall also update the Audit Committee on the status of implementation of the IAP on regular basis.

Engagements Requested by Audit Committee

- 6.7. The IAP is primarily based on risk assessment of Audit Universe but IA may consider inclusion of audit engagements in IAP that are not initially covered, on recommendation of Audit Committee.

IA shall document reasons for the selection of such audit engagements which inter alia, may include:

- Request from Audit Committee
- Emerging issues
- Insufficient past oversight coverage
- High monetary value
- Follow-up audit (on high risk recommendations).

- 6.8. A template of IAP is attached in [Annexure B](#).

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7. Internal Audit Engagement Plan

- 7.1. IA shall be responsible for planning and conducting the individual audit assignments with appropriate supervisory review and reporting. The responsibilities for planning, execution of work, supervision, review and reporting are clearly described in engagement plans prior to the commencement of the fieldwork.
- 7.2. The development of engagement plan consists of following steps:
- Preliminary assessment
 - Preparation of engagement plan
 - Approval of engagement plan

Preliminary Assessment

- 7.3. Before preparing an engagement plan, the audit team shall meet and make a preliminary assessment of audit activity for identifying its critical risks, which need to be covered in the audit in order to achieve the audit objectives. Preliminary assessment helps in identifying the key areas and in planning the audit procedures.
- 7.4. The objective of this exercise will be gathering an initial understanding of the procedures, the size, the objectives and scope, and existing controls at PMIU thereon. Audit team shall consider following information to gain understanding about the audit activity:
- Policies & procedures manual
 - Planning documents
 - Management reports
 - Laws and regulations
 - Organizational structure
 - Audit programs & prior year audit working papers

Preparation of Engagement Plan

- 7.5. Based on the understanding of audit activity achieved through preliminary assessment, AIA shall prepare an Engagement Plan before any fieldwork is started. The purpose of Engagement Plan is to provide information regarding the activity, its audit objectives, scope of work, areas of audit concentration, any special concerns or considerations, name of audit team and time budget.
- 7.6. While preparing an Engagement Plan, elements of materiality and relative risk shall be considered. IA shall focus on those areas where significant problems and deficiencies are identified in the first phase.
- 7.7. Main contents of Engagement Plan are described in the following paragraphs:
- Name of the audit activity
 - Comparative analysis of Key financial information
 - Staff strength of audit activity with name of the key staff, their position with designation and the date since they are working in PMIU

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- Audit objectives and scope of work - Audit objectives are broad statements which defines the intended audit accomplishment. They define the scope of the audit staff's work. They should address the risks associated with the activity under audit and its assessment
- Critical risks/focus areas of audit activity
- Names of the audit team members and allocated tasks
- Other requirements of the audit, such as the audit period covered and estimated completion dates, should be determined.

Template of Engagement Plan is given in **Annexure C**.

Approval of the Engagement Plan

- 7.8. IA shall review and approve Engagement Plan prior to the commencement of audit fieldwork.

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8. Execution of Audit Fieldwork

Communication of Commencement of Audit

- 8.1. Prior to commencement of audit, IA shall send an announcement memo/email to the process owner. For information to be specified in the memo, refer template attached in [Annexure D](#)

Kick-off Meeting with the Process Owner

- 8.2. Prior to commencing the audit fieldwork (or during the planning and assessment phase if deemed necessary by IA for audit planning), audit team shall conduct kick-off meeting with key process owners. Following areas shall be discussed during the meeting:
- Scope and objectives of the audit
 - Broad level understanding of the system / function and established controls
 - Organizational/departmental structure and management
 - Audit approach
 - Responsibilities and roles of process owners and audit team
 - Focus areas
 - Risks, challenges and constraints to be faced
 - Engagement timelines
- 8.3. Minutes of the meeting shall be prepared by Assistant IA and retained in audit working papers after review by IA. Template of minutes of Kick-off Meeting is attached in [Annexure E](#).

Understanding and Documentation of Processes to be audited

- 8.4. IAD staff shall obtain detailed understanding of the processes from the process owner in order to identify risky areas in the process. It helps in identifying existing controls designed and implemented in the process and to find out control weaknesses that are required to be catered by designing additional controls.
- 8.5. IAD staff shall document understanding of the processes and sub processes obtained in a narrative form which serves as a repository for future reference. Repository of well documented system notes saves time of IAD staff as they are not always required to read detailed SOPs of audit activity in case of change in team member or same audit is being carried out in different periods, etc.
- 8.6. Assistant IA shall ensure that system notes are adequately prepared and filed in audit working papers.
- 8.7. Following are guidelines for writing a system note:

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Guidelines for Writing a High Quality System Note

Audit team is encouraged to follow below mentioned guidelines when drafting a system note:

- Information to include:
 - Who
 - What
 - When
 - Where
 - Why
- How to organize the document
 - Chronologically go through the process.
 - Use section headings when necessary.
 - Be clear and concise.
 - Use paragraphs and bullet points.
- Document facts only
- Document the process using designations/titles
- Name specific reports and systems to avoid any ambiguity.

Developing Audit Programs

- 8.8. An audit program is a detailed plan for the work to be performed during the audit. A well-constructed program is essential to completing the audit in an efficient manner.

An audit program shall guide the audit team about the procedures to:

- Confirm the adequacy of the indicated design of controls
- Confirm the continued effectiveness of the operation of controls
- Evaluate the effects or potential effects of inadequately designed or missing controls in order to develop recommendations for improvement
- Gather missing information needed to evaluate risks and their related controls and the overall control environment

Contents of Audit Program

- 8.9. For each segment of the audit, the audit program shall at least contain the following contents:

- Name of the audit activity
- Audit period – period covered in audit
- Control objective – aim, purpose or reason which management desires to achieve
- Control activity – internal controls designed by management to ensure achievement of control objective
- Risk – the possibility that an event will occur and adversely affect the achievement of control objectives

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- Test steps – work steps required to test the design and effectiveness of control activity
- Documentation – actual work done by the audit team i.e. performance of test steps
- Conclusion – results drawn by the audit team after testing internal controls
- Working paper reference – cross reference to audit work papers
- Initials – space for sign-off by preparer and reviewer of audit program

A template of audit program is attached in the [Annexure F](#).

- 8.10. Assistant IA shall get the Audit program for each audit activity approved by IA.
- 8.11. IA shall reassess the risks and customize audit program when using a prior audit program as a reference document in developing an audit program or adapting an audit program from another similar audit. Using the same audit program without diligent reconsideration may lead to overlook:
- Changes that have occurred in the functions/controls, and
 - Opportunities to improve the internal audit process

Data Requisition

- 8.12. Based on initial understanding of the department/function and its systems and controls, audit team shall identify list of required data/documents and send data requisition to the process owner specifying the time by which such information should be provided. These document/data serves as the basis of detailed working and verification of different assertions and compliance checks.

Selecting Items for Testing to Gather Audit Evidence

- 8.13. When designing audit procedures, the audit team shall determine appropriate means of selecting items for testing. The means available to the audit team are:
- Selecting all items (100 % examination) and
 - Audit sampling
- 8.14. The decision as to which approach to use will depend on the IA’s judgment in the particular circumstances after giving consideration to audit risk involved and audit efficiency.

Selecting all items

- 8.15. Audit team may decide that it is most appropriate to examine the entire population. For example, a 100% examination may be appropriate when the population constitutes a small number of large value items, or when the repetitive nature of a calculation or other process performed by a computer information system makes a 100% examination cost effective.

Audit Sampling

- 8.16. Audit sampling involves the application of audit procedures to less than 100% of items within a population so that all sampling units have a chance of selection. This will enable the audit team to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the

population from which the sample is drawn. Audit sampling can use either a statistical or a non-statistical approach.

- 8.17. There are several types of sampling methods that can be employed, on the basis of IA's judgment, to support corroborative inquiry as outlined below:

Sampling Method	Explanation	Example
Systematic selection	The sampling units in the population are divided by the sample size to give a sample interval	If the total numbers within population are 100 and the sample size is chosen to be 20 the resulting sample interval will be 5.
Random selection	The sample is selected without using any structured technique. However, the IA should avoid any bias and must ensure that all the items of the population have an equal chance of selection.	In the case of payments, the 15 th date and last date of each month are selected. Then vouchers are selected randomly without any bias.
Judgmental sampling	This method is based on the auditor's sound judgment to select samples based on specific factors (i.e., value, age, relative risk, representative characteristics of the population)	

Audit Testing

- 8.18. The audit team shall perform audit procedures known as '**audit tests**' in order to get audit evidence.
- 8.19. Audit team can perform following types of audit procedures:

Analytical Procedures

Analytical procedures mean the analysis of significant ratios, trends, fluctuations and relationships that are inconsistent with other relevant information or deviate from predicted amounts.

Analytical procedures include comparisons of the PMIU's financial information with, for example:

- Comparable information for prior periods
- Anticipated results such as budgets or forecasts

Analytical procedures also include consideration of relationships, for example, between financial information and relevant non-financial information such as payroll costs to number of employees.

Analytical procedures are useful in identifying, among other things:

- Differences that are not expected
- Potential errors
- Potential irregularities or illegal acts
- Other unusual or non-recurring transactions or events

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Analytical procedures may be performed using monetary amounts, physical quantities, ratios, or percentages.

Additional Audit Procedures

When analytical procedures identify unexpected results or relationships, the audit team shall examine and evaluate such results or relationships by inquiring management and applying other audit procedures until the audit team is satisfied that the results or relationships are sufficiently explained.

Following other audit procedures can be performed for gathering audit evidence:

Inspection	Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.
Observation	Observation consists of looking at a process or procedure being performed by others
Inquiry	Inquiry consists of seeking information from knowledgeable persons inside or outside PMIU, evaluating responses to those inquiries, and corroborating those responses with the audit team's knowledge of the audit areas and other evidence obtained during the course of the audit.
External Confirmation	An external confirmation represents audit evidence obtained by the audit team as a direct written response from a third party (For example, engineers involved in construction of schools or lawyers etc.), in paper form or electronic medium.
Recalculation	Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

Developing Issue Sheet

8.20. After conclusion of audit testing, IA shall:

- Discuss all aspects of a potential audit finding with the process owners in order to seek their input on potential solution
- Fully develop all audit findings using the Issue Sheet. (A template is attached in the [Annexure G](#))
- Work with process owner, where possible, to jointly develop improvement actions to address the finding for incorporation in the recommendation. Discuss any items requiring follow-up and document the process owner's response to the finding.

8.21. The objective of the above is to confirm the accuracy of facts supporting the finding, enhance the quality of the proposed improvement action, prevent any surprises in the exit meeting, and thereby contribute to the success and sustainability of the improvement action.

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Attributes of Audit Findings

- 8.22. When drafting a finding, audit team should have clear understanding of the attributes of a finding and their relationship. Each of these must come together to make a cohesive and persuasive set of facts that merit the process owner's attention.

Following are the attributes of well-developed audit findings:

Criteria

The legitimacy of finding increases if a criterion is identified, that is, "By what standards was the finding judged? "It can be PMIU's policies, procedures, guidelines, applicable laws and regulations. It is important for audit team to research the criteria thoroughly to ensure they are applicable. Audit team should simplify the language as much as possible and refer precisely to relevant laws, regulations, and policies.

Condition

Condition often answers the question: "What is wrong?" IA shall compare the results with appropriate evaluation criteria to form accurate "condition" and shall ensure that the condition is concise, focused, adheres to the facts and refers to supporting evidence.

An example of an acceptable condition statement is: "Of the 25 sampled contracts valuing over Rs. "x" million, 13 were not approved by PSC and were approved instead by the Program Director."

Cause

This attribute identifies "Why did it happen?" meaning the reason for the factors responsible for the difference between the situation that exists (condition) and the required state (criteria).

Identification of the cause is a prerequisite to making meaningful recommendation(s) for corrective action. The cause statement must address the *root* cause. Moreover, the statement should be based on facts, not speculation.

If, for example, the audit team states the cause is lack of training or orientation, they must be prepared to substantiate the statement with evidence.

Effect

This attribute identifies the real or potential impact of the condition and answers the question: "What effect did/could it have?" These are frequently expressed in quantitative terms; e.g. value, quantities of material, number of transactions, or elapsed time.

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

While audit team may merely state that the process owner is not complying with a particular law, regulation, or policy, it is advisable to specify the actual or potential effect of the non-compliance.

For example:

- Fines and penalties
- Possibilities of lawsuits

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- Loss or exposure to fraud and collusion.

An example of an effect statement is: "If the PMIU's contracts continue to sign without appropriate authorization, the risk increases that PMIU could be subject to obligations beyond its ability to meet or that the purchases are not aligned with Program's needs or objectives."

Recommendation

This final attribute identifies "What should be done?" i.e. suggested improvement action. The relationship between the audit recommendation and the underlying cause should be clear and logical.

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

More generalized recommendations (e.g., greater attention be given, controls be reemphasized, a study be made, or consideration be given) should be avoided, although they are sometimes appropriate in summary reports to direct top management's attention to specific areas.

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

Close-out Meeting with Process Owner

- 8.23. IA shall be responsible for scheduling the close-out meeting with the process owner on the last day of fieldwork. The goals of this meeting are to share audit findings with process owner, reach final agreement on findings and finalize planned improvement actions. Process owner can also update on any actions already taken.
- 8.24. IA shall review the audit objectives, scope, and reporting process with the process owner before discussing the audit findings.
- 8.25. Assistant IA shall document all discussion during the meeting and prepare minutes of meeting including Summary sheet for each finding discussed during the meeting. These minutes shall also be retained in audit working papers.

Template of minutes of exit meeting is provided in the [Annexure H](#).

9. Internal Audit Report

- 9.1. Internal audit reports are the IAD's opportunity to get management's undivided attention. Each internal audit report shall be circulated to the process owner, Program Director and Chairman of the Audit Committee and Program Steering Committee.
- 9.2. The purpose of this chapter is to provide guidance to IAD staff regarding the contents of the internal audit reports and its distribution to key stakeholders.

Contents of the Internal Audit Report

- 9.3. An internal audit report shall include all of the following sections:

Content	Description
Introduction	It identifies the scope and objectives of audit engagement, areas and period covered and approach used for testing of internal controls.
Audit Activity	A brief description of audit activities and processes involved is given to provide overview of the processes to reader of the report.
Executive Summary	It provides high level summary of findings/recommendations and conclusion reached from audit.
Detailed findings, Risks and Recommendations	This section provides detailed findings with risk, recommendations and action plan provided by management.
Appendices	This section includes: <ul style="list-style-type: none"> Detailed analysis, calculations and instances to support detailed observations. Criteria for rating of internal audit report Criteria for risk rating of individual findings

Criteria for Rating of Internal Audit Report

- 9.4. IAD shall assign each internal report, one of the following rating to facilitate comparison between reports:

Rating	Definition
Satisfactory	The majority of expected controls are in place and operating effectively. Represents an assessment of a control environment that is appropriate and supports management's objectives for the process subject to review.
Needs Improvement	Medium priority for management to address. Represents an assessment of a control environment that broadly supports management's objectives but has further opportunities for improvement.
Unsatisfactory	High priority for management to address. A high number of individually significant control deficiencies exist where the potential financial, operational or reputation risk exposure within the context of the specific audit area is significant. Management should develop an urgent action plan to address these issues.

Criteria for Risk Rating of Individual Findings

- 9.5. IAD shall also assign each audit issue, a priority rating based on following criteria to establish its criticality:

Rating	Definition
High	<ul style="list-style-type: none"> • Matters that are fundamental to the system of internal controls • These may cause a Program’s objective not to be met or leave a risk unmitigated • Such matters need to be addressed as a matter of urgency
Medium	<ul style="list-style-type: none"> • Matters that have an important effect on controls but do not require immediate action • Program’s objective may still be met in full or in part or a risk adequately mitigated but the weakness represents a significant deficiency in the system.
Low	<ul style="list-style-type: none"> • Issues that, if corrected, would improve internal control in general but are not vital to the overall system of internal control • Such issues focus on improvement in efficiency of processes as well as management & control of risk

- 9.6. A template of Internal Audit Report is attached in [Annexure I](#).

Draft Sharing with Process Owner

- 9.7. Assistant IA shall prepare a draft report based on the findings discussed with process owner in the close-out meeting. IA shall carry out preliminary review of the draft report before sending it to process owner for comments and action plan.

Finalization of Action Plan

- 9.8. IA shall ensure that the process owner provides justified comments and action plans against each of the findings in the draft report.
- 9.9. If process owner disagrees with any of the finding or Assistant IA is not satisfied with the provided responses, he shall discuss it with the IA for appropriate action.
- 9.10. IA, after evaluating the responses, may request the process owner to send their revise responses for inclusion in the final report. If the process owner refuses to do so, IA may still include the finding in the final report after including justification in the form of **“Auditor’s Response to Management Comments”** accordingly. These findings shall be separately discussed in the Audit Committee for appropriate action plan.
- 9.11. In case the process owner does not provide management comments and action plan within 10 working days of issuing the draft report, IA shall issue the final report after sending an email to the process owner.
- 9.12. IA shall review the final internal audit report before its distribution.

Report Distribution

- 9.13. Final reports shall be distributed to the process owner with direct responsibility for the facility, function, or department audited with a copy to Program Director and Chairman of the Audit Committee and Program Steering Committee.

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Follow-Up of Previous Findings

- 9.14. In order to determine that the process owner has taken corrective action on recommendations, a log of findings with their target implementation dates shall be maintained.
- 9.15. Assistant IA shall carry out follow-up of all open audit findings of prior period with overdue target implementation dates. IA shall communicate the status of all audit findings to respective process owners on monthly basis.
- 9.16. IA shall ensure that open findings are closed after obtaining sufficient appropriate evidence from the process owner confirming the same. Status of all closed findings shall be circulated to the Program Director and process owner.
- 9.17. A summary follow-up report shall be prepared by IAD which reflects all prior period findings with their status. IA shall submit such follow-up report to the Audit Committee on regular basis.

A template of follow-up report is attached in the [Annexure J](#).

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10. Audit Working Papers

10.1. Internal audit work papers should be prepared in a professional manner and should meet acceptable standards. Internal auditing performs many different types of internal audits having different objectives. The inherent variety of internal audit work performed requires some flexibility in the content and format of work papers. However, the minimum standards contained herein will help ensure that all work papers prepared by IAD will meet acceptable standards in the following areas:

- Content;
- Uniformity;
- Neatness;
- Accuracy; and
- Documentation.

Purpose

10.2. The purpose of work papers is to compile and document all information related to the objectives of the internal audit. Work papers aid the IAD in the conduct of internal audit work by:

- Providing a basis to adequately plan and control the internal audit effort;
- Providing a means to logically organize and analyze evidence gathered; and
- Facilitating the preparation of the Internal Audit Report.

Organization

10.3. Work papers should generally be organized into a permanent file (see discussion of permanent files below) and a current file. Permanent files maintain ongoing information which is relevant to more than just the current audit. Current files contain work papers which support the current audit being performed.

Permanent Files

10.4. Permanent Files contain information that is relevant and of interest to the IAD on a continuing basis. The file should contain data that need not be recreated during each audit. For each new audit, the information should be acknowledged as containing no change, or be updated for change. Accordingly, a Permanent File should be an effective audit tool which, once prepared, allows the audit to progress in an efficient and organized manner.

Examples of items that should be included in a Permanent File are:

- Organization/Departmental Chart - showing the personnel responsible for the system of internal accounting control and the existing lines of authority.
- Flow Chart/System Understanding - explaining the document function and flow of each significant process.
- Previous Internal Audit Reports - documenting previous audit findings.
- Copies of Department Documents - schedules, charts, etc.
- Control Copies - of the audit programs pertaining to the given audit area.
- Any other information that is considered to be of continuing nature

A standard filing convention to be used for common work papers found in permanent files.

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Current Files

- 10.5. Working papers will be produced for each internal audit performed. These papers will clearly display all activities related to a particular internal audit including planning procedures, testing performed, findings which resulted from this testing, and disposition of these findings.

The work papers should follow a standard format to increase audit efficiency by reducing preparation and review time. Depending upon the type of internal audit project, the format of the work papers may vary substantially.

Included in the "detailed work papers" is the testing performed, process narratives, schedules and any other documentation the IA believes is necessary to adequately support any conclusions or comments.

Additionally, the work papers should document the completion of all procedures outlined in the AP. Each work paper should include, at a minimum, the following information:

- Purpose - the reason the work paper is included in the file;
- Source - where the work paper or information was obtained;
- Scope - the extent of the testing performed, number of items tested, etc.;
- Conclusion - represents the evaluation of the test results or analysis within the work paper;
- Testing performed;
- Signature of the preparer the work paper and the completion date; and
- Heading which describes the contents of the work paper

Documentation of the Preparation/ Review

- 10.6. Every work paper should be signed off by the preparer, upon completion of all audit work. All work papers should be initialed and dated by IAD's management upon their review. This signoff will indicate that management has reviewed and approved all work presented on that particular work paper.

The IA must review all working papers. Review of working papers will be indicated by the reviewer's initial and date (month, day and year) of review in the upper right-hand corner of each working paper.

Working papers for a particular section of an audit program will be reviewed at the completion of that section by IA in a Status Meeting. In addition to this review, the department head should be contacted and the observations shall be discussed with him / her.

The reviewer should examine the working papers for both form and content and document the review. The reviewer should write appropriate notes on review sheets to address any questions, changes or additional work needed.

The preparer must address the review notes to the reviewer's satisfaction before the working paper package is finalized.

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Annexure B – Internal Audit Plan

1. Introduction

- 1.1 The mission of the Internal Audit (“IA”) function is to help PMIU manage business risk and to provide the Audit Committee of the Program Steering Committee (PSC) (hereinafter called “Audit Committee”) and all levels of management with information to assist them in the establishment and maintenance of an effective system of internal control. The purpose of IA is to assist members of the PMIU in the effective management of their responsibilities by furnishing independent and objective analyses, appraisals, recommendations, counsel and information concerning the activities reviewed and the adequacy of the PMIU’s overall control environment.
- 1.2 The objective of developing IAP is to compile a schedule/program of work that establishes the cycle for recurring internal audits and determines, at a high-level, individual scope of work for all internal audits to be undertaken in a given period.
- 1.3 IAP has been developed in compliance with the requirements of the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA), which requires internal auditors to plan the audit activities based on the assessment of program-wide risks
- 1.4 Through IAP, areas of risk have been incorporated into the risk-based internal audit plan. By performing internal audits, Internal Audit Department of PMIU will provide assurance to Audit Committee and the Program Steering Committee (PSC) on the design and operation of controls, validate that whether reliance on existing controls is acceptable, and recommend control improvements.
- 1.5 The broad objectives of internal audit encompass the following:
 - Review of the effectiveness and efficiency of PMIU’s operations to ascertain whether the operations are being carried out as intended and the results are consistent with established plans and objectives of GoS and USAID.
 - Review of the systems established by PMIU to ensure compliance with requirements of applicable laws, regulations, internal policies and plans that could have a significant impact on PMIU’s operations and reports, and determine whether PMIU is in strict compliance.
 - Communicate to the Audit Committee the impact of resource limitations and significant interim changes and the plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of the Audit Committee

2. Audit Universe and Risk Assessment

Audit Universe

2.1. Based on broad understanding of PMIU's activities, following auditable areas have been identified:

- 1) Entity Features
- 2) Information Technology
- 3) Human Resources
- 4) Procure to Pay
- 5) Financial Management
- 6) Monitoring and Evaluation

Risk Assessment Methodology

2.2. Each audit activity shall be rated on below mention various elements of risk (explained below in para 2.3) and each element shall be assigned a numeric rating of 1 to 3 indicating:

- 1 = probably not a problem
- 2 = possibly a problem
- 3 = probably a problem

2.3. Risk assessment of each identified auditable process/activity shall be done on the basis of following factors:

S. No	Risk Factor	Brief Definition
1	Scope of PMIU's Activities	This factor represents the materiality of an audit process for the purpose of the audit.
2	Prior Audit Findings	The number and/or significance of the control deficiencies identified in the previous audit.
3	Inherent Risk	This represents an assessment of the inherent risk of auditable process i.e. what potentially can go wrong.
4	Control Environment	The control environment represents the policies & procedures, physical safeguards, employees in place and tone at the top.
5	Changes in People/Systems	It represents changes within the audit entity including re-organizations, growth, new systems or new regulations etc.
6	Complexity	This risk factor reflects the potential for errors or misappropriation to go undetected because of a complicated environment.

Risk Scoring Table

2.4. The table below represents the score (as mentioned in para 2.2) against each process based on which the risk levels i.e. High, Medium and Low have been determined for each activity.

Auditable Activities	Scope of PMIU's activities	Prior Year's Audit Findings	Inherent Risk	Control Environment	Changes in People or System	Complexity	Total		Risk Level
							Low 6-9		
							Med 10-13		
							High 14-18		
3 - High to 1 - Low									

3. Internal Audit Plan [Year]

3.1. Based on risk levels determined in Section 2, frequency of audit is scheduled as follows:

S. No.	Auditable activity	Risk Level	Year 2xxx			
			Quarter 1	Quarter 2	Quarter 3	Quarter 4
1						
2						
3						
4						
5						
6						
7						
8						

Further, the risk levels so determined may be revised on the basis of any information/evidence obtained during the course of our audit activity.

Risk levels shall be categorized as High, Medium and Low and highlighted as follows:

High	
Medium	
Low	

4. Audit Resource Plan

4.1. Estimated time required to achieve internal audit plan:

S. No.	Auditable activity	Risk Level	IAD Human Resource			
			IA	AIA	Total
			Man-days			
Quarter 1						
1						
2						
3						
4						
...						
Subtotal						
Quarter 2						
6						
7						
8						
...						
Subtotal						
...						
...						
Total						

Annexure C - Engagement Plan

Audit Activity:	
Period Covered:	WP Ref:
Date:	

Relevant Financial Information			
Particulars	Current Year to Date	Corresponding Period Last Year	Inc. / Dec
	a	b	C=a-b

Key Management Personnel	
Name	Designation

Audit objectives

Audit Scope

Major Risks Involved

Audit Team			
Name	Designation	Budgeted Time	Allocated Tasks

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Audit Time Table	
Particulars	Date
Start of Audit	
Close Out Meeting	
Issue of Draft Report	
Issue of Final Report	

Sign off		
	Name	Signature
Prepared By		
Reviewed By		

Annexure D – Audit Announcement Memo or Email

To	Process owner	Date :
From	Internal Auditor	
Subject	Commencement of Audit of (mention name of Auditable Activity)	

IAD has planned to commence the audit of **(Audit Activity)** as per the Audit Committee’s approved Audit Plan.

<p>Audit Period The audit covers the period from (.....) till (.....)</p>
--

<p>Audit Scope The scope of our audit includes following areas: a) b) c)</p>

Audit Team	
Name	Designation

Audit Time Table	
Particulars	Date
Start of Audit	
Close Out Meeting	
Issue of Draft Report	
Issue of Final Report	

We would like to see you for a kick-off meeting to discuss the focus areas of auditable activities on audit commencement date i.e. [enter date]. Kindly, communicate the commencement of internal audit to relevant personnel.

At the completion of field work, the audit results will be shared and discussed with you and other concerned personnel before submission of the draft report for management comments. The report will be finalized after obtaining management comments and action plan along with the target implementation date in writing.

We look forward to a smooth audit with your assistance and co-operation.

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Annexure E – Minutes of Kick-off Meeting

Audit Activity:	
Period Covered	WP Ref
Venue:	
Prepared By	Date

Agenda:

Scope & Objectives of the Engagement:
--

Expectation of Process owner and Focus Areas:
--

Roles & Responsibilities of Process owner:

Participants:	
Name	Signature
IAD Staff	
Process Owner	

Annexure F - Audit Program

Audit Activity:	
Period Covered:	
Prepared By:	Date:
Reviewed By:	Date:

Control Activity	Control Objective	Risk	Test Steps	Audit Documentation	Conclusion	W/P Ref

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Annexure G – Issue Sheet

Audit Activity:	
Period Covered	WP Ref
Prepared By	Date
Reviewed By	Date

Issue No.	Issue Title:
Criteria	
Condition	
Cause	
Effect	
Recommendation	

Annexure H – Minutes of Exit Meeting

Audit Activity:	
Period Covered	WP Ref
Venue:	
Prepared By	Date

Agenda:

Pending Data (If any):

Findings & Comments of the Process owner			
Audit Findings	Recommendation	Comments of Process owner	W/P Ref:

Participants:	
Name	Signature
IAD Staff	
Process Owner	

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Annexure I – Internal Audit Report



Program Management and Implementation Unit

Internal Audit Report on

[Month of Issue]

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[Logo]	[Name of Report]

Contents

1.	Introduction	[pg.]
2.	Description of In-Scope Processes	[pg.]
3.	Executive summary	[pg.]
4.	Detailed findings, risks and recommendations	[pg.]
5.	Appendices	[pg.]

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1. Introduction

This section identifies the scope and objectives of audit engagement, areas and period covered and approach used for testing of internal controls.

For e.g.

This report is prepared based on the internal audit of "Name of Audit Activity" of Program Management and Implementation Unit (hereafter to be referred as PMIU) carried out in accordance with the approved Internal Audit Plan.

The previous internal audit report of "Name of Same Audit Activity" was issued in [Month] Year 20XX and was rated as "Satisfactory". The current audit covered a period of [No of months] months from [Month] 20XX to [Month] 20XX.

Audit objective

The broad objective of the audit was to assess the internal control system surrounding selected processes with a view to achieve the following:

- Effectiveness and efficiency of PMIU's functions;
- Reliability of financial information; and
- Compliance with laws and regulations applicable to the PMIU and other internal policies.

Extent of Verification

The audit was performed on test basis, using one of the sampling approach; therefore, issues highlighted in this report are those that came to our attention during our review and do not necessarily present a comprehensive view of all the weaknesses/improvement areas that may exist. Management should assess our recommendations from the perspective of Program's objectives before they take actions for implementation.

Areas Covered

Following areas were covered during the audit:

- Audit Activity 1
- Audit Activity 2
- Audit Activity 3

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2. Description of In-scope Processes

This sections contains a brief description of audit activities and processes involved to provide overview of the processes to reader of the report. Information on following areas may be provided here:

- Structure and Composition of the Division / Function
- Core responsibilities of the Department
- Brief description about the process flow
- Major Reports and documents prepared
- Key financial information

3. Executive Summary

Summary of findings and recommendations

A brief of findings and recommendations resulted from our internal audit are provided as under:

Sr. No.	Findings and recommendations	Ref #	Priority Rating
1.			
2.			
3.			
4.			
5.			

Please refer **Appendix I** of the report for the description of Priority Ratings.

Overall audit rating

Based on the assessment of internal control systems surrounding, the audited activity is rated as “_____”. Please refer **Appendix II** for the description of term “**Satisfactory**”, “**Requires Improvement**” and “**Unsatisfactory**”.

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4. Detailed findings, risks and recommendations

4.1	[Issue title describing crux of finding]	Priority Rating []
Finding		
<p>In this section describe three attributes of finding in paragraph form. The major content of finding will be obtained from issue sheet / exception log discussed with the process owner.</p> <ul style="list-style-type: none"> • <i>Criteria</i> • <i>Condition</i> • <i>Cause</i> <p>The finding must be in narrative form and should not contain heading Criteria, Condition and Cause.</p>		
Risk / Impact		
<p><i>Describe risk of the finding in this section, quantifying its impact as well wherever possible.</i></p>		
Recommendation		
<p><i>"What should be done" to rectify the issue, should be provided here.</i></p>		
Management Comments and Action Plan		
<p><i>Process owner's feedback and action plan on the issue is provided here.</i></p>		
Responsible person	Targeted implementation date	

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5. Appendices

Appendix I

Internal Audit Report Classifications

Based on the review of the content of each report one of the following classifications are assigned to facilitate comparison between reports.

Satisfactory

The majority of expected controls are in place and operating effectively. Represents an assessment of a control environment that is appropriate and supports management's objectives for the process subject to review.

Needs Improvement

Medium priority for management to address. Represents an assessment of a control environment that broadly supports management's objectives but has further opportunities for improvement.

Unsatisfactory

High priority for management to address. A high number of individually significant control deficiencies or issues exist where the potential financial, operational or reputation risk exposure within the context of the specific review is significant. Management should develop an urgent action plan to address these issues.

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Appendix II

Risk Rating for Individual Findings

High

Issues arising referring to important matters that are fundamental to the system of internal control. We believe that the matters observed might cause PMIU’s objectives not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.

Medium

Issues arising referring mainly to matters that have an important effect on controls but do not require immediate action. PMIU’s objectives may still be met in full or in part or a risk adequately mitigated but the weakness represents a significant deficiency in the system.

Low

Issues arising that would, if corrected, improve internal control in general but are not vital to the overall system of internal control. Low priority issues will also focus on opportunities to improve efficiency of processes as well as the management and control of risk.

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Annexure J – Follow up Report



USAID
FROM THE AMERICAN PEOPLE



Program Management and Implementation Unit

**Follow-up of Internal Audit Reports for the
Half Year Ended on _____**

[Month of Issue]

Header: (To-be repeated on each page)

[Logo]

[Name of Report]

1. Executive Summary

Introduction

We are pleased to submit Follow-up Report on Name of "Audit Activity". The original report was submitted on..... We only checked implementation status of recommendations given in the said report through performance of follow up procedures. Following table provides an overview of current implementation status:

Internal Audit Report on	Total Findings	Implemented	Partially Implemented	In Process	Not Implemented
Report name 1					
Report name 2					
Report name 3					

Summary of Open Findings

A summary of open findings is given below:

S. No.	Findings /Recommendation	Person Responsible	Target Implementation Date	Revised Implementation Date

Footer: (To-be repeated on each page)

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2. Follow-up on Audit Observations

Finding / Recommendation	Management Comments	Target Implementation Date	Current Status	Follow-up Audit Remarks	Follow-up Management Comments	Revised Target Implementation Date