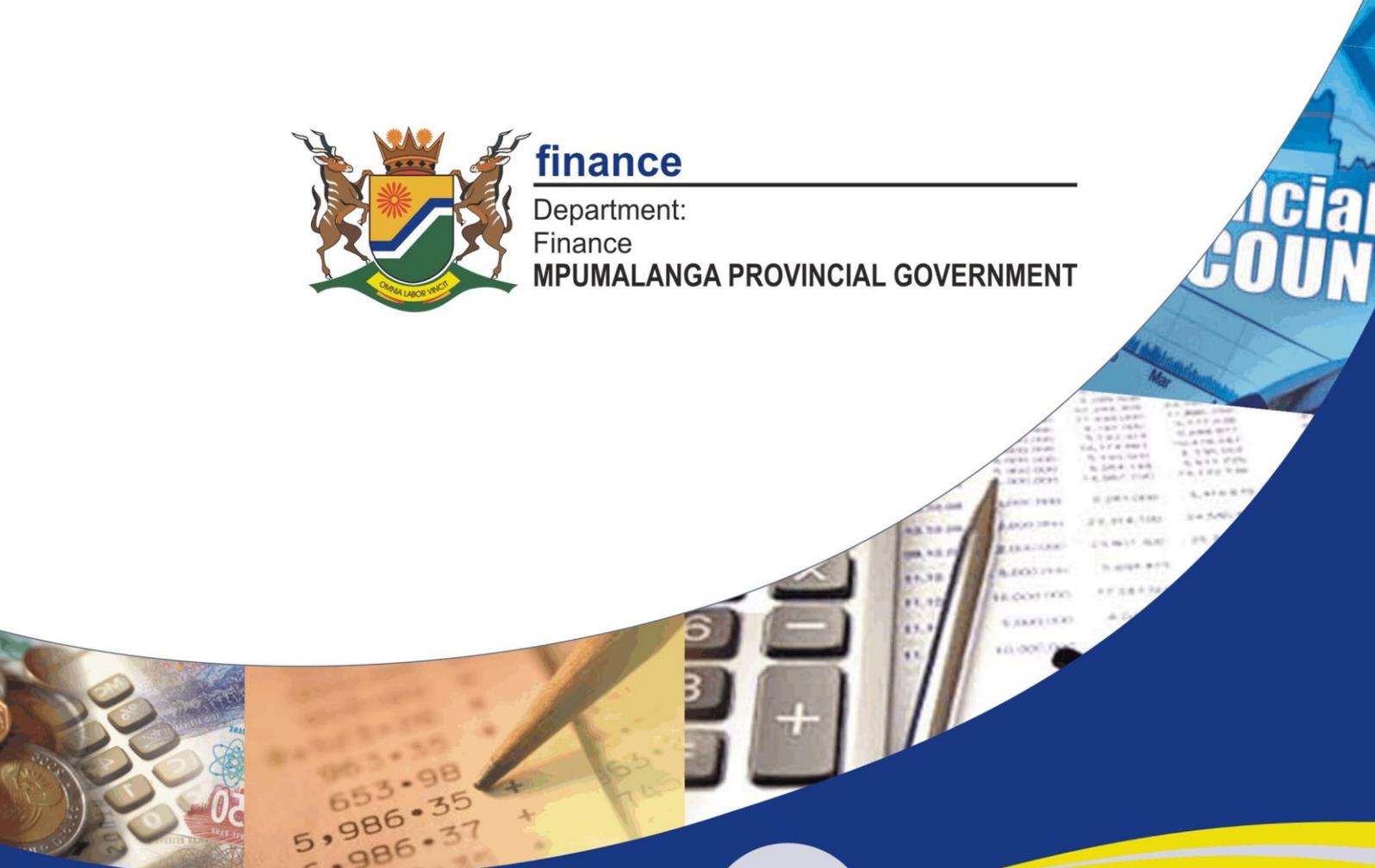




finance

Department:
Finance
MPUMALANGA PROVINCIAL GOVERNMENT



INTERNAL AUDIT MANUAL



MPUMALANGA
A Pioneering Spirit

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Appendix A – Internal Audit Charter **Error! Bookmark not defined.**

Appendix B – Preliminary Survey **Error! Bookmark not defined.**

Appendix C – Project Instruction memorandum **Error! Bookmark not defined.**

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Appendix G – System description **Error! Bookmark not defined.**

Appendix H – Control Adequacy Assessment **Error! Bookmark not defined.**

Appendix I – Team briefing **Error! Bookmark not defined.**

Appendix J – Team goal/objective setting **Error! Bookmark not defined.**

Appendix K – Independence Certificate **Error! Bookmark not defined.**

Appendix L – Audit programme **Error! Bookmark not defined.**

Appendix M – Working papers **Error! Bookmark not defined.**

Appendix N – Factual correctness sheet **Error! Bookmark not defined.**

Appendix O – Draft management report **Error! Bookmark not defined.**

Appendix P – Report template **Error! Bookmark not defined.**

Appendix Q – Team debriefing **Error! Bookmark not defined.**

Appendix R – Quality review checklist **Error! Bookmark not defined.**

Appendix S – Completion checklist **Error! Bookmark not defined.**

Appendix T – Client satisfaction survey **Error! Bookmark not defined.**

Appendix U – Project file index **Error! Bookmark not defined.**

Appendix V – Timesheet / Budget **Error! Bookmark not defined.**

Approved By:

Date:

1 Introduction

1.1 The Role of Internal Audit

The Institute of Internal Auditors 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.”

The internal audit activity must therefore evaluate and contribute to the improvement of risk management, control and governance systems of the organisation. Typical input/responsibilities of the Internal Audit Function (Internal Audit) should include, amongst others:

Governance

Internal Audit must assess and make appropriate recommendations for improving governance processes of the Mpumalanga Department of Finance.

Risk Management

Internal Audit must evaluate the effectiveness and contribute to the improvement of risk management processes.

Controls

Internal Audit must assist the department in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Internal Audit will conduct its audits in accordance with the “Code of Ethics” and “International Standards for the Professional Practice of Internal Auditing” of The Institute of Internal Auditors, as well as other corporate governance regulations.

1.2 Internal Audit Strategic/Coverage Plan

The “International Standards for the Professional Practice of Internal Auditing” as issued by the Institute of Internal Auditors and more specifically Standard 2010.A1 requires that: *“The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The inputs of senior management and the board must be considered in this process.”*

The critical success factors for an effective Internal Audit Plan are that it:

- Is aligned with strategic objectives of the organisation.

- Covers the strategic risk areas facing the organisation, not just the financial risks and controls.
- Is risk based – addresses the key risk areas/concerns of management.
- Is prepared in consultation with Management, the Audit Committee and External Auditors.
- Matches assurance needs with available resources.

The Rolling Three-year Strategic Internal Audit Plan will be based upon the results of a strategic risk assessment process, as well as inputs from Senior Management and the Audit Committee. The results of the assessment will be recorded and summarised in the Rolling Three-year Strategic Internal Audit Plan in order to provide a holistic view of risk and assurance within the department. The Annual Internal Audit Plan will be aligned with the strategic risks identified and could encompass, amongst others, risk-based, compliance, financial discipline and cyclical reviews.

Internal Audit will, in conjunction with Senior Management, identify those areas where internal audit activities should be directed. These could mainly include areas where there is a high inherent risk.

The output of the risk assessment process at the department will, amongst others, be used to develop the Internal Audit Plans by:

- Identifying and allocating a priority ranking to the respective audit areas.
- Based on experience, establishing the need and appropriateness for specific types of audits/ reviews.
- Assessing the level of audit skills and estimating resources required for each type of audit/review.
- Determining a proposed timetable for the respective audits/reviews.

The planned internal audit activities will be focussed at strategic, process and component level, as appropriate.

The plan for each year will be determined by the priority ranking (based on the risk assessment) of identified audit areas and the expertise and resources available to Internal Audit.

1.3 Authority

Internal Audit reports administratively to the Accounting Officer and functionally to Audit Committee and has unrestricted access to the Chairperson of Audit Committee, the Accounting Officer and Executive Management.

Internal Audit is authorised to:

- Have unrestricted access to all relevant functions, records, property and personnel.

- Have full and uninhibited access to the Audit Committee and the Accounting Officer.
- Allocate its own resources; determine frequencies, subjects, scope of work to be performed and apply the techniques required to accomplish its audit objectives.
- Obtain the necessary assistance of personnel in the various divisions, departments, sections and units of department where they perform internal audit reviews, as well as other specialised services from within or outside the organisation.

Internal Audit is not authorised to:

- Perform any operational duties for the department.
- Initiate or approve accounting transactions external to the Internal Audit Function.
- Direct the activities of any department employee except to the extent that such employees have been appropriately assigned to the Internal Audit teams or to otherwise assist the Internal Auditors in carrying out investigations.

Refer to **Appendix A** for the Internal Audit Charter.

1.4 Types of audits

Below is an overview of the various interventions that are planned to address the identified audit areas. The nature of work will depend on the areas subjected to review.

1.4.1 Management and Performance Audits

Management Audits – These audits entail the review and evaluation of the adequacy of the application of generally accepted management principles in achieving the desired objectives of the department. The audit approach may include the following, as appropriate:

- Obtain information regarding overall component objectives and goals – assess alignment with the department strategic objectives and values.
- Gather details regarding the management planning process of the component. The management planning process consists of a series of distinct steps preceded by an input from the strategic planning process and ending with an output in the form of short-term financial plans or budgets.
- Obtain information relating to the directing of the plan and evaluate the adequacy of these management actions and service delivery – consider, inter alia:
 - Delegation of authority and institutional arrangements.
 - Policies and procedures.
 - Social commitment.

- Communication and information.
- Obtain information relating to the controlling of the execution of the plan – consider, inter alia:
 - Monitoring of relevant performance indicators.
 - Management information systems.
 - Income and expenditure analysis.
 - Staffing levels and movements.
 - Human Resource Management.
 - Asset Management.
- Evaluation of actual circumstances against accepted norms and practices.
- Identify emerging issues and provide management with the assurance that the relevant matters are properly attended to.

Management Audits involve, inter alia, the preparation of high-level process analysis documents (flowcharts), the review of relevant information, discussions with management and staff, audit fieldwork (primarily by way of walk through tests, enquiry and observation techniques) and interrogation of data files.

Performance Audits - These audits' approach is similar to the approach followed for a Management Audit and are generally based on the methodology used by the Office of the Auditor-General. Performance Audits are used to evaluate the process by which the entity (or a component of the entity) achieves its strategic and operational objectives. Internal Audit (in conjunction with Management) would typically identify a focus area (a specific component of the entity) and investigate it with a view to recommending actions to improve the economy, efficiency and effectiveness of its operations and the related utilisation of available resources.

1.4.2 Risk-based, Compliance and Financial Reviews

The objective of these types of reviews is to evaluate the adequacy and effectiveness of controls in respect of key business processes and related risks (linked to the strategic objectives / risks of the department).

The review process should at least include the following general activities:

- Prepare / update system descriptions (flowcharts) to extend the understanding of the process. This includes the identification of process activities, key risks and key controls.
- Evaluate the methods of safeguarding assets.
- Evaluate the processes in place to ensure the complete, accurate and timely recording of transactions.

- Evaluate and test the adherence to current policies, procedures, laws and regulations.
- Evaluate the adequacy of the current internal controls in place - in terms of reducing risk and promoting achievement of objectives.
- Evaluate the effectiveness of current internal controls in place for the period of review.
- Formulate recommendations for reducing risks, improving controls and increasing adherence to policies, procedures, laws and regulations.
- Confirm the findings with Management and obtain agreed management actions with target dates and designated responsible senior officials.

1.4.3 IT Reviews

IT reviews include the evaluation of risks and internal controls within the computer information system environment to ensure the validity, accuracy, reliability and security of information. Furthermore, it includes the assessment of the efficiency and effectiveness of the computer information system environment.

1.4.4 Follow - up reviews

The objective of these reviews is to evaluate the progress made by Management with the implementation of previously agreed upon action plans regarding areas for improvement identified by Internal Audit.

1.4.5 Other Internal Audit Interventions

Other Internal Audit interventions may include:

- Revision of the Internal Audit Charter for the department - in line with the recommendations of the King III report and the PFMA. The Internal Audit Charter defines the Internal Audit Function's purpose, authority and responsibility.
- Assisting the Audit Committee in the revision of the Audit Committee Charter - inline with the recommendations of the King III report and the PFMA.
- A review of the process implemented by the department in order to ensure the timely implementation of recommendations resulting from the audit conducted by the Office of the Auditor-General.

1.4.6 Ad Hoc Management Requested Reviews

In all cases when Internal Audit is requested to perform ad hoc or special assignments (i.e. work not included in the approved Annual Internal Audit Plan) the following procedures will be adhered to before any such work is accepted or performed:

- The Chief Audit Executive should be contacted for all ad hoc work.

- The Chief Audit Executive will then discuss the specific request with the Accounting Officer and Chairperson of the Audit Committee.
- Approval for the ad hoc project will be granted to Chief Audit Executive, following consultation with the Audit Committee and the Accounting Officer.
- The Internal Audit Function, should it be requested to perform the ad hoc review, will then submit an estimated budget for its involvement in the specific ad hoc project.

The Chief Audit Executive will, amongst others:

- Act as the chief liaison officer between the Internal Audit Function and Management; and
- Co-ordinate all work to be performed in accordance with the approved Annual Internal Audit Plan, including additions to the scope as approved by the Audit Committee, as well as approved ad hoc projects.

The prioritisation of the ad hoc and special request work will be managed within the approved Annual Internal Audit Plan and budget to ensure that the Audit Committee's requirements in terms of audit coverage are met.

2 IIA Professional Standards

The *Standards for the Professional Practice of Internal Auditing* states:

“All internal auditors must perform their internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing” (hereafter Standards).

The purpose of the Standards is to:

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

The Performance Standards describe the nature of internal audit services and provide quality criteria against which the performance of these services can be measured. The following is a list of the IIA Performance Standards:

2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval. The chief audit executive should also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

2040 – Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

2050 – Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risk, corporate governance issues, and other matters needed or requested by the board and senior management and the board.

2070 – External Service Provider and Organisational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

2110 – Governance

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

- (1) Promoting appropriate ethics and values within the organisation;*
- (2) Ensuring effective organisational performance management and accountability;*
- (3) Communicating risk and control information to appropriate areas of the organisation; and*
- (4) co-ordinating the activities of and communicating information amongst the board, external and internal auditors, and management.*

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement objectives, scope, timing, and resource allocations.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- *The objectives of the activity being reviewed and the means by which the activity controls its performance;*
- *The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;*
- *The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model; and*
- *The opportunities for making significant improvements to the activity's governance, risk management, and control processes.*

2210 – Engagement Objectives

Objectives must be established for each engagement.

2220 – Engagement Scope

The established scope must be sufficient to achieve the objectives of the engagement.

2230 – Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 – Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

2300 – Performing the Engagement

Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.

2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

2320 – Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

2340 – Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

2400 – Communicating Results

Internal auditors must communicate the results of the engagements.

2410 – Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

2420 – Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

2421 – Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 – Use of “Conducted in Conformance with Standards for the Professional Practice of Internal Auditing”

Internal Auditors may report that their engagements are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, only if the results of the quality assurance and improvement programme support the statement.

2431 – Engagement Disclosure of Non-conformance

When non-conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose:

- *Principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved;*

- *Reason(s) for non-conformance; and*
- *Impact of non-conformance on the engagement and the communicated engagement results.*

2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

2450 – Overall Opinions

When an overall opinion is issued, it must take into account expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

2500 – Monitoring Progress

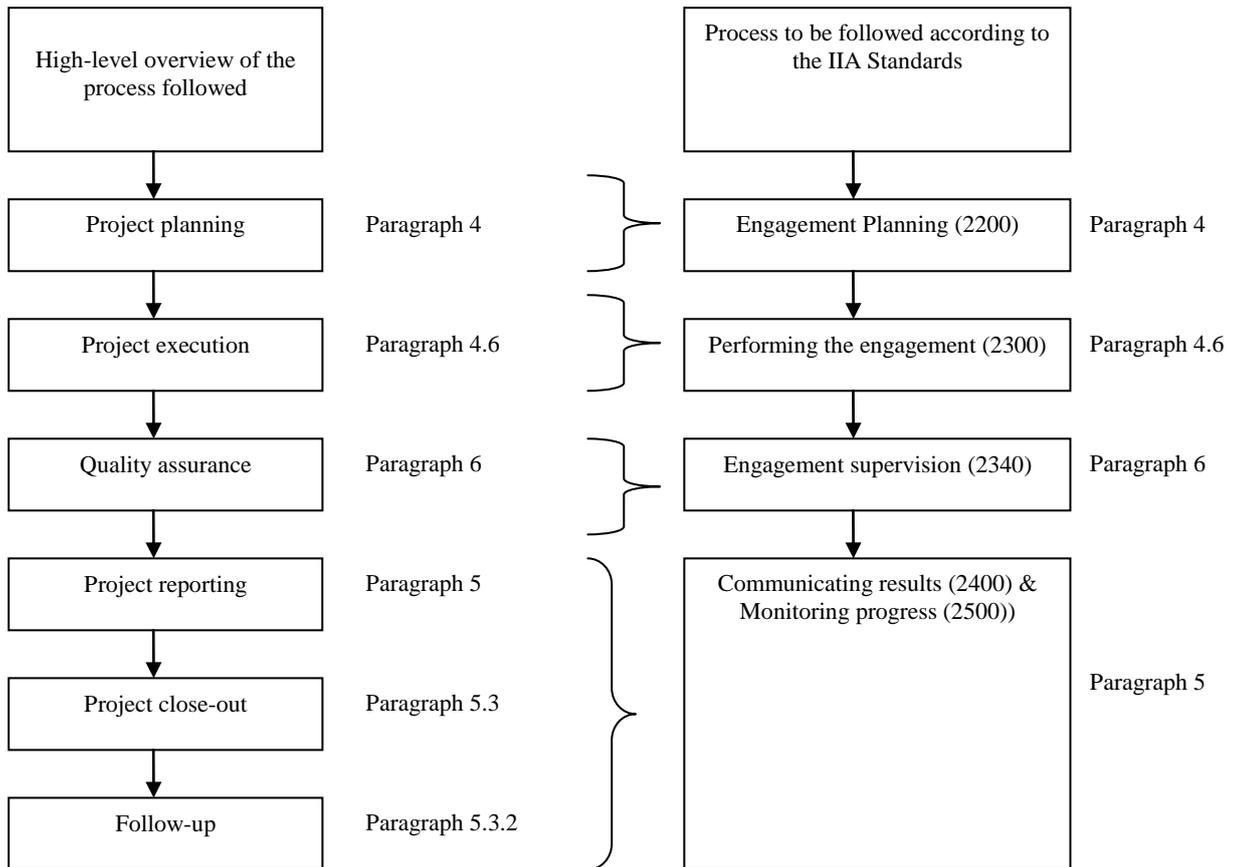
The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2600 – Communicating the Acceptance of Risk

When the chief audit executive concludes that senior management has accepted a level of risk that is unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive and senior management must communicate the matter to the board.

3 An overview of the Internal Audit process workflow

The following diagram details a high-level depiction of the process to be followed when conducting an internal audit assignment.

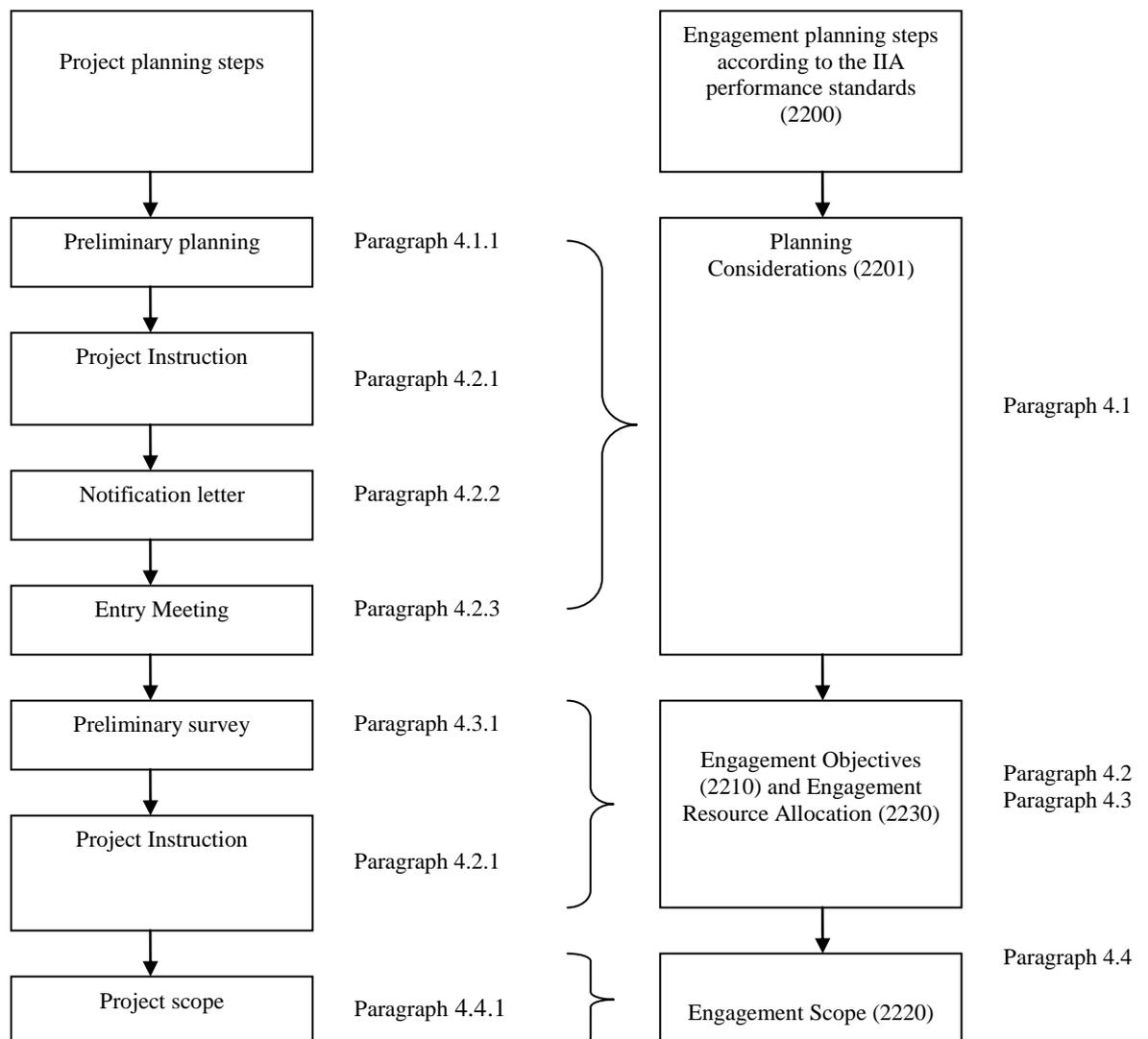


4 Project planning (2200 Series)

Project planning sets out the basis under which the individual Internal Audit projects will be conducted. A project plan is a key element to assist with the successful completion of an individual project.

4.1 Planning Considerations (2201 Series)

The following steps need to be completed during the project planning phase:



The following steps need to be completed during the project planning phase:

“In planning the engagement, internal auditors should consider:

- *The objectives of the activity being reviewed and the means by which the activity controls its performance.*
- *The significant risks to the activity, its objectives, resources and operations as well as the means by which the potential impact of risk is kept to an acceptable level.*
- *The adequacy and effectiveness of the activity’s risk management and control systems compared to a relevant control framework or model.*
- *The opportunities for recommending improvements to the activity’s risk management and control systems.”*

4.1.1 Preliminary planning

Project planning needs to be performed for all Internal Audit Projects as approved by the Audit Committee and Senior Management. The planning activities need to be completed before the detailed audit work can commence. This phase will entail scheduling the project, allocating key responsibilities, contacting management to obtain their concerns and input relevant to the planned scope of the review and making the necessary logistical arrangements.

4.2 Engagement Resource Allocation (2230 Series)

The standard according to the IIA:

“Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.”

4.2.1 Project instruction memorandum

The project-instruction memorandum provides guidance on the management of the project and serves to ensure that:

- All parties involved in the project are informed of their roles and responsibilities;
- All known relevant issues are addressed and resolved; and

A detailed budget exists for the project, based on the approved scope and related budget for the project. The project budget must indicate the approved budget (time and disbursements)

Refer to **Appendix C** for the template of the Project instruction memorandum.

4.2.2 Notification letter

The notification letter serves to (a) inform the management of the envisaged audit, (b) provide an indication of the anticipated commencement date thereof, as well as a brief overview of the process to be followed and (c) alert management to an attached “Request for Information” document in which Management are requested to provide certain information for the project. Please note that the notification letter should be issued to the client one week before the opening meeting.

Refer to **Appendix D** for the template of the notification letter.

The ‘Request for Information’ document (**Appendix F**) may be attached to the notification letter to enable the management to start collecting all the necessary documentation (*adjust the “Request for Information” document according to the information needed for the review*).

4.2.3 Entry Meeting

The entry meeting is where Internal Audit meets with management prior to the commencement of the project. The invitation for the opening conference should clearly indicate who should be invited and also who must attend (compulsory “attendees” and optional “attendees”).

The purpose of the meeting includes, amongst others, (a) an introduction of the audit team and management, (b) to inform management of the envisaged scope of the assignment, (c) to obtain any additional inputs thereon and (d) to identify the key contacts for the projects.

Refer to **Appendix E** for the templates of the agenda and minutes of the opening conference.

4.3 Engagement Objectives (2210 Series)

The standard according to the IIA:

“Objectives must be established for each engagement.”

4.3.1 Preliminary survey

The Internal Audit team needs to obtain an understanding of the processes to be audited. In order to obtain the required background information, a preliminary survey needs to be conducted. This needs to be conducted for each and every review, unless the senior on the audit decided it otherwise. Sufficient reasons need to be stated as to why the preliminary survey was not conducted and this needs to be placed on file.

Refer to **Appendix B** for template of the preliminary survey.

The preliminary survey entails a brief system description, which consists of a process overview, identification of key risks and key controls and perceived control effectiveness rating (where applicable) of the process to be reviewed.

Refer to **Appendix G** for a template of the high-level system descriptions.

Refer to **Appendix H** for a template of the control adequacy assessment.

Walkthrough testing should be performed for a selected sample of two items/transactions/controls during the preliminary survey to confirm the accuracy of the system description.

4.4 Engagement Scope (2220 Series)

The standards according to the IIA:

“The established scope must be sufficient to satisfy the objectives of the engagement.”

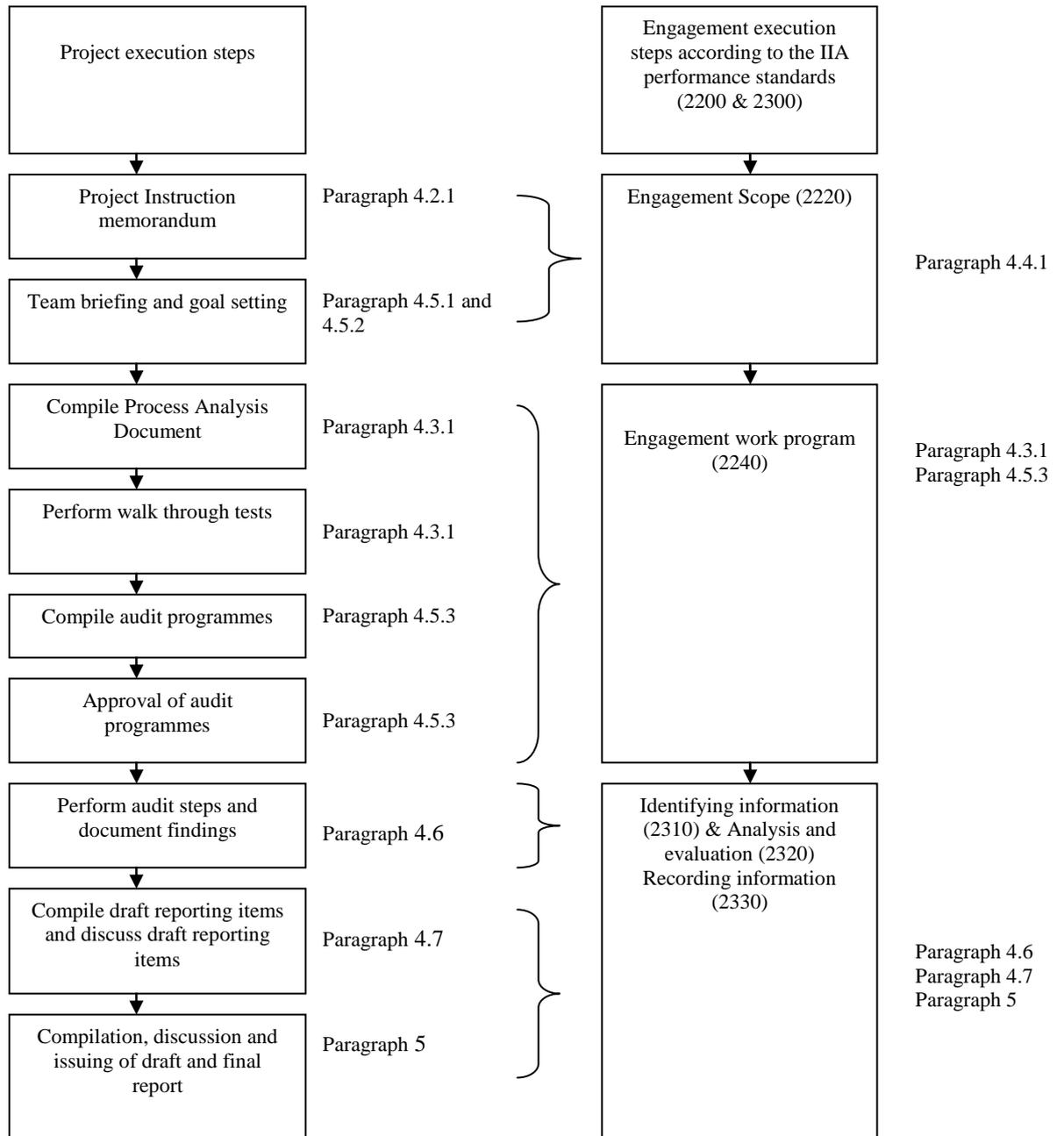
4.4.1 Project scope

The project scope sets out the agreed detailed scope of the assignment (including specific exclusions from the project scope or requests by Management) as well as clearly defining the responsibilities of the Internal Audit Function and that of management.

The details of the project scope will be included in the notification letter to the department. A copy of the risk and control register should be attached (where appropriate and where risks have been identified during our preliminary survey with management).

4.5 Engagement working programme and Project execution (2200 & 2300 Series)

The following diagram provides a high-level overview of the process to be followed during the project execution phase:



Standards according to the IIA:

“Internal auditors must develop and document work programs for each engagement, including the scope, objectives, timing and resource allocations.”

“Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.”

4.5.1 Team briefing

A team briefing meeting should be scheduled prior to the commencement of the detailed fieldwork. This meeting is the forum where the team will plan and discuss the fieldwork to be performed. Specific issues to be addressed are:

- Overview of the entity under review and controls to be evaluated.
- Update in terms of current status of the project.
- Allocation of responsibilities.
- Logistical arrangements.
- Personal project objectives and development goals per individual team member.
- Certification of Independence.

Audit teams should minute the team briefing and a copy is to be placed on file.

Refer to **Appendix I** for a team-briefing template.

4.5.2 Team goal / objective setting

It is critical for each assignment to clearly document the individual team members' objectives, and as the audit progresses, to evaluate the achievement thereof. A project evaluation form must be completed for every staff member assigned to a project. The Manager should perform the evaluation per team member. A separate form should be completed for each project. The form must contain the following:

- The specific objectives/goals and training needs of each member as identified and agreed in writing during the planning phase of the project. The aforementioned must be linked to the member(s) annual goals/objectives as well as training needs identified and it must incorporate developmental areas identified during the previous audit project performed.
- An assessment of the member(s) performance against the goals / objectives, as identified and agreed to during the planning phase of the project, will be conducted as part of the debriefing process after the completion of a project.

The abovementioned objectives must also be clearly set out in the project management memorandum to be compiled during the planning phase of the project.

It is important to note that the team goals / objectives setting should be based on the specific competency requirements for the specific job level. For example, every team

member cannot have the planning of the audit as one of their objectives. The entry level staff can also not have an objective of “reviewing” the work or of supervision.

The setting of annual goals / objectives and training needs for each Internal Audit member should be done in terms of the PMDS. Developmental areas identified during the previous audit projects / years should also be considered during the goal setting process.

Refer to **Appendix J** for an example of the objective setting form.

A certificate of independence (**Appendix K**) should be completed by every team member and placed on the audit file.

4.5.3 Compilation and approval of audit programmes

Once the process is understood and the risks and controls embedded in the process have been identified where applicable, one is then able to identify certain objectives that management would typically strive to achieve in pursuit of a strong and effective control environment. An objective needs to be formulated for every sub-process / procedure to be performed in terms of the approved audit programmes. The focus of such objectives is normally stated in terms of the audit assertions, but would also be extended to other control categories such as safeguarding of assets, authorisation, adequate documentation etc.

Example: To determine if the controls implemented by management to ensure that cash receipts are recorded timely, accurately and completely were functioning effectively during the period under review.

A detailed audit programme should be compiled following the finalisation of the process analysis document and the identification of all perceived high-risk areas (where appropriate). The audit programmes should be fully aligned with the focus areas as per the approved scope.

Team members should complete the audit programme template in sufficient detail to allow the effective execution of audit tests.

The audit programmes should be prepared and signed by the manager on the project. The audit programmes should then be reviewed and approved by the Senior Manager.

It should be noted that the audit programmes should be approved prior to the commencement of the detailed fieldwork.

Refer to **Appendix L** for the Audit Programme Template

4.6 Identifying information, execution of audit programme and recording of fieldwork

The standard according to the IIA:

“Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives.”

“Internal auditors must document relevant information to support the conclusions and engagement results.”

“Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.”

4.6.1 Sample sizes

Recommended *minimum* sample sizes are as follows:

Control Frequency	Sample Size
Annual	1
Quarterly	2
Monthly	4
Weekly	12
Daily	15
Multiple times per day	30

If exceptions are identified while performing the testing, the sample size should be increased to gain added assurance of the results. Control weaknesses needs to be confirmed with management before sample sizes are extended. Extending of samples should be based on professional judgement and approved by the Manager in charge of the audit.

The samples should preferably contain the latest completed control. Other sample items can be selected using analytical review results as a guideline, i.e. month with the most receipts, lowest receipts, most likely human error, periods of potential concern (holiday periods like April and December, Fridays) and high leave periods. The rule of thumb is: “Always rely on auditor scepticism.” The detail as to how (size of population, size of sample, method of selection, etc) and from where (*name of report and format – electronic / paper*) the sample and period were selected should be indicated on the working paper.

4.6.2 Perform audit procedures and document findings

The approved audit procedures (as per the audit programmes) should be performed and findings sufficiently documented.

Refer to **Appendix M** for an example of the working papers.

4.6.3 General guidance on the recording of information/audit evidence

The following guidance regarding the recording of information / audit evidence is provided below:

- The objective and audit procedures should be copied directly from the audit programme. The working papers should describe in detail how the sample was selected for testing (name and date of report, etc).
- Please ensure that the conclusion is in line with the audit objective/test – a suggested format for the conclusion is reflected in **Appendix M** (working paper template).
- The source of audit evidence (from where audit evidence was obtained) should be clearly indicated in the working papers.

For example:

Per discussion with the Procurement Manager it was determined that

Per inspection of the Outstanding Orders report dated 22/2/2005.....

Per purchase order no. Not signed by procurement manager, dated

- If a smaller sample is tested than required in the audit programme, the reasons for this should be indicated on the working paper.
- Sample items selected should never be prompted by the management / focus area staff, unless they are specifically concerned about the specific transaction.
- When using tables the format in **Appendix M** is suggested due to its simplicity and effectiveness.
- In cases where it is determined that the controls are not operating effectively, the root cause and effect should be documented in the results and the possibility of compensating controls should be considered prior to reporting.
- Supporting documents should be filed behind the relevant working papers (objective schedule).
- One correct example of the supporting documentation tested (where no exceptions were noted), should be placed on file as well as all other supporting documentation, where exceptions were noted, should be filed as audit evidence.
- Referencing
 - The audit programmes should be referenced to the working paper (objective schedule). Working papers should be referenced to the supporting documents, draft management letter reporting points as well as back to the audit programme. The management reporting point should be referenced to the draft report as well as back to the relevant working paper (objective schedule or supporting document).
- Audit evidence – additional guidance

- A heading should be written on supporting documentation placed on file to indicate the nature of the exception. For example 'Purchase order not signed by Procurement manager'.
- When performing an audit step requiring additional enquiry, the factual correctness sheet (**Appendix N**) should be used to confirm the accuracy of the answer/explanation.
- Factual correctness sheets can also be used to assist in preventing situations where the client representative has been misunderstood or to obtain a signature when an explanation given appears to be incorrect.
- When performing an audit step that requires physical observation, the date and time of the observation should be noted. If possible the client representative should be asked to initial on the observation results as corroborative evidence.
- When performing a cash count, the cash should be counted by the client representative. (This information should be included in the working paper). The factual correctness sheet could be amended to reveal the totals and require the client representative's signature as well as the auditor's signature.
- When you have to provide evidence of a certain policy's existence, you may place only the front page and the page indicating details of approval and last update date.

If you need to place a certain extract of the policy, to prove a point or recommend an amendment, you should place the relevant page plus the first page and the page indicating details of approval and last update date. Clearly indicate 'Extract of *[Name of Policy]*' on the first page.

If however, you are required to provide evidence of completeness of a policy, you are required to place the entire policy on file.

- All working papers and supporting documents must be signed off by the preparer and the first reviewer.

4.7 Reporting of findings

The standard according to the IIA:

“Internal auditors must document relevant information to support the conclusions and engagement results”

4.7.1 Compile draft reporting items

All issues or concerns identified during the performance of the audit fieldwork should be included as draft reporting items.

Draft management reporting items should only be issued to the auditee/client after it has been reviewed and signed off by the seniors on the project through a mutually agreed process to ensure efficiency, effectiveness and timely completion of this activity. The aforementioned should be clearly defined in the approved planning management memorandum. Management comments can only be changed / corrected with the consent of management. Please ensure that the draft management reporting items are compiled during the normal course of the project. These management items should be discussed with the appropriate line management at the client after the draft management items have been reviewed and approved, as indicated above, on the job. This process should be done on a continuous basis and **not** at the end of the project.

Refer to **Appendix O** for the template of the draft management reporting item.

4.7.2 Discuss draft reporting items and issuing of final report

Draft reporting items should be discussed with line management in order to confirm the factual correctness thereof. Signoff should be obtained if possible. Should the responsible official not wish to sign the document, a note thereof should be made by the audit team. In instances where the auditee does not agree with the finding, proper documentation supporting their view should be obtained and reviewed.

The draft report must be reviewed and signed off by the seniors on the project before it is discussed/issued to the auditee (with or without management comments). The draft report should be issued to the auditee within two weeks after the completion of the field work and related quality assurance activities. The client is then given a maximum of **two weeks** to give their final response before the final report is issued.

The report should contain an executive summary that will be incorporated into the Corporate Report for the Audit Committee. The recommendations in the report will be evaluated to ensure that they are inline with the prevailing guidelines and standards.

The Chief Audit Executive will issue all final reports.

5 Communicating results and monitoring progress (2400 & 2500 Series)

The standard according to the IIA:

“Internal auditors must communicate the results of engagements”

“The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.”

5.1 Drafting and discussion of draft report and issue of final report

The draft report must be reviewed and signed off by the seniors on the project before it is discussed/issued to management (with or without management comments). The draft report should be issued to management within two weeks after the completion of the fieldwork and related quality assurance activities. Management is then given a maximum of two weeks to give their final response before the final report is issued.

The report should contain an executive summary that will be incorporated into the Corporate Report for the Audit Committee. The recommendations in the report will be evaluated to ensure that they are in line with the prevailing guidelines and standards.

The Chief Audit Executive will issue all final reports.

Refer to **Appendix P** for the template of the audit report. Note that it contains the minimum requirements and the respective audit teams are free to add to it should they so wish or circumstances so require.

5.2 Project close-out

5.2.1 Completion checklist

A completion checklist is a control document used to ensure that all necessary documentation and activities have been completed and placed on file (where relevant), as per the various phases of the methodology.

The completion checklist must be signed by the Assistant Manager throughout the project to ensure that the checklist is accurately completed. The checklist should also be signed by the Manger.

Refer to **Appendix S** for the template of the Completion Checklist.

5.2.2 Feedback from Management – Client Satisfaction Survey

Refer to **Appendix T** for the template of the Client Satisfaction Survey. Note that it contains the minimum requirements and the respective audit teams are free to add to it should they so wish or circumstances so require.

This document should be sent by the relevant Section Head involved with the project and the completed form has to be returned to the Chief Audit Executive after the draft report has been discussed (before the issuing of the final report).

A meeting should be scheduled with management (as and when requested) to discuss any negative feedback contained in the completed client satisfaction survey. The issues raised should be discussed at the team debriefing, even when management prefers not to be contacted.

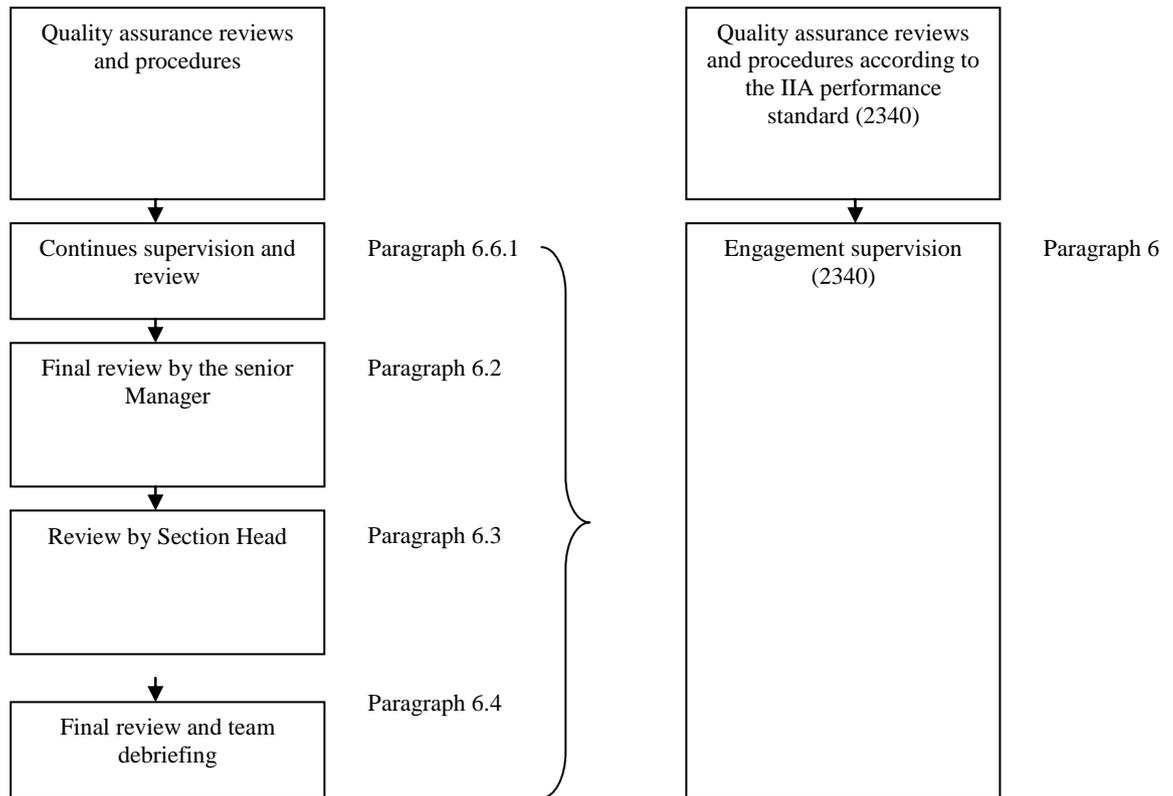
5.2.3 Project budget and time management

A summary should be placed on file that compares the actual time and costs to the approved budget.

Refer to **Appendix V** for a timesheet and budget working paper

6 Quality assurance reviews and procedures (2340 Series)

The following diagram details a high-level depiction of the process to be followed when conducting a quality assurance review:



6.1 Engagement Supervision

The standard according to the IIA:

“Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed”

6.1.1 Continuous supervision and review

In accordance with the requirements of the IIA standards, continuous supervision and review by the project seniors, should form part of the audit process and cannot be left until all fieldwork has been completed.

6.2 Review by the Audit Seniors and Senior Managers

6.2.1 Review by Audit Seniors / Assistant Managers

Audit seniors are responsible for the detailed reviewing of the working papers and files for each assignment they are responsible for. The reviewing process should be performed on a continuous basis throughout the project.

Review notes should be removed from the file after the final review has been satisfactory completed by the final reviewers. The review notes should only be removed from the file/s after the successful resolution of all the points raised by the reviewer/s.

6.2.2 Final review by Manager

The manager is responsible for a final review of the working papers and files for each assignment they are responsible for. The following review objectives should be achieved as a minimum confirmation that:

- All the detailed focus areas (as per the scope letter) and the detailed audit programmes, have been evaluated and reported on;
- The facts are presented and documented appropriately;
- The necessary supporting evidence is sufficient and relevant;
- The conclusions are properly documented;
- All potential reportable items in the body of the working papers have been included in the draft management reporting items. It should also be confirmed that the factual accuracy has been confirmed and management comments, action plans, due dates and responsible officials have been obtained for all draft reporting items;
- Referencing has been appropriately completed; and
- All review notes have been cleared and have been removed after the final review (by the senior manager).

6.3 Review by the Senior Manager

The Senior Manager is responsible for an overall quality review of the file and the report. The following review objectives should be achieved as a minimum confirmation that:

- The appropriate risk management processes have been followed and the file is complete;
- The work performed is sufficient to address the focus areas set out in the approved project scope letter;

- All risk areas, included in the detailed audit programmes, have been evaluated and reported on and management comments, action plans, due dates and responsible officials have been obtained for all reporting items; and
- Each reporting item is supported by appropriate audit evidence and the conclusions made regarding the reporting items are logical and appropriate.

6.4 Final review and team debriefing

The final report will be issued by the Chief Audit Executive after the successful conclusion of all quality review procedures.

A debriefing meeting should be held with the audit staff at the end of the assignment to identify those areas/issues that went well during the audit, as well as those that did not. Areas for improvement should be identified and 'implemented' for future engagements.

Refer to **Appendix Q** for the template to be used for the debriefing meeting.

6.5 Internal quality review

An internal quality review will be performed by the Internal Audit Function after the final report has been issued. A standard evaluation form should be used for the independent review and the results should be presented to the Audit Committee.

Refer to **Appendix R** for the template of the internal quality review.

6.6 Independent external quality assurance review

In terms of the IIA Standards an independent external quality assurance review should be performed once every five years by an independent third party, this will be coordinated by the Chief Audit Executive.

7 Ad-hoc documentation

The following additional documentation should also be used during the audit.

7.1 Project file index

The Project File Index is placed in the front of the audit working paper file and lists the various sections within the audit file.

Refer to **Appendix U** for an example of a Project File Index template.