



Positive Action for Development

Internal Audit Procedure

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1. Overview

- 1.1. The procedure provides guidance on how the internal audit function operates within the Positive Action for Development (PAD).

2. Rationale

- 2.1. This procedure is established to guide the internal audit activity within the Positive Action for Development (PAD), in accordance with *Standard 2040 - Policies and Procedures of the International Standards for the Professional Practice of Internal Auditing*.

3. Procedures

Annual Internal Audit Program

- 3.1. The Chief Internal Auditor, with the assistance from the Internal Audit section, must establish a risk-based Annual Internal Audit Program to determine the priorities of the internal audit activity, consistent with the organisation's strategic objectives.
- 3.2. In accordance with the Positive Action for Development (PAD) policy and procedures the following approach will be used to develop the plan:
 - Consultation with the Finance Head and Executive Director to identify areas of interest or concern;
 - Review of the organization Strategic Risk Register to identify areas of importance and risk to the organizations and/or where the potential for loss or failure is greatest;

- Review of the Organization's Strategic Plan to ensure the Internal Audit program aligns with the organization strategic directions and objectives;
- Mapping the organization's assurance coverage by reviewing internal and external audit activities over three years, to identify gaps in assurance coverage; and
- Review of the Program and Potential Audits and other relevant publications, to ensure that potential duplication and gaps in overall audit coverage are known, and to identify opportunities for the external auditor to rely on the work of internal audit.

Resourcing, Conflict of Interest and Confidentiality

- 3.3. The internal audit function is undertaken by internal auditors within the Internal Audit section as well as outsourced internal audit service providers.
- 3.4. Based on the audit scope, focus and objectives, the skill set necessary to complete the internal audit and the budget available for the audit, as necessary a suitable Internal Audit Service Provider is selected in accordance with the relevant procurement guidelines.
- 3.5. Prior to commencement, the outsourced internal audit service provider (outsourced service provider) is to agree a budgeted and price for the engagement.
- 3.6. Outsourced service providers are expected to be able to demonstrate their professional competence through relevant experiences and appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by the Institute of Internal Auditors and other appropriate professional organisations. The providers are responsible for the provision of suitably qualified audit staff and their

professional conduct. Before the commencement of the engagement, the providers must detail all staff undertaking the work and be approved by the Executive Director.

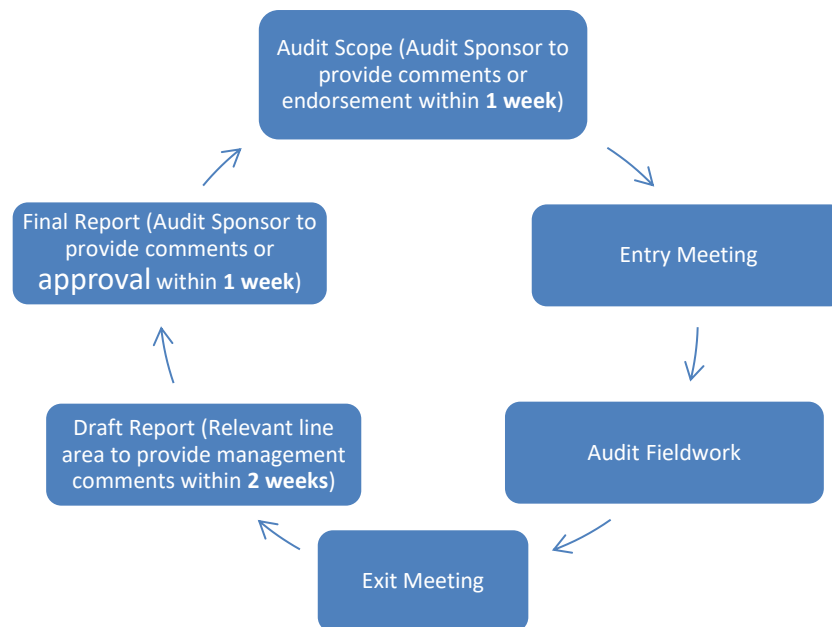
- 3.7. The outsourced service provider is to provide an undertaking at the commencement of the contractual period that no conflict of interest exists, or is likely to occur, in relation to the audit services to be provided. If at a later stage, audit staff from the outsourced service provider become aware of a situation in which a conflict of interest or bias is present or may reasonably be inferred, they must immediately advise the Executive Director., and apply mitigation strategies in consultation with the Executive Director..
- 3.8. The outsourced service provider is to provide a deed of confidentiality at the commencement of the contractual period that they are responsible and accountable for maintaining the confidentiality of the information they access during the course of their work
- 3.9. Internal auditors and outsourced service providers must suitably secure all records, documentation and information from access by unauthorised persons
- 3.10. Internal auditors and outsourced services providers must obtain the written approval of the Executive Director and where necessary the Directorate's legal counsel prior to releasing audit documentation to external parties.

An Internal Audit Process – Overview

3.11. An internal audit is conducted as follows:

- Planning the Internal Audit engagement including developing and agreeing upon the Audit Scope;

- Submitting the Audit Scope to the Audit Sponsor (i.e., usually the Executive Director responsible for the area to be audited) for approval prior to commencement of the engagement;
- Holding an entry meeting with key stakeholders;
- Conducting the field work including conducting risk assessment and control analysis, performing testing programs, evaluating evidence, and documenting and forming conclusions;
- Conducting an exit meeting with key stakeholders to discuss the preliminary findings of the engagement;
- Preparing a draft report for management comment;
- Submitting the report with management comments for approval, and
- Finalisation of the Internal Audit report



Audit Scope

3.12. In planning each engagement, the internal auditors and/or outsourced service providers will consider:

- the objectives of the activity being reviewed and the means by which the activity controls its performance and achievement of those objectives;
- the significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact and/or likelihood 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;
- whether the scope is relevant to the risks identified when developing the internal audit plan; and
- the opportunities for making significant improvements to the activity's risk management and control systems.

3.13. Audit will conduct a preliminary scoping by ascertaining and mapping business units' current practice, and determining if the process is compliant with policy, or if better practice in terms of controls than what is prescribed in legislation or policy.

3.14. For each internal audit engagement, the internal auditors and/or outsourced service providers will determine the risks to be included in the scope of the internal audit. The internal audit field work will be aimed at determining the presence and effectiveness of controls in place to mitigate these potential risks.

- Scoping/planning meeting: to determine the objectives and scope of each Internal Audit engagement, the internal auditors and/or outsourced service providers will conduct a planning meeting with the management of the areas being audited/reviewed.

- Audit criteria: the internal auditors and/or outsourced service providers should clarify the specific explicit and implicit criteria against which evidence collected will be evaluated. Criteria are explicit when they are clearly set out in policies, manuals, standard operating procedures, standards, laws and/or regulations.

3.15. The internal auditors and/or outsourced service providers will prepare an Audit Scope that will normally include the:

- Overview of the area to be audited/reviewed;
- Background on why the audit is taking place;
- Objectives of the audit;
- Scope of the audit i.e. the processes the audit will include and exclude;
- Audit standards that will be followed including the type of engagement;
- Audit methodology/approach to be taken;
- Key deliverables of the project;
- Professional standards that will be followed;
- Resources that will be used on the audit and the cost; and
- Timing for the commencement of field work, draft report for discussion and final report for tabling.

3.16. The draft Audit Scope is sent to Executive Director for approval approval. Upon receiving the draft Audit Scope, the Audit Sponsor is required to provide comments or approval within **one week**.

Entry Meeting

3.17. The purposes of the entry meeting are to:

- ensure all relevant staff of the audited area are aware that the audit is taking place and know who the auditors are;
- confirm the audit timetable; and
- signal the commencement of audit field work.

3.18. The entry meeting will be attended by the internal auditors and/or outsourced service providers and senior management from the area to be audited. It will be chaired by the Chief Internal Auditor.

Audit Fieldwork

3.19. As part of an audit, a risk assessment is conducted at the activity level to identify and evaluate risk exposures and determine audit objectives. It involves considering business process risks, quality of management and/or individual performance. The risks that threaten the objectives of each process to be audited should be identified and classified. The audit will concentrate on those processes which are assessed as moderate or higher risk.

3.20. All audits, regardless of their nature, involve providing assurance on the design and effectiveness of a system of internal control. After obtaining an understanding of the internal control system by way of interviews, documents and records, questionnaires, systems documentation, walk-throughs and/or performing some initial analytical procedures or data analysis, the internal auditors and/or outsourced service providers should make a preliminary assessment of the internal control system to determine whether identified controls are designed to meet the control objectives and mitigate risks.

3.21. To test the existence and/or effectiveness of controls in place to treat identified risks, the internal auditors and/or outsourced service providers will follow documented audit testing programs which involve reviewing and documenting current processes and conducting sample testing where appropriate.

3.22. The structure of the audit testing program should be made up of the following:

- Audit objective;
- Audit scope;
- Risk and control analysis;
- Audit criteria; and
- Previous audit recommendations – in cases where previous audits are relevant. The internal auditors and/or outsourced service providers will then verify that the matters have been addressed or are being addressed.

3.23. Internal Audit sampling will be conducted in line with sampling methodologies.

3.24. During the course of the audit field work, the internal auditors and/or outsourced service providers will communicate matters of significance with the Executive Director. and Audit Sponsor to minimise the possibility of "surprises" at the end of the audit. This may be done informally (e.g. emails, discussions) or via formal meetings.

3.25. Audit evidence refers to all the information used by the internal auditors and/or outsourced service providers in arriving at the findings and recommendations. It should be sufficient, competent, relevant and useful, and assists the Directorate to meet its goals. Evidence collected by the internal auditors and/or outsourced service providers will possess all of these qualities. Sample sizes

should be representative and sufficient to ensure that conclusions reached may be statistically valid deriving from the data.

- 3.26. Working papers document the audit work that was completed from the preliminary scoping stages through to the final report. Audit working papers show whether due professional care was exercised and illustrates compliance with professional auditing standards.
- 3.27. Field work and testing will be documented in the internal auditors and/or outsourced service providers' standard format for working papers.
- 3.28. The analysis and evaluation of evidence obtained should give rise to issues (positive or constructive), which the internal auditors and/or outsourced service providers may report to management. Conclusions should be specified, free from personal biases or prejudices, and be objective.
- 3.29. All working papers will be subject to a quality assurance and technical review by a more senior staff member of the internal auditors and/or outsourced service providers than the staff member who completed the working papers.
- 3.30. All internal audit documentation is to remain the property of, and to be able to be accessed by the Directorate, including where the internal audit services are performed by an outsourced service provider.
- 3.31. Audit documentation must be retained in accordance with Territory Records Act 2002, including the audit documentation retained by outsourced service providers.

Exit Meeting

3.32. An Exit Meeting will be held to discuss the findings from the audit field work to confirm facts or clarify information.

3.33. The Exit Meeting will be attended by the Chief Internal Auditor, internal auditors and/or outsourced service providers and senior management from the audited area.

Draft Internal Audit Report

3.34. Subsequent to the Exit Meeting a formal draft internal audit report (marked "draft") will be issued to the senior management of the area being audited, for management comments.

3.35. The draft report will specifically:

- include an Executive Summary which will describe the objective, scope, background, key controls and positive observations and key findings/opportunities for improvement;
- state the objective(s), scope, methodology and conclusion of the audit;
- detail any risks identified that were not effectively treated and suggestions for improvement;
- prioritise the risks identified through the use of the Directorate's Risk Matrix;
- propose recommendations to further treat the identified risks; and
- seek management's comments in response to the recommendations and implementation timeframes.

- 3.36. Audit recommendations made in the draft report should be based on the issues raised in the findings, implementable within a foreseeable period, practicable taking into account the size of the risk, and do not significantly impact on budget.
- 3.37. It should be noted that scoping focuses the assignment but does not limit reporting of findings outside the scope especially where it impacts on organisational objectives and/or outcomes and/or poses a high risk to the Directorate. Once Internal Audit is aware of an issue of material concern there is a professional obligation to report on the issue even if it is outside the confines of the original scope of the audit.
- 3.38. If issues are identified with the operation of external controls, relevant directorates or agencies need to be informed when issues with their legislation, policy and/or procedures adversely impacts on what is happening within the Directorate.
- 3.39. Upon receipt of the draft internal audit report, the management of the area being audited is required to provide management comments within **two weeks**.
- 3.40. All management responses which appear in the audit reports must fall within three categories: Agreed, Disagreed or Partially Agreed.
- 3.41. The response should then concisely detail the action management intends to take in response to the recommendation, stating who will take the action and when it will be completed. If the recommendation is wholly or partially disagreed the response must have a reason. When considering the date by which the

action will be completed, management should weigh the risk against the resources available for action, to arrive at a realistic date for completion.

Final Internal Audit Report

3.42. Following the completion of management responses, the internal audit report with management comments will be submitted to the Audit Sponsor for approval. Upon receipt of the report, the Audit Sponsor is required to provide comments or approval within one week.

3.43. Once the report is approved by the Audit Sponsor, it can then be distributed to the Education Governance Committee for information, and to the next Audit Committee meeting for endorsement. The internal auditors/outsourced service providers, Chief Internal Auditor, and Senior Management of the area audited attend the Audit Committee meeting to answer any questions that the Audit Committee may have.

Monitoring and Reporting

3.44. The Chief Internal Auditor tracks progress towards implementing agreed actions to internal audit recommendations quarterly to ensure that they are being implemented within the agreed timeframes.

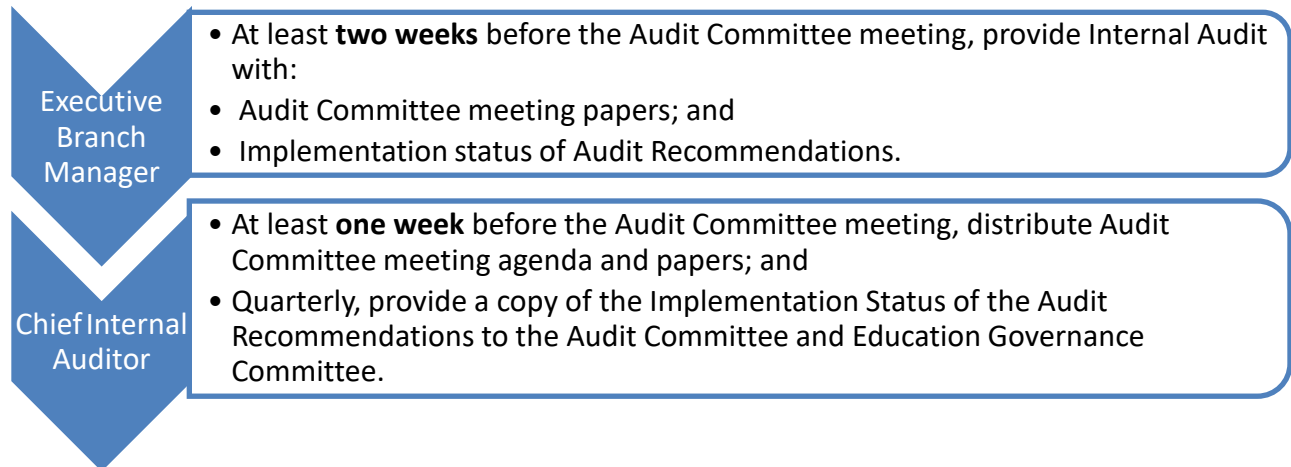
3.45. The Chief Internal Auditor maintains an Audit Recommendations Register which records recommendations, action items, responsible officers, expected completion dates and implementation status for each audit.

3.46. The implementation status of existing audit recommendations will be updated at least on a quarterly basis for reporting to the Audit Committee and the Education Governance Committee. The Chief Internal Auditor makes recommendations to the Audit Committee on internal and external audit recommendations to assist the Committee with monitoring progress or accepting the closure of recommendations, as required. It should be noted that all recommendations emanating from the Auditor General's financial and computer information system audit management reports are subject to verification by the Audit Office as part of the annual review process.

3.47. Audit Committee reporting occurs on a quarterly basis and includes:

- current progress through the Annual Internal Audit Plan, identifying progress made;
- internal audit reports with management comments;
- implementation status of audit recommendations and recommended actions from the Chief Internal Auditor; and
- any other standing agenda items.

3.48. The Chief Internal Auditor is required to distribute Audit Committee meeting agenda and papers at least **one week** before the meeting. The Executive Branch Managers of the relevant areas within the Directorate are required to submit Audit Committee meeting papers (cleared by the Executive Group Managers or Deputy Director-General) to the Chief Internal Auditor at least **two weeks** before the meeting.



3.49. This procedure will be reviewed on an ongoing basis with a formal review conducted at least once every three years. Any substantive changes will be formally approved by the Director-General and endorsed by the Audit Committee.

4. Contact

4.1 The Finance and Admin Head is responsible for this procedure.

5. Definitions

- **Conflict of Interest:** any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.
- **Control:** any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

- **Independence:** the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
- **Internal Audit:** an independent, objective assurance 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.
- **Risk:** the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.