

TANZANIA SOCIAL ACTION FUND

INTERNAL AUDIT MANUAL



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LIST OF ABBREVIATIONS

AIAG	Assistant Internal Auditor General
AM	Accounts Manager
AIC	Audit In Charge
APP	Annual Procurement Plan
AR	Audit Risk
ASP	Adaptive Social Protection
BEI	Basic Economic Inclusion
CAATs	Computer-Assisted Audit Techniques
CAF	Current Audit File
CAG	Controller and Auditor General
CCT	Condition Cash Transfers
CEO	Chief Executive Officer
COSO	Committee for Sponsoring Organizations
CR	Control Risk
CS-PW	Climate Smart - Public Works
DCS	Director of Community Support
DFA	Director of Finance and Administration
DIA	Director of Internal Audit
DR	Detection Risk
ED	Executive Director
EEI	Enhanced Economic Inclusion
ERM	Enterprise Risk Management
ESG	Economic Social and Governance
GRN	Goods Received Note
HR	Human Resources
HRM	Human Resource Management
IA	Internal Auditor
IAF	Internal Audit Function
IAG	Internal Auditor General
IAM	Internal Audit Manager
IFMS	Integrated Financial Management System
IFRS S1	International Financial Reporting Standards - S1

IFRS S2	International Financial Reporting Standards - S2
IIA	The Institute of Internal Auditors
IPPF	International Professional Practices Framework
IPSAS	International Public Sector Accounting Standards
IR	Inherent Risk
ISO	International Standard Organization
ISSA5000	International Standards on Sustainability Assurance
IT	Information Technology
IS	Information System
KPIs	Key Performance Indicators
LE	Livelihood Enhancement
LGA	Local Government Authority
LPO	Local Purchase Order
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
NBAA	National Board of Accountants and Auditors
PA	Performance Attribute
PAA	Project Area Authority
PAF	Permanent Audit File
PBCs	Performance-Based Conditions
PCs	Personal Computers
PCT	Productive Cash Transfer
PEs	Procuring Entity
PFA	Public Finance Act
PFR	Public Finance Regulations
PMU	Procurement Management Unit
PO-PSM	President's Office-Public Service Management
PPA	Public Procurement Act
PPRA	Public Procurement Regulatory Authority
PS	Permanent Secretary
PSSN	Productive Social Safety Net
PSSN MIS	Productive Social Safety Net Management Information System
PW	Public Works

RSs	Regional Secretariats
RMF	Risk Management Framework
SDG's	Sustainable Development Goals
SOFR	Summaries of audit findings and recommendations
TNA	Training Needs Assessment
ToR	Terms of Reference
TRA	Tanzania Revenue Authority
URBIS	Unified Register of Beneficiaries Information System
VAT	Value Added Tax
VFM	Value for Money
W/Ps	Working paper (s)

PART I

THE PROJECT, CONTEXT AND MANDATE OF INTERNAL AUDIT, PROFESSIONAL STANDARDS, AND TYPES OF AUDIT IN TASAF

CHAPTER 1 : THE PROJECT

1.1 INTRODUCTION

The Productive Social Safety Net (PSSN III) is a follow-up project following the successful implementation of PSSN II. PSSN contributes to the achievement of the overall objective of the Government of Tanzania (GoT) of reducing poverty and improving quality of life of the poorest and the most vulnerable population, as reflected in the National Five-Year Development Plan (FYDP).

Since 2020, the Government has been implementing the second phase of the Productive Social Safety Net (PSSN II). The objective of PSSN II was to improve access to income-earning opportunities and socio-economic services for targeted households while enhancing and protecting the human capital of their children.

Previous PSSN phases have laid a strong foundation by enhancing institutional capacity and integrated delivery systems. Key achievements of the PSSN II have included the consistent, timely payment of CTs and strong targeting performance. The PSSN has also been very successful at reaching the poorest of the poor in Tanzania. A review of program MIS data demonstrates the structural vulnerability of beneficiary households in terms of their limited labour capacity and high dependency ratios. Most are either severely or moderately labour-constrained.

1.2 PROJECT BACKGROUND

The United Republic of Tanzania's (URT) economy has experienced steady growth since achieving Lower Middle-Income Country (LMIC) status in July 2020. It has maintained an average economic growth rate of 6.1 percent since 2000, primarily driven by increased domestic demand and a recovery in exports. There have been significant strides in the provision of social services, particularly education and health. Healthcare utilization and outcomes have improved, and life expectancy rose from 61 years in 2010 to 67 years in 2021.

However, Poverty incidence remains stubbornly high, with about 8 percent of the population living in extreme poverty (Tanzania Poverty Assessment Mainland, 2020). The impact of economic growth on poverty reduction has weakened due to limited employment opportunities in growth industries and high demographic growth. In 2022, the population was estimated at 61.7 million, with an annual growth rate of

3 percent. Between 2012 and 2018, Tanzania added approximately 1.3 million poor individuals, offsetting gains in poverty reduction and placing enormous pressure on the state to deliver essential services such as healthcare, education, and infrastructure.

Vulnerability affects a large portion of Tanzania's population, leading to high mobility in and out of poverty. Many just above the poverty line risk falling back due to covariate or idiosyncratic shocks. Vulnerability is expected to increase with population growth, environmental degradation, and climate change.

Insufficient investment in human capital, combined with rapid population growth, hinders URT's development prospects. The country has a young population, with 43 percent under the age of 15 and a median age of 18 years. The increasing number of school-age children poses a challenge to achieving the demographic dividend, since current levels of investment in education and health services are insufficient to meet today's demand.

Notable gender gaps exist in terms of economic opportunities and education. While there is near gender parity at primary and lower secondary levels, a significant gap exists at the upper secondary level on the Mainland, driven by early marriage and childbirth, and financial constraints.

Structural transformation of the economy has been minimal, with low job creation relative to economic growth. Unemployment and underemployment are prevalent, particularly in rural areas with seasonal labour demand. Self-employment is widespread at 45.5 percent of the workforce, and unpaid family work is common, especially among women. These factors restrict economic opportunities, particularly for women and youth engaged in informal, low-paying jobs, which account for 48 percent of informal nonfarm activities.

In recent years, Tanzania has faced increasing exposure to shocks such as droughts, floods, and the pandemic, which have strained the economy, exacerbated poverty, and highlighted the need for improved response mechanisms. The pandemic severely impacted key sectors, leading to declines in GDP growth, job losses, reduced incomes, and pressure on public health systems, pushing over 600,000 people close to or below the poverty line.

Estimates suggest that an average of 4.8 million people are directly impacted by drought annually; floods on average affected around 45,000 people yearly between 1979 and 2018. The lack of comprehensive data and adaptive systems hampers effective response to these shocks, leaving vulnerable populations without timely support. Climate change further challenges poverty reduction efforts, nutrition, and food security, with agriculture being heavily impacted by extreme weather events.

1.3 PROJECT OBJECTIVE:

Project Development Objective of PSSN III is to enhance income-generating opportunities of PSSN beneficiaries and build adaptive social protection delivery systems.

1.4 PROJECT COMPONENTS

The Government expects to achieve the PDO by implementing the following components:

1.4.1. Promoting resilience and economic inclusion through Adaptive Safety Net

This component will include two sub-components offering different forms of support tailored to the economic and vulnerability profiles of selected poor and vulnerable households. The first is a productive cash transfer program that will combine cash and economic inclusion activities as the core program reaching the largest number of households. The second is a climate-smart, labour-intensive public works program. This will result in two distinct “arms” of the program to allow beneficiaries to access safety nets in a more simplified and cost-effective way

1.4.2. Building an adaptive social protection system

The evolution of social protection delivery systems under PSSN is a necessary precursor to more adaptive and responsive social protection programming that can be leveraged as a tool for shock response. This will strengthen PSSN delivery systems to make them more flexible, dynamic, and digitized, thus improving implementation efficiency. It will also support institutional and technical support for the implementation of ASP programs.

Activities under Component 2 will be organized into two sub-components: (a) modernizing social protection delivery systems; and (b) provision of institutional and technical support for the implementation of adaptive social protection.

1.4.3. Project Management

This component will support implementation and management of the project, including financing costs related to staffing, logistics, coordination, M&E, supervision, financial management, procurement, implementation of safeguards activities, among other necessary expenditures. Regular project coordination meetings and other management and coordination activities will also be supported under this component, to maintain project effectiveness. Regular institutional communications and stakeholder engagement, as well as annual external audits, are also included in this component. Finally, this component includes PBC 2, which is linked to TASAF’s institutionalization and sustainability of social protection services.

1.5 COVERAGE

The PSSN III Project operates in almost all regions across Tanzania Mainland and Zanzibar, covering 100 Project Area Authorities. The PSSN III targets the poorest and most vulnerable households in villages, mitaa and shehia, benefiting around 575,000 extreme poor and vulnerable households from 100 PAAs. The project supports PCT combined with BEI activities to around 500,000 BHHs, targeting female household members as direct beneficiaries where possible. Of these, 100,000 BHHs, including 10,000 youth as direct beneficiaries, will also participate in EEI activities. The project also provides CS-PW to around 75,000 additional households that are not PCT BHHs but rather those that have been targeted and stored in the Unified Registry of Beneficiaries (URB). Former beneficiaries from PSSN I and II may also participate in CS-PW.

CHAPTER 2 : CONTEXT AND MANDATE OF INTERNAL AUDIT

2.1 CONTEXT OF INTERNAL AUDIT

Definition of Internal Audit

The IIA has defined internal auditing as:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’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” (IPPF, 2011 – updated for 2012).

Benefits of Effective Internal Audit Activity

It is expected that an effective internal audit activity will lead to the following benefits:

- i) Provide greater assurance to Accounting Officers, Management and the Audit Committee that systems of internal control are effective, efficient and economical and that its operations are performed properly;
- ii) Enhance the quality of management processes;
- iii) Improve the quality of management’s understanding of internal controls and risk management and assist management in clear identification of risks across the total spectrum of the organisation;
- iv) Strengthen the financial management discipline, control environments, and operational controls within TASAF;
- v) Improve organizational performance by taking timely corrective actions based on evaluations and recommendations;
- vi) Ensure more efficient and economical application of resources (e.g. through the identification of surplus or under-utilized assets);
- vii) Enhance fraud detection, investigation, and prevention, thus minimizing risk and error;
- viii) Improve communication by sharing examples of effective controls used between Directorates, Departments, and Units;
- ix) Strengthen the control-conscious culture by providing feedback on the quality of operations and control as well as recommending improvements where necessary;
- x) Produce actual savings where, if control breakdowns are identified, recoveries are made or redundant operations/processes are eliminated; and
- xi) Improve compliance with good governance requirements, such as ethics, standards and performance.
- xii) Provide assurance to Management on sustainability reporting,

2.2 MANDATE OF INTERNAL AUDIT

Mandates of Internal Audit Functions at TASAF

The following provision mandates the internal audit at TASAF;

Section 28 of the Public Finance Act (2001) requires every Accounting Officer to establish an effective Internal Audit Unit throughout the Ministry, Department, or Agency or other reporting unit, as the case may be. TASAF is an agency of the Government, hence the need to have an Internal Audit Service.

Section 9.2.1 of the PSSN II Operational Manual provides for the functions of Internal Audit to include assisting management in ascertaining that the system of controls is operating as intended and assessing the risks of operations and ways of managing these risks.

Other Authorities Pertinent to TASAF's Internal Audit Function

TASAF receives funds from the Government of the United Republic of Tanzania, the World Bank, and other Development Partners (DPs). All these entities are interested in ensuring that the funds allocated to TASAF are managed properly and efficiently. The internal audit service demonstrates good governance of resources in the interest of all parties contributing to the program.

Decisions reached and agreed upon during periodic Joint Implementation Review Missions form precedents in the Project's Financial Management, and therefore, they equally affect TASAF Internal Audit functions.

2.3 INTERNAL AUDIT CHARTER

The purpose, authority, and responsibility of the internal audit activity are defined in the Internal Audit Charter. TASAF Internal audit unit has its own charter.

An internal audit charter is a document that formally outlines the internal audit's role, authority and responsibilities. The charter is developed by the Directorate of Internal Audit in consultation with stakeholders, particularly TASAF Management and the Audit Committee.

The charter is consistent with the Audit Committee's responsibilities for overseeing the internal audit function as outlined in the Audit Committee charter. The charter is approved by the National Steering Committee (NSC) with the advice of the Audit Committee.

The charter is reviewed at least annually to have confidence that the role of internal audit continues to meet the needs of the organization.

2.4 ORGANISATIONAL ROLES, RESPONSIBILITIES, AND REPORTING STRUCTURES

National Steering Committee (NSC)

The National Steering Committee (NSC) is the overall governing board of TASAF. The NSC has the mandate to form sub-committees, which will be vested with the power to carry specific responsibilities on behalf of the Board. Among the committees that are statutorily required to be formed is the Audit Committee.

The NSC's Audit Committee

This is a statutory sub-committee of the NSC and is formed in accordance with the Public Finance Regulations, 2001, which provide for forming an audit committee in different areas of operations. The audit committee is responsible for;

- i) Approval of the internal Audit annual and strategic plans of TASAF;
- ii) Review all internal and external audit reports involving matters of concern to Management;
- iii) Provide advice to the Executive Director on actions to be taken on matters of concern raised in a report of internal auditor or in a report of the Controller and Auditor General;
- iv) As far as practicable, coordinate audit programs conducted by internal auditors and the programs conducted by the Controller and Auditor-General;
- v) Provide advice to the Executive Director on the preparation and review of financial statements of TASAF; and
- vi) Prepare quarterly and annual reports on its functions, copies of which shall be sent to National Steering Committee (NSC), the Accountant General and the Controller and Auditor General.

Members of the Audit Committee

As per Public Finance Regulations, 2001 section 31 (1) Audit Committee shall be composed of senior members of the Ministry, Agency, Department or Region as the case may be, nominated by the respective Accounting officer and at least one member appointed by the Permanent Secretary from external sources.

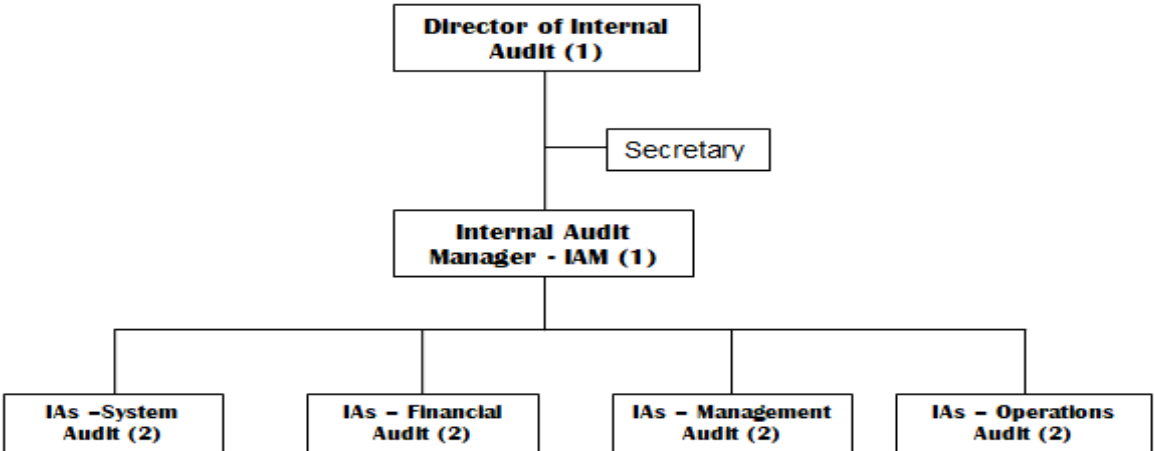
The total membership on an Audit Committee shall not be more than five nor less than three, and at least one of the members shall have experience of accounting and auditing.

In the case of TASAF, the National Steering Committee (NSC) by virtual of its powers, can form an audit committee of the NSC. The existing committee comprise of five (5) members drawn from among the members of the NSC as required by the Public Finance Regulations, 2001 section 31 (1) .

Organization Structure of TASAF Directorate of Internal Audit

The Directorate of Internal Audit is under the overall charge of the Director of Internal Audit who is responsible directly to the Executive Director administratively and functionally to the Audit committee of NSC.

Figure 1: Structure of the Directorate of Internal Audit



IAs – Internal Auditors

The Internal Audit Directorate conducts audits of departments/units/sections of the organization and PAAs, Communities to where TASAF touches as per approved audit plan, the Executive Director and NSC directives.

CHAPTER 3 : PROFESSIONAL AND ETHICAL STANDARDS

3.1 PROFESSIONAL STANDARDS ON INTERNAL AUDITING

Objective of Internal Audit at TASAF

The overall objective of internal auditing at TASAF is to assist Management in effectively discharging its responsibilities by providing independent analysis, appraisals, recommendations, and pertinent comments on the activities reviewed. Internal Auditors are concerned with any phase of business activity where they can be of service to Management. This involves going beyond the accounting and financial records to obtain a full understanding of the operations under review. The attainment of this overall objective involves such activities as:

- i) Reviewing and appraising the soundness, adequacy, and application of accounting, financial, and other operating controls and promoting effective controls at reasonable cost;
- ii) Ascertaining the extent of compliance with established policies, international standards on sustainability assurance, plans and procedures;
- iii) Ascertaining the extent to which project assets are accounted for and safeguarded from losses of all kind;
- iv) Ascertaining the reliability of Management data developed within the entity;
- v) Appraising the quality of performance in carrying out assigned responsibilities
- vi) Review of the implementation of governance issues in the organization include corporate policies, plans, and procedures; and
- vii) Conducting special investigations and recommending operating improvements.

Scope of Internal Audit Work

The Institute of Internal Auditors (IIA) directs that sufficiently comprehensive internal audit work should be carried out, to enable effective and regular review of systems of internal control, information systems, governance process, operational, financial, accounting, and administrative, computing performance in carrying out assigned responsibilities.

It further defines **the internal control** as follows;

- A management tool, used to provide reasonable assurance that management objectives are being achieved; or
- Any action taken by management and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved.

Adoption of Common Standards

To comply with the best practices and adoption of common standards, the Directorate of Internal Audit uses the professional standards of internal auditing adapted by the NBAA, which is the professional body in Tanzania.

Adoption of the IPPF

The TASAF Internal Audit functions also adhere to the International Professional Practice Framework (IPPF) to provide guidance to internal auditors about the essential attributes that they must observe. These essential attributes are;

- i) **Independence:** The internal auditor should have the independence in terms of organizational status and personal objectivity that permits the proper performance of her/his duties.
- ii) **Staffing and training:** The TASAF internal audit unit is appropriately staffed in terms of numbers, qualifications and experience, having regard to its responsibilities and objectives. The internal auditors are properly trained to fulfill all their responsibilities.
- iii) **Relationships:** TASAF internal Auditors are supposed to seek and foster constructive working relationships and mutual understanding with management, external auditors, and any other review agencies, and with the Members of audit committee.
- iv) **Due care:** The internal auditors supposed to exercise due care in fulfilling their responsibilities. They should not be expected to give total assurance that weaknesses or irregularities do not exist. In order to demonstrate that due care has been exercised, the internal auditor should be able to show that her/his work has been performed in such a way which is consistent with guideline.
- v) **Evaluation of internal control system:** The internal auditors are supposed to identify and evaluate the Auditee's internal control system as the basis for reporting upon its adequacy and effectiveness.
- vi) **Planning, controlling and recording:** The internal auditor should adequately plan, control and record her/his work.
- vii) **Evidence:** The internal auditor should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.
- viii) **Reporting and follow up:** The internal auditor should ensure that findings, conclusions and recommendations arising from each internal audit assignment are communicated promptly to the appropriate level of management and she/he should actively seek a response. She/he should

ensure that arrangements are made to follow up audit recommendations and to monitor on what action has been taken on them.

Independence and Due Care

The principle elements of independence of internal auditor to operate effectively include:

- i) Internal Auditors should have direct access to all departments in the organizations;
- ii) Internal Auditors should be independent of personnel directly responsible for the operations under review;
- iii) Internal Auditors should be completely independent of all financial systems operating within the organization. Thus should not involve in routine departmental procedures will inevitably impair the work of the internal audit department;
- iv) The internal auditor should have the right of reporting without editing by management, under her/his own name;
- v) The internal auditor should have the right of reporting on all aspects of operations which are subject for audit;
- vi) The Internal auditor should have full access to all records and assets of the organization which are subject for audit;
- vii) Internal Audit Department should be informed and consulted about any proposed changes in the systems of internal control and may make recommendations on the standard controls applied in the development of the systems and procedures under review;
- viii) Internal Auditors should not be directly responsible for the development or implementation of new systems, or engage in any other activity which they normally review and appraise since this could compromise their independence; and
- ix) If the Internal Auditor cannot, for any reason, produce unbiased judgments, opinions, and recommendations, then she/he should declare her /his position prominently in the audit report.

Circumstances Which May Impair Auditor's Independence

- i) Professional or personal relationships, the nature which might cause the auditor to limit the extent or character of her/his audit;
- ii) Previous involvement in a decision – making or management capacity in the operations under audit;

- iii) Any pecuniary interest, direct or indirect, in the organization or activity which is subject to audit;
- iv) Any internal/ external influences which seek to restrict or modify the scope or conduct of the audit; and
- v) Any means employed to overrule or significantly influence the auditor's judgment as to the content of the audit report.

The internal auditor is required to perform her/his duties with reasonable skill, care and caution (due professional care).

In order to demonstrate that she/he has exercised due professional care, the auditor must be able to show that in her/his work, has reached an acceptable level of performance as illustrated by these statements. This requires her/ him to ensure in particular that:

- i) Audits are properly planned;
- ii) Audits are supervised and performed by auditors of appropriate experience;
- iii) Relevant tests are devised and properly applied in sufficient depth; and
- iv) Conclusions are soundly based on relevant and properly documented facts.

The quality of an audit depends to a large extent on the exercise of proper judgment by an auditor in planning the audit work and choosing audit tests. She/he must;

- i) Have a satisfactory understanding of relevant laws, recommendations made by professional accountancy bodies and internal financial regulations;
- ii) Know the aims of area under audit, the way in which it is structured, its system of internal control, and what management information is provided; and
- iii) Be particularly aware of unit costs and other measures produced both internally and externally which would enable him to form a view as to the level of performance in the organization.

In addition to the normal day to day supervision of internal audit work, formal reviews of performance, carried out by the head of internal audit will promote a high level of achievement. Maintenance of the standards of due professional care in the internal audit department is the responsibility of the head of the Directorate of internal Audit.

3.2 ETHICAL STANDARDS

Ethical Standards for TASAF Audit Staff

Ethical standards for the internal audit staff in TASAF are drawn from three complimentary perspectives:

- i) Code of Ethics as provided in the International Professional Practices Framework (IPPF) of the IIA which include principles and rules of conduct. The rules of conduct help to interpret the principles into practical applications and thus guide the ethical conduct of internal auditors;
- ii) Code of Conduct and Ethics as will be issued by the Internal Auditor General's Division; and
- iii) Code of Conduct (i.e. standing orders, circulars) issued by the President's Office- Public Service Management (PO-PSM).

IIA'S Code of ethics

The adoption of the IPPF in Tanzanian practice of internal auditing automatically requires all internal auditors to conform to the IIA's Code of Ethics. Generally, internal auditors are expected to apply and uphold the following principles:

- i) **Integrity**- the integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment;
- ii) **Objectivity**- Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Also, internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments;
- iii) **Confidentiality**- Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so;
- iv) **Competency**- Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services; and
- v) **Due Professional care** - also, the IIA standards require internal auditors to exercise Due Professional Care in carrying out their internal audit activities. *“Internal auditors must apply the care and skill expected of a reasonably prudent and competent person. Due professional care does not imply infallibility”* (IIA Standard 1220).

Declaration of conflict of interest by Internal Auditors

Conflict of interest includes any interest whether personal, financial, political or otherwise, in which the internal auditor, during the course of his/her assigned audit tasks, may not be able to maintain an appropriate level of objectivity and independence in completing the audit; and

As explained later, before starting an audit, internal auditors must complete and sign a Declaration of Independence Form.

CHAPTER 4 : MAJOR TYPES OF AUDIT IN TASAF

4.1 SCOPE & FUNCTIONS OF INTERNAL AUDIT IN TASAF

4.1.1 Introduction

The Internal Audit is concerned with all lines of business activity which can be the basis of service to Management. TASAF being an organization vested with responsibility of implementing the Social Fund, it entails for having in place a robust internal audit services. Internal Audit can focus on the factors responsible for loss, failure or inefficiency so that they are rectified immediately, if possible, or measures can be taken to avoid their recurrence in future.

4.1.2 Scope of internal audit in TASAF

The scope of work of the Directorate of Internal Audit must be appropriate so that it can determine whether the Project's network of risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

- i). Risks are appropriately identified and managed;
- ii). Interaction with the various governance groups occurs as needed;
- iii). Significant financial, managerial and operating information is accurate, reliable and timely;
- iv). Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- v). Resources are acquired economically, used efficiently and adequately protected;
- vi). Programs, plans and objectives are achieved;
- vii). Quality and continuous improvements are fostered in the Project's control process;
- viii). Significant legislative or regulatory issues impacting the Project are recognized and addressed appropriately; and
- ix). Information Technology is adequate, reliable and secure.

The extent and frequency of audits will depend upon varying circumstances such as results of previous audits, relative risk associated with activities, materiality, the adequacy of the system of internal control and resources available to Internal Audit.

4.1.3 Types of Audits in TASAF

The main Internal Audit functions, inter alia, are broadly classified as under:-

- i) Systems Audit;
- ii) Operational Audit including Efficiency Audit;

- iii) Management Audit;
- iv) Financial audit;
- v) Special audits to PAA/communities; and
- vi) Sustainability Assurance Audit
- vii) External Audits.

Systems Audit

Systems Audit is about ensuring that the rules and procedures as laid down by TASAF from time to time are properly understood, correctly interpreted and complied with by the concerned personnel of the organization. It involves verification as to whether each Directorate/departments/units is maintaining proper records and having a reasonable system of recording all activities which are performed by them. Improvements over the existing procedures need also be suggested, whenever necessary. When a change in the system is felt, only general recommendations should be indicated leaving the detailed system to the concerned Directorate/departments or units.

Operational Audit including Efficiency Audit

The functions of operational audit are to ensure that Management controls are functioning effectively and efficiently in all the business activities of the organizations and all the operations are in tune with its objectives. This audit includes review of organizational structure, operation processes, delivery planning and scheduling, adherence to prescribed technicalities in purchasing and other functions as apply to public entities to bring about overall efficiency.

Audit examines that the broad and accepted principles of accounting and practice have been consistently followed and any deviation from them is properly authorized and disclosed in the relevant statements. It sees that all transactions carried out are authorized and substantiated by proper documents.

Management Audit

It is basically an audit of Management's policies and the Directorate/departments/units' adherence to the same. It measures management's performance efficiency, cost effectiveness and efficient utilization of resources. It is also applied in inventory controls, effective planning and decision making, optimum utilization of capacity and costs reduction and control.

Financial Audit

It is the audit of balance sheet and vouching. It entails verifications of the values of assets, liabilities, the balances of reserves and provisions, and the amount of gain earned or loss incurred by the organization during a particular year as well as

disclosures of sustainability related financial information. It starts with examinations of the balance sheet items and verifies each item shown in the financial statements. The vouching audit involves checking of each and every transaction right from the original books of prime entry to the final accounts. The vouching audit entail for a lot of work as a result in the organizations with many transactions vouching is done on sample basis. The great effort placed on the areas of high risk.

Special Audit

It is an audit which involves an inquiry into accounts of the organization for a special purpose. This involves inquiry into facts behind the books and accounts into technical, financial, and economic position of the organization. It is being carried out where there is suspect of any fraud or malpractice. The special audit has no specific period of coverage it may cover a period of more than one year or less depending to the terms of reference given to the auditors.

Sustainability Assurance Audit

It is an audit that provide reasonable and independent verification of sustainability data, internal controls, and ESG disclosures to ensure alignment with national and global reporting standards. By aligning with NBAA TP No. 1 of 2024, compliance to IFRS S1/S2, and ISSA 5000, TASAF guarantees that its sustainability and ESG disclosures meet the highest international assurance standards, thereby reinforcing its reputation as a trusted, accountable, and data-driven public institution leading sustainable development in Tanzania.

The Assurance is a critical component of TASAF's sustainability governance and reporting framework. It ensures that all ESG disclosures are accurate, reliable, and independently verified, thereby enhancing the credibility of TASAF's Sustainability and ESG Report. Through robust internal audit assurance processes, TASAF will demonstrates its commitment to transparency, accountability, and continuous improvement in sustainability performance and disclosure practices.

External Audits

Since TASAF is a Government Agency, then it's a legal requirement enshrined in the Constitution of the country to be audited by the office of the Controller and Auditor General. The development Partners may engage independent auditors to conduct review of specific programmes they support if need arise. The external audit will also provide External assurance through independent verification of TASAF's sustainability disclosures and enhances global comparability and trust.

4.2 THE AUDIT APPROACH

The Directorate of Internal Audit shall study thoroughly the systems and procedures followed by TASAF's Directorates/departments/units and their nature of work before

commencing the audit to ensure the audit is conducted effectively and efficiently. The extent and type of checks to be applied in audit depend largely upon the nature of operations carried out, study of the systems and operations. The existing checks/controls need also to be studied for the purpose and it should be ensured that they are adequate enough to bring to light any errors and frauds automatically in the normal course of carrying out operations in different Directorates/departments/units. In addition, the Director of Internal Audit will keep proper records of all the decisions of the NSC, TMU and all relevant Government Directives.

4.3 ACCESS TO THE INFORMATION

For discharging the above functions, directorate of internal audit shall have full and free access to all Directorates/departments/units records including those considered confidential and copies of minutes of NSC Meetings, Management Committee Meetings, Management Circulars, Management Decisions and Orders, Government Circulars and Orders. Important orders/circulars/procedures from various Government departments shall invariably be endorsed to the Director of Internal Audit. Copies of all queries raised by Statutory Auditors shall also be endorsed to Directorate of Internal Audit. Confidential records/documents shall, however, be examined by the Director of Internal Audit only.

DEVELOPMENT OF AUDIT PLAN, AUDIT ENGAGEMENT AND AUDIT REPORT

CHAPTER 5 : PLANNING AUDIT ENGAGEMENT

5.1 INTRODUCTION

Planning is a crucial aspect of managing internal audit activities. Planning helps to focus audit activities on the risks that prevent the organization from achieving its objectives and to align audit activities with management's strategic priorities. The Directorate of Internal Audit in TASAF prepares an Annual Internal Audit Plan which serves to outline, in operational terms, the broad roles and responsibilities outlined in the internal audit charter.

5.2 DEVELOPING ANNUAL AUDIT PLAN

The Annual Audit Plan

The annual audit plan is a schedule that gives, in more detail, the audit activities in a given year. It provides more information about the exact nature of internal audit work that will be undertaken in the next year. This can only be done once the strategic internal audit plan has been produced.

The annual audit plan is simply done by taking the next year from the strategic internal audit plan and spreading it over the next 12 months. The considerations for preparing an annual plan and prioritizing audit activities are the same as for the strategic plan, but this time at a more detailed level. The annual plan should be broken down into quarters and months, and must be sufficiently detailed to enable the Executive Director, Management, and Audit Committee to be satisfied that the proposed coverage is adequate.

As a minimum, the plan should outline for each proposed audit engagement; an audit title, area responsible, type of audit (financial, performance, etc), summary description of the audit, priority and resources to be used to conduct the audit (e.g. outsources or in-house), estimated duration and cost, and proposed timing of the audit including the month/quarter it is expected to be completed.

Approval of the Internal Audit Plans

Internal auditor exists to provide assurance to the Management of TASAF. Therefore, it is important for both the strategic and annual plans to be discussed and communicated to:

- i) The management to get their views and buy in.

- ii) The Audit Committee for their review of the sufficiency of audit coverage of risky/crucial areas and resource requirements.
- iii) The Executive Director for review and approval of both the plans and resources.
- iv) Other external stakeholders as required by the law.

CHAPTER 6 : CONDUCTING THE AUDIT ENGAGEMENT

6.1 INTRODUCTION

This chapter describes the standard approach for undertaking internal audit engagements. The audit tools and techniques discussed in this chapter are generic and thus can be used in any audit engagement (e.g. procurement, payroll system, budgetary management and control, human resources etc.) except for consulting activities. The chapter also provides a set of internal audit working papers that guide internal auditors during audit engagement and record the necessary audit evidence.

6.2 OVERVIEW OF THE AUDIT PROCESS

An audit engagement will go through the following five (5) phases:

- i) Initiating an Audit Engagement;
- ii) Planning the Engagement;
- iii) Conducting Fieldwork;
- iv) Reporting the Results of the Engagement; and
- v) Conducting Audit Follow-up and Monitoring Progress.

Initiating an Audit Engagement

Audit engagements could arise from any of the following sources:

- i) A routine engagement from an internal audit annual/quarterly plan, or
- ii) A request from the Management or other authorities.

Routine Audit

A routine engagement is the one obtained from the audit annual or quarterly planning.

- i) When the appropriate time come as indicated in the annual/quarterly plan, the IAM/DIA evaluates if it is still realistic to carry out the planned engagement (e.g. in terms of resources etc).
- ii) The evaluation should lead to a decision of whether to carry out the audit engagement as planned or postponed.
- iii) It is, however, very crucial that annual plans are implemented as planned because they were once prepared and approved by the Audit Committee to cover the riskiest areas of TASAF.

Request from Management or other Authorities

Regulation 35 (2) of the Public Finance Regulations (2001) as amended in 2010 provides “the Internal Audit Service unit will respond, subject to resource constraints, to ad hoc requests for audit assistance or advice as may be requested by the Accounting Officer or the Heads of Department of a unit”.

Before deciding whether to accepting or rejecting the request for an audit engagement, the Directorate of Internal Audit will consider the following:

- i) Who is requesting it (the higher the authority the higher the likelihood of accepting the activity)?
- ii) Relationship/ influence of the requestor to the Directorate of Internal Audit (we may decide to accept to market our Directorate or to win future support from the requestor).
- iii) Is the request realistic and achievable by an audit?
- iv) Resources available (do we have enough people, finance, or time?)
- v) Is the requested activity in the annual plan? (If yes, then see if you may audit it now or wait for the planned period).

6.3 AUDIT ENGAGEMENT

6.3.1 Planning the Audit Engagement

At the planning stage, the following should be done:

- i) Appoint the audit team;
- ii) Hold the team's first meeting;
- iii) Complete an Independence Declaration Form;
- iv) Prepare tentative engagement objectives;
- v) Prepare initial documentation;
- vi) Conduct an in-office review;
- vii) Conduct a preliminary risk assessment of the area under audit;
- viii) Ascertain, document, and evaluate controls;
- ix) Hold a Team meeting to make a Go or No-Go decision; and
- x) Develop the audit engagement program.

6.3.2 Appointing the Audit Team

Audit engagements are most effective when performed with a well-formulated team of auditors, which has an appropriate mix of qualities, skills, and experiences. A selection of audit teams should take into account the nature and complexity of the engagement, time limitations to share the audit report, and resources available (human and financial).

The Director or Internal Audit Manager, therefore, needs to have a clear knowledge of each of his/her members of staff in terms of their professional/educational qualifications, organizational, communication and analytical skills, and hands-on experience in auditing.

6.3.3 Complete the Independence Declaration Form

Each of the appointed audit team members must complete and return the Independence Declaration Form. The Director of Audit should securitize responses in the Independence Declaration Form of each of the appointed auditors and decide whether the auditor is independent enough to proceed with the engagement.

In case the Director of Audit decides that any of the auditor has conflict of interest that may jeopardize the engagement, he or she must exclude the auditor from the assignment by stating the reasons to do so in the space provided in the Independence Declaration Form.

6.3.4 Conduct the Team's first Meeting

The Audit Team must hold a meeting to discuss issues relating to the assignment that includes the Audit requirements, level of importance of the assignment, especially for requested assignments, sharing insights, nature, risks, and possibility of fraud of the activity to be audited. The meeting may agree on the division of activities among team members, agree on the engagement timeframe, and the preliminary content of the report. DIA should emphasize professionalism, relevant IIA standards, and any other matter in relation to the assignment

Document the proceedings of the meeting in a special sheet termed a team meeting minutes, and file it in the current file as part of working papers.

6.3.5 Open a Current File for the Engagement

Prepare and open an engagement's current file for each of the audit engagements. Attach an appropriate "*Audit Folder Cover*" glued to the front face (but outside) of the file. The Audit Folder cover needs to be filled in with the following details:

- a) The assignment title;
- b) The period under audit (e.g. quarter, or financial year);
- c) Name of the client and address (e.g. Cash Office, PMU etc.);
- d) Location of the client office;
- e) Name of the team leader of the Audit Team; and
- f) List of names of other members of the audit team.

Attach an Audit Engagement Reminder Checklist at the front (but inside) of the Audit Current File. The list is useful for reminding auditors on each activity in the audit process. Auditors must now and then check to see that their audit is following all the requirements in the list. Auditor in charge or a person responsible for an activity in the list must sign after completion of the activity and indicate the date signed. The DIA/IAM must check the completion of the activities in the audit reminder list.

6.4 SET ENGAGEMENT OBJECTIVES

Audit objectives are a broad statement of what the audit engagement intends to accomplish. Audit objectives may be deduced from the operating objectives of the activity under review or from the audit requests T.O.R., or both.

For example, one of the operating objectives for a revenue collection activity: [to ensure that income is adequately accounted for and banked promptly]. Therefore, one of the engagement objectives for the audit of revenue collection may be: [to determine whether there are systems in place to ensure that income is adequately accounted for and banked promptly].

Scope for audit objectives

Apart from using the operating objectives in setting audit objectives, internal auditors have to design audit objectives that cover all five objectives of an internal control system. That is to determine whether:

- i) The activity produces information (e.g. reports and documents, etc) that is reliable;
- ii) The system ensures compliance with policies, plans, procedures, laws, and regulations;
- iii) Assets that result from the operation are well safeguarded;
- iv) There is VFM in operating procedures, activities, and the use of resources to achieve the operating objectives; and
- v) The goals and objectives of the activity will be accomplished.

NOTE

The objectives that are developed at this stage are just TENTATIVE. They will need to be re-focused at each stage of the audit process.

Conduct In-Office Review and Review of the Audit Criteria

This stage is also known as a pre-survey in which the audit team determines and reviews the audit criteria (i.e. laws, regulations or guidelines) relevant to the audit objectives. This stage is very crucial, and should be done before the audit team meets the client because it helps the team to:

- a) Gain a good understanding of the activity;
- b) Establish audit materiality;
- c) Assess audit risk;
- d) Identify criteria and establish compliance requirements (laws, regulations, standards etc);
- e) Clarify audit objectives;

- f) Enable audit team to ask relevant questions during entrance meeting; and
- g) Set the criteria to determine compliance requirements (i.e. how does the unit's activities comply with the criteria?).

Establish the criteria by answering the following questions:

- a) What are the laws, policies, procedures etc governing the activity,
- b) What is to be done by the activity under audit?
- c) Who is to do it (i.e. responsibilities, who is who in that activity)?
- d) What are the goals and objectives to be achieved? (i.e. operating objectives)
- e) What population is to be served? (i.e. scope of activity)
- f) How much can be spent on what? (i.e. financial budget)

Use sources of information to obtain the information for determining the relevant criteria including (Internal auditors are advised to use all possible means to get the information in which to base their evaluations):

- a) Project officials knowledgeable on the activity
- b) Various project guidelines, laws and regulations
- c) Prior audits/ auditors
- d) Permanent audit files, etc.

Most of this information will, probably, be available in the activity's PERMANENT AUDIT FILE (if kept). But if the file has never been kept this is an opportunity to start the file by putting all the information about this activity which may not likely to change in the near future (e.g. laws, regulations, policies etc). For more discussion of this file please refer to Chapter 8 (i.e. Audit Files and Working Papers Organization).

Contact the auditee

Notify the auditee about the audit at least 5 working days before first meeting. The notification should be formal via an Engagement Letter or Entrance Letter. The letter should mention the source of audit (e.g. from annual plan or management request) and the general audit objective (but do not mention the specific objectives).

A copy of the letter should be filed in the current file bearing an appropriate label of the audit assignment. The time and location of entrance meeting should be requested when auditors have finished an in-office review.

Hold an Entrance Conference with Auditee

The entrance conference (or opening conference) should be conducted prior to commencing the preliminary survey. The DIA or IAM should meet with the audit client's Management and key supervisory personnel of the auditee. MINUTES of the

entrance meeting should be taken. Give the minute's document a relevant W/P reference number and keep a copy in the current file. If necessary, provide a copy to the client.

Conduct a preliminary survey and assessment of risks

This step involves collecting preliminary information about the auditee department. Survey work may be more extensive for activities that are audited for the first time than for areas that were audited previously. The survey work may involve the following activities:

- Familiarization;
- Conducting a risk Assessment of the area under audit;
- Planning the detailed audit; and
- Evaluate the available internal Controls systems.

i) *Get familiarized with the audited activity*

Obtaining significant background information and a practical working knowledge of the following:

- a) The department or program objectives
- b) Applicable laws, regulations, and departmental policies and procedures
- c) Management, operating, and financial controls
- d) Operating procedures
- e) Size and scope of the activities under review
- f) Organization and staffing
- g) A concise picture of the organizational arrangement, particularly how the program, function, entity, or activity to be audited fits into the overall operation
- h) Unusual challenges being faced, changes contemplated.

Use the following sources (but not limited) of information:

- a) Previous audit programs, working papers, and reports (if the activity was audited before)
- b) Public laws, legal opinions, and special rulings
- c) Operating procedures manuals
- d) Organizational charts
- e) Functional statements and position descriptions
- f) Processing flow charts and system narratives

- g) Management, budget, financial, and operating reports
- h) Interviews with personnel.

For documented laws, policies, and procedure manuals etc, auditors should obtain and review the copies that the client uses in their daily operations, and establish if these documents are current and up-to-date. If the copies of the laws, policies, and procedures manual etc. are not up-to-date, then this is a finding in itself.

ii) Undertake Risk Assessment of the Area Being Audited

Undertake risk assessment of the area being audited to identify areas for audit emphasis (i.e. the most risk areas or areas that are crucial to the achievement of the activity's objectives). Conduct the following steps in performing a detailed risk assessment:

- a) Identify the risks associated with the achievement of the auditee's objectives and expected results
- b) Assess the relative significance of the risks in terms of the likelihood of each risk occurring and the impact should it occur.
- c) Determine on a preliminary basis whether management's assertions on controls are likely to prevent or mitigate the occurrence of the risks of greatest concern and,
- d) Plan to focus audit objectives and scope on testing the existence or adequacy and effectiveness of key controls over areas of greatest risk. The Risk/ Control Matrix (discussed later) will be used.

Combine a variety of risk assessment techniques, mainly qualitatively (e.g. professional judgments, interviews with management, use of expert opinion, performance measures and trends, regulation and regulatory results, industry research and standards etc.). While assessing risks, for the area being audited, related controls and other risk management techniques should also be evaluated.

This is best done by a walk-through in which the employee explains or shows the auditor, step by step, how the employee performs a task. The auditor will then make judgment on the level of residual risk (i.e. Inherent Risk – Risk Management Technique = Residual Risk) whether control are adequate or not.

Further tests should be made on the effectiveness of controls if judgment was “not adequate”. These will normally be included in the audit program and performed during fieldwork. Final Evaluation is completed after the effectiveness testing is completed. Document the risk assessment/control evaluation in a Risk/Control Matrix.

iii) *Planning the detailed audit.*

The audit team may use the findings of their familiarization with client and risk assessment activities to plan a detailed audit of the client. The audit team can base their examinations on the following in order to identify significant audit areas:

- a) Areas that were identified as most risky during the risk identification exercises (e.g. Control Risk Self-Assessment (CRSA) Workshop, questionnaires, expert engagement etc) and indicated in the Risk Register (if conducted).
- b) Areas that have a high possibility of fraud, abuse, or mismanagement.
- c) Areas that have a large volume of transactions (quantified in Tshs.) or large investments in assets that are subject to loss if not carefully controlled.
- d) Areas that management has expressed concerns.
- e) Areas in which prior audits (both internal and external) have disclosed major weaknesses or deficiencies.

This phase of the survey should also identify those areas that lack significance and do not appear to require detailed audit coverage.

Note: The information obtained from these procedures must be used to re-focus both the audit objectives (or create sub-objectives) and update the criteria.

All this information should be documented and included in either the engagement Current File or Permanent File (depending on the nature of the information).

iv) *Ascertain and document the internal control system*

Once the significant/risky areas have been identified, the next step is to survey how the management controls the activity, including adequate segregation of duties, proper authorization of transactions and activities, adequate documents and records, physical control over assets and records, and independent checks on performance.

Ascertaining the control means to find out which controls exist to provide assurance for reliability and integrity of information, compliance with policies, plans, procedures, laws, and regulations, safeguarding of assets, economical and efficient use of resources, and accomplishment of established objectives and goals for the activity under audit.

Ascertainment of the internal control system should result in suitable record of the system being audited (refer to chapter 10 for details on evaluation of internal control systems).

6.5 HOLD A TEAM MEETING AFTER THE PRELIMINARY SURVEY

Meeting after preliminary survey

After the preliminary survey, the audit team should meet to review and discuss the results of the preliminary survey and assessment of risks. The meeting may include the DIA/IAM (if at the base office), the audit team leader and other team members (but without the client). Based on the results of the preliminary survey, the meeting will decide whether to proceed with the audit exercise or not to proceed.

Prepare a preliminary survey report or an engagement plan

Depending on the decision reached above, the audit will either produce a preliminary survey report (in case of a No-Go decision) or an engagement plan (in case of a Go-decision).

If a decision is made to continue to the fieldwork phase, the audit team will turn the Preliminary Survey Report into an Engagement Plan. When developing the engagement plan, in case there is a shortage of necessary expertise, the DIA has to take one of the following options:

- a) To adjust the competencies of the internal audit function so that all the principles of technical disciplines are available.
- b) To buy-in temporarily the technical expertise to work along-side in-house internal auditors. This can be sourced either from outside the organization or from technical areas within the entity but not from the particular unit to be audited.
- c) To outsource completely the audit of highly technical areas to an outsider audit firm.

Develop a Review of an Engagement Work Program

After the Engagement Plan the audit team should prepare an Audit Program (also known as an engagement program, or audit work program). The audit program lists directions for the examination and evaluation of the information needed to meet audit objectives within the scope of the audit assignment. The following points need to be taken into account when preparing an engagement work program:

- a) Start from the processor operating objectives followed by operating procedures.
- b) Include procedures to assess if keys risks identified in the risk assessment are controlled.
- c) Consider to include steps for assessing and ascertaining Value for Money (VFM) issues.

- d) Provide precise instructions by using instructive words so as to obtain precise audit information.
- e) The DIA or delegated personal within directorate should approve all programs, and all significant changes to them.
- f) Audit programs should be up-dated periodically as the work progresses.

6.6 PERFORMING FIELDWORK

Implement the engagement work program

Fieldwork involves implementing the audit steps/tests as outlined in the Engagement Work Program. Before going to fieldwork, the audit team should ensure the following:

- a) The audit program is in place, and each member of the audit team has a copy of the same.
- b) The responsibilities amongst members of the audit team are clearly known.
- c) The audit client is aware in advance of the fieldwork and its expected duration.
- d) Adequacy of the working tools during fieldwork- working papers' folders, stationery (papers, pens, writing pads), calculators, laptop computer, camera, etc.
- e) Copies of relevant laws, regulations, standards, etc, relating to the audit area.

Apply Appropriate Sampling Methods to Reduce Audit Risk

The purpose of audit sampling is to reduce the audit risk to an acceptable and standard level on all audits conducted by the auditors. Audit risk is defined as the risk that the internal auditor may come to the wrong conclusion in his/her report on the soundness and application of accounting, financial, and operational controls.

There are three components of audit risk, namely:-

- a) *Inherent risk (IR)* - which refers to the possibility of material errors occurring regardless of the internal controls in existence
- b) *Control risk (CR)* - which refers to the situation whereby the risk of errors or misstatements in either accounting, financial, or operational undertakings in TASAF is reduced but never quite eliminated by internal controls in the TASAF system. Under the control risk, there is a risk that once a misstatement has occurred, existing internal controls will not be able to find and correct it.
- c) *Detection risk (DR)* – refers to the situation whereby audit procedures carried out by the internal auditor will fail to detect material errors in the TASAF system. The audit procedures could be either substantive or analytical procedures.

Assuming that the above three risks are independent of each other, the overall audit risk model can be stated as follows:-

$$AR = IR \times CR \times DR$$

Where:

- AR = Audit risk
- IR = Inherent risk
- CR = Control risk
- DR = Detection risk

Generally, an overall audit risk of 5% on internal audits is considered acceptable. Decide on the sample size i.e. how large the sample should be (e.g. 10%, 15%, 20%, 30% etc.). Note that the larger the sample size the lower the audit risk accepted. Once a sample size has been determined, choose a sampling method (i.e. method for selecting items from the population).

There are three basic types of audit sampling and methods of selection recommended for use by internal audit;

- a) *Random sampling* - This involves random selection of items across the whole population, such that each item has equal chance of being selected, regardless of its value. Random sampling works best when each of the items in the population bears some sort of serial number.
- b) *Stratified attribute sampling* - This involves stratifying the population to be tested according to key attributes which are expected to influence the results of the tests. Once a population has been stratified into sub-population which has been tested separately, it is important to evaluate the results separately. The error rates for each test should be applied to that specific sub-population and the overall error rate will therefore be a weighted average of the individual error rates.
- c) *Alternative Sampling Approach* – selection of high value and key items. Where a non-statistical approach is used to select a sample by picking out items over a certain value, and key items (e.g. new employee on a payroll test), it is not valid to consider errors on these key items as representative of the sample as a whole.

Conduct Tests of the Sample to Obtain Audit Evidence

Testing is applied in order to find evidence to support the Internal Auditor's views on the adequacy of risk management and related internal controls.

Audit tests generally fall into the following categories:

- a) *Walk-through Test* - performed through the ICQ. The tests involve following up a particular type of transaction right through the accounting system to confirm by observation and discussion. The existence of procedures as prescribed by the financial regulation.

- b) *Compliance Tests* – are designed to check that controls that are being relied on to manage key risks are actually in place and working in practice as intended (i.e. being complied with).
- c) *Substantive Tests* - these tests attempt to examine the implication of gaps in the design of internal controls. More specifically, to quantify the extent of damage caused by the weakness in the internal controls unearthed during the compliance tests.

Audit techniques should be applied depending on the type of audit assignment and in a combination. The techniques include:

- a) *Interviews*: face to face discussions with identified respondents.
- b) *Analytical Reviews*: considerations of different sets of data or data over different time frame e.g. checking for usual trends.
- c) *Surveys*: asking people for their views in a structured and formal manner.
- d) *External Confirmation*: Seeking independent confirmation from external sources eg. From vendors so as to avoid internal distorted information.
- e) *Examination*: Scrutinizing, checking, inquiring and having a look at something
- f) *Verification*: Finding out if something exists and establishing its status.
- g) *Reconciliation*: Check figure from one account to another and to ensure physical items correspond to amount in record.
- h) *Observation*: For implicit controls e.g. behaviour. To see actions in performing control procedures.
- i) *Inspection*: This is carried out by people who have formal expertise in the matter inspected e.g. use of experts and third party opinion.
- j) *Re-performance*: This is done by the internal auditor re-doing the routine and weighing the results.
- k) *Vouching*: This is checking one record against another that should correspond with the first.
- l) *Anything else that makes sense*: This is for any creative thinking from the internal auditor.

Gather Good Audit Evidence

During fieldwork, auditors should systematically and objectively gather and evaluate evidence about the audited activity and find out whether the activity meets acceptable standards and criteria set during the preliminary survey. Evidence consists of all those matters that tend to support a point or position that is assumed by an auditor. Much of this evidence comes from testing routines from preliminary survey to fieldwork.

IIA's Performance Standard 2310-1 states that for information to qualify as an evidence, it should be:

- a) *Sufficient*- factual, adequate, and convincing.
- b) *Competent*- reliable and best attainable using engagement techniques.
- c) *Relevant*- supports observations and recommendations and consistent with objectives.
- d) *Useful*- helps the organization meet its objectives.

Audit evidence may be categorized as follows:

- a) *Physical*- direct inspection or observation of activities of people, property or events. Can be documented in the form of memoranda, photographs, charts, maps or other types of physical evidence.
- b) *Documentary*- created information such as accounting records, invoices, letters, contracts and management information on performance.
- c) *Testimonial*- Responses to inquiries through interviews. Note: they also need to be confirmed when possible with additional evidence.
- d) *Analytical*- Analysis or verification of information. For instance, computations, comparisons with past operations, standards, laws/regulations and evaluations of physical, documentary or testimonial information.

Develop and Record an Audit Finding

An audit finding could be in any of the following forms:

- a) Action not taken at all;
- b) Unsatisfactory system;
- c) Action taken improperly, and
- d) Prohibited action taken

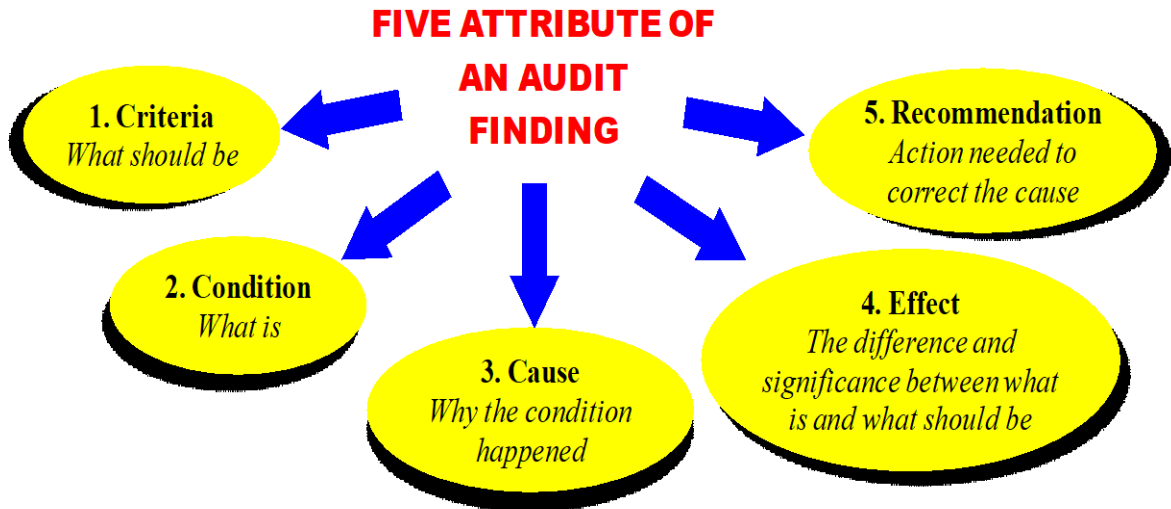
When developing audit findings, the audit team should consider all circumstances surrounding the systems. The team should objectively analyse all possible problems around the system. The audit team should also consider the degree of damage a deficient condition can cause or has caused before communicating that condition to management (i.e. consider materiality). This can be analysed into three possible categories:

- a) *Insignificant*: clerical misstep that all organizations experience. It does not warrant formal action. Should not be hidden/ overlooked but: (a) discuss with the responsible person, (b) see that the error is corrected and, (c) note the matter in the working papers.
- b) *Minor Findings*: Require reporting because it is more than a random human error. It will continue to have adverse effects if it is not corrected e.g. incorrect posting of organization's petty cash of TZS 500,000.

- c) *Major Findings*: The one that would prevent an organization or department within the organization from meeting a major objective e.g. a defective system of control that resulted or could result in payment errors totalling.

An audit finding is not complete for reporting unless it has five attributes as exhibited in Figure2:

Figure 2: The Five Attribute of an Audit Finding



- a) *Criteria*: Applicable laws, regulations, standards, policies, circulars, procedures, and practices. What the operation is supposed to accomplish (e.g. the Public Finance Regulations, 2001 require that bank reconciliation be done at least monthly).
- b) *Condition*: Problems or opportunities plus evidence. What the operation is actually accomplishing (e.g. from the sample of 100 batches, 75 batches (75%) were found having the most recent bank reconciliations were of three months ago).
- c) *Cause*: Explanation of why the deviations from the criteria occurred. Causes should be deduced from the proximate, intermediate up to the root causes.
- d) *Effect/ Risk*: Cost, exposure, risk or timeliness issues that are the actual or potential effects of what was observed. This can be shown either quantitatively or qualitatively. They can also be further analysed at both functional (systemic) and organizational levels.
- e) *Recommendation*: What needs to be done to fix the problems (causes and condition) and what will the benefits be. Recommendations can be stated in either actionable (imperative) or modal verbs e.g. Actionable: "put in place, assign." Modal: "should, must..."

The audit team should be familiar with these elements and that they should not be satisfied with an audit finding until all elements are addressed, either explicitly or

implicitly. At each stage a recognized audit finding should immediately be recorded in the condition section of the 5 Attribute Form, supported by relevant working papers, evidence, and appropriate criteria.

The summary contents of the “The Five Attribute Sheet” are:

- a) *Audit Objective*: the purpose of the audit work.
- b) *Attributes of the Finding*: the condition, criteria, cause, effect and recommendation.
- c) *Test(s) conducted*: The audit universe (population), sample size, method used to select the sample and the number and percentage (%) of discrepancies noted.
- d) *Client personnel with who discussed*: The name, title and department of the client personnel with whom the finding was discussed. Also, the dates of discussion and name of the auditor are included.
- e) *Comments by client personnel*: The relevant comments made by client personnel with whom the finding was discussed.

All audit findings from the 5-attributes forms are recorded into the Summary of Findings and Recommendations (SOFR) form. The findings are summarized into two major categories viz. Summary of Findings (value of errors) and Summary of Findings (Non-Compliance with Financial Regulations).

In case the auditor come across with other significant issues/ matters requiring remedies but are outside the scope of the current audit, such matters should be documented as Matters for Next Audit.

Hold an Exit Meeting With Auditee

At the end of the field work, auditors should conduct exit meeting with client’s management to discuss and share the key findings obtained during the audit work. Auditors should prepare well in advance and in a systematic manner all key findings to be discussed and shared.

The exit meeting also forms an important forum for the audit team to get confirmation (corroborate) the findings obtained, response from management as well as initiation of corrective actions/ action plan. The minutes of the meeting should be well documented, signed by both parties and forms part of the working papers.

CHAPTER 7 : AUDIT REPORT

7.1 PURPOSE OF REPORTING

The primary purpose of internal audit reports is to provide management with an opinion on the adequacy of the internal control system and to inform management of significant audit findings, conclusions, and recommendations.

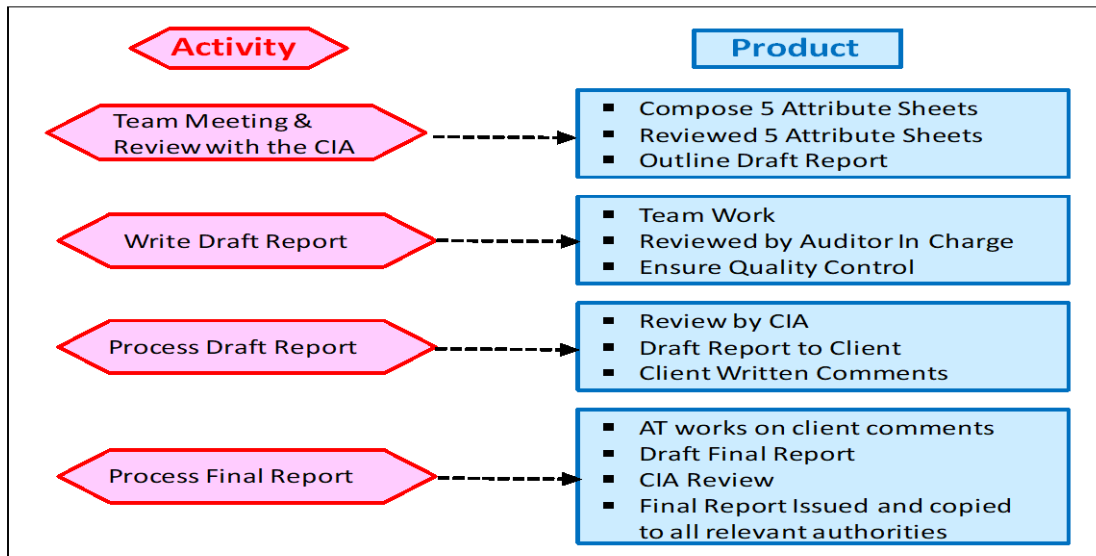
In summary, the aim of every internal audit report is to:

- a) *Inform*: Tell what we have found.
- b) *Persuade*: Convince management of the worth and validity of audit findings.
- c) *Get results*: Move management towards change and improvement.

Steps in Audit Report Writing Process

The report writing process is expected to pass through the steps as summarized by figure 3 below:

Figure 3: Summary of the Report Writing Process



Source: Internal Audit manual for MDAs

i) Team meeting and review with the IAM:

Immediately after the audit team has arrived from field work, it should meet and prepare interim briefing with the IAM/DIA. The following should be done:

- a) The 5- attribute forms should be analysed and start organizing findings. Note also that positive findings should be reported.
- b) The team leader should brief the IAM/DIA on the finding along with all audit working papers.
- c) Finalize the outline report.

ii) Writing the draft report:

- a) The whole team (led by the team leader) should participate in the writing process.
- b) The audit results should be organized into a logical and coherent document.
- c) The draft report should follow the main section of the standard/normal Internal Audit Report Format.
- d) Ensure that all findings and conclusion are supported by working papers

Once the draft report is completed the same is reviewed by the IAM/DIA. The IAM should ensure that every item in the Reporting Checklist has been fully addressed. Conformance to Government Internal Auditors Standards as well as International standards should also be ascertained. The report is then signed by the IAM/DIA and sent to the client for comments.

iii) Processing the Final Report:

When the client's comments are received, the audit team will review and assess them.

- a) If the client disagrees with the findings and recommendations of the report, the audit team will attempt to resolve the disagreement. For that matter, this will require additional work to verify information provided by the client or resolve questions raised by the client.
- b) At this juncture, the final exit conference is arranged and held between the client management and the auditors. Minutes of the meeting are taken and also signed by both parties (client management and auditors).
- c) Once agreed (Note: not, however, comprising the facts found), the audit team will incorporate client comments in the final report.
- d) The final report is finally reviewed by the IAM/DIA, approved/signed and submitted by the DIA to the appropriate authorities.

Quality of Internal Audit Report

As emphasized by IIA's Performance Standard 2420- Quality of Communications: "communications must be accurate, objective, clear, concise, constructive, complete, and timely". For this matter, for an internal audit report to be effective, it is important to note that the information being communicated in the report must be:

- a) *Accurate*: free from errors and distortions;
- b) *Objective*: fair, impartial and unbiased;
- c) *Clear*: easily understood and logical;
- d) *Concise*: to the point, without unnecessary details and wordiness;
- e) *Constructive*: helpful to the engagement client and the organization and lead to improvement where needed;
- f) *Complete*: include all the relevant facts and
- g) *Timely*: well timed, opportune to enable timely decision making process on the proposed recommendations

The following key points may help the auditor in preparing effective internal audit reports:

- a) *Determine and communicate the purpose clearly*: What does the audit wants to accomplish? This should be reflected clearly through the audit objective.
- b) *Establish the practical impact on the Institution*: Provide a strong case to support your recommendations. Include quantitative results to support your conclusions and recommendations.
- c) *Propose a workable solution*: The overall goal is to positively improve the organization's performance. Thus, the internal auditor should propose a practical solution.
- d) Pictures, Charts, tables, and graphs can communicate a point more effectively than using words alone, particularly when presenting financial data or a description of processes. State also the source of information.
- e) Consider writing an executive summary, especially for longer reports of pages 6 and above. The executive summary summarizes (**in not more than two pages**) the main objective of the audit, scope, methodology used, key findings, key recommendations, and overall conclusion about the audit engagement. The executive summary is important for those interested in high-level results.
- f) Tailor message to the audience: The report should be understood by the reader and not the writer only. Avoid buzzwords or acronyms unless they are understood by everyone who will read the report.

- g) *Pay attention to communication/ language skills:* Use of appropriate tenses and grammar. Always proofread carefully. Spelling and grammatical errors reflect poorly on your attention to detail (one of the primary qualifications of an audit or accounting professional).
- h) *Minimize expectation gaps:* Share your draft findings (report) with your client. This facilitates ownership of the action plan by management.
- i) *Balance presentation:* Present a balanced perspective and include management's *responses* with related findings. Point out **areas of strengths** to balance the report and maintain cooperative relationships.
 - Use positive and constructive words. Avoid language that condemns such as "did not perform" or "failed controlling". Instead incorporate phrases with action: "We identified where internal controls need improvement" or "identified opportunities for improvement"
 - Audit reporting is designed to raise awareness and effect positive change, rather than generate unnecessary confusion and fights. Internal Auditors should strive to find a balance in presenting information that is **professional, clean, accurate, objective, concise, constructive, complete and timely.**
- j) *Timeliness:* Communicate results during and after field work completion, especially if there are significant findings or if immediate action is required. Proofread your report and make sure you submit it timely.

Include a Conformance Statement in the Report

Each internal audit report shall contain a statement to the effect that the related audit was "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (the IPPF)." Although Internal Audit Directorate activities should achieve full conformance with the IPPF, and its internal auditors should conform to the professional standards of conduct, there may be instances in which full conformance is not achieved.

When non-conformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the internal Audit activity, the Director of Internal Audit must disclose the non-conformance and the impact to senior management and the Board/Council, whichever is applicable.

7.2 REVIEW AND SUBMISSION OF INTERNAL AUDIT REPORT

DIA should review the report to see that it meets all the quality criteria discussed above. The internal audit report should be timely submitted to the respective authorities, accompanied with a submission letter.

7.3 AUDIT FOLLOW-UP AND CLOSING UP OF THE ENGAGEMENT

Internal audit will add value to organizations only when their recommendations are fully implemented. Based on the agreed action plans contained in the final report, Internal Auditors should perform a follow-up review to verify the implementation of recommendations. In conducting audit follow-up, internal auditors should consider the following:

- a) The client should be notified well in advance about the follow-up review.
- b) The client may submit a report of the status of implementation of auditors' recommendations.
- c) All implemented/partially implemented/ and un-implemented recommendations should be discussed in the follow-up report.
- d) Unresolved findings should include a brief description of the finding, the original audit recommendation, the client response, the current condition, and the continued exposure to the organization. Draft report of unresolved findings should be circulated to the client before the report is issued.
- e) The final follow-up review report will be circulated to the original report recipients and other organizational officials as deemed appropriate.

PART III

EVALUATING GOVERNANCE, RISK MANAGEMENT, AND CONTROL PROCESSES

CHAPTER 8 : EVALUATING GOVERNANCE

8.1 GOVERNANCE PROCESS

What is governance?

IIA's Practice Advisory 2110-1 defines governance as:

"The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organisation towards the achievement of its objectives."

The internal audit's role in the governance process is geared to improving the process of accomplishing the following:

- a) Promoting appropriate organizational ethics and values within the organisation;
- b) Ensuring effective organizational performance and accountability;
- c) Communicating risk and control information to appropriate areas of the organization; and
- d) Coordinating the activities of communication information among board, external and internal auditors, and management.

8.2 EVALUATING GOVERNANCE PROCESSES

Debates may arise over the extent or scope to which internal auditors are mandated to question some issues beyond their level of reporting. This is especially true in public sector organisations where the organisation structure includes a board of directors or other oversight boards/councils, but the internal auditor reports to the chief executive officer.

In recognition of this complication, the evaluation of the governance process is divided into three different levels:

- a) Evaluation of Board-level governance processes (where applicable);
- b) Evaluation of Internal Governance Processes; and
- c) Evaluation of External Governance Processes.

The following section will detail key risk and control issues that internal auditors need to consider when conducting an evaluation of each level of the mentioned governance processes.

Evaluation of Board-Level Governance Processes

The NSC/Executive Director sets the direction of the organisation and oversees that Management implements the direction set. The internal auditors should deduce their audit objectives from control objectives applicable to the Board.

Control objectives at the board level are:

- (a) To ensure the board/ED sets the direction of TASAF.
- (b) To ensure the board/ED effectively oversees management.
- (c) To ensure that appropriate policies are in place to fully support the achievement of the objectives of TASAF.
- (d) To ensure that the composition and functioning of the boards fully support the achievement of the objectives of TASAF.

Audit issues to be considered in developing audit programs:

To ensure the board/ED sets the direction of TASAF:

- a) Does the board/ED have effective oversight of the development and adoption of strategy?
- b) Is the quality of information that comes to the board appropriate, timely, clear and reliable?
- c) Does the board collectively possess the competencies it needs to direct and oversee the business?
- d) Do board committees possess the appropriate skills?
- e) Do individual members of the board exercise skill, care and diligence?
- f) Do members of the board align themselves with the best interests of TASAF, or seek to promote their executive interests above all else?

To ensure the board effectively oversee management

- a) Is the independent element on the board sufficient to be an effective challenge to management?
- b) Does the board work as a team, with outside members contributing to strategy as well as overseeing executive performance?
- c) How do the board/ ED obtain assurance that the set or approved policies are being implemented by management? Is this assurance in part independent of management?

- d) Does the audit committee collectively possess the appropriate recent and relevant financial experience?
- e) Does the audit committee report fully to all relevant organs as specified in laws and regulations and that important deliberation it makes are acted upon?
- f) Does the audit committee express a periodic opinion (at least once a year) to the board/ED or any other higher level organ on:
 - (i) The effectiveness of organizational risk management and internal control?
 - (ii) The reliability of financial and other information used internally and published?
 - (iii) The professionalism of TASAF's external auditors?
 - (iv) The professionalism, independence and scope of internal audit and of other internal review agencies?

To ensure that appropriate policies are in place to fully support the achievement of objectives of TASAF.

- a) Has the board/ ED provided sufficient resources to enable executive management to achieve the goals of the organisation?
- b) Does the board/ ED review the policies framework of the organisation periodically?
- c) Are any policies ignored in practice?
- d) Are different policies on the same issues being followed in different parts of TASAF?
- e) Are some policies incompatible with other policies?
- f) Are there any examples of policy statements that are intended only for "public consumption", but not for practical use?

To ensure that the composition and functioning of the boards fully support the achievement of the objectives of TASAF (where applicable)

- a) Is the board the right size to be most effective?
- b) Is there an avoidance of excessive concentration of power at the top of the business?
- c) Does the board collectively possess the appropriate experience, expertise and personal qualities?
- d) Does the board meet with the frequency needed to discharge its responsibilities effectively?
- e) Is there openness and honesty at board meetings and an absence of excessive formality?

- f) Is the board supported by the right board committees with appropriate terms of reference and competent membership?
- g) Is the performance of the following assessed sufficiently regularly and robustly?
 - i) The board?/ ED?
 - ii) The chairman of the board
 - iii) Each board committee?
 - iv) The chairman of each board committee?
 - v) Each Board Member?

Evaluation of Internal Governance Processes

The internal auditors should deduce their audit objectives from control objectives applicable for the internal governance processes.

Control objectives for internal governance processes are:

- a) To promote appropriate ethics and values within TASAF.
- b) To ensure effective organisation performance management and accountability.
- c) To communicate risk and control information to appropriate areas of TASAF.
- d) To coordinate the activities of and communicating information among the board, external and internal auditors, and management.

Audit issues to be considered in developing audit programs:

To promote appropriate ethics and values within TASAF.

- a) Does the evidence indicate that TASAF has high ethical standards?
- b) Are ethical standards and values consistent across TASAF?
- c) Are ethical policies and codes of conduct complete, appropriate and applied?
- d) Does TASAF have a clear policy that outlaws bribery?
- e) Are ethical policies and values communicated effectively and accepted across TASAF and at all levels?
- f) Does the top management set the right tone in their personal conduct and by reacting appropriately and consistently to wrongdoing within TASAF?
- g) Does TASAF have a suitable whistle-blowing policy which is known to staff and contractors, and reviewed regularly by the audit committee of the board?
 - (i) Is a common understanding of the purpose of TASAF shared across all levels of management?

- (ii) How does the board/ED ensure that TASAF is keeping to its defined purpose?
- (iii) Does the board/ AO receive regular, reliable and clear reports to measure attainment of performance targets and to monitor management's progress?
- (iv) Does TASAF's structure promote effective performance management and accountability?
- (v) Is there proper assignment of accountabilities and performance management responsibilities?
- (vi) Do remuneration arrangements align individual performance with organizational performance and avoid perverse incentives that encourage excessive risk-taking?

Ensuring effective organizational performance management and accountability, communicating risk and control information to appropriate areas of TASAF

- a) Does the evidence indicate that risk and control information is communicated appropriately?
- b) Are the top management's concerns about major enterprise risks communicated downwards so as to inform risk management at lower levels?
- c) Are operating personnel's perceptions about risk communicated upwards and ultimately to top management and to the board where appropriate?
- d) Is an enterprise-wide view of risk taken?
- e) Has TASAF defined its risk appetite – overall and for its component parts?
- f) Is risk management embedded into the culture and approach of TASAF?
- g) Does the audit committee concern itself both with the risk management process of TASAF, and also with the specific high-level risks that the process has (or has not) identified?

Coordinating the activities of and communicating information among the board/ ED, external and internal auditors, and management

- a) Does the evidence indicate that coordination between these parties is to a high standard?
- b) How does TASAF ensure that external and internal auditors do not subordinate their judgment on professional matters to that of anyone else?
- c) How does the audit committee effectively oversee the external audit so as to ensure its quality and independence?

Evaluation of External Governance Processes

The internal auditors should deduce their audit objectives from control objectives applicable for the external governance processes.

Control objectives for external governance processes are:

- a) To ensure that TASAF is mindful of the interests of its owners and other stakeholders;
- b) To ensure that TASAF's accountability to its stakeholders is transparent and;
- c) To ensure it has a sound reputation for responsible governance.

Issues to be considered while developing the audit programs:

To ensure that TASAF is mindful of the interests of its owners and other stakeholders

- a) Has TASAF formally identified its stakeholder groups (e.g. beneficiaries, customers, suppliers, staff, local community, tax authorities, trades unions, pressure groups, politicians, the media, trade associations, etc.)?
- b) Has TASAF established the state of health of its relationship with each significant stakeholder group, including by enquiry to these groups?
- c) Does TASAF have a strategy to improve stakeholder relationships which are unhealthy, and to preserve and leverage off the healthy stakeholder relationships?
- d) Has TASAF set out to understand and mitigate its reputational risks?
- e) Does TASAF have a policy with respect to selecting, preparing, conducting and reviewing meetings with analysts and the media?
- f) How does TASAF focus on its corporate social responsibilities?

To ensure that TASAF's accountability to its stakeholders is transparent

- a) Does TASAF engage in regular dialogue with significant stakeholder groups?
- b) Does TASAF have a satisfactory policy with respect to selecting, preparing, conducting and reviewing meetings with development partners, analysts and the media?
- c) Does TASAF have a satisfactory policy to determine when it should publish its financial statements
- d) What is the perception of stakeholders as to TASAF's transparency and accountability?

To ensure that stakeholders' opinions are taken on account by TASAF

- a) Does TASAF encourage and welcome significant stakeholders to give their opinion to account for its performance, behaviour and financial results?
 - b) Are the opinions given used by TASAF?

To ensure TASAF has a sound reputation for responsible governance

- a) Does TASAF's performance and accountability account to its reputation for good corporate governance?

- b) Is it TASAF's policy to apply best practice corporate governance principles and to comply with best practice corporate governance provisions/guidelines?
- c) Has TASAF identified areas for improvement in its corporate governance, with a view to implementing the requisite changes?
- d) Does TASAF invest in public relations to explain its corporate governance policies?
- e) Are directors chosen in part for their corporate governance track record?
- f) Is the enriched through its diversity – with respect to gender, ethnicity, etc?

CHAPTER 9 : RISK MANAGEMENT

9.1 EVALUATING RISK MANAGEMENT PROCESSES

What is Risk Management?

The IIA defines risk management as:

“The process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives”.

The risk management process depends on a risk management model that TASAF has adopted. Each risk management model has a number of essential components. But among different models, there are more similarities than differences.

Internal auditors can play a wider role than a mere evaluation of the risk management process. However, there are some services that may jeopardize internal audit’s independency. Table 4 summarizes the IIA’s position statement on level of services that internal audit can or cannot offer in relation to risk management:

Table 1: Internal Audit's Role in Risk Management

Services that can be offered by internal audit		Management Responsibilities
Assurance Role [core internal audit roles]	Consulting Role [legitimate internal audit role – with safeguards]	[roles internal audit should not undertake]
Giving assurance on the risk management process	Facilitating identification and evaluation of key risks	Setting the risk appetite
Giving assurance that risks are correctly evaluated	Coaching management in responding to risks	Imposing risk management processes
Evaluating the risk management process	Coordinating ERM activities	Management assurance on risks
Evaluating the reporting of key risks	Consolidating the reporting on risks	Taking decisions on risk responses
Reviewing the management of key risks	Maintaining and developing the ERM framework	Implementing risk responses on management’s behalf
	Championing the establishment of ERM	Accountability for risk management.
	Developing risk management strategy for board approval.	

Scope of Evaluation of Risk Management Processes

The scope of the evaluation should extend to cover all features that are essential for an effective risk management process. This will lead auditors to make an assessment and to judge whether:

- a) TASAF objectives support and align with the organization's mission
- b) Significant risks are identified and assessed
- c) Appropriate risk responses are selected that align risks with TASAF's risk appetite
- d) Relevant risk information is captured and communicated in a timely manner across TASAF, enabling staff, Management and NSC to carry out their responsibilities.

It should be noted that the level of services offered by the internal audit activity should be within the IIA's position statement, as introduced earlier.

Evaluation of Risk Management Processes

The internal auditors should deduce their audit objectives from control objectives applicable for the risk management processes.

Control objectives for risk management processes are:

- a) To support TASAF objectives and align with its mission;
- b) Significant risks need to be identified and assessed;
- c) Appropriate risk responses should be selected that align risks with TASAF's risk appetite; and
- d) Relevant risk information is captured and communicated promptly across TASAF by enabling staff, management and the board/ ED.

CHAPTER 10 : CONTROL PROCESS

10.1 EVALUATING INTERNAL CONTROL PROCESSES

What is Internal Control?

The IIA defines control as:

“Any action taken by management to enhance the likelihood that established objectives and goals will be achieved.”

Controls are the means devised by an organisation to promote, direct, restrain, govern, and check upon its various activities for the purpose of seeing that the organization’s objectives are met.

Controls include, but not limited to, form of organisation, policies, systems, procedures, instructions, standards, committees, charts of accounts, forecasts, budgets, schedules, reports, records, checklists, methods, devices, and internal auditing.

Controls exist to assist management in the achievement of its primary objectives:

- a) Relevant, reliable, and credible financial and operating information;
- b) Effective and efficient use of the organization’s resources;
- c) Safeguarding of the organization’s assets; and
- d) Compliance with laws, regulations, ethical norms, and contracts.

There are three types of controls:

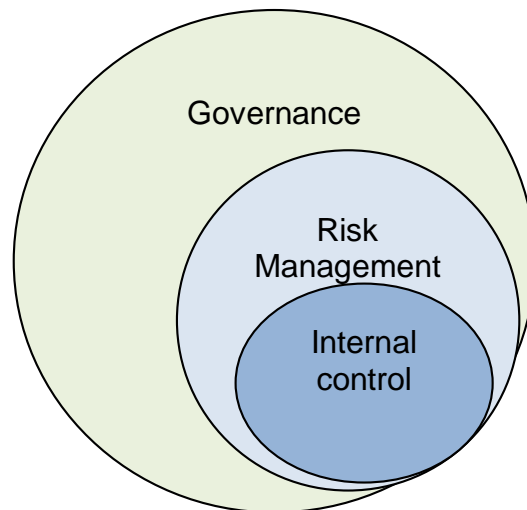
- a) Preventive controls (to deter undesirable events from occurring);
- b) Detective controls (to detect undesirable events which have occurred); and
- c) Corrective controls (to correct undesirable events which have occurred).

10.2 RELATIONSHIP BETWEEN GOVERNANCE, RISK MANAGEMENT, AND CONTROL PROCESSES

Governance is a wider concept that combines both risk management and control processes. Risk management processes are amongst the governance processes of TASAF because risk management is aimed at assuring the achievement of TASAF’s objectives. Internal control processes are amongst risk management processes of TASAF because controls are designed to mitigate risks.

Figure 6 below gives a pictorial view of how the three concepts relate to each other.

Figure 4: Relationship between Governance, Risk Management and Internal Control



Scope of Evaluation of Internal Control Process

The evaluation of controls is a must in any audit engagement. The major issues that are crucial to the achievement of the objectives of internal controls are:

- a) The reliability and integrity of financial and operational information
- b) The effectiveness and efficiency of operations
- c) The safeguarding of assets
- d) Compliance with laws, regulations, policies, and contracts.

Ascertain and document the internal control system

- i) Once the significant/risky areas have been identified, the next step is to survey how the management controls the activity.
- ii) A good internal control system is when internal controls with a common purpose are grouped.
- iii) Internal controls are implemented by *control activities* which are the daily *policies and procedures* used by management to meet its objectives, they are divided into:
 - a) Adequate segregation of duties;
 - b) Proper authorization of transactions and activities;
 - c) Adequate documents and records;
 - d) Physical control over assets and records; and

- e) Independent checks on performance.
- iv) Ascertaining the control means to find out which controls exist to provides assurance for:
 - a) Reliability and integrity of information;
 - b) Compliance with policies, plans, procedures, laws, and regulations;
 - c) The safeguarding of assets;
 - d) The economical and efficient use of resources; and
 - e) The accomplishment of established objectives and goals for the activity under audit.
- v) Ascertainment of the internal control system should result into suitable record of the system being audited.
- vi) The following techniques should be taken into account; Interview with management provides the audit team with an outline of the system, information flow, and documentations involved. Talks with staff and examination of a few documents and observing of the working practices will further clarify what the management has given you.
 - vii) Document your understanding of the existing internal control system using narratives notes. Narrative notes are short numbered sentences on each stage of the systems or procedures in which a process passes from start to completion. This can often be the simplest and most effective way to describe a situation or process.

Evaluate the internal control system

- i) Evaluation means to compare *what is* with *what should be*. Then to work out *what needs to be done* as a result of this judgment.
- ii) The valuation should include identification of areas in which essential risk-based controls appear to be weak, not functioning or missing.
- iii) The following points need to be noted in the evaluation; Evaluation should depend on the criterion which is used by management or best practice (e.g. procedure manuals for the activity under audit etc). However, even the criteria used by management (e.g. the procedure manual) need to be assessed for adequacy.
- iv) Use the Internal Control Questionnaires (ICQ) to assess/evaluate the presence and adequacy of controls in the activity. To create an ICQ you have to devise a list of questions based on the activity's procedure manual, policy, or best practice of how it is supposed to operate. The ICQ should have a YES or NO format question on each expected control, with YES suggests the expected control is present, and, NO suggests that there may be a problem that needs to be explored further.

PART IV

INTERNAL AUDIT PROCEDURES FOR VARIOUS AUDITS AT TASAF

CHAPTER 11 : CONDUCTING FINANCIAL AUDITS

11.1 INTRODUCTION

This chapter considers the financial and accounting aspects of the TMU and PAAs. This will be two-fold: first, the systems and functions that are likely to constitute this audit area, and secondly, key controls and issues to be considered for some components in the financial and accounting universe.

Despite its long traditional domain of audit, the financial and accounting function remains an important audit area as all operational areas of TASAF involve interfaces with the accounts e.g. in terms of operating costs, income levels, budgets etc. Furthermore, the IIA standards and Regulation 34 of the Public Finance Regulation (2001) provide for the duties of the internal auditor, among others, “to audit the soundness and application of accounting, financial and operational controls...”

11.2 OBJECTIVE AND COMPONENTS OF FINANCIAL AUDITS

Definition of Financial Audit

A financial audit evaluates whether financial statements or reports accurately portray the financial condition and/or activities of the audited entity including the disclosures of Sustainability related financial information. The functional-based universe of the finance and accounting is broad and includes the following components, systems or activities:

• Treasury	• Revenue management
• Payroll	• Sales tax (VAT) accounting
• Trade/Sundry Creditors	• Taxation
• Trade/Sundry Debtors/	• Stocks and stores
• General Ledger/Management accounts	• Project accounting
• Fixed assets (and capital charges)	• Petty cash and expenses
• Budget and monitoring	• Financial information and reporting
• Bank accounts and banking arrangements	• Investments

It should be noted that the components can have sub-components which can also form auditable areas.

Objective of a Financial Audit

The objective of a financial audit is to verify the data recorded in financial statements and evaluate the financial controls in place to determine whether there was proper stewardship of public funds and the efficient use of public money.

The internal auditor should consider the following during the review of financial items:

- a) **Internal control systems**- continuous review of the existing internal controls to facilitate smooth operations of TASAF.
- b) **Presentation**- to ascertain whether financial statements items of TASAF are properly classified and presented.
- c) **Disclosure**- whether the financial statements of TASAF are described and disclosed in accordance with the generally accepted accounting principles.
- d) **Existence**- whether the existence of TASAF's assets and liabilities is backed up by relevant documentary evidence.
- e) **Occurrence**- the occurrence of all items (assets, liabilities, revenue, and expenditure) is being reflected in TASAF's financial statements.
- f) **Ownership**- whether reported TASAF's assets and liabilities truly belong to TASAF.
- g) **Completeness of Reporting**- all TASAF transactions and accounts are reported in full in TASAF's financial statements and in their relevant period.
- h) **Measurement/Valuation**- correct valuation and measurement of reported assets, liabilities, revenue, and expenses.
- i) **Substantiation**- verification of source documents.

Components of a Financial Audit

- i) Examination and evaluation of financial records, including financial statements about their reliability, completeness, accuracy, comparability, and timeliness,
- ii) Verification of financial accountability of the entity's operations (including sub-projects);
- iii) Audit of financial systems and transactions, including an evaluation of compliance with statutes and regulations.

Evaluation of Internal Control Systems

During a financial audit execution, the internal auditor also focuses on evaluation of management procedures, reporting and operations within the audited entity as well as on effectiveness of financial transaction controls in place.

11.3 TREASURY

The primary audit concern is the adequacy of funding and the accountability for transactions, which are, by their nature, of high value.

Key Control Objectives for the Treasury:

- i) To ensure that the organization's funds are appropriately managed to provide adequate levels of working capital;
- ii) To ensure that suitable and secure investments, financial instruments, etc. are utilised to the maximum benefit of the Organization and within the constraints of the prevailing laws and regulations;
- iii) To ensure that Treasury staff are suitably experienced and qualified, and operate within the limits of established policy and practices;
- iv) To ensure that treasury activities are monitored as part of an overall view of risk management; and
- v) To prevent the processing of either unauthorized or fraudulent transactions.

Key risk and control issues to be considered when developing an audit program for the treasury function:

- i) Are there established and issued written policies governing Treasury operations, authorized transaction types, financial limits, etc.?
- ii) Has management established and clearly communicated their objectives for the Treasury function?
- iii) Are formal written Treasury procedures been established which support the aims of the agreed Treasury Policy?
- iv) Are adequate independent and timely Treasury monitoring facilities been established?
- v) Has management provided suitably trained Treasury personnel and the other necessary resources to ensure that their objectives are achieved?
- vi) Are working capital requirements defined, communicated, monitored and reacted to?
- vii) How can management be certain that all the relevant laws and regulations are being complied with?
- viii) Are Treasury staffs provided with adequate, accurate, relevant and timely data to support their decision making and operating activities?
- ix) Are all Treasury transactions supported with accurate documentation, authorization (if required), and effective audit trails?
- x) Are all Treasury transactions and fund movements accurately accounted for, correctly recorded in the accounting system, and reported to management?
- xi) How can management be certain that all Treasury transactions are of the approved type and within the established limits for individual transactions?

- xii) Are all maturing funds/investments, income and interest receipts identified, recorded and correctly accounted for?

11.4 PAYROLL

The scope for review includes initial authorized set-up of new employees; the processing of suitably authorized amendments (such as salary increases, leave payments, bonuses); periodic payroll runs; payment arrangements, the correct accounting of taxation; statutory deductions; reconciliation of the payroll and removal of ineligible employees from the payroll

The payroll function has strong functional links with the human resources (personnel) department.

Key control objectives for the payroll

- i) To ensure that only valid employees are paid at the correct and authorized rate;
- ii) To ensure that the calculations of all payments and deductions are correct and in accordance with the relevant taxation and other requirements;
- iii) To ensure that all deductions are correctly disbursed to the respective authorities
- iv) To ensure that unauthorized access to the payroll system and data is prevented;
- v) To ensure that all payroll transactions are accurately reflected in the accounting system; and
- vi) To ensure that regular and accurate management and statutory information is produced.

Key risk and control issues for payroll to be considered when developing an audit program:

- (a) What mechanisms can prevent payroll payments from being made to invalid or unauthorized payees?
- (b) How can management be certain that amounts paid via the payroll are correctly calculated?
- (c) How can management confirm that income taxation and other statutory deductions are accurately calculated and disbursed to respective authorities?
- (d) Is management provided with accurate payroll cost data regularly to support its decision-making, etc.?
- (e) How can management be sure that all payroll transactions are correctly reflected in the accounting system in the proper accounting period?

11.5 CREDITORS

Internal auditors should be concerned on processes such as linking to the original purchase orders or instructions, confirmation of the receipt of goods/ services, confirming the accuracy and validity of invoices, obtaining the authority to pay, maintenance of accurate creditor records, and account settlement.

Key control objectives for the creditors

- a) To ensure that all payments are for valid and suitably approved creditor accounts for goods and services actually received;
- b) To ensure that all payments are correct and accurately reflected in the accounting system;
- c) To ensure that the prevailing sales tax or VAT regulations are correctly complied with;
- d) To ensure that good relationships are maintained with key suppliers; and
- e) To prevent the possibility of either supplier or staff malpractice.

Key risk and control issues for creditors to be considered when developing an audit program:

- i) How can management be certain that only valid invoices are paid where the goods and services have been correctly and fully received?
- ii) What mechanisms prevent the payment of inaccurately priced/calculated or duplicated invoices?
- iii) Are all invoices authorized before payment and confirmed as being within the agreed budget?
- iv) How can Management be assured that the application and accounting treatment of taxes are correct and in accordance with the prevailing laws and regulations?
- v) What processes can ensure that the values of paid accounts and outstanding liabilities are accurately and completely reflected in the accounting system?

11.6 DEBTORS

Debtors in TASAF mainly comprise of Travel and other Imprest issued to staff to accomplish approved program activity.

Audit Procedures for Travel Imprest:

The audit program and procedures for Imprest (Standing, Special and Safari) will comprise the following aspects;

- (a) Ensure that Imprest is timely and properly retired.
- (b) Ensure that Imprest is timely and properly retired.
- (c) Wrongly posted Imprest in FMAS system.

- (d) Institute Imprest control system.
- (e) Availability of monthly imprest reports.
- (f) Follow-ups on long outstanding imprest.
- (g) Review of justification reports from Regional Offices, PAAs and Communities and TMU.

Documents to be reviewed

- (a) Imprest control Account.
- (b) Imprest Register and report
- (c) Retirement files.

11.7 GENERAL LEDGER/ MANAGEMENT ACCOUNTS

This is to ensure that all economic events within TASAF are reflected in the general ledger system and its related accounts. Thus, the overall structure and integrity of the system are critical issues.

Key control objectives for general ledger/management accounts

- i) To ensure that the general ledger and management accounts are accurate, reliable, and appropriately reflect the structure and operations of TASAF;
- ii) To ensure that the accounting data is capable of providing meaningful and accurate analysis in order to support Management decisions and actions;
- iii) To ensure that the accounting records are maintained in accordance with the prevailing laws, regulations and good professional practice;
- iv) To ensure that, the accounting information can be used to generate all the required statutory financial statements.

Key risk and control issues that need to be considered when developing an audit program:

- i) Has the chart of accounts been approved by the NSC and does it suitably reflect the operations of TASAF?
- ii) How can management be certain that the general ledger accounting data is accurate, complete and up to date?
- iii) How does management ensure that the accounting records and systems comply with the prevailing laws, regulations and accountancy good practice?
- iv) How can management be assured that all summaries and analyses of accounting data are accurate and reliable?
- v) How is the accuracy of statutory accounting statements confirmed?
- vi) What mechanisms protect TASAF's accounting data from loss, unauthorized amendment or leakage?

- vii) Is Management provided with timely, accurate and relevant accounting information to support their decisions and actions?

11.8 NON-CURRENT ASSETS (FIXED ASSETS)

Non-current Assets include investment in such items as buildings, motor vehicles, plant and machinery, and office furniture and equipment. Consider availability of appropriate authorization for capital acquisitions, accurate and complete accounting processes for the purchase, depreciation, verification and disposal of the assets.

Control Objectives for Fixed Capital Assets (and Charges)

- i) To ensure that assets are correctly and accurately reflected in the accounts;
- ii) To ensure that all capital expenditures are justified and approved;
- iii) To ensure that all assets are identified, recorded and regularly verified;
- iv) To ensure that depreciation is appropriate and in accordance with government regulations;
- v) To ensure that all asset disposals and write-offs are valid, authorized and correctly reflected in the accounts; and
- vi) To ensure that assets are appropriately safeguarded

Key risk and control - issues for non-current assets

- i) Has management implemented an authorized policy governing capital acquisitions and expenditure; and such policy is subject to review and update?
- ii) How is management assured that all capital expenditure and asset acquisitions are authorized?
- iii) How can management be certain that all assets are identified and correctly reflected in the accounts?
- iv) Are assets subject to regular verification, with the follow-up of anomalies?
- v) Has management established and implemented depreciation and accounting treatment policy for assets which reflects current and permitted accounting practices?
- vi) What mechanisms ensure that the correct depreciation is being calculated and reflected in the accounts?
- vii) Are non-current assets adequately safeguarded against loss or damage?
- viii) Are asset disposals and write-offs suitably approved and conducted in the best interests of the government?

11.9 BUDGETING AND MONITORING

The initial interest of the internal auditor is in both, the general budgeting framework (i.e. how the budgets are initially generated, authorized and rolled out) and the allocated responsibilities for subsequently monitoring actual performance against budgets (i.e. identifying and reacting to significant variances, authorizing budget amendments etc.)

Control Objectives for Budgeting and Monitoring

- i) To provide an accurate and reliable budgeting system as a means to ensure that agreed financial and operational objectives are achieved;
- ii) To provide a realistic and accurate budgeting framework and plan which accurately reflects the structure and operations of the approved chart of accounts and it is suitably reflect the operations of TASAF;
- iii) To provide Management with a means to monitor progress against financial targets;
- iv) To ensure that variations, deviations and failures to achieve targets are promptly identified for management action.

Key risk and control issues for budgeting and monitoring

- i) Has Management developed and implemented a documented budgeting process for use throughout the organisation and does this clearly allocate responsibilities for action and follow-up of variances, etc.?
- ii) How can Management be certain that the budgeting model and processes adequately and accurately reflect the structure and operations of TASAF?
- iii) Are the budgeted figures agreed by the relevant members of Management and how is this signified?
- iv) How is the accuracy and completeness of data input from other source systems confirmed?
- v) How is the budget and actual data reflected by the budget system confirmed as accurate and complete?
- vi) Is the budget information produced and circulated on a timely basis?
- vii) How can Management be certain that all subsequent amendments to the budgeted data are justified, authorized, and accurately applied?
- viii) Are significant budget versus actual variations identified and promptly acted upon?
- ix) How is the action taken in reaction to variations, shortfalls, etc. verified as complete and effective?

11.10 BANK ACCOUNTS AND BANKING ARRANGEMENTS (CASH & BANK BALANCES)

The auditor's emphasis is on types of banking facilities; recording and prompt banking of all revenues received and bank reconciliations.

Control objectives for bank accounts and banking arrangements

- i) To ensure that banking arrangements and facilities are appropriate and adequate for TASAF;
- ii) To ensure that all banking transactions are genuine, accurate and authorized;
- iii) To ensure that cash books are properly maintained and regularly reconciled to the Bank statement;
- iv) To ensure that fund transfers and automated methods of effecting banking transactions are valid, in the best interests of the Government, and authorized;
- v) To ensure that the potential for staff malpractice and fraud are eliminated;
- vi) To ensure that all income is banked without delay; and
- vii) To ensure that banking charges are effectively monitored and minimized.

Key risk and control issues for bank accounts and banking arrangements

The following key issues need to be considered when developing an audit program:

- i) Are management aware of all active corporate bank accounts, their purpose, and current status?
- ii) Are corporate bank accounts only established as per the Government financial regulations?
- iii) What mechanisms prevent the unauthorized set-up and operation of a bank account?
- iv) Are the prevailing banking terms and conditions optimized in terms of account type, transaction levels, interest payable on balances, levels of charges, etc?
- v) How are management assured that all banking transactions are accurate, complete, and authorized whenever necessary?
- vi) Have written procedures governing the set-up and use of banking facilities been established and implemented?
- vii) Do the prevailing banking arrangements maximize the return on surplus cash balances?
- viii) Would management be aware of impending overdraft situations and are all overdraft arrangements negotiated and suitably authorized in advance?

- ix) Have suitable and realistic cheque signing mandates been established and what prevents an unauthorized member of staff from raising and issuing a cheque drawn against a corporate account?
- x) Is the system for bank reconciliation sound, strong and authentic?
- xi) How does management ensure that all bank account activities and balances are taken into account within the Treasury function?
- xii) How does management ensure that only authorized bank loans and financing arrangements are established?
- xiii) How feasible and secure is the system for custody of cash and marketable documents (cheques, receipts etc)

11.11 STOCKS AND STORES

Control Objectives for stocks and stores

- i) To ensure that the accounting system and statutory accounts accurately reflect the value of current stocks and stores;
- ii) To ensure that all stock purchases, issues and other movements are valid and correctly reflected in the stocks and stores accounts;
- iii) To ensure that stocks and stores are correctly priced;
- iv) To ensure that stocks and stores y values are periodically verified as correct;
- v) To ensure that all adjustments to stock valuations are suitably investigated and authorized;
- vi) To ensure that stocks and stores items utilized while implementing TASAF activities are correctly charged out of the stocks and stores accounts and accounted for in target systems;
- vii) To ensure that write-offs of either excess, scrap or obsolete stocks are valid and authorized; and
- viii) To provide adequate, accurate and timely management information.

Key risk and control issues for stocks and stores

The following key issues need to be considered when developing an audit program:

- i) How can management be certain that the accounting system accurately reflects the values of stores?
- ii) Are all stores write-offs, disposals and adjustments suitably authorised and how is this evidenced?
- iii) Is the Management regularly provided with current and accurate information on stores held?
- iv) Does the accounting and Management information provide the means to identify anomalies, and if so are such queries actively followed up?

11.12 PROJECTS ACCOUNTING

Control Objectives for Projects Accounting

- i) To ensure that all projects developments/launches are suitably authorized as part of the strategic direction of TASAF;
- ii) To ensure that the appropriate financial regulations to guide the projects are in place and observed;
- iii) To ensure that all the relevant costs are identified and accurately recorded;
- iv) To establish budgets based on reliable data and assumptions;
- v) To ensure that actual costs and progress are adequately monitored and that variances are identified and acted upon;
- vi) To ensure that project outturn performance is monitored and managed; and
- vii) To ensure that the accounting system accurately reflects all the relevant economic events associated with the project.

Key risk and control issues for projects accounting

The following key issues need to be considered when developing an audit program:

- i) Are projects authorized and ratified by relevant authorities as part of the long-term strategic direction of TASAF?
- ii) Have key objectives, targets, key performance indicators (KPIs) been set for the project as the basis for performance and achievement monitoring?
- iii) Has management established the most appropriate costing method for the project and ensured that all the relevant cost elements and underlying assumptions have been identified and incorporated?
- iv) How is management certain that all the relevant cost data is accurate, complete and being correctly accumulated in the accounting system?
- v) Has management taken adequate account of local factors, such as taxation and other government requirements relating to the operationalization of the project?
- vi) Have the key project stages, milestones and deliverables been identified and incorporated into a workable progress monitoring system for management review and action?
- vii) How can management be certain that cost overruns, failures to achieve target objectives, etc. will be promptly detected and followed up?
- viii) How can management be sure that they have accurately identified, and made available, all the required resources?

11.13 FINANCIAL INFORMATION AND REPORTING

Key controls for financial information and reporting

- i) To ensure that Management is provided with accurate and timely financial information to support their decision making and activities;
- ii) To ensure that all the relevant financial reports and returns are accurately prepared and distributed to relevant officials and organs in accordance with the prevailing laws and regulations;
- iii) To ensure that accounting records and statements are correctly maintained and prepared in accordance with the prevailing accounting standards and good practice;
- iv) To ensure that all financial information is adequately protected from loss, misuse or unauthorized leakage; and
- v) To ensure that sensitive or confidential financial information of TASAF is adequately protected.

Key risk and control issues for financial information and reporting

The following key issues need to be considered when developing an audit program:

- i) Has Management identified and documented all their financial information requirements?
- ii) How can management be certain that all the required financial information is accurate and provided for, on time?
- iii) What processes prevent the creation and circulation of inaccurate, invalid or out-of-date financial data?
- iv) How Management is assured that all the required external and statutory financial reports/returns are accurately generated and released on time?
- v) What mechanisms prevent the release of inaccurate financial data to external bodies?
- vi) How can management be certain that all accounting records are maintained in accordance with the current accounting regulations, standards and professional good practice?
- vii) What measures are in place to ensure that financial data is adequately protected from loss, distortion, misuse or unauthorized leakage?

11.14 INVESTMENTS

Control Objectives for Investments

- i) To ensure that all investment decisions are adequately researched and authorized in accordance with the established objectives;
- ii) To ensure that investment commitments do not interfere with the required cash-flow and that sufficient working funds are maintained;

- iii) To ensure that the timescale and liquidity implications of investments are adequately considered and catered for;
- iv) To ensure that invested funds and the income generated are correctly accounted for
- v) To ensure that all relevant regulations, exchange controls and accountancy standards are complied with; and
- vi) To ensure that investment documentation is adequately and securely stored.

Key risk and control issues for investments

- i) Have management established an approved investment policy which clearly defines their objectives (e.g. required levels of return, timescale, etc.)?
- ii) How does management ensure that investment income is maximized within the prevailing law and regulations?
- iii) How can management be assured that only suitable and authorized investments are made, which accord with the established objectives as well as government laws and regulations?
- iv) What processes prevent investment commitments from adversely interfering with the day-to-day cash requirements of TASAF?
- v) Are all invested funds and the income generated from them accurately accounted for?
- vi) How can management be certain that all investments comply with the relevant laws, regulations and accounting standards?
- vii) Is investment documentation securely and adequately stored and protected from loss, misuse or damage?

11.15 NON-WAGE PAYMENTS/SUNDRY EXPENSES

Control objectives for non-wage payments

To ensure that:

- i) All payments are within the relevant approved budgets.
- ii) The expenditure incurred was approved.

Key Risks for non-wage payments:

- i) Non-existent budget allocation for the payment made.
- ii) Payment made to the wrong persons.
- iii) Wrong posting of payments in the cash book.
- iv) Payment vouchers may not have supporting documents.

CHAPTER 12 : CONDUCTING SPECIALIZED AUDITS AND CONSULTING ACTIVITIES

12.1 SPECIALIZED AUDITS

Specialized audits in TASAF include:

- i) Value for Money Audit (also termed as Performance Audit),
- ii) Human Resources Audit,
- iii) Procurement Audit,
- iv) Internal Investigations,
- v) Information Technology Audit, and
- vi) Consulting Activities.

12.2 VALUE FOR MONEY AUDIT

Value for Money Audits, also referred to as Performance Audit, is a form of operational auditing where management requires the Internal Auditor to extend her/his traditional audit function into the 3E's, i.e. Economy, Efficiency, and Effectiveness:

- i) *Economy*- minimizing the cost of resources for an activity, having regard to proper quality.
- ii) *Efficiency*- the relationship between the output in terms of goods, services or other results, and the resource used to produce them.
- iii) *Effectiveness*- the extent of success in attaining or realizing the intended objectives both quantitatively and qualitatively.

Value for money audits can be done either as a separate exercise termed as Performance Audit, or in every engagement (as in Performance Standard 2130.A1), where internal auditor considers issues of value for money (the 3Es) of operations and activities they audit.

The Legal Backing for Value for Money Audit

The legal framework of performance auditing emanates from the IIA standards (Standard 2130.A1 above) and Public Finance Act (2001) as amended in 2010.

All legal requirements require both internal and external audits to carry out value for money audits i.e. whether economy, efficiency and effective use of resources have been achieved.

Objectives of Value for Money Audit

- a) To provide the audited entities with independent examination as to the economy, efficiency and effectiveness of the implementation of the

programme and to the economy, efficiency and effectiveness of the means used.

- b) To identify and analyse any problems of economy, efficiency and effectiveness at TASAF and the PAAs, and thus help the Management to make correct managerial decisions
- c) To report on the programme impact and to analyse the achievement of the stated objectives. If these have not been achieved (partially or totally) the cause will be identified.

Special Features of Value for Money Audit

The following are the special features for a VFM audit:

- a) Not subject to specific requirements and expectations.
- b) Flexible in its choice of subjects, audit objects, methods, and opinions.
- c) It is an independent examination made on a non-recurring basis.

Some Possible “Red-Flags” Areas Warranting Value for Money Audit

The following signs or “red-flags” may indicate the need for a value for money audit:

- i) Unjustified expenditures, exceeding the provisions;
- ii) Untouched or partially touched economic objectives;
- iii) Cost increases and significant failure to meet deadlines in the case of certain projects;
- iv) Complaints, litigations and reactions of the representatives of consumers’ groups concerning the quality of services;
- v) High levels of public budgetary debts;
- vi) New initiatives inappropriately founded;
- vii) Internal systems (of accounting and of control) organized or managed inappropriately;
- viii) Significant losses due to natural disasters, theft or extravagance; and
- ix) Contracts assigned without a competitive process.

Value for Money Audit Methodology

Internal auditors may deal with multitude of topics and perspectives covering the entire public sector. Many methods for collecting and processing information may be used.

i. Summary of the Methodology

- a) *Planning*- The process of defining issues or problems to be studied

- b) *Audit Question* – The questions to be answered
- c) *Study Design*-The information needed and the study to be done
- d) *Audit Program*- The type of investigations to be conducted
- e) *Data Collection*- The techniques for data collection to be used
- f) *Analyses*- The explanations and the relationships to be explored
- g) *Reporting*- production of reports for the study.

Even though these steps constitute the performance audit methodology, it must be stated that a performance audit must also always be based on such issues like individual insight, experience, imagination and creativity

ii. Some possible questions that may be asked by the auditor

Economy

- a) To what extent are resources like raw materials, equipment etc. acquired at the best prices and to what extent are they the right resources?
- b) How does actual expenditure compare to the budget?
- c) To what extent are all resources utilized?
- d) Are staffs often unoccupied or are they fully utilized?
- e) Is the organization using optimum mix or inputs (e.g. should less staff have been employed and more money spent on computers)?

Efficiency

The auditor must first analyse the different types of output of the Department/Unit being audited and proceed with the following questions:

- a) Could the project have been implemented in another way which could have resulted in lower production costs?
- b) Are the working methods the most rational ones?
- c) Are there any bottle-necks which should have been avoided?
- d) Is there any unnecessary overlapping in the delegation of duties?
- e) How well do the different units cooperate in promoting the common goal?

- f) Are there any incentives for the staff involved to aim for cost reduction and to complete the work on time?

Effectiveness

The auditor shall first start by identifying the goals of the programme and measure their effectiveness. Some guiding questions could be:

- a) Has the goal been achieved at a reasonable cost and within the set time limit?
- b) Was the target group defined correctly?
- c) Are the objectives of managerial policy being achieved with the means used, i.e. are the predicted results being obtained?
- d) Are the means used and the results obtained compatible with the objectives of the managerial policy?
- e) Does the predicted impact represent direct results of the managerial policy rather than one due to other circumstances?

12.3 AUDITING HUMAN RESOURCES

Components of Human Resource Function

Adopting the functional approach allows the auditor to define the human resource management audit universe into key functions, systems or activities.

The human resource function can be divided into several components and processes. In this manual, the following are covered:

- i) Human resource department
- ii) Recruitment
- iii) Staff training and development
- iv) Staff appraisal and disciplinary matters

The following sub-sections present the control objectives, risks and key issues that internal auditor need to consider in developing their audit procedures for each of the components in the human resource function.

The Human Resources Department

Personnel represent the largest proportion of operating costs for TASAF. Furthermore, the performance of employees is crucial to the success of TASAF.

Control objective for human resources department are:

- i) To ensure that adequate and suitably experienced staff are recruited and provided in order that TASAF's operational objectives are achieved;
- ii) To ensure that policies which support the recruitment, retention, training and development, performance appraisal, remuneration, welfare, disciplining and employment termination of the personnel are developed, implemented and monitored;
- iii) To ensure that all the prevailing employment and employee legislation and regulations are fully complied with;
- iv) To ensure that TASAF's remuneration and benefits remain competitive and relative to the industry standards;
- v) To ensure that staff are adequately trained to perform their duties and that their skills and abilities are developed and maintained in accordance with the current and future business operational requirements;
- vi) To foster positive labour relations at all levels and to avoid disruptive disputes;
- vii) To ensure that personnel turnover and absenteeism are monitored, maintained at acceptable levels, and problems are promptly reacted to;
- viii) To ensure that staff recruitment is suitably authorized in accordance with the operational demands of the organization and cost effectively conducted;
- ix) To ensure that staff performance is monitored and the necessary remedial action is taken;
- x) To ensure that adequate personnel records are maintained and protected from unauthorized access; and
- xi) To provide information and a cost-effective and professional service to management on all human resource matters.

Key issues to consider in developing an audit program for the human resources department:

- i) How can management be certain that there will be adequate and suitably skilled staff available now and in the future, to ensure the achievement of their objectives?
- ii) Have documented policies been established for staff recruitment, training, remuneration, performance appraisal and disciplinary matters?
- iii) What measures are in place to prevent the engagement of staff on terms out with the prevailing policies, terms and conditions?
- iv) What measures ensure that all staff recruitment is authorized and that only suitably skilled persons are employed?
- v) How is on-going compliance with all the prevailing employment regulations and laws confirmed, and would failure to comply be promptly detected?

- vi) What measures ensure that salaries, benefits and all other terms and conditions remain competitive and realistic in relation to the sector and national norms?
- vii) How does management ensure that skill requirements are identified and staff are adequately trained and developed to meet the demands of the business?
- viii) What measures ensure that good labour relations are maintained and costly disputes are avoided?
- ix) Are management made aware of absenteeism and staff turnover levels, and what action is taken in the event of increased or unacceptable levels?
- x) How can management be sure that staff are performing at the appropriate level and proficiency, and what action is taken to identify and correct any shortfalls?
- xi) Is there a documented disciplinary and grievance procedure in place, and does it conform to the necessary regulations?
- xii) What measures are in place to ensure that Human Resource staff maintains an accurate and up-to-date awareness of all the relevant regulations and professional practices (and are line management also kept informed)?
- xiii) How does management ensure that all staff is made aware of their responsibilities and entitlements under the prevailing personnel policies?
- xiv) How can management ensure that the personnel records are up to date, accurate, and adequately protected from unauthorized use and access?

Recruitment Process

Recruitment is initially about accurately identifying justified need and then selecting the most effective and cost-effective methods to fill the requirement.

Control objectives for the recruitment process are:

- i) To ensure that appropriately experienced and stable staff are recruited to meet TASAF's operational objectives;
- ii) To ensure that a structured, targeted, and cost-effective approach to recruitment is adopted;
- iii) To ensure that all recruitment and appointments are suitably authorized;
- iv) To ensure that recruitment activities comply with the current legislation and regulations;
- v) To ensure that new employees are engaged in compliance with the prevailing remuneration and conditions policies;
- vi) To ensure that all positions are suitably evaluated and that the key recruitment criteria are identified;

- vii) To ensure that candidates are evaluated against the job specification and adequately screened to confirm their previous employment and educational record;
- viii) To ensure that personnel and employment records are correctly established and accurately maintained in accordance with any applicable legislation;
- ix) To ensure that valid and correct employment contracts are agreed, signed and retained.

Key issues to consider in developing an audit program for the human resources department:

- i) Have documented recruitment policies and procedures been established, and how can management be assured that they are up to date and complied with?
- ii) Have standard remuneration scales and employment conditions been implemented, and would management be made aware of staff engagements which fall out of these standards?
- iii) How can management be certain that all staff recruitment and appointments are warranted and authorized?
- iv) What processes ensure that the requirements of a particular position are clearly established as the basis for evaluating subsequent applicants?
- v) How can management be sure that the most appropriate and cost effective method of recruitment is utilized, and that excessive recruitment costs are avoided?
- vi) What steps are taken to confirm the previous employment record and educational qualifications of candidates, and what prevents the engagement of staff with either an invalid or unsuitable record?
- vii) How can management be assured that all the prevailing employment and engagement legislation and regulations are being correctly observed?
- viii) Are all staff engagements supported by a valid, accurate, agreed and signed contract of employment, and what prevents staff being engaged without a contract being in force?
- ix) What measures ensure that new employees are correctly set up on the payroll and that their salary rate is valid for the position?
- x) How can management be certain that accurate, complete, and up-to-date personnel records are maintained that conform to any relevant laws and regulations?
- xi) Are personnel and employment records adequately protected from unauthorized access and use?

Staff Training and Development

Staff need to be suitably trained to discharge their responsibilities effectively and efficiently. The cost of providing training can be reasonably high, and management will need to ensure that precious training resources are targeted to areas of the greatest need.

The control objectives for the staff training and development process are:

- i) To ensure that training and staff development resources are accurately targeted in order to maximize their effects and avoid wasteful activity;
- ii) To ensure that employees are adequately trained to enable them to effectively discharge their responsibilities;
- iii) To ensure that the skills of the workforce are maintained at the appropriate level and in line with the business objectives of the organisation;
- iv) To motivate staff and increase their commitment by providing suitable personal and skill development facilities;
- v) To anticipate the future skill needs of the business and ensure that relevant training is planned for;
- vi) To provide adequate and appropriate training facilities and resources on a cost effective basis;
- vii) To maximize the benefits available from government or trade training schemes and subsidies; and
- viii) To consider the use of training and staff development as means to gain a competitive advantage.

Key issues to consider when developing audit programs for staff training and development:

- i) Has management defined, documented and implemented a training policy which incorporates, training programmes and timetables, required standards of skill proficiency, training methods to be used, etc.?
- ii) How are management assured that all training and staff development activities are justified, authorized and appropriately targeted?
- iii) Is expenditure on training and development subject to budgetary control, and what prevents either unauthorized or unnecessary training activities from taking place?
- iv) Has management determined the required skill and knowledge base for the workforce and implemented a planned training approach to ensuring that the employees remain competent and able to discharge their duties?
- v) How is management certain that they can identify and suitably address individual training and development needs?

- vi) Are training activities actively monitored for their effectiveness, so that deficiencies can be recognized and remedied?
- vii) How can management be sure that the most suitable and cost effective training methods and resources are utilized?
- viii) Are the costs of training and staff development offset, whenever possible, by obtaining government or trade-related training subsidies?
- ix) Is training conducted to a suitable trade or nationally recognized standard?
- x) Whenever possible, does management consider the use of training in order to gain a competitive or strategic advantage?

Staff Appraisal and Disciplinary Matters

Staff appraisal and disciplinary matters is recognition that achievement of success of individual employees may be linked to reward. Also staffs need to be disciplined so as to behave in accordance with organizational expectation, as well as the need for a formal complaints and disciplinary procedures.

Control objectives for staff appraisal and disciplinary matters:

- i) To ensure that staff performance is monitored and regularly appraised so that employee contributions are maximized;
- ii) To ensure that staff appraisal system is authorized by management and that the scheme is supported by realistic and workable procedures;
- iii) To ensure that management and staff are fully aware of the aims of the system and their role in the process;
- iv) To ensure that staff are aware of their responsibilities and have determined measurable goals and objectives to achieve;
- v) To ensure that achievement of personal goals and objectives is monitored and reasons for non-achievement identified and reviewed;
- vi) To link performance and personal achievement to the reward structure;
- vii) To ensure that personal training and development needs are assessed and addressed;
- viii) To ensure that the appraisal process is fair, unbiased, and gives employees the opportunity to comment upon and agree their obligations and performance standards;
- ix) To ensure that staff with consistently poor performance records are detected and dealt with accordingly;
- x) To ensure that all appraisal and disciplinary schemes operate within the confines of the prevailing employment legislation;
- xi) To ensure that matters of absenteeism and misconduct are formally dealt with;

- xii) To provide facilities to enable staff to bring their problems and concerns to the attention of management without fear of retribution; and
- xiii) To provide a formal complaints and disciplinary procedure, incorporating escalation procedures, rights of appeal and representation, and defined disciplinary stages.

Key issues to consider in developing audit programs for staff appraisal and disciplinary matters:

- i) How does management confirm that staffs are performing at the appropriate level and standards?
- ii) Have management authorized and established a staff appraisal system supported by documented procedures?
- iii) Does the staff appraisal scheme have the commitment of senior management, and are staff and management aware of their roles in the process?
- iv) Are staff performances assessed against realistic and measurable factors and objectives, and how are these recorded?
- v) Are line management adequately trained and briefed as to their role and responsibilities in the appraisal scheme?
- vi) Are individuals' performances regularly assessed against their defined goals and objectives, and are failures to achieve the desired standard examined to determine the underlying reasons?
- vii) Are performance shortcomings used as the basis for determining and agreeing on the personal training and development needs of staff?
- viii) How can management be assured that staff training and development needs are satisfactorily and cost-effectively addressed?
- ix) Have formal, authorized, and documented disciplinary procedures been established, and how is compliance assured?
- x) Do all staff appraisal and disciplinary procedures comply with the current and relevant employment legislation, and how is compliance confirmed?
- xi) Is management assured that cases of persistent absenteeism or serious misconduct would be detected and appropriately dealt with?
- xii) In dealing with disciplinary matters, are the rights of employees adequately catered for?

12.4 PROCUREMENT AUDIT

Introduction

Procurement is one of the most critical aspects in TASAF, insofar as efficient and effective use of resources is concerned. This is because more than 75% of the organizational resources are utilized through procurement. The process spans the

whole life cycle from identification of needs, through to the end of the service contract or the end of the useful life of an asset.

Categories of Procurement

TASAF's Procurement functions has the following key categories:

- i) **Works:** design, construction, rehabilitation, maintenance, and repair of buildings, roads, plants, bridges, and others temporary or permanent structures.
- ii) **Goods (Supplies):** supply of various materials, stationery, foodstuffs, etc
- iii) **Non-Consultancy Services:** maintenance and repair of equipment, security services, cleaning services, and operating staff canteen
- iv) **Consultancy Services:** studies, designs, provision of technical assistance, and training by a consultant.

The scope of procurement function (procurement cycle) starts with Specification of kind and quality of goods or services to be acquired, Investigation of the market for supply, and contracts with potential suppliers, Placing the order or contract, including negotiation of terms, supervising delivery and performance, Taking necessary action in the event of inadequate performance, Invoicing and payment, Dealing with disputes, and Closing the file/ order.

Public Procurement in Tanzania and Its Legal Framework for Audit

The public procurement in Tanzania is governed by the Public Procurement Act No. 9 of 2011. Generally, the overall responsibility for the execution of the procurement process rests with the Chief Executive Officer.

The responsibility of the internal auditor for auditing procurement procedures is provided under the Public Procurement Act (2011) section 48(2), which states that "The head of internal audit of each public body shall in his quarterly audit report include a report on whether this Act and Regulations made under it has been complied"..

Control Objectives and Key Risk/Control Issues for Procurement

To ensure that:

- i) All procurement activities are supported by authorized and documented policies and procedures;
- ii) The appropriate goods, works and services are obtained at the optimum price and at the relevant time;
- iii) All procurement activities are valid, justified, authorized and within the prescribed budgets;

- iv) Suppliers are reliable, and able to satisfy the project's procurement needs;
- v) All goods, works and services are of an appropriate quality to satisfy the TASAF's objectives;
- vi) Suppliers' trading terms and conditions are appropriate;
- vii) All procurement activities are correctly reflected in the TASAF stock control records and accounts;
- viii) Overdue and late deliveries are progressed;
- ix) Supplier performance is adequately monitored and reacted to;
- x) Procurement activities comply with all the prevailing legislation and regulations; and
- xi) Management is provided with adequate, accurate and timely information on procurement activities.

Key Risk and Control Issues for Procurement

The following are the key issues that internal auditors need to consider when developing their audit program:

Institutional set-up

- i)* Are procurement laws, regulations and other relevant guidelines/circulars from PPRA available? Have they been communicated to all concerned parties?
- ii)* Is there proper establishment, composition and functioning of all procurement organs as per PPA (2011) e.g. Tender Board, (PMU) etc?

Preparation and Implementation of Annual Procurement Plan (APP)

- i) Has the APP been prepared in the format prescribed by the procurement guidelines?
- ii) Has the APP been prepared based on TASAF's budget i.e. from Approved Annual Work Plan and Budget?
- iii) Has proper timing and list of requirements been taken into account in the APP?
- iv) How can management be assured that all purchase orders are justified, authorized, within budget and accounted for within the correct accounting period?
- v) What mechanisms prevent the invalid, unauthorized and fraudulent use of official orders?
- vi) How does management ensure that adequate and appropriate supplies are obtained to sustain the required government activities?

Bidding process

- i) How does management ensure that appropriate bidding procedures are being followed in accordance with the requirement of laws and regulations

- i) How does management ensure that goods, works and services are always obtained at the most economical and fair price?
- ii) How can management be assured that all suppliers are stable, reliable, and capable of meeting the government's needs at the optimum price?
- iii) What processes ensure supplies; works and services are to the required standard, specification and quality?

Contract implementation and monitoring

- iv) Dully signed contracts specifying clearly the terms and conditions?
- v) What mechanisms ensure that all goods are received on time and that overdue delivery are identified and progressed?
- vi) Formation and functioning of inspection committees (goods) and project managers (works and consultancy services) as required by laws and regulations?
- vii) How can management be certain that all purchases are correctly reflected the stock control and accounting records?
- viii) Adherence to proper procedures regarding variations and contractual certificates?

Procurement Reports

- ix) Preparation and submission of all procurements reports as per PPA (2011) and PPRA Guidelines?

Record Keeping

- x) How is management assured that there is adequate maintenance of complete and systematic records for all procurement activities
- xi) How can management be assured that all procurement activities fully comply with all the relevant legislation and regulations (PPA 2011 and its attendant regulations)?

Note:

- i) In carrying out procurement audits, the internal auditor will follow the audit tools and techniques discussed in audit process chapter;
- ii) PPRA conducts procurement audits for procuring entities (PEs) annually. The internal audit needs to capture areas of emphasis highlighted in the PPRA's procurement audit reports as well as obtaining procurement checklists used by PPRA in their audits;
- iii) The audit plan and program of the auditor will determine the manner in which the audit will be carried out. For instance, a particular functional area of the procurement e.g. audit of bidding process; audit of contract implementation and monitoring etc.

12.5 SUSTAINABILITY ASSURANCE AUDIT

It is an audit that provide reasonable and independent verification of sustainability data, internal controls, and ESG disclosures to ensure alignment with national and global reporting standards. By aligning with NBAA TP No. 1 of 2024, compliance to IFRS S1/S2, and ISSA 5000, TASAF guarantees that its sustainability and ESG disclosures meet the highest international assurance standards, thereby reinforcing its reputation as a trusted, accountable, and data-driven public institution leading sustainable development in Tanzania.

The objective is to:

- i. Strengthen stakeholder confidence in TASAF's sustainability reporting and governance.
- ii. Verify the completeness, accuracy, and reliability of ESG data disclosed in the Sustainability and ESG Report.
- iii. Align internal audit and external assurance practices with NBAA and IFRS requirements.
- iv. Identify areas for continuous improvement in data management and sustainability governance.
- v. Reinforce TASAF's accountability to government, development partners, and the public.

a. Guiding Principles

- i. **Independence:** Assurance providers must be free from bias and conflicts of interest.
- ii. **Competence:** Assurance teams must possess relevant expertise in ESG, accounting, and sustainability assurance.
- iii. **Evidence-based Verification:** Conclusions are drawn from objective, documented, and verifiable evidence.
- iv. **Transparency:** The assurance process, criteria, and results are disclosed in the Sustainability Report.
- v. **Consistency:** Assurance is conducted using standardized methodologies and procedures aligned with NBAA and ISSA standards.
- vi. **Materiality:** Focus is placed on the most significant ESG topics and indicators relevant to TASAF's mandate.

b. Internal Assurance Process

Internal assurance focuses on ensuring strong controls and compliance mechanisms for sustainability reporting.

i. System Audit and Control Review

- 1) Evaluate the design and effectiveness of internal systems used for ESG data collection (SDMS, M&E, and MIS).
- 2) Verify compliance with data validation and reporting procedures.

ii. Data Accuracy Verification

- 1) Reconcile data from field reports, financial systems, and sustainability databases.
- 2) Confirm alignment between ESG data, audit records, and program outcomes.

iii. Compliance and Risk Evaluation

- 1) Assess adherence to NBAA, IFRS, and national safeguard requirements.
- 2) Identify ESG-related risks and recommend mitigation actions.

iv. Quarterly Audit Reports

- 1) Internal Audit submits quarterly reports to the Audit and Risk Management Committee and Management Team.
- 2) Reports include findings, corrective actions, and follow-up mechanisms.

CHAPTER 13 : CONDUCTING INTERNAL INVESTIGATIONS

13.1 INTRODUCTION

Internal investigations are a response to a non-routine problem within the organisation. They are conducted to uncover specific issues, such as fraud or mismanagement, within an organization. Internal auditors may, from time to time, be engaged to carry out non-routine investigations or participate in some form of ongoing investigation.

Many non-routine issues may call for investigations, for example:

- i) Suspected fraud, theft or misuse of the organization's resources
- ii) Claims of harassment.
- iii) Staff misconduct.
- iv) Complaints made by external parties.
- v) An increase in certain types of processing errors.
- vi) Grievances raised by a staff member who feel they have been unfairly treated.

It should be noted that, depending on the nature and extent of an issues, claims of fraud and issues that may lead to prosecution requires to be conducted by specialist forensic experts.

13.2 INTERNAL AUDITOR'S ROLE

The responsibility for prevention and detection of such matters as fraud and other irregularities rests with management. The internal auditor's role is to assure the management that controls that are designed to prevent such irregularities are working as intended. This is done by ensuring that plans focus on high-risk areas.

Internal auditors should approach their audit engagements with "professional scepticism" – i.e. having in mind that errors or fraud may be present in the activity they are auditing.

Internal auditors may discover fraud either through their audit checks or from information received from management or tip-offs, or formal complaints, anonymous letters, telephone calls etc. Internal auditor could identify some signs, personal circumstances or organizational conditions that could point to fraud, e.g.:

- i. Overspending against budget
- ii. Unexplained items in suspense accounts
- iii. Frequent late banking
- iv. Altered petty cash vouchers and receipts
- v. Goods invoiced that are not normally purchased

- vi. Employees who never take annual leave, or work outside normal working hours
- vii. Employee personal financial problems, or who lifestyle is more extravagant than their salary would warrant
- viii. Complaints about a member of staff from customers or employers.

In case auditor believes there are signs of fraud or irregularities, they should recommend or require more detailed examination.

13.3 PRINCIPLES OF NATURAL JUSTICE IN INVESTIGATION

It is important to make sure that all internal investigations are carried out with due regard to the principles of natural justice. It is better to promote a culture of corporate integrity, which means investigations will have to ensure:

- i) The fair treatment of all parties to the investigation.
- ii) That the investigation is conducted by someone who is both impartial and professional.
- iii) All parties have a chance to put their case forward and respond to all evidence that affects them.
- iv) There is a right to appeal against any ruling that adversely impacts any party to the investigation.

13.4 GENERIC STEPS IN INVESTIGATIONS

The approach in this manual is that, although each investigation is unique in terms of the issues and circumstances, they follow a generic process which involves the following steps:

- i) Fact-finding;
- ii) Establishing the Terms of Reference;
- iii) Planning the investigation;
- iv) Fieldwork; and
- v) Communicating the results.

Each of these steps is detailed in the remaining parts of this section.

13.5 FACT FINDING

Once allegations or complaints received or logged into the appropriate authority, the fact-finding stage should be considered. The fact finding assignment should be given to an impartial person/manager who should make quick assessment of the problem at hand.

Fact finding will normally involve:

- a) Interviewing the person who made the claim, allegations, complaint or grievance.
- b) An examination of any documentation provided by the person above.
- c) Interviewing the manager for the area in question.
- d) Talking to any in-house people who may have special interest in the matters under review.

After this process, there are five possible decisions to be made:

- a) To drop the matter.
- b) Deal with it informally through, say an apology and/or a system fix.
- c) Launch an internal investigation using the internal auditors.
- d) Give an investigation to an outside specialist.

13.6 TERMS OF REFERENCE

The fact-finding exercise should provide inputs for developing the specific terms of reference. Investigation will aim to complete the term of reference and ensure that a good job is done by everyone involved in the investigation.

In this case, therefore:

- i) Internal auditors should not embark on investigations that lack specific Terms of Reference from the requestors.
- ii) If the request for investigation does not have specific TORs, internal auditors should advice/ or work with the requesting authority to develop and agree upon such TORs.
- iii) The key to formulating the TOR is to ensure that they address the matters under question and points to the expected results of the investigation.
- iv) The TOR document should be approved by an agreed sponsor.

The Term of Reference should outline the following:

- i) The incident or issues that will be investigated.
- ii) The scope of work, in terms of organizational policy that may come into play.
- iii) The scale of the work in terms of whether it relates to one incident or a series of events or a timeframe that it will focus on.
- iv) Whether there will be an attempt to consider the need to make improvements as a result of the investigation.
- v) Also should add a catch-all phrase i.e. to consider any other matters that may come to light during the investigation that impact on the issue under consideration.

13.7 PLANNING THE INVESTIGATION

An investigation should not start until there is a clear idea of what needs to be done and how one should go about gathering the right amount of evidence. The planning stage will outline the aim of the investigation, its scope, any special factors, and a series of tasks that will need to be undertaken to complete the investigation. The following should be done at this stage:

- a) Holding a strategy setting meeting,
- b) Establishing the tasks,
- c) Determination of resources,
- d) Publicity and Accessibility Issues, and
- e) Production of the investigative plan.

Strategy Setting Meeting

An investigation team being appointed should hold an initial strategy or goal-setting discussion with the client (and other important stakeholders). The meeting shall mainly discuss the TOR including the purpose of the investigations, the goals and objectives of the investigation, and the possible remedies available (especially when fraud is the case).

Establishing the Tasks

The initial planning stage will identify the various tasks that will need to be planned and then completed as part of the full investigation.

The tasks should be designed such that they relate to accomplishing the investigation's TORs. The specific tasks may include:

- a) Interviewing the person who is the source of the allegations/complaint/issues.
- b) Interviewing people who may be witnesses to the matter or incident in question.
- c) Interviewing employees who can provide information on the problem at hand.
- d) Talking to external parties who interact with the organisation and who may have information that relates to the investigation.
- e) Talking to people who have some expertise concerning the issues in question.
- f) Examining any documentation relating to the case.
- g) Extraction of any other relevant evidence that will impact on the case.
- h) Briefing authorized persons, preparing reports and generally arranging for the smooth running of the investigation.

Resources

The TOR will give out the aims and scope, hence the bigger the investigation the more work required and more the need to approve a formal budget.

The following criteria can be used to determine the budgeting questions:

a) *Small investigation,*

- This will be simply the extension of a fact finding stage.
- May last a day or two for interviewing a couple of people.
- The investigators will simply be extracted from their day job and it should be made clear that their work-time is now allocated to the investigation.

b) *Medium-sized investigation*

- Where the investigation last for up to a week or even beyond. This will require bigger commitment in time and resources.
- The investor will be taken off-line in terms of his/her routine duties and there may be need to find cover for his absence.
- Travel and other expenses may be involved, to visit witnesses or various relevant locations.
- The official time-off and expenses budget may need to be prepared and approved.

c) *Large investigation*

- Where a big job lasts several weeks there is a need to develop a complete budget for the work.
- This may entail: the time-off, support time from other employees or ad-hoc legal expert, travel and other expenses, and even a separate office where evidence can be stored and confidential conversation and team briefings be conducted.
- It may be necessary to employ a specialist investigator if the investigation is complex and time-consuming.

The Investigation Initial Plan Schedule

After the fact-finding and strategy meeting, the investigation team should complete an initial investigation plan

Access Rights

The planning stage need to consider issues of access to three categories of information:

- a) Information that is readily available,
- b) Information that is harder to secure, and

- c) Other information that may be held by third parties, but is relevant to the inquiry.

In this case, investigators may need to plan for obtaining access rights to:

- a) People who work in the area in question,
- b) Customers, contractors and associates who need to be interviewed,
- c) Organizational and local information system,
- d) Relevant documentation and records held by local offices and head office,
- e) Phone logs, data logs and e-mail records,
- f) Locations, buildings and offices where relevant evidence may be held.
- g) Any other sources of relevant evidence.

Confidentiality and Publicity

The first rule in investigation is to observe confidentiality.

While strict confidentiality is important, when people are aware that there is an investigation underway, and if there is some interest from the media or regulators, the lack of information will create a vacuum.

This vacuum may as well also misinformation to be spread across the organisation by all those parties who are interested in the results.

At the planning stage, the following should be noted for the publicity aspect of investigation:

- a) Decide the mode of publicizing the investigation as part of planning stage by choosing a spokesperson (e.g. head of investigation team etc.).
- b) Decide the parties that should be informed about the investigation at an early stage (e.g. the manager in the area concerned, the complainant, any employee questioning the investigation, etc.)
- c) Work out the formal reporting arrangements.

13.8 FIELDWORK - EVIDENCE GATHERING

All internal investigations should involve assessing issues and gathering sufficient reliable evidence to substantiate the claims, so that implication may be ascertained.

Fieldwork is the main part of any investigation. Fieldwork is about taking the investigative plan and putting it into action. It is about getting into detailed evidence gathering. Fieldwork includes the ascertaining the issues at hand, understanding the

processes and operations, substantiating the claims, and inferring the implications (i.e. making conclusions based on evidence).

Ascertain the issues

Specifying the issues/claim is important, as this will mean we have criteria against which to look for evidence supporting or refuting the claim.

Clarify the issue by:

- i) Interviewing the person initiating the matter.
- ii) Consider organisation procedures that impact the issue in question.
- iii) Examine the local procedures for the area in question that affect the issues in question.
- iv) Take all other steps to ensure there is a good understanding of the issues.

The main idea with this stage is to carry out sufficient background work to ascertain what exactly is being investigated, mainly by noting all the claims, process, and operations that come into the equation. Some of this could have been completed at the fact-finding stage.

Evidence to Substantiate the Claims

Claims are substantiated by evidence. The investigators may use a combination of sources to gather evidence including: interviews, processed documents, formal statements, phone interviews, organisation policies, procedures and rules, diaries, expense claims and movement logs, expert statements, budgets, staff information, prior complaints, human resource files, security reports, published reports, compliance checks, re-performance, data mining, and forensic techniques.

i) Rule of Evidence

Make sure that the collected evidence can stand-up to scrutiny by collecting evidence that follows these rules:

- a) *Relevancy*: it sheds light to the claim under investigation.
 - b) *Reliable*: the evidence should be sound, objectively obtained, contains no flaws and should be convincing.
 - c) *Sufficiency*: the evidence should give rounded picture of the facts and not represent isolated cases.
 - d) *Integrity*: The investigator should be able to indicate the source of evidence, how it was examined, how it was stored, who had access to it and how it has been presented to support the investigation.
- ii) *Other broad criteria for Good Evidence*

Good evidence is material that is secured in line with the TORs for the investigation that seek to prove, disprove or provide further insights into the issues in question.

The following should also be considered:

- a) *Openness*: Gather, compile and use the evidence in a spirit of openness than means the reason the information was secured can be explained.
- b) *Sensitivities*: Be sensitive to the views and concerns of individuals connected with the investigation and gather evidence in way that minimized rumours and disruption to the business.
- c) *Logical and rigorous*: Gather evidence in a way that ensures that all relevant information is obtained.
- d) *Objectivity*: Evidence can support an allegation or it may point to failing in the allegation. The aim is to seek evidence that throws light on whether something is true or not.

13.9 FIELDWORK - EVIDENCE ASSESSMENT

All sources of evidence have a unique and transient quality. Some findings are clear and straightforward, while others are less easy to interpret. Therefore, before concluding, auditors should undergo an analytical process to evaluate the evidence obtained.

Evidence is assessed against set criteria using 5 C categories, i.e;

- a) Contrary = disapprove a claim.
- b) Cloudy = does not really support the claim.
- c) Confirming = tends to confirm rather than corroborate another source of evidence.
- d) Compelling = so long as the witness is deemed a credible source and has no vested interest.
- e) Concrete = proof that the incident did happen.

13.10 FIELDWORK – INTERVIEWING

Interviewing is the most effective tool for gathering investigative evidence. Interviews can be of two types: to gather more information and to interview the suspect.

Who to Interview?

During the investigation, the internal audit will interview many people, who can assist in the task, including:

- i) The person making the allegation/raising the concern or making the complaint.

- ii) Any person who need to answer claims (or the suspect in a case of fraud) regarding their behaviour as a result of an allegation/complaint.
- iii) Any witness who have specific knowledge about the allegation or behaviour of the person answering the claims.
- iv) Management in the area that is affected by the investigation.
- v) Any in-house or external experts who can provide assistance to the investigator.

Planning the Interview

Before conducting the interview, the auditor should consider the information needed, time and place of interview (preferably during normal working hours, but away from the interviewee's normal working place), and who will be present (all interested parties should be represented, and preferably two internal auditors).

The method of recording should be pre-determined (e.g. notes, or digital recording, especially for fraud investigation).

Conducting the Interview

At the interview itself:

- i) One auditor should ask questions – and another person should take notes.
- ii) Ensure that nothing is done that can be construed as duress by the interviewee.
- iii) It is useful normally to begin by asking the interviewee to outline their understanding of their duties and responsibilities of the matter under review.
- iv) Ask supplementary questions where necessary.
- v) If at any time the auditor forms the opinion that they have reasonable grounds for believing that the interviewee has committed an offence, the caution should be administered.
- vi) The auditor's notes should be agreed, signed, and dated by all present at the interview.

13.11 FIELDWORK – FRAUD-RELATED INTERVIEWS

These interviews will broadly fall into two main categories: fact-finding interviews and interviewing with the suspect.

Fact-finding interviews

Although the basic evidence in fraud investigation is more likely to be documentary, it will normally be necessary to establish certain other facts either relating to those

documents, other people, the application of rules/regulations, procedures in operation, and/or specific events. This can be obtained from the testimony and recollection of others through fact-finding interviews which will generally be of a formal nature and comprise predetermined questions, although other supplementary questions may be raised during the course of the interview.

The questions should be designed to elicit the relevant facts from the interviewee and answers which enhance the auditor's knowledge of the circumstances connected with the investigation. Leading questions (which indicate the answer which is anticipated) should not be asked.

If predetermined questions are not used a checklist needs to be prepared to ensure that spontaneous questions cover all the necessary areas of the investigation.

Depending on the scale and sensitivity of the investigation, these interviews will be undertaken by two auditors, one of whom will take detailed notes of the answers given to the questions asked.

Where the interview takes place at a person's private residence, the auditor should ensure that the interviewee is aware of the auditor's name and will carry an identification pass, which will be shown on arrival.

If the interviewee is an aged person, the auditor may be accompanied by a social/welfare worker, who is known to the person. This is also important when the interviewee is female and lives alone, and in these circumstances it is preferable that the interview be conducted by a female auditor where possible.

Interviews with Suspect(s)

In general, interviews with potential suspects should be conducted towards the end of the investigation when the auditor has assimilated the available evidence and the examinations of records and interviews with third parties and others has established, as far as possible, the validity of the facts of the case.

If the interview is carried out at an early stage, where the auditor is working largely on personal suspicions, then the interview becomes a fact finding interview with the possibility of a further interview being necessary. This could however enable the suspect to gain considerable insight into areas being covered by the investigation and be given an early opportunity to frustrate the investigation as previously mentioned.

Interview Notes

Audit interviews are normally recorded by the use of contemporary notes taken by a member of the audit staff as the interview proceeds. This process should be explained to the interviewee at the commencement of the interview.

Auditors are not trained shorthand writers and so cannot normally be expected to produce a complete verbatim record of the answers given at interview but the person taking notes should record the answers given as fully as possible.

There is a danger that the note taker might disregard, or fail to record an apparently trivial statement made by the interviewee which is in fact of singular significance to the case, but which could not later be introduced as evidence if it is not recorded in the interview notes. To this end, where particularly complex investigations require such interviews it is perhaps appropriate that the person taking notes is fully conversant with the case in order to minimize the risk of any significant comment not being recorded.

The recording of the interview fully and correctly is a vital aspect of the whole investigation, both from the point of view of the auditor and the interviewee. This applies whether or not the interview is being tape recorded.

Where an audit interview continues for any length of time, the offer of breaks and their acceptance, or refusal by the interviewee must be recorded, together with the relevant times in the contemporaneous notes taken of the interview. Any complaints raised by the interviewee should also be recorded in the interview notes.

Once the interview has been completed, any sheets containing predetermined questions that were not asked should be removed.

The interviewee should be invited to read the interview notes that have been taken and should be allowed to make any additions, deletions, or amendments that are considered necessary. When any such alterations have been made and the interviewee agrees that the notes are a complete and accurate record of the interview they should then be asked to sign each page of the interview notes and to initial any alterations which have been made.

Once this has been done, and in the presence of the interviewee, the auditor who has taken the notes should consecutively number the pages of notes, cross through all blank space on the pages of notes to demonstrate to the interviewee that nothing can subsequently be added to the agreed interview notes, sign each page of notes, together with the auditor who has conducted the interview, and enter on the last page of notes the time at which the interview ended.

Refusal of the Interviewee to Sign the Notes Taken

It may arise that an interviewee will refuse to sign the notes taken of the interview. The circumstances of the refusal should in those cases be noted on the last sheet of the interview notes, preferably in the presence of the interviewee, and the notes should be signed by the two auditors who conducted the interview.

Under no circumstances whatsoever should the interviewee be pressured into appending a signature.

13.12 FIELDWORK – RESULTS SUMMARY SCHEDULE

The results of the evidence-gathering exercise should be summarized in the Fieldwork Summary. The schedule should contain all the information required to understand the work that has been carried out and it enables the investigator to prepare and present suitable reports.

13.13 CAUTION ON LEGAL IMPLICATIONS ON FRAUD INVESTIGATION

The objective of most fraud investigations is to prove or disprove the original suspicions of fraud. If proven, to support the findings by producing evidence and presenting that evidence in an appropriate format.

TASAF has procedures to ensure that relevant personnel are informed in case of fraud allegations. These may include heads of departments, the accounting officer, internal and external auditors, and regulating bodies.

There may also be guidance on the involvement of the police.

Since a fraud investigation may lead to formal prosecution, it is prudent to obtain legal advice from within the organisation. This should be before the initiation and conclusion of the investigation. Legal advice should also be sought on the strength of the evidence obtained.

13.14 COMMUNICATING RESULTS OF AN INVESTIGATION

The results of an internal investigation should be effectively communicated to the requestor and other authorized parties in a professional manner that convey a formal opinion along with any recommendations that result from the work carried out.

In the report, the investigator must communicate the following matters:

- a) Why the investigation was carried out.
- b) The adopted terms of reference.
- c) Any special factors involved.
- d) Background to the issues and persons involved.
- e) The methodology for performing the work.

- f) The evidence that was obtained and how it was evaluated, including any gaps or instances where evidence was not available.
- g) The actual findings in terms of what the investigators believed happened, any inconsistencies and the severity of the implications.
- h) The sequence of events and information relating to documents reviewed, people interviewed and any briefings made to the media and others.
- i) The recommended next steps and ways forward.

CHAPTER 14 : INFORMATION SYSTEMS (IS) AUDIT

14.1 NEED FOR INFORMATION SYSTEM (IS) AUDIT

IT is occupying the largest share of TASAF's activities, hence representing the project's most valuable assets. However, on the other hand, the IT function has its own risks and as such, they should be appropriately managed. This brings in the importance for Internal Auditors to place major concern for the audit of computerized information (IT). It also calls for auditors to have additional knowledge, skills and experience to enable them carry IT audits efficiently and effectively.

14.2 ROLE OF INTERNAL AUDIT IN REVIEWING (IS) CONTROL ENVIRONMENT

Regulation 34 (1) (h) of the Public Finance Regulations (2001) as amended in 2010 provides the "*internal audit service... shall review and report on the adequacy of controls built into computerized systems in place within the unit*".

In addition, the IIA standards also require internal auditors to perform IS audits, specifically Performance Standard 2110.A2 states that "*The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives*".

However, standard 1210.A3 also cautions that "*... not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing*".

14.3 INTERNAL CONTROL IN A COMPUTERIZED ENVIRONMENT

The principles relating to internal control are the same in a computerized environment as in a manual environment. However, there are additional considerations that need to be taken into account by the internal auditor when auditing computerised systems.

The internal controls over computer-based systems can be divided into two main types, which are application and general controls.

Application Controls

Application controls relate to the transactions and standing data for each computer-based application and are therefore specific to each application. For example, there will be specific application controls for a computerized payroll system. The objectives of application controls are to ensure that the information produced by the system is complete, accurate and valid.

To achieve these objectives controls are needed over the completeness, accuracy and authorization of all input data to the system, the completeness and accuracy of the data processing and accurate maintenance of master files.

General Controls

General controls relate to the environment within which computer-based systems are developed, maintained, and operated. They apply to all computer systems within an organization. The purpose of general controls is to ensure the proper development and implementation of computer applications and operations.

General controls cover four main areas:

- i) Procurement- the selection and purchase of computer hardware and software
- ii) Systems development-controls over the development of new computer software or applications or of upgrading such programs
- iii) Administration – separation of duties, access control (use of passwords etc), stand-by and back up facilities, controls over files and personnel
- iv) Documentation – existence of standards/policy, manuals, operating instructions, and business continuity plans.

Application and general controls are interrelated. Strong general controls contribute to the assurance that may be obtained by an internal auditor from their audit of application controls. Weak general controls may undermine the effects of strong application controls.

Control Objectives and Key Risk/Control Issues for IT

- i) The integrity of all information processed and stored by IT systems is ensured and maintained in all events;
- ii) The procurement and development of new systems, hardware, and software is appropriately managed;
- iii) The ongoing general control environment is adequate;
- iv) Appropriate application controls are in place in all systems.

Procurement

- i) Procurement of all new systems, hardware and software is in accordance with Government procurement regulations?
- ii) Departments responsible for major IT procurements obtain appropriate technical expertise to help manage the procurement process?

Systems development

- i) Appropriate approval is obtained for any significant development or change to existing systems?
- ii) TASAF or individual designing or installing the original system is used to assist with significant systems development (unless there is a good reason not to do so)
- iii) Appropriate continuity plans are put in place to ensure operations can continue as normal while systems development takes place
- iv) Adequate technical expertise is employed to help develop and implement information systems
- v) Systems developed are piloted to ensure their correct design before being applied to the whole system

Administration Controls

- i) IT function has been established which is responsible for overall IT control
- ii) There is adequate segregation of duties between systems development, system administrators and end users
- iii) Appropriate log-in and password access controls are in place for all computers and systems. Passwords are changed periodically (at least every 3 months)
- iv) All computers are held securely, adequately recorded and marked with security codes
- v) Appropriate physical security is in place in all buildings containing computers
- vi) Appropriate anti-virus software is installed on all computers and kept up to date
- vii) All staff with computer access are adequately trained in computer skills and computer controls, as well as the specific systems they use
- viii) Adequate measures are taken to ensure staff being dismissed or retrenched cannot use computer access credentials to cause damage to the organization's records or systems
- ix) Adequate arrangements are in place to control and monitor third party use of the Government's systems (e.g. consultants and contractors)
- x) Breaches of established IT security policy are reported to the IT control function
- xi) Regular backups are taken of all systems data (in case of damage to systems) and stored in a safe place, away from the main system.

- xii) There are periodic reviews of compliance with the organization's established security policies

Systems Input Controls:

- i) Only authorized users have access rights which allow them to input data on to the system
- ii) The system administrator maintains an up-to-date list of all authorized system users, and periodically reviews this to ensure it is appropriate. Staff leaving the organisation or department have their system access denied
- iii) There is a proper audit trail showing the date, time, and person responsible for all data input
- iv) The audit trail shows all amendments to and deletions of data input

Data Processing Controls:

- i) Appropriate batch controls or reconciliations are used to ensure consistency between the records input to a system and the outputs

Standing Data Controls:

- ii) Only a restricted number of system users have access to add or amend standing data records
- iii) There is adequate audit trail over amendments to standing data. This trail is annually reviewed by the system administrator to ensure all amendments are appropriate
- iv) The reasons for amendments to standing data are recorded along with supporting evidence

Documentary Controls

- i) The organisation has established an appropriate IT security policy document and communicated this to all relevant personnel
- ii) Responsibilities for different aspects of IT security have been established and communicated to all relevant personnel
- iii) There is an appropriate business continuity/ disaster recovery plan in operation, to identify, reduce and manage risks from significant IT breakdowns
- iv) The organisation has produced an appropriate Data Protection Policy in accordance with statutory responsibilities and communicated this to all relevant personnel.

CHAPTER 15 : CONSULTING ACTIVITIES

15.1 INTRODUCTION

Internal auditors are suited to providing consulting services due to their vast experience in evaluating different systems of the organisation. Consulting means providing services agreed to with a client.

The key consideration here is that the consulting services provided should aim at adding value and improving governance, risk management, and control processes. Internal auditors should provide consulting services without the internal auditor assuming management responsibility.

15.2 CONSULTING SERVICE OFFERED BY INTERNAL AUDIT

Internal auditor may give the following common consulting services:

- i) Assisting or championing the establishment or improvement of risk management process in the organisation.
- ii) Facilitating CRSA (Control risk self-assessment) exercises.
- iii) Computer forensic IT audit for legal purposes.
- iv) IT pre-production system support when the organisation is either updating or developing a new system. Typically, the IT auditor will test the updated or new system's controls in the early stages to increase the likelihood of success.

15.3 KEY IIA'S STANDARDS ON CONSULTING ENGAGEMENTS

The following are a few (selected) extracts of key IIA's standards relating to consulting engagements:

Planning

(PA 2010.C1): *“the chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.”*

(PA 2201.C1): *“internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this must be documented.”*

Engagement objectives

(PA 2210.C2): *“consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.”*

Work program

(PA 2240.C1): *“work programs for consulting engagements may vary in form and content depending upon the nature of engagement.”*

Performing the engagement

(PA 2120.C3): *“when assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.”*

Communicating and dissemination of the results

(PA 2410.C1): *“communication of the progress of consulting engagements will vary in form and content depending upon the nature of engagement and the need of the client.”*

(PA 2440.C2): *“during consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.”*

Monitoring progress

(PA 2500.C1): *“the internal audit activity must monitor the disposition of the results of consulting engagements to the extent agreed upon with the client.”*

PART V

AUDIT FILES, WORKING PAPERS AND PERIODIC REPORTS

CHAPTER 16 : AUDIT FILES AND WORKING PAPERS

16.1 INTRODUCTION

Audit files and working papers' management lie at the heart of internal audit. Keeping systematically all audit working papers enables the professional execution of the internal audit service. Internal auditors are once reminded of this important fact.

This chapter is composed of two sections; a section on Audit Files and Working Papers Management, and a section on Internal Audit Periodic Reports.

16.2 AUDIT FILES AND WORKING PAPER MANAGEMENT

Audit Working papers are records of all matters that are important in supporting the report and, in particular, the reasoning of auditors in all significant matters that require the exercise of judgment.

Working papers document the audit, and among other things, may include:

- i) Planning documentation;
- ii) ICQs, flowcharts, checklists, and the results of control evaluations;
- iii) Notes of interviews, organization charts, policy and procedures statements, and job descriptions;
- iv) Photographs, diagrams, and other graphic displays;
- v) Test and analysis of transactions; results of analytical review procedures;
- vi) Copies of financial statements and their supporting schedules;
- vii) Audit summary including significant and unusual matters; and
- viii) Audit reports and management replies etc.

It can generally be said that working papers are any evidence that support the conclusion of auditors made in the report collected from all stages of the audit process.

Functions of Working Papers

Working papers serve a number of important purposes including the following:

- i) A record of the evidence obtained during the audit
- ii) A record of the findings and conclusions of the audit team

- iii) A readily accessible information base for the use of the audit teams
- iv) Provide support for the audit report
- v) Provide background and control for follow-up actions
- vi) To serve as a line of defence when audit conclusions and recommendations are challenged
- vii) To offer a basis for supervisory review of the audit's progress and accomplishments
- viii) To provide a means by which external auditors can evaluate the internal audit work
- ix) To help facilitate peer reviews- quality control
- x) Aiding professional development
- xi) Non-Audit purposes e.g. work done by auditors may be useful as input to other studies such as those performed by program evaluators.

Filing of Audit Working Papers

Audit working papers are usually filed in two separate files:

- i) Permanent Audit File (PAF)
- ii) Current Audit File (CAF)

Permanent audit file

PAF provides a permanent record of background information relating to the client and all matters of a continuing nature, which would be of relevance to subsequent audits of the organization (e.g. governance arrangement, nature of the organization and its activities, accounting and internal control systems, manuals and structure charts, policies and procedures etc.).

Current audit file

CAF keeps all documents and information obtained or created during the course of the particular audit engagement (e.g. audit planning memorandum, engagement letters, audit program, notes and memorandum arising from interviews with senior officers, record of audit findings, entrance/ exit conference, copies internal audit reports etc.)

It is important to underscore the fact that documents in the current file are kept right from the start of the audit process up to the completion of the same, and they should be kept such that they follow the audit process sequence i.e. administration, planning [in office reviews, preliminary survey], fieldwork and reporting.

NOTE: *All documentation in the files should be filed in sequence, in separate sections and in accordance with a standard file index should be produced and signed by both parties (auditors and audit client's management).*

Qualities of Good Working Papers

To enable the achievement of the intended purposes of working papers, a set of qualities and techniques should be employed so as to have good working papers. Good working papers are:

- i) Systematically organized and logically arranged
- ii) Kept neat, clear and understandable
- iii) Restricted to matters that are relevant and material
- iv) Kept complete – there is no any matter is left hanging
- v) Written in simple language, short sentences and no jargons
- vi) Cross-referenced and indexed
- vii) Linked to the audit report
- viii) Reviewed and signed - off by supervisory auditors
- ix) Used to provide inexperienced audit staff with
- x) Understandable and specific examples of what they have to do

Techniques for Preparing Working Papers

Audit W/Ps should be maintained on a standard basis. The following techniques should be observed in preparing W/Ps:

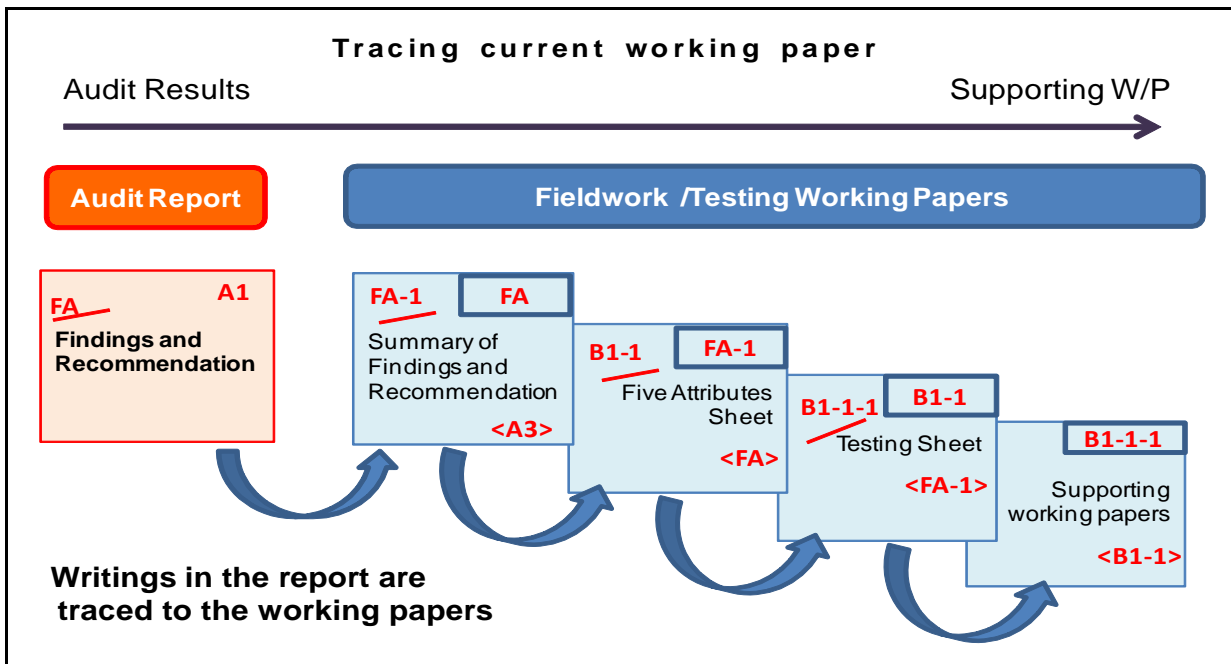
- i) Each W/P should have a heading, comprising name of the client/ organization, title/purpose of W/P and period;
- ii) Each W/P should be initialled and dated by the auditor concerned;
- iii) Each W/P should contain an index or reference number;
- iv) Each W/P should bear the initials of the reviewer and date
- v) All sources of data should be clearly identified;
- vi) W/Ps must be analysed, interrelated and presented in summary form to facilitate audit review, decision-making and audit reporting. They should start from the detailed to the more summarized results; and
- vii) Summary should comprise of audit objectives, work performed, results achieved, conclusion and recommendations.

Figure 5: Working paper Template

	W/P Ref _____
NAME OF ENTITY.....	
Client: _____	Prepared by: _____
Title: _____	Date: _____
Period _____	Reviewed by: _____
Subject _____	Date: _____

Also, as mentioned earlier, current working papers should be put in such a way to facilitate easy follow-up of conclusions made in the report from them (as best illustrated in figure 6 below):

Figure 6: Tracing Report Conclusions in Working Papers



16.3 INDEXING, CODING AND CROSS-REFERENCING OF WORKING PAPERS

Indexing

- i) Finding information in the W/P files is best facilitated by an index system and liberal use of cross-referencing. The system of indexing should be simple and flexible. Auditors should note the following:
- ii) If the document has more than one page, the first page of the W/P should be indexed in the upper right corner with the appropriate index (code).

- iii) Normally capital letters and Arabic numerals are used to code (index) the working papers. The coding starts first with the broad grouping of the audit areas (e.g. planning, preliminary survey, field work, reporting etc.) using capital letters.
- iv) Index under the main area can include sub areas e.g. A-1, A-2, A-3 etc also further sub-areas under A-1 could be indexed as A-1/1

Cross-Referencing

Cross-referencing is defined as a notation at one place in the working papers to related information at another place. It normally consists of an index number, line of column of a schedule, reference to figures or paragraph etc.,

Generally, the audit is not considered complete until the working papers are cross-referenced. Cross reference ensures that all pertinent facts and conclusions have been considered and that adequate support is available for the auditors' conclusions.

The key items to be considered for cross referencing are:

- Working papers to each other when appropriate
- Audit program to working papers
- Summary 5-Attribute to the Working Papers
- Draft report to Working Papers
- Final report to Working Papers

Cross-reference should be made in **red** to the right or left of the information being cross-referenced.

Use of Symbols and Tick- marks

When symbols and tick-marks are used in the course of audit, they should be defined at the bottom of the page.

E.g. some Standard tick marks:

PBC	-	Prepared/provided by client
G/L	-	Agreed to the general ledger
AFR	-	Agreed to the Annual Financial Report
PBIA	-	Prepared by component internal audit
^ <	-	Footed, cross-footed
Rx	-	Recalculated by System auditor

Storage and Access of Working Papers

- i) W/Ps must be protected from loss, destruction and unauthorized access at all times.
- ii) They should be stored away from the reach of unauthorized person.
- iii) They should be under the custody of the person in charge.
- iv) W/Ps will only be taken out upon requesting auditor signing the sign-out sheet maintained by the person in charge.

Overall Organization of Working Papers

Overall organization of the working papers is about logical arrangement of the same in the current working papers file. It should start with the cover page, followed by table of content and logical layout (in main sections) of the working papers.

The cover page should contain name of the organisation, audit client, title of the audit assignment and the serial number of audit assignment in the Financial Year in question (Folder Number) e.g. 01 of 2012/13; 02 of 2012/13 etc.

The cover page should also have words in red colour: **Warning - Caution required followed** underneath by words *{this file contains information which has restricted access. Special safeguarding measures should be followed at all times}*_(See also **template 6** for the cover page).

The table of content should follow the logical layout of the agreed indexing system. Each main audit area/ section should have a divider/ separator.

16.4 QUARTERLY AND ANNUAL INTERNAL AUDIT REPORTS

Internal auditors should prepare periodic reports (other than engagement reports) that summarize their activities either quarterly or annually.

Quarterly Internal Audit Report summarizes the audit activities or services that were undertaken by the Directorate of Internal Audit (DIA) during the quarter. On the other hand, the Annual Internal Audit Report summarizes the audit activities or services that were undertaken by the Directorate of Internal Audit (DIA) during the year.

Format of Internal Audit Quarterly/ Annual Report

PRELIMINARIES

- COVER PAGE
- TABLE OF CONTENT
- ACKNOWLEDGEMENT
- LIST OF ABBREVIATIONS
- LIST OF FIGURES & TABLES
- EXECUTIVE SUMMARY

MAIN DOCUMENT

1.0 INTRODUCTION AND BACKGROUND INFORMATION

May cover the following:

- Internal Audit Function- mandate and key functions
- Internal audit staff at the organization
- Vision, mission and key functions of the organisation

2.0 PROGRESS ON IMPLEMENTATION OF THE ANNUAL AUDIT PLAN

This chapter should highlight the following:

- Planned audit activities/ services during the quarter or year
- Activities/ Services implemented during the quarter (can also quantify in percentage)
- Successes and challenges encountered so far in implementing the annual audit plan

3.0 STATUS OF PREVIOUS QUARTER'S AUDIT RECOMMENDATIONS

List the recommendations which were outstanding during the previous quarter and indicate their status of implementation

Report Date	Report Title	High Level Audit Objective(s)	Audit Issue(s)	Recommendation(s)	Status of Implementation	Any Other Remark(s)
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4.0 AUDIT ACTIVITIES/SERVICES PERFORMED DURING THE QUARTER

The key chapter showing summary of the following:

Audit activities/ services performed by the Internal Audit Unit during the quarter.

The audit activities/ services should be grouped into two categories viz Audit Services (Assurance & Consulting Services) and Non-Audit Activities/ Services

4.1 Audit Services (Assurance & Consulting Services)

4.1.1 Assurance Activities/ Services

- (i) Payroll Audit
- (ii) Human Resources Audit
- (iii) Procurement Audit
- (iv) Budgeting Audit etc.

NB. Provide summary audit issues, recommendations, management response and agreed action plans for each audit assignment either using narratives or tabular form

4.1.2 Consulting Services

Detail other consulting services that were performed by the Unit (i.e special audits requested by management and other consulting services)

Examples:

- (i) Special Audit on

(ii) Risk Management and Development Risk Register Training

(iii) Facilitate training in preparation of final accounts to finance staff etc

4.2 Non- Audit Activities

List all non-audit activities that were performed by the Unit during the quarter (e.g. attending non-audit meetings etc.)

5.0 CONCLUSION AND RECOMMENDATIONS

Conclusion and proposed recommendations for overcoming the obstacles that were encountered by the IAU during the period (i.e. improvement of audit services in the next quarter).

6.0 APPENDICES

PART VI:

AUDIT SUPERVISION AND QUALITY ASSURANCE, MANAGING THE DIRECTORATE OF INTERNAL AUDIT

CHAPTER 17: AUDIT SUPERVISION AND QUALITY ASSURANCE

17.1 INTRODUCTION

Quality assurance is the expression that is used to describe the processes that are undertaken in order to ensure that all internal audit activities meet the expected standards and are helpful to the entity being audited.

There are three levels of quality assurance discussed in this manual:

- a) **On-going process supervision and review at the engagement level;** Aims at ensuring that the internal audit unit follows its own policies and procedures and adhere to standards on assignment basis.
- b) **Quality control review undertaken within the Internal Audit Unit;** Aims at assessing the quality of on-going performance and opportunities for improvement in internal audit processes and procedures, and to determine whether objectives and criteria used in quality assurance reviews are still up to date, adequate, and valid
- c) **Quality control review undertaken by a third party;** Aims at assessing the extent to which internal audit activity complies with both the mandatory and strongly recommended practices of the IPPF.

Although this section covers these three types of quality assurance, the detailed guidance and specific procedures should be obtained from the *Manual on Internal Audit Quality Assurance and Improvement Program* issued by the Office of the Internal Auditor General.

17.2 QUALITY OF INDIVIDUAL ENGAGEMENTS

Factors for Support and Review

At the engagement level, there should be an ongoing process of support and review throughout the course of all internal audits. The extent of support depends on a number of factors including;

- i) The experience of the members of staff in the engagement
- ii) The complexity of the assignment, and
- iii) The sensitivity the system/area being reviewed.

Areas That Need Close Supervision

As a minimum, the following should be applied:

- i) The initial engagement planning work should be reviewed and the audit approach should be agreed before any detailed work is undertaken,
- ii) The internal audit working papers and draft report should be reviewed before these are sent to the chief executive officer of the organisation.

Role of head of internal audit

The Director of Internal Audit/ Internal auditor Manager should:

- i) Ensure that auditors assigned possess the requisite knowledge, skills and other competencies to perform the assignment;
- ii) Provide appropriate support during the planning of the assignment; approving the audit plan, and ensuring that the approved plan is carried out unless changes are justified and authorized.
- iii) Determine that audit working papers adequately support the assignment observations, conclusions, and recommendations.
- iv) Ensure that audit communications are accurate, objective, clear, concise, and timely and that audit objectives are met, and
- v) Provide opportunities for developing internal auditors' knowledge, skills, and other competencies.

Documenting the engagement supervision and review

- i) Appropriate evidence of review and supervision should be documented and retained.
- ii) The most significant proof of review and supervision is the head of unit's or team leader's signatures in the engagement working papers as explained in chapter 16 (audit files, working papers).

17.3 INTERNAL AND EXTERNAL QUALITY ASSESSMENTS

Quality assessments are important aspects for implementing Quality Assurance and Improvement Program (QAIP) which is defined as on-going and periodic assessment of the entire spectrum of audit and consulting work performed by the internal audit activity. The main aim for these assessments is to provide validation of conformance with the definition of Internal Auditing, Code of Ethics, and the Standards.

The internal audit unit should ensure that independent reviews of their work are undertaken. The reviews are stand-alone processes and may be done both internally and externally.

Objectives for Quality Assessments Exercises

This section is not intended to give a step-by-step guidance on how to conduct such quality assessments. Users should refer to the specific Guide issued by the Internal Auditor General.

However, on both internal and external review, the objective for the quality assessments should be based on the main control objectives for the internal audit activity which are:

- a) To ensure that the internal audit activity provides sufficient and reliable assurance to the board/chief executive officer and to the management on governance processes, risk management, and internal control.
- b) To provide quality consultancy services to the TASAF within the competence of the internal audit activity to do so, without assuming management responsibilities.
- c) To achieve a scope of internal audit that is unrestricted across the TASAF at all levels.
- d) To be organizationally and operationally independent so that the judgment of internal audit on professional matters is never subordinate to that of others.
- e) To conform to applicable ethical codes and professional standards.
- f) Generally, to add value to the organisation.

Key Issues to Consider During Quality Assessments

For both internal and external quality assessors, the following are key issues that need to be considered when conducting quality assessment:

- i) Is there a Charter for the internal audit activity, consistent with the Definition of Internal Auditing, The Code of Ethics and The Standards of the Institute of Internal Auditors, and with the pronouncements of any other applicable body with whose requirements the internal audit activity should conform?
- ii) Does the chief audit executive determine the future plan of audit engagements following a risk assessment?
- iii) Does the scope of internal audit activity extend right across the TASAF and at all levels?
- iv) Does the Chief Internal Auditor ever have to subordinate his or her judgment to that of management with respect to (a) the future plan or audit engagements, (b) access to records and personnel, (c) the content of audit engagement communications, and (d) to whom audit results are communicated?
- v) Does the chief audit executive (a) have unrestricted access to the chair of the audit committee at all times, (b) attend audit committee meetings, and (c) meet privately from time to time with the audit committee in the absence of any executives?

- vi) Does the chief audit executive provide, at least annually, an overall assurance opinion to the board or its audit committee and to senior management?
- vii) Are the resources available to internal audit sufficient to support its responsibilities?
- viii) Are internal audit processes up to a high professional standard?
- ix) Does the audit committee of the board approve the future plan of audit engagements and then monitor progress against plan.
- x) Is the reporting to the audit committee of audit results and audit follow-up sufficient for the audit committee to be appraised of the matters arising?
- xi) Is there general agreement that significant value is added as a result of internal audit work?

CHAPTER 18: MANAGING THE DIRECTORATE OF INTERNAL AUDIT

18.1 INTRODUCTION

The Director of Internal Audit is responsible for the efficient and effective functioning of the Directorate of the Internal Audit within TASAF. Good management of the Internal Audit Department relies on;

- i) Thorough planning, as provided for in this Manual
- ii) Effective execution of plans via good allocation and efficient use, of resources,
- iii) Effective staff monitoring, mentoring and appraisal.
- iv) Technical development and capacity building of professional staff.

18.2 RESOURCE MANAGEMENT AND ALLOCATION

The optimum allocation and deployment of Audit staff to priority Audit Areas, is a key element in the efficient management of the Internal Audit Directorate. By completing the planning processes described under Chapter 5, the Director of Internal Audit will have a clear record of which audits are scheduled, and where each member of audit staff is to be deployed.

The Director of Internal Audit should hold regular meetings of his staff for effective deployment and operations of the Directorate staff. Such meetings should be held at least quarterly.

If there are frequent amendments/ deferments to the planned schedule the Director of Internal Audit must take steps to identify the issues and resolve them. At the end of the quarter, the Manager will have to account for reasons for major slippages in the execution schedule.

The Manager should organise a monthly staff meeting with a flexible agenda, which is scheduled to take approximately one hour. Several matters should be 'standard' items for the agenda, for example:-

- a) Progress on overall execution of the Annual Work Plan – degree of slippage
- b) Technical issues – and lessons learnt
- c) Logistical issues and
- d) Staff matters;

18.3 STAFF MONITORING, MENTORING AND APPRAISAL

Performance of the Internal Audit Directorate is enhanced where; all staff members are effectively monitored, mentored and appraised on an ongoing basis. The 'deployment meeting' will keep the Manager apprised of whether staff are

completing their work on time, and the detailed review of staff audit working papers enable the manager to monitor audit standards and quality.

It is important that whenever 'performance issues' arise with a member of staff, the matter is raised, discussed, and resolved on an immediate basis. Mentoring therefore becomes an on-going process. This mentoring applies equally to both good performance and substandard performance. The manager keeps a record to track such instances. This record of performance monitoring should then be brought into the annual performance appraisal.

18.4 TECHNICAL DEVELOPMENT AND CAPACITY BUILDING

Objectives

The overall aim of the training and development programme should be to develop a wide range of audit skills in the following areas:

- i) **Basic Technical Skills:** these include analytical skills, use of audit programmes and internal control questionnaires, production of satisfactory working papers and audit report writing;
- ii) **Professional Skills:** knowledge of accountancy and auditing, relevant legislation, ethics of the Institute of Internal Auditors.
- iii) **Specialist Technical Skills:** these include computer and contract audit skills;
- iv) **Investigatory Skills:** how to conduct a value-for-money study and how to investigate fraud and corruption.
- v) **Interpersonal and Communication Skills:** interviewing techniques, how to deal with uncooperative auditees and how to persuade management to accept audit recommendations.
- vi) **Management and Organisational Skills:** how to conduct an audit, how to lead an audit team and audit planning and control; and
- vii) **Knowledge of an Organisation:** knowing the protocol, regulations, procedures and decision making processes of an organisation and knowing how it is structured.

Training Records

It is vital that adequate training records are kept for all members of staff. This should include details of the skills requirements for all audit posts and those held by the individual as a result of education, training or practical experience. These should be competency-based.

These records are essential for assessing further training needs and in comparing development between individuals. They can also be used for purposes of selecting short lists for promotion.

The Training Programme

While preparing a training programme, a useful starting point is to identify the skill requirements of each member of staff and their training needs. There are distinct advantages of involving staff in this process as frequently their perceptions of their own training needs differ markedly from that perceived by management.

Training can be divided into the following categories:

- i) **Practical Experience:** staff should be given as wide an experience as possible as much can be learned by working under the supervision of an experienced auditor and observing how an experienced auditor operates;
- ii) **Professional Training:** this is restricted to any members of staff undertaking studies towards professional qualifications. The audit manager can expect auditing to be covered in reasonable depth as part of the professional syllabus;
- iii) **In-Service Training:** an essential part of in-service training is an **induction course** for new entrants aimed at providing basic audit skills and a broad appreciation of the organisation. Many audit managers find it useful to designate a specific day each month for in-service training. Another possibility, especially where auditors are geographically spread, is the **annual conference** at which staff can come together in a relaxed way to share problems and participate in a programme of concentrated training; and

18.5 RELATIONSHIP MANAGEMENT

The areas in which the Internal Auditor should have good relationships include:

i) **Executive Director:**

The Executive Director and Director of Internal Audit should co-operate as an efficient and harmonious team;

ii) **Monitoring/Advisory Teams:**

The quarterly reports of the Director of Internal Audit will be filed for inspection. This will often represent the first intimation of the state of the PAAs affairs. On visits by Monitoring Teams, the Director of Internal Audit has the obligation to disclose all facts and information known by him in respect of the authority's financial affairs;

iii) **Finance and Other Operational Directorates/Departments:**

The Directors/Managers of all operational areas and Director of Internal Audit must encourage full exchange of ideas and information to secure optimum internal financial and operational control benefits for the Program;

iv) **External Auditors:**

External audit will need to be satisfied that the quality and planning of the internal audit coverage is satisfactory. Conversely, internal audit should be satisfied as to the ability and efficiency of external audit since the success of co-operation must depend on the experience and expertise of both parties. Information should be exchanged by making available audit plans, statements of systems and procedures, flow charts and audit reports. Regular meetings should be held between external and internal audit at which audit priorities, coverage generally, financial irregularities, fraud and other matters are discussed. The participation of both internal and external auditors in training assessments and the formulation of joint training programmes should help to improve working relationships;

v) **Departments:**

Good working relationships with client departments are essential for the smooth running of audit business, if only because of the help the auditor requires in such daily matters as locating files and examining papers in regular use. In practice, more extensive benefits may be expected by both parties where there is a spirit of positive co-operation;

PART VII:

APPENDICES

This section presents exhibits and formats of different documentations appearing at each stage of an audit engagement and on other administrative issues for internal auditing. It should be noted that the templates are designed to be indicative.

1.4.4. Appendix 1: Audit Procedures in Planning Audit Program

Step #	Audit Procedure	W/P Ref.	Initials	Dates
1	<p>Obtain (update) an understanding of TASAF and its operations:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Understand the goals, objectives and methods of the project; <input type="checkbox"/> Understand the core activities of the implementing entity; <input type="checkbox"/> Understand the mission, organization, and structure of the TASAF; <input type="checkbox"/> Identify and interview key management personnel 			
2	<p>Review pertaining project documentation to identify and understand relevant financial and other requirements or guidelines set forth in the following documents:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Loan Agreement and pertaining supplements; <input type="checkbox"/> Related Procurement Guidelines issued by the World Bank; <input type="checkbox"/> Project Appraisal Document or Staff Appraisal Report; <input type="checkbox"/> Agreed minutes of loan or credit negotiations; <input type="checkbox"/> Related subcontracting agreements with the third parties; and <input type="checkbox"/> Other World Bank correspondence and implementing documents as applicable. <p>Based on your review of the above documents, complete the Financial Management Requirements of this World Bank Financed Project work paper (See Part II. B. for an example of this standard work paper). Identify key compliance issues for the project and design appropriate compliance testing steps.</p>			
3	<p>Identify significant transaction cycles (for example: cash receipts and cash disbursements), Special Purpose Financial Statements (SPFS) line item or general ledger account balances that the auditor plans to test. Through interviews with key management personnel, identify important accounting issues and any significant changes in policies and procedures made during the current year.</p>			
4	<p>Perform preliminary analytical procedures:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Compare current year's SPFS line item or general ledger/project balances to comparable balances for one or more comparable periods; and <input type="checkbox"/> Compare current year account balances to budgeted balances. <p>Obtain explanations for significant fluctuations or expand planned audit testing as appropriate.</p>			
5	<p>Gain an understanding of the EDP control environment, if applicable. Specifically, determine:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Management's philosophy toward security over and access to its ICT/MIS operations; <input type="checkbox"/> The types and volume of transactions processed; 			

Step #	Audit Procedure	W/P Ref.	Initials	Dates
	<input type="checkbox"/> Completeness and appropriateness of the audit trail; and <input type="checkbox"/> The demands of software and hardware, both existing and planned.			
6	Determine and document overall and specific accounts' audit materiality			
7	Develop an audit sampling approach for each major testing area, if applicable.			
8	Determine and document the preliminary risk analysis for each material SPFS line item or general ledger account balances, focusing on the applicable financial statements assertions. Complete the Account Balances Risk Assessment Form (See Part II. B. for an example of this standard work paper). Through analysing each material account balance, identify significant areas of risks, the controls to mitigate those risks and weaknesses noted.			
9	For the second and subsequent years' audits, review the status of prior findings and recommendations. Determine whether corrective actions have been fully implemented.			
10	Develop audit programs and have them approved by audit supervisors.			

1.4.5. Appendix 2: Audit Program on Fixed Assets

Step #	Audit procedures	W/P Ref	Initials	Dates
1	Understanding the Accounting System			
2	Obtain the FAR and ascertain whether there are any additions or disposals of assets			
3	Verify for accuracy, completion and validity of supporting documents for all fixed assets additional and disposals.			
4	Ascertain whether FAR is updated on time to incorporate changes.			
5	Establish the condition and location of all assets to see whether are kept as per TASAF Asset policy			
6	Take note of any action taken on reported losses or destruction of assets to confirm the genuineness			
7	Establish the repair and maintenance of motor vehicle and office equipment if are done timely and properly.			
8	Ascertain whether logbook for motor vehicle is been filled and signed by users on time and properly to see if consumption of fuel do correspond to used kilometres?			
9	Carry out Fixed asset physical verification on annual basis to confirm location and physical condition of assets.			
10	Verify if all assets are coded and the coding should be properly done.			
11	Obtain monthly resource management reports and ascertain if they are shared with users and Mgt for decision-making.			
10	Conclude on Fixed Assets			

1.4.6. Appendix 3: Audit Program for Cash and Bank Balances:

STEP	AUDIT PROCEDURE	WP REF	INITIALS	DATE
1	Obtain from the Trial Balance Cash and Bank Balances and prepare a schedule of cash and bank balance as at close the last audit date			
2	Trace the petty cash balance against the general ledger balance.			
3	Vouch replenishment and supporting documentation to ensure compliance with the policy.			
5	Through interviews, observation, and inspection determine whether adequate segregation of duties exists			
6	For each bank account obtain a bank reconciliation statement and ascertain whether bank reconciliation statements have been prepared monthly for all bank accounts			
7	Vouch reconciled items in the bank reconciliation statement as follows For un presented cheques trace them to subsequent bank statement For cash in transit trace each amount to cash receipt, pay in slips and bank statements.			
8	Observe whether there accounting documents are properly kept in a restricted and secured place. E.g. receipts, cashbook etc. Observe and document controls on handling accounting documents.			
9	Obtain authorized letter for request to open the accounts: special a/c, operational local accounts.			
10	Obtain evidence from respective commercial banks to ascertain whether or not the Bank Accounts opened are appropriate.			
11	Review the key documents Check the Bank Statements to ascertain the amount deposited. Verify credit advices whether have been posted in cashbook. Verify the Application Form to ensure that the figures are accurate. Establish whether there were delays in receiving Funds after application was lodged and find out the reasons behind the delay.			
12	Trace the amount withdrawn as bank charges to supporting documentation such as Bank advices			
13	Conclusion on Bank and Cash Balances			

1.4.7. Appendix 4: Audit Procedures for Transfers/Advances Made To Regions, PAAs, Payment Agents and Communities

Step #	Audit procedures	W/P Ref	Initials	Dates
1	Understanding the Accounting System			
	The accounting system on advances to PAAs should be known in depth by the auditor i.e. DCS initiates the transfers; ED approves the payments based on approved subprojects requests. DF authorises the payments and preparation of payment vouchers which are checked and approved by Accounts Manager. Pre-audited vouchers are used in writing cheques to the bank for them to effect transfers for the group of PAAs\ Subprojects.(Update the systems notes in the working paper)			
2	Obtain from Accounts Manager \ Disbursement Manager printed list of Advances to PAAs for the Accounting period under review e.g. 30 th of June 2013.			
3	Scrutinize the list obtained above to identify un usual features e.g. payments above limit, double payments \ listing.			
4	Agree the total of Advances to PAAs as per the t list to the General ledger control balances shown in the Trial Balance, which should agree. In case of differences, obtain explanations.			
5	Obtain a sample of requests for transfers to PAA and do the following:			

Step #	Audit procedures	W/P Ref	Initials	Dates
	Ascertain whether the appropriate authority did the initiation, approval, authorization of made transfers. Agree the total of the sampled transfer to the GL control accounts. Amounts in the GL should agree with individual transfers. If any differences exist, explanations \ reasons should be obtained from the relevant staff. Verify the Individual Subprojects bank Accounts against the approved list from DCS vs transfer instructions. In case of differences note the respective account in error. Carry accuracy, correctness and validity checks of the amounts transferred against the approved list of transfers originated from DCS. In case of any error should be noted.			
6	Obtain a list of Advances made to PAAs \ CMO and Subproject and compare with the register of justification reports.			
	Compare balances advanced to PAAs, CMO and Subprojects control Accounts with the list of unjustified advances. In case of difference establish the reason for delay from respective PSSN - A's report Ascertain whether clearance of control accounts for PAAs, CMCs and subprojects were done correctly by applying Accuracy and completeness tests. Compare the received justifications with the printout obtained from the system. In case of difference it should be noted.			
7	Conclude on Advance to PAA/CMCs balance(s).			

1.4.8. Appendix 5: Audit Procedure for E-Payment

This area deals with audit of payment process for PSSN beneficiaries receiving their Cash Transfer and Public Work Programme payments through available electronic payment (e-Payment) channels.

Control objectives for Electronic Payments

To ensure that All HHs registered under e-payment have correctly and timely received their payments directly into their bank or mobile money accounts and Payments disbursement and real-time reconciliations of beneficiary's cash wallets across the country in an automated and real-time environment.

Key Risks for E-Payments:

- i. HHs registered for payments not receiving their money.
- ii. Payment to incorrect accounts
- iii. Recovery of wrongly transferred funds
- iv. Some HHs opted for E-payments may not have enough knowledge to manage e-payments.
 - i. Registration of none TASAF HH-Rep
 - ii. Data updates, processing and approval not segregated
 - iii. Double payment (e-Payment and Cash)

iv. System and Transaction Failure

Summary key risks and control issues for E-payment

The following key issues need to be considered when developing an audit program:

- i. How are the Payments and disbursement and real-time reconciliations of beneficiary's cash wallets across the country in an automated and real-time environment done?
- ii. How does TASAF control over the payment process at various stages.
- iii. Is there a Strong audit trails & reconciliation within payment system with visibility to all stakeholders?
- iv. Payment complaints processing, handling, management and swift resolutions on Just In Time (JIT) basis in real time/automated environment on (24/7- hours/days) and 365 days of the year, live basis across the country.
- v. What applications supports the E-payment process and how does the e-Payment staff involved
- vi. Has the Consent forms filled by PSSN beneficiary, verified by VEO/MEO and signed by Oath Commission.?
- vii. Have all the verified forms approved and captured to PSSN MIS.
- viii. Has the respective service provider verified beneficiaries' data captured in the MIS before payments?
- ix. Has the CCTM update beneficiaries based on the verified data from providers.
Note; for failed accounts, should be updated to receive cash manually.
- x. Did the CCT Unit Communicate to PAA to verify the payment document to see if it meet expectation and that all changes have been Incorporated if any
- xi. Did the e-Payment team Verify records posted in GePG against PSSN for accuracy?
- xii. Are the sms notifications sent to beneficiaries before and after payments?
- xiii. How is the reconciliation done for successful and failed transaction to beneficiaries via MNO/Bank, and total amount transferred to MNO/Bank? What steps are taken for failed transactions?
- iv. How does the balance of the failed transactions refunded back to TASAF from MNO/Banks?
- xv. Is the grievance procedure clear to all beneficiaries and implementers at all levels as well as MNOs to help beneficiaries when they face problem related to e-payment?

- vi. The grievance procedure should be clear to all beneficiaries and implementers at all levels as well as MNOs to help beneficiaries when they face problem related to e-payment

1.4.9. Appendix 6: Audit Procedures for Cash Imprest:

The audit program and procedures for Imprest (Standing, Special and Safari) will comprises the following aspects;

I. AUDIT OBJECTIVES

- 1. Ensure that imprest is timely and properly retired.

II. HIGH RISKS AREAS SHOULD BE IDENTIFIED

- 1. Ensure that imprest is timely and properly retired
- 2. Wrongly posted imprest in the Epicor 9.05 system

III. CONTROLS /MITIGATION MEASURES SHOULD BE RECORDED

- 1. Institute Imp rest control system
- 2. Availability of monthly imp rest reports
- 3. Follow-ups on long outstanding imp rest
- 4. Review of justification reports from Regional Offices, PAAs and Communities and TMU.

IV. DOCUMENTS TO BE REVIEWED

- 1. Imprest control Account
- 2. Imprest Register and report
- 3. Retirement files.

Step #	Audit procedures	W/P Ref	Initials	Dates
1	Understanding the Accounting System			
	The accounting system on Imprest at TMU starts after proper procedures on payment process where initiation of payment, appropriate authorization and approval are essential procedures to be adhered. Another proper procedure is creation of system created invoice by Accounts Manager. During retirement process a retire ring staff should fill in a retirement form attached with supporting documents to be checked and approved by respective Director (approval authority). Then after approval imprest clearance will be done			

	by accounts manager by expensing the respective expenses as per imprest retirement form.			
2	Obtain from Accounts Manage retirement files and ascertain whether retirement were properly checked and approved.			
3	Obtain general ledger print out and reconcile with Imprest retirement register to ascertain existing outstanding imprest and establish the age of those outstanding imprest.			
4	Find out the reasons of long outstanding imp rests			
5	Obtain payment vouchers and check whether imprests were posted in correct expenditure codes.			
6	Obtain a print out and conduct accuracy check to see whether there any duplications in posting.			
7	Conclude on Imprest balances(s).			

1.4.10. Appendix 7: Audit Procedure for Justifications Reports

The audit program and procedures for justifications reports will comprises the following aspects;

I. AUDIT OBJECTIVES SHOULD BE NARRATED

1. To ascertain whether the transfer requests by DCS are computed accurately and also the corresponding Subprojects Bank Accounts are correctly indicated.
2. Ensure timely and accurately cleared in the Advances to PAAs\ Subprojects Accounts

II. HIGH RISKS AREAS SHOULD BE IDENTIFIED

1. Unchecked cross-footing of Transfers Request Summaries from DCS.
2. Duplication of transfers
3. Transfer wrong amounts Wrong made transfers to wrong approved request from DOS.
4. Delay in receiving justification reports and hence late replenishment of special Account.

III. CONTROLS /MITIGATION MEASURES SHOULD BE RECORDED

1. Perform accuracy checks by re-casting the totals and verifying the bank Accounts of individual Subprojects.
2. Pre Audit all transfers.
3. Institute Justification register at PAAs\ CMCs and TMU for keeping the track.
4. Continuous technical support to PSSN - A to the PAAs \ CMCs on justification functions.

IV. DOCUMENTS TO BE REVIEWED

1. Trial Balance
2. Advances Control Lists
3. Approved subproject Requests
4. List of Approved Subprojects account numbers
5. List of approved transfers from DOS
6. Transfer Instructions to Bank from DF

7. Monthly Justification Reports
8. Register of Justification Reports

Step#	Audit procedures	W/P Ref	Initials	Dates
1	Understanding the Accounting System			
	The accounting system on advances to PAAs should be known in depth by the auditor i.e. DOs initiates the transfers, ED approves the payments based on approved subprojects requests. DF authorises the payments and preparation of payment vouchers which are checked and approved by Accounts Manager. Pre-audited vouchers are used in writing cheques to the bank for them to effect transfers for the group of PAAs\ Subprojects. (Update the systems notes in the working paper).			
2	Obtain from Accounts Manager \ Disbursement Manager printed list of Advances to PAAs for the Accounting period under review e.g. 30 th of June 20XX.			
3	Scrutinize the list obtained above to identify un usual features e.g. payments above limit, double payments \ listing.			
4	Agree the total of Advances to PAAs as per the list to the General ledger control balances shown in the Trial Balance, which should agree. In case of differences, obtain explanations.			
5	Obtain a sample of requests for transfers to LGA and do the following: -			
	Ascertain whether the appropriate authority did the initiation, approval, authorization of made transfers. Agree the total of the sampled transfer to the GL control accounts. Amounts in the GL should agree with individual transfers. If any differences exist, explanations \ reasons should be obtained from the relevant staff. Verify the Individual Subprojects bank Accounts against the approved list from DOS vs transfer instructions. In case of differences note the respective account in error. Carry accuracy, correctness and validity checks of the amounts transferred against the approved list of transfers originated from DOS. In case of any error should be noted.			
6	Obtain a list of Advances made to PAAs \ CMO and Subproject and compare with the register of justification reports.			
	Compare balances advanced to PAAs, CMO and Subprojects control Accounts with the list of unjustified advances. In case of difference establish the reason for delay from respective PSSN - A's report Ascertain whether clearance of control accounts for PAAs, CMO and subprojects were done correctly by applying Accuracy and completeness tests. Compare the received justifications with the printout obtained from the system. In case of difference it should be noted.			
7	Conclude on Advance to PAAs/CMC balance(s).			

1.4.11. Appendix 8: Audit Procedures for Project Credits and Grants (Project Receipts)

The audit program and procedures for Project Credits and Grants will comprise the following aspects;

I. AUDIT OBJECTIVE

To ensure that all funds received for the Project in terms of Grants and Credits are properly recorded accurately and timely in the EPICOR system and reported in the Periodic Financial Statements.

II. IDENTIFIED HIGH RISK AREAS

1. Omission of grants /non-disclosure in the financial statements.
2. Omission of credits/non-disclosure in the financial statements.

III. CONTROLS/MITIGATION MEASURES

1. Abide to the Financing Agreement (FA) and Memorandum of Understanding (MOUs) and Project Operational Manual (POM).
2. Abide to the International Public Sector Accounting Standard (IPSAS) disclosure requirements and TASAF accounting policies.

IV. DOCUMENTS TO BE REVIEWED

1. Financial Management Accounting Procedural Manual.
2. Project Key Documents i.e. Development Financing Agreement (DFA) and Memorandum of Understanding (MOUs) and Project Operational Manual (POM) and disbursement letters
3. Trial Balance
4. Financial Statements
5. IPSAS
6. Bank Statements of Special Accounts and their Reconciliation statements
7. Withdrawal Applications
8. Bank Advices

Step #	Audit Procedure	W/P ref.	Initials	Dates
1	Review accounting policies and procedures of TASAF on recording and disclosure of Credit and Grants and see if it is in compliance to IPSAS			
2	Review the key documents (FA, MOUs and POM) to determine amount of credits and grants allocated by the Government of Tanzania (GOT), World Bank (IDA) and other Development Partners.			
3	Determine from the currently prepared Financial statements and Bank statements of Special Accounts the total amount of funds			

Step #	Audit Procedure	W/P ref.	Initials	Dates
	received from the GOT, IDA other development partners. Prepare a lead schedule for credits and grants obtained as at the end of the period being audited.			
4	Where possible confirm accuracy of total credit and grants funds drawn Credit and Grant Accounts from the websites of the development partners and compare with the withdrawal applications made by TMU and recorded in the General ledger.			
5	For each of the Credit or Grant confirm if there are notes on the Financial Statements explaining the terms and conditions of the Credits and Grants, with appropriate disclosure of Total amount of Credit and Grant allocation, total amount withdrawn and Balance from the total allocated Credit/Grant			
6	Observe if these funds were provided to TASAF in accordance with the FA, Disbursement Letter and signed Memorandum of Understanding (MOUs).			
7	Reconcile the total of a listing of Credit and Grant cash receipts during the period to the Credit and Grant general ledger balances. Investigate any significant variances.			
8	If differences noted in step 7 above are due to ¹ Direct payments find out if they are adequately supported and posted in the General ledger and appropriately disclosed as notes to the Financial Statements.			
9	Select a sample of Credit and Grant cash receipts from the detailed listings and trace them to supporting documentation to determine if they are properly supported. Supporting documents should include Bank credit advices from BOT, Disbursement letter, Withdrawal applications, Bank Statements, etc)			
10	Review reconciliations of Special Accounts which are provided as supporting documentation in the Withdrawal Applications to check if accurate credits and grants applied and received were indicated in the applications. Determine if there are any differences in the Reconciliation that needs to be investigated.			
11	If disclosures were included in the Financial Statements determine whether information presented is consistent and in accordance with identified TASAF Financial Reporting Framework.			

Step #	Audit Procedure	W/P ref.	Initials	Dates
12	Conclude on Credit and Grant balance(s).			

1.4.12. Appendix 9: Audit Procedures for the TMU Operating Pre-Expenditures:

The audit program and procedures for the TMU pre-expenditure will comprises the following aspects;

I. AUDIT OBJECTIVES

1. To ensure that payments request are properly authorized by appropriate level of management
2. To confirm whether the budgetary control system is working
3. To ensure that all payments are adequately supported by appropriate documentation and have been posted in proper accounts
4. To ensure that all payments follows policies and procedures including procurement procedure authorized by TASAF

II. IDENTIFIED HIGH RISKS AREAS

1. Overstatement of repair and maintenance costs of motor vehicles
2. Erroneous fuel costs
3. erroneous payroll
4. inconsistent telephone expenditure
5. Non adherence to procurement procedures

III. CONTROLS /MITIGATION MEASURES

1. Completeness/validity/accuracy checks
2. Training on Procurement
3. Segregation of duties on checking and approval
4. Budgetary controls
5. Monthly repair and maintenance and fuel reports
6. payroll reconciliation
7. Telephone policy

IV. DOCUMENTS TO BE EXAMINED

1. Payment vouchers
2. Invoices,
3. Delivery notes,
4. Contracts,
5. Performa invoices;
6. Quotations forms;

7. Claims forms, imprest forms etc.

STEP#	AUDIT PROCEDURE	WP REF	INITIALS	DATE
1	Check accuracy, completeness and validity of the claim prior to generation of payment through pre audit process			
2	Check whether claim form/letter have been authorized by appropriate officer			
3	Check whether payment voucher have been checked and authorized			
4	To check whether the coded instruction on the request documents, voucher lines items coded and chart of accounts match. -Check whether payment voucher bear vote book stamp and the item have sufficient funds			
5	To check whether payment vouchers and their supporting documents match with written cheques			
7	Obtain prepared payment vouchers and check the accuracy of their supporting documents			
8	Verify whether payments are eligible to be financed by TASAF or whether expenditures are on activities which are project related and are of reasonable amounts and are included in the procurement plan			
	Major expenditure items-pre -Fuel expenditure -Repair and maintenance of motor vehicle -Procurement of Bulk stores -Payrolls			
9	Obtain contracts for repair and maintenance and for procuring fuel Obtain Staffs contracts			
11	Obtain approved budget for repair & maintenance and compare with resources management report and find reasons for any negative variance			
12	Obtain prepared payment vouchers and certain whether service or good were procured competitively and as per TASAF procurement procedures and approved procurement plan			
13	Ascertain whether ordered goods/services were fully received before payment is made			
14	Obtain prepared payment vouchers and check the accuracy of their supporting documents			
15	Check for the approval for making payment. Normally bulk procurement payments must be authorized by senior officer eg Executive director			
16	Check for sufficiency of funds			
17	Pre audit all expenditure in this item to check for accuracy, validity and completeness of documents			
19	Conclude on Expenditure audit			

1.4.13. Appendix 10: TMU Post- Audit Procedures of Expenditures:

STEP#	AUDIT PROCEDURE	WP REF	INITIALS	DATE
1	POST AUDIT Check accuracy, completeness and validity of the supporting documentation			
2	For imp rests check whether have been retired. -Ascertain the completeness and validity of supporting documents. -Check whether the retirement has been approved appropriate officer			

STEP#	AUDIT PROCEDURE	WP REF	INITIALS	DATE
3	Check whether important postings have been made. -Cashbook postings -Ledger postings			
4	-Check all supporting documents which were not verified during pre-audit stage. E.g. receipt			
5	-Check whether payment voucher have numbers and are clearly shown on payment voucher. - Check whether they have file chronologically			
7	Check for eligibility of payments to be financed by TASAF and verify whether payments are eligible to be financed by TASAF or whether expenditures are on activities which are project related and are of reasonable amounts and are included in the procurement plan.			
8	Conclusion			
	Based on the testing performed above, summarize and quantify any questioned payments noted. All costs, which are not supported by adequate documentation or are not in compliance with TASAF Financial Regulations, FA and Procurement guidelines, should be questioned. Questioned payments should be presented into two categories (1) ineligible payments questioned costs that are explicitly ineligible because they are not project related, are not reasonable in amount, or are not considered allowable under the terms of the loan agreement (FA), and (2) unsupported payments - questioned payments that are not supported by adequate documentation or are not approved or authorized. All questioned payments should be explained in the Summary of Questioned Payments which should form part of Internal Audit Reports.			

1.4.14. Appendix 11: Audit Procedures for PAAs Receipts and Payments;

I. Audit objectives

To ascertain whether there is a properly maintained accounting system.

To ascertain whether all expenditures are: -

in inline to the approved budget

Fully supported by proper and adequate documentation e.g. approved activity plans, cash receipts, invoices, LPOs/Contracts, delivery notes, GRNs, quotations etc. Properly verified, authorized by the responsible official;

- Eligible to be financed by TASAF;
- Properly accounted for as per TASAF accounting manual.

To check whether bank and cash accounts are properly maintained.

To ensure all funds received from TASAF were properly recorded and reported.

To ensure all transfers made by PAAs to the Community accounts are well recorded and supported by transfer instructions and acknowledgement from CMCs/VCs.

Ensure all assets are properly kept and recorded in the fixed assets register.

Ensure justifications of funds are done properly and timely as per TASAF guidelines.

Ensure progress reports are prepared timely and are accurate.

II. Identified high risks areas

1. Incomplete recording of transactions.
2. Non adherence to TASAF Financial and Procurement Guidelines
3. Incomplete documentations.
4. Transfer of funds to wrong bank account by PAA.
5. Non adherence to procurement procedures.
6. Misuse of funds and resources.

III. Controls /mitigation measures

1. Preparation and submission of regular progress reports.
2. Monitoring of compliance of MOUs, guidelines and circulars issued by TASAF.
3. Budgets and activity plans.
4. Justification reports.

IV. Documents to be examined

1. MOU and TASAF circulars
2. Progress reports
3. Payment vouchers & their supporting documents
4. Cash books and cheque register
5. Bank statements and Bank Reconciliation statements,
6. Receipts,
7. Budgets and Procurement plans/activity reports,
8. Store ledgers
9. Fixed assets register

STEP	AUDIT PROCEDURE	WP REF	INITIALS	DATE
	Maintenance of an accounting system			
1.	Obtain and understanding of accounting systems being used at the LGA/CMCs for TASAF supported activities and document it.			
2.	Establish and documents internal controls in place and evaluate their adequacy.			
3	Obtain circulars from TASAF on accounting and operational issues and confirm if they have been properly internalized e.g. check whether Bank accounts were opened as per circular issued by TASAF			
	Maintenance of Bank Accounts			
4	(i)Check whether accounts were properly opened as per TASAF guidelines			

STEP	AUDIT PROCEDURE	WP REF	INITIALS	DATE
	(ii) confirm whether Bank reconciliations are done monthly and are checked and approved by the Treasurer (iii) Ascertain whether Bank records are properly filed and kept.			
	Accountability			
5	Obtain from the PSSN - C their budget and progress reports prepared and submitted to the MD/DED/CMO and TMU			
6	Ascertain if the reports were prepared in the format provided by TASAF and in time			
7	From the progress report establish whether there are any expenditure done above the approved budget and obtain their explanation			
8	Ascertain whether all funds were properly and timely justified in the prepared Justification reports as per TASAF guidelines			
	Proper recording of Transactions			
9	Confirm reported amounts of funds received from TASAF in the cash book and Bank records			
10	Check if all payments made were properly recorded in the cash book(s) and cheque registers			
11	Establish if there is a Fixed Assets Register and check if all assets received from TASAF and purchased by the council were properly recorded.			
12	Establish whether all goods procured are recorded in the stores ledger			
13	Verify if there were any advances and obtain the acknowledgment receipts from communities.			
	Validity, accuracy and completeness of payments			
14	Obtain Payment vouchers for the period and verify to confirm the following:- Payments were properly approved by a responsible personnel all goods and services procured were in the approved budget. Procurement were done competitively e.g. with quotations or local bidding. There is evidence of receipt of goods or service e.g. Delivery notes, GRNs, Certificate of completed work etc. Accuracy of payment requests/claims or invoices from suppliers. Correct allocation of expenditure/ charging of accounting code in the accounting system. If payment is for facilitating an activity by LGA staff obtains an approved plan and activity report e.g. Orientation reports, field appraisal reports, monitoring reports, training reports etc.			
15	Conclude			

1.4.15. Appendix 12: Audit Procedures for Community Infrastructure Subprojects/ Public Works

The audit program and procedures for community infrastructure subprojects/ public works will comprise the following aspects;

I. Audit objectives

To ascertain whether the sub project bank accounts are properly maintained.

1. To confirm whether all funds received for the project are properly recorded and managed by the CMC.
2. To ascertain whether the CMC adhere to accounting and procurement procedures issued by TASAF in procurement of goods and services.
3. To confirm whether the CMC have enough capacity to maintain properly simple books of accounts and stores records and prepare justification reports.
4. To confirm if there are adequate storage facilities for purchased materials and tools.
5. To confirm whether the community participation is adequate as per the Financing Agreement.
6. Where services are received from LSPs, ascertain if they satisfactorily meet the requirement of the sub project as per the signed contract.

II. Identified high risks areas

1. Improper maintenance of Bank accounts.
2. Inadequate capacity of CMCs to maintain a simple book keeping and stores records.
3. Non adherence to accounting and procurement procedure.
4. Poor or incomplete documentation of financial transactions.
5. Poor handling of accounting and stores records.
6. Misrepresentation of status of subprojects when identifying subprojects with Implementation problems.
7. Processing of incorrect / incomplete and unapproved payments.
8. Late of non-issuance official receipt for acknowledgement for funds received.
9. Loss of materials and stores due to inadequacy and unsecured storage facilities.
10. Loss of cash due to unrecorded collections.
11. Poor management of subprojects due to inadequacy in CMC training.

III. Controls measures / Mitigation

1. Facilitation on preparation of procurement plans and procedures by PAAs Planning and Facilitation team.
2. Training of CMCs before implementation on Project Management.

3. Continuous monitoring of compliance of accounting and procurement procedures by CMCs.
4. Continuous Capacity enhancement.
5. Spot audits and technical audits.

IV. Documents to be reviewed

1. Supervision and monitoring reports of subprojects by the PSSN - C.
2. Quarterly progress report prepared by CMCs.
3. Subproject files maintained by CMCs.
4. Minutes for opening of bank account.
5. Community subproject management handbook.
6. Cash book and Receipt book.
7. Adverts, Price list, procurement plan, quotations from suppliers.
8. Payment vouchers and supporting documents e.g. receipts, invoices, DNs, GRNs, quotations, CMCs minutes etc.
9. Bank reconciliation and bank statements.
10. Stores ledger.

	Audit Step	W/P Ref	Initials	Dates
1	Understanding the Accounting System			
	Obtain an understanding of the accounting system which should be maintained by the communities and confirm if the guidelines provided in the CSM handbook are applied by the CMC/VC			
	Test of compliance to policies and procedures			
2	Maintenance of Bank accounts:			
	Confirm whether bank accounts were opened as per TASAF guidelines Establish how bank records are maintained ascertain whether the CMC have capacity to prepared monthly reconciliation statements			
3	Proper Authorization			
	Review payment requests to determine whether the expenditure are properly approved and Authorized by an appropriate CMC. If it is a LSP's payment, ascertain whether payment was done as per payment agreement specified in the contract and for certified work by the respective sectoral expert. Determine whether invoices were accurate and are for purchase which was approved by the CMC.			
4	Proper Procurement Procedure			
	Determine whether procurement of goods and services was done using TASAF procurement methods stipulated in the CSM handbook. This includes confirming whether: The CMCs followed the approved procurement plans. Selection of supplier and services were done transparently and fairly from tendering process, adverts or obtained quotations.			

	Audit Step	W/P Ref	Initials	Dates
	If single sourcing method was used there is a proper justification. Contracts were signed with selected LSPs where applicable.			
5	Proper Acceptance			
	If goods or materials have been received, obtain review evidence that they were accepted and recorded in the stores ledger. The CMCs should also issue a Goods Received notes to evidence acceptance of the procured goods/materials.			
6	Accuracy			
	Verify that invoices supporting payments are mathematically accurate and the information on the invoice (Quantity, price, terms) is the same as on the signed contracts. Verify that the quantity on the invoice is the same as on the receiving report/delivery note. In case of discrepancies, there is an evidence of CMC's approval of the change. For sub project transfers from PAAs to community accounts ensure that what has been received is the same as Budget submitted to PAAs for funding.			
7	Proper recording Ascertain whether all funds received for the subprojects and spent in the subprojects are properly recorded in the cash book. Ascertain whether CMCs record all cheques paid in a cheque register. Ascertain whether all materials or goods procured are recorded in the stores ledger when received and when used in the subproject implementation. Ascertain whether community contributions (money and in kind/man power) are properly recorded by the CMCs.			
8	Reporting			
	Confirm whether justification reports prepared by the CMCs have reported all funds received (from PSSN and Community), Community contribution in kind, expenditure in terms of skilled labour, materials, tools, and bank charges and administration as shown in the sub project budget).NB: Obtain the monthly / Tranche application /completion reports on Financial and Physical status to establish if they are prepared timely ,properly and are shared with Village assembly to exercise transparency. Compare the sub project physical status with the reports to see if there is consistency. Obtain bank reconciliation Statements and verify the accuracy in preparation comparing with Bank statements and cash book. In case of completion of the subproject ,verify the closure of the bank account where there are two scenarios which prevail If the subproject was completed within the budgeted amount and the account remained with a balance, the community will close account and allowed to use the balance for Operational and Maintenance of the sub project. In case they applied for additional funds and still there is balance in their bank account, the remaining funds should be transferred back to TASAF Head Office Operational account and the sub project account should be closed			
9	Conclude on audit of sub project			

1.4.16. Appendix 13: Risk Based Audit Programs for Funds Transferred to Fund the Activities at PSSN Beneficiaries

4.3.1 Enrolment Process

(The Enrolment process aims to formally register the selected eligible households in the Programme and to orient them about their rights, commitments and actions to start participating in the Programme and identify schools and health facilities for attending to conditionalities).

This audit program is a brief guide designed to assist the auditor in developing an appropriate audit approach for this area. If the auditor believes that additional testing should be performed to achieve the objectives of the audit then audit scope should be expanded.

1. Audit Objectives

- To verify completeness and accuracy of the list of names and other records of enrolled poor households.
- To ascertain whether all eligible targeted beneficiaries were formally registered in the programme.
- To perform physical verification of the existence of the enrolled poor households and its household members.
- To ascertain if the enrolled household meets the poverty criteria set by the VA
- To verify the list of appealing households against their physical situation.
- To ascertain whether beneficiaries were Oriented and informed about the main features of the Programme, the conditions that they have to comply, benefits of the Programme.
- To verify the process towards establishment of register of enrolled poor households and complying beneficiaries at VEO's office, schools and health facilities.

2. Possible Risks

- Both inclusion and exclusion errors.
- Double registration of beneficiaries
- Inaccurate information from beneficiaries that may complicate the payment process
- Inadequacy of supply side capacity assessment

3. Documents to be reviewed

- Notification letters received at VEO's office.
- VC and VA meetings minutes.
- Enrolment list of poor households submitted to PAA PSSN Coordinator.

- MIS generated preliminary list.
- The name of the representative of the enrolled House Hold.
- The names of children in the House Holds which are to meet the conditions to attend the school.
- The names of pregnancy mothers who are to meet the condition to attend clinic.
- The names of Schools and Health care facilities which will enable the beneficiaries to meet the conditions.
- Enrolment forms.

4. Audit Steps

SN	Audit Step	W/P Ref.	Initials	Dates
1	To verify if all relevant documents whether were prepared timely and information disseminated to relevant villages on time. How did this impact the process?			
2	Review VCs' and VAs' meetings minutes.			
3	Interview CMCs, facilitators and other stake holders on the whole enrollment process and document their views.			
4	Conduct Physical Verification of enrollment list of poor households by visiting respective households and representatives.			
5	Assess the Household's economic activities, welfare status and outlook of the enrolled poor households to confirm whether deserve to be beneficiary of the programme.			
6	Ascertain the adequacy of handling input data into MIS – input data, process and output.			
7	To ascertain whether the enrolment forms were reviewed before entered in the MIS systems? Who reviewed them and how the corrections were made? Any proof of this?			
8	Establish if all beneficiaries were given provisional ID cards and to be used for first payment.			
9	Establish also that if the Beneficiaries were given permanent Payment cards and that the provisional ID cards were returned.			
10	Who reviews the data entries of the enrolments forms to ensure completeness and accuracy? How is this evidenced?			
11	Obtain complete list printed from MIS of the enrolled Beneficiaries by Village and compare it with the physical enrolment forms. Document any inconsistency.			
12	Establish Education and health facilities in place assigned to beneficiaries for co –responsibilities required by the programme and plan a sample visit.			
13	How is the Enrolment database at LGA synchronised with the TMU database?			
14	Document the hard to reach services areas where and the number of beneficiaries affected. How are these reached?			
15	Perform any other procedure you may consider necessary and conclude the Enrolment Audit.			

1.4.17. Appendix 14: Audit Procedure on Pre-Subproject Cycle Activities

Audit objective

- (a) To ensure that PSSN - Cs and PSSN - As have required qualifications to perform their duties
- (b) To ensure that the PAA has provided enough office space to PSSN - C, PSSN - A and TA so as to enable them to concentrate on TASAF supported activities.
- (c) To ensure that PSSN - C & PSSN - A concentrates on TASAF supported activities
- (d) To ensure timely submission of budget as per agreed action plan
- (e) To ensure that members of various implementation teams have required qualifications to perform their duties
- (f) To ensure correct messages are delivered to targeted communities.
- (g) To ascertain whether opening of bank accounts followed proper procedures provided by TMU
- (h) To confirm the compliance of targeting with PAAs poverty and service coverage indicators as well as community demands in line with their capacities.
- (i) To ensure determination of appropriate wage rate for beneficiaries of PSSN
- (j) To ensure that members of various implementation teams have required qualifications to perform their duties
- (k) To ensure correct messages are delivered to targeted communities.
- (l) To ensure that LSP selected for planning, supervision and implementation of various subprojects have required qualifications to perform their duties

II. Identified high risk areas

- (a) Qualifications of PSSN - C and PSSN - A not specified in MOU
- (b) PAAs not having enough office space
- (c) PSSN - C and PSSN - A to continue working in their previous departments
- (d) Delay in submission of budget
- (e) Incompetence of facilitators at ward and community level in awareness and sensitization activities.
- (f) Unclear definition of the term "Community" in relation to various categories of PSSN beneficiaries.
- (g) Opening of Bank account with no proper authority
- (h) Wrong targeting of communities for PSSN
- (i) Absence / inappropriate wage rates for PSSN beneficiaries
- (j) Selection of Incompetent Local service Providers and failure to prepare realistic budgets due to unrealistic price in price list.

III. Controls/Mitigation measures

- (a) Appointment should be based on criteria provided by TMU
- (b) Appointees to be endorsed by TMU
- (c) PAAs/CMCs to abide to provisions of MOU
- (d) Adherence to provisions in the MOU
- (e) Adherence to agreed action plan with specific deadlines.
- (f) Adherence to the definition of “community” in relation to various categories of NVF beneficiaries
- (g) Approval by PAA Finance Committee
- (h) Adherence to circular letter by TMU to PAAs/CMO on opening of bank Accounts
- (i) Advertisement in media and careful compilation of LSP list and Price List.
- (j) Selection of LSP should be based on criteria provided by respective sectors.

IV. Key documents

- (a) PAAs employees’ personal file
- (b) Endorsement letter by TMU for PSSN - C and PSSN - A
- (c) PAA letter indicating office allocation to PSSN - C, PSSN - A and VFSA where applicable
- (d) MOU
- (e) Attendance register
- (f) PAAs / CMO Action plan
- (g) Guide from TMU for selection of District relevant implementation teams
- (h) Letters of appointment
- (i) TMU document providing clear definition of “Community” as it relates to various categories of PSSN beneficiaries.
- (j) Minutes of Finance Committee
- (k) Circular letter on opening of bank accounts
- (l) SPIFs reviewed by a sector experts and sector expert recommendation as per checklist of sector norms.
- (m) Updated poverty and service coverage indicators for respective PAAs.
- (n) Minutes of Village Councils on targeted communities for PSSN- PWP
- (o) Guide by TMU on determination of self targeting wage rate by respective beneficiary community.
- (p) Teaching materials and programme issued by TMU

Step#	Audit Procedure	W/P Ref.	Initials	Dates
1	Review qualifications of PSSN - Cs and PSSN - As against job description			
2	Review Minutes of PAAs MT/Finance committee to obtain assurance that proper procedures of appointment were adhered to			
3	Review employee personal file to obtain endorsement letter by TMU			
4	Physical verification of office space to ensure that is in use for the intended purposes			
5	Observations and inquiry from respective officers			
6	Review implementation of action plan with specific time frame			
7	Review criterions in the guide against appointments			
8	Review employees personal file to obtain letters of appointment by PAA/DED			
10	Obtain minutes of finance committee from PSSN - C to compare the signatories selected against the circular issued by TMU.			
11	Obtain a list of communities which were targeted for PSSN			
12	Obtain a copy of advertisement and minutes of CMC to verify if selection criterion from TMU and respective sectors were adhered to during selection of LSP			
13	Obtain price list from PSSN - C and trace in OBOQs to see if Price list were used during micro planning.			

1.4.18. Appendix15: Audit Procedures for Supervision & Monitoring Activities

I. Audit Objective

- i) To ascertain whether sub projects are properly supervised to achieve the PDO
- ii) To ascertain whether sub project implementation is done in accordance to implementation schedule and in compliance with TASAF procedures.
- iii) To ascertain whether supervision funds are utilised only for intended purposes
- iv) To identify capacity gaps for capacity enhancement purposes.

II. High Risks identified

- i) Inadequate supervision by PAA technical staff due to various reasons e.g. inadequate technical personnel, or incompetent technical experts
- ii) Inadequate monitoring by LGA/CMO due to insufficient resources Misuse of supervision funds (5%)

III. Controls /Mitigation measures

- i) Adherence to Supervision guide

- ii) Adherence to supervision plans and Budgets
- iii) Submission of LSP profile to identify its directors and proprietors and Use them where there are no competent technical experts in the PAAs/CMO
- iv) Maintenance by CMC of Instructions book and visitors' book for supervision provided by LSP or PAA sectoral experts
- v) Approval of Monitoring schedule and budget by PAA/CMO accounting officer.
- vi) Availability of periodic/quarterly Monitoring reports
- vii) Create awareness on eligible expenditure for the 5% allocation
- viii) Justification of supervision expenditure by PSSN - A
- ix) Timely Internal Audits interventions

IV. Key documents.

- i) PAAs/CMO Approved Technical Supervision plans and Budgets
- ii) Technical Supervision Reports
- iii) Justification Reports by PSSN - A
- iv) List of Identified LSPs by PAAs
- v) Approved Monitoring schedules and budgets
- vi) Periodic/quarterly Monitoring reports
- vii) Sub project Physical and Financial Reports by CMC
- viii) Guide on eligible expenditure
- ix) Supervision contract between LGA/VC and LSP where applicable
- x) Internal audit reports

Step #	AUDIT PROCEDURE	W/P Ref	Initials	Date
1	Obtain approved technical supervision plans and budget and supervision reports.			
2	Discuss with PSSN - C to determine adequacy of LGA technical personnel			
3	Obtain supervision reports prepared by technical supervisors and compare it with supervision plan to determine if supervisions made for the period were adequate.			
4	Obtain a schedule of local service provider and vouch for their profiles to ascertain qualification and practical experiences			
5	Obtain approved monitoring schedule and budget			
6	Compare actual expenditure as justified vs monitoring schedule to determine adequacy			
7	Review periodic / quarterly monitoring reports to ascertain if subprojects are adequately monitored			
8	Obtain supervision plan from the VC or PSSN - C and a list of eligible expenditure for the use of 5% supervision funds			
9	Obtain supervision contracts between PAAs /VCs and LSPs			

10	From the justification report compare items paid for supervision and those in the list of eligible expenditures.			
Other Audit Procedures:				

1.4.19. Appendix 16: Audit Procedures for Post Sub Project Cycle

The audit program and procedure for post subproject will comprise the following aspects;

I Audit Objective

- (a) To ascertain sustainability of services rendered by facilities/assets created
- (b) To ascertain whether the created asset/facility deliver the anticipated service
- (c) To ascertain maximum utilization of asset created
- (d) To ascertain the extent to which the skills imparted during implementation is used at community and LGA level in implementation of other activities

II. High Risks identified

- (a) Failure on the part of beneficiaries/ communities, VC/MC/SAC, PAAs/CMO to fulfil operation and maintenance obligations.
- (b) Inadequate use of skills imparted during implementation on the part of communities and PAAs staff.
- (c) Non-compliance to environmental mitigation plan.

III. Controls /Mitigation measures

- (a) Adherence to operation and maintenance plan
- (b) To assess other ongoing activities implemented as a result of TASAF supported activities
- (c) To assess how LGA/CMO is facilitating the diversification of the utilization of assets created
- (d) Adherence to environmental mitigation plan.

IV. Key documents

- (a) Operation and maintenance plan
- (b) Minutes of the VC/VA meetings on O&M
- (c) Plans and budget of respective LGA on the Mainland, and respective Ministry in Zanzibar
- (d) Minutes of VC/MC/SAC, VA meeting on other activities implemented as a result of TASAF supported activities.
- (e) Environmental mitigation plan.

Step #	AUDIT PROCEDURE	W/P Ref	Initials	Date
1	Obtain list of certified and completed subprojects.			

Step #	AUDIT PROCEDURE	W/P Ref	Initials	Date
2	For each of the above Obtain operational and maintenance plan.			
3	Review the plan to determine if operational and maintenance is timely executed or any arrangements done by LGA, VC, CMC.			
4	Discuss with DED,PSSN - C,PSSN - A to ascertain if all completed subprojects deliver the expected services			
5	Discuss with DED, PSSN - C if there any technical benefits caused by TASAF interventions.			
6	Assess the magnitude of skills utilization on similar subprojects initiated by community as the result of participating in TASAF funded subproject			
7	Select a sample of completed subprojects.			
8	For each subproject above review environmental mitigation plan to ascertain the extent to which mitigation measures have been executed.			

1.4.20. Appendix 17: Sample of a Three Years Internal Audit Strategic Plan

Title:					
1. Background					
2. Purpose and Objectives					
3. Methodology and Risk Assessment					
4. Internal Audit Resources					
4.1 Internal Audit Staff (names and position) and audit hours/days available for each					
4.2 Financial Resources					
Appendix 1: Strategic Plan for 2012 - 2015					
Audit Area	Rank by Risk Assessment Score	2012/13 Days	2013/14 Days	2014/14 Days	Frequency Indicator ²
Finance and Accounting					
Debtors		15		15	2
Payroll		15		15	2
Banking Arrangements/Reconciliations			10		2
Insurance		15		15	2
Administration					
Vehicle Maintenance		5		20	2
Personnel, Recruitment and Training			15		2
Estates Management			15		3
Housing Repairs		15		15	2

Computer Audit					
Implementation of New Systems		30	30	30	2
Internet/Intranet			15		2
IT Security		5		15	2
Networks			15		3
Procurement and Contract Audit					
Contract Management		10	5	5	1
Tendering Arrangements		5	5	5	1
Etc.					
TOTAL					

1.4.21. Appendix 18: Sample of Annual Risk Based Audit Plan

Title
1. Background
2. Purpose and Objectives
3. Methodology and Risk Assessment
4. Internal Audit Resources
4.1 Internal Audit Staff (names and position) and audit hours/days available for each
4.2 Financial Resources

Annual Audit Plan Schedule

Perma nent File ID.	Audi t Area	Depart ment	Audit Overall Objective/Des cription	Risk Assess ment Score (Ranked)	Estim ated Total Audit Days	Quarte r 1 (Estim ated start date)	Quarte r 2 (Estim ated start date)	Quarte r 3 (Estim ated start date)	Quarte r 4 (Estim ated start date)

1.4.22. Appendix 19: Independence Declaration Form

INDEPENDENCE DECLARATION FORM

I _____ Internal Auditor appointed to the audit assignment of:
 _____ by letter dated: _____ completed this
 declaration.

No.	Relationship with the Auditee Impacting on Independence	Yes	No
1.	Do you have any financial relationship with the auditee that can limit the range or weaken the audit?		
2.	Do you have any prejudice towards the staff of the audited organization/area that could influence your opinion by exerting his/her authority or otherwise influence you?		
3.	Did you have any management position or were involved in some way with the activity of the auditee in the last three years?		
4.	Are you husband/wife or relative up to three generations with the auditees' manager, or directors or heads of departments?		
5.	Do you have any political, social or friendly connection with the members of the directorate, head of department, units or sections under audit?		
6.	Were you employed in the audited section during the last three as part-time or full-time or conducted services on its behalf?		
7.	Do you have directly or indirectly any financial interest in the audited area?		


If there is any disagreement during the audit that is not declared above, or other disagreement, I will immediately notify the Head of Audit Unit.

Name of the Auditor: _____ Date:


[For Head of Audit Unit Use] Approval of the Auditor to continue with the assignment, and any further guidance or action in relation to declaration above:

Name and Signature of DIA: _____ Date:

1.4.23. Appendix 20: Team Meeting Minutes

	W/P Ref _____																		
 <p>TANZANIA SOCIAL ACTION FUND <u>Team Meeting Minutes</u></p>																			
Client: _____ Title: <u>Team Meeting Minutes</u> Period _____	Prepared by: _____ Prepared on: _____ Reviewed by: _____ Reviewed on: _____																		
<p>I. Date: _____ II. Venue: _____ III. Audit Team members / Attendees:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"><u>Name</u></th> <th style="width: 30%;"><u>Title</u></th> <th style="width: 40%;"><u>Attendance</u></th> </tr> </thead> <tbody> <tr> <td>1. *****</td> <td>CIA</td> <td>_____</td> </tr> <tr> <td>2. *****</td> <td>AIC</td> <td>_____</td> </tr> <tr> <td>3. *****</td> <td>IA</td> <td>_____</td> </tr> <tr> <td>4. *****</td> <td>IA</td> <td>_____</td> </tr> <tr> <td>5. *****</td> <td>IA</td> <td>_____</td> </tr> </tbody> </table> <p>IV. Minutes:</p> <p>(1) <i>Summary of Discussion</i></p> <p>(Summarize the team discussion on nature of audit, requirements, preliminary understanding of the assignment, division of tasks amongst members etc)</p> <p>.....</p> <p>(2) <i>Importance of meeting deadlines for completion of the audit</i></p>		<u>Name</u>	<u>Title</u>	<u>Attendance</u>	1. *****	CIA	_____	2. *****	AIC	_____	3. *****	IA	_____	4. *****	IA	_____	5. *****	IA	_____
<u>Name</u>	<u>Title</u>	<u>Attendance</u>																	
1. *****	CIA	_____																	
2. *****	AIC	_____																	
3. *****	IA	_____																	
4. *****	IA	_____																	
5. *****	IA	_____																	
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">Meeting/Deliverable</th> <th style="width: 40%;">Date</th> </tr> </thead> <tbody> <tr> <td>Entrance meeting</td> <td>_____</td> </tr> <tr> <td>Field work</td> <td>_____</td> </tr> <tr> <td>Wrap-up meeting</td> <td>_____</td> </tr> <tr> <td>Due for Draft Report</td> <td>_____</td> </tr> <tr> <td>Exit meeting</td> <td>_____</td> </tr> <tr> <td>Due for Final Report</td> <td>_____</td> </tr> </tbody> </table>		Meeting/Deliverable	Date	Entrance meeting	_____	Field work	_____	Wrap-up meeting	_____	Due for Draft Report	_____	Exit meeting	_____	Due for Final Report	_____				
Meeting/Deliverable	Date																		
Entrance meeting	_____																		
Field work	_____																		
Wrap-up meeting	_____																		
Due for Draft Report	_____																		
Exit meeting	_____																		
Due for Final Report	_____																		

1.4.24. Appendix 21: Folder Cover for Current File



TANZANIA SOCIAL ACTION FUND

AUDIT FOLDER COVER

AUDIT PROJECT/FOLDER NUMBER: _____
 ASSIGNMENT TITLE: _____

AUDIT PERIOD: _____

AUDITEE NAME/ADDRESS: _____

OFFICE/LOCATION: _____

AUDIT TEAM LEADER: _____

AUDIT STAFF: _____

Project Approval by CIA/Audit Manager

Signature/stamp: _____
 Date: _____

WARNING- CAUTION REQUIRED

This file contains information which has restricted access for all unauthorized persons. Special safeguarding measures should be followed at all times.

1.4.25. Appendix 22: Audit Project Reminder List

Planning	Completed	
	(Date)	(Name)
<i>Held an audit team meeting and discussed on:</i>		
- Nature of the assignment		
- Where the activity stands in the organization		
- The unit's monetary significance		
- The unit's objectives and nature of operations		
- The relevant laws, rule, regulations and policies		
- Tentative engagement objectives		
<i>Conducted an in-office review/or a permanent file is reviewed for:</i>		

- Permanent file reviewed for:
- Activity rules, laws and regulations
- Material on the organization & chart
- Nature and location of physical assets and accounting records
- Financial information [budgets, actual, cash flow etc]
- Internal policies & operating manuals
- Prior period internal audit and external audit reports and related replies
- Prepared a summary the prior deficiencies and suggestions
- Opened a current file for the engagement
- Reviewed related internal auditing literature on the subject to be reviewed

First Contact with the Auditee on the assignment:

- Sent engagement letter at least 5 working days before entrance conference
- Copy of engagement letter filed in the current file
- Conducted an entrance meeting
- Proper notes taken during the meeting
- Document every aspect of the above and put in the current file

Conducted preliminary survey:

- Made a physical tour of the office/premises
- Reviewed all legally required documents
- Reviewed their financial profile
- Interviewed managers and key personnel to be audited
- Identified key problems/ risky areas and their related controls
- Formulated engagement objectives as a result of the review
- Documented every aspect of the above and file in the current file
- Produced a preliminary survey report/ engagement plan document

Prepared the audit program:

Prepared the audit program
 Reviewed the audit program and this check list with the CIA/supervisor:

Date of review: _____

CIA/ Audit Supervisor: _____

Fieldwork	Completed	
	(Date)	(Name)
- Posted project time record each day and reported time each week to the CIA/ Audit supervisor.		
- Forecasted calendar date of fieldwork completion at mid point of the field work.		
- Made sure to follow the procedures in the audit program and required CIA's authorization on each departure.		
- Kept proper workpapers and proper evidence and put in current file		
- Maintained the 5 attribute format for every audit finding.		
- Discussed with client management personnel their availability for review of findings and draft reports so as to anticipate vacations and other absences.		
- Reviewed fieldwork notes and all necessary procedures by CIA/Supervisor:		
<i>Date of review:</i>		
<i>CIA/ Audit Supervisor:</i>		
Final	Completed	
	(Date)	(Name)
- Completed record of audit findings and report outline, and reviewed them with the CIA/ Supervisor.		
- Prepared audit report draft and cross-referenced it to the working-papers.		
- Transferred appropriate records to the permanent file		
- Described matters to be considered in other audit projects		

in writing and placed notes of such matters in the appropriate permanent files	
- Scheduled reviews of draft the report with client's personnel	
- Confirmed status of completed and open deficiency findings either by test of by review with client personnel	
- Performed final verification of the draft report, as modified by review with client or otherwise, before submitting it for final typing	
- Examined prior working papers and suggested to the CIA/superior which should be retained and which destroyed	
- Completed current audit working papers and submitted them to the CIA/ supervisor before filing them	
- Placed record of the open findings in a follow-up file so that they would be monitored until considered closed	
- Returned all documents taken from office files to those files	
-	
<i>Date of review:</i>	
<i>CIA/ Audit Supervisor:</i>	

1.4.26. Appendix 23: Specimen of Audit Objectives



Ministry of Finance
Government of Tanzania

W/P Ref _____
Prepared by _____
Prepared on _____
Reviewed by _____
Reviewed on _____

Client: _____
Period: _____
Title: **Audit Objectives- Payroll Audit**

Audit Objective	Ref. To (Program)	Ref To (FA sheet/ SOFR)
1. To ascertain that only valid employees are paid at the correct and authorized rate;		
2. To ascertain that the calculations of all payments and deductions are correct and in accordance with the relevant taxation and other regulations and requirements;		
3. To determine whether all deductions are correctly disbursed		
4. To ascertain that unauthorized access to the payroll system and data is prevented;		
5. To ascertain that all payroll transactions are accurately reflected in the accounting system		
6. To ascertain that regular and accurate management and statutory information is produced		

Auditor in Charge Signature: Date:	Chief Internal Auditor Signature..... Date...
--	---

1.4.27. Appendix 24: Example of Agenda for Entrance Meeting

During the Entrance Meeting the following may be discussed:

a) *Introduction, scope and objectives:*

- The audit team, the activity management to introduce to each other.
- The client should describe the unit, its resources etc.
- Share the basic scope and objectives planned for the audit.
- Emphasize that the purpose of the audit is to add value to the organization and assist management by providing analysis, appraisals, recommendations, and information concerning the activities reviewed — all designed to assist management in the attainment of their objectives.
- Determine who will be the contact person from the client (note: it should not be the director or a person too high, should be a person who will be able to open doors for you, be available and knowledgeable about the activity).

b) *Audit process and progress:*

- Give a brief overview of the audit process (i.e. from preliminary survey to reporting). This will help client to understand what you are doing.
- Establish a clear understanding with audited management about keeping their personnel advised of the audit progress and findings.
- Provide the client with a tentative audit event timeline (i.e. estimated dates of fieldwork, interim meetings, exit meeting, audit report issuance, and follow-up audits).

c) *Internal Audit Findings (i.e. explain how audit findings will be handled) e.g.:*

- Resolution of minor findings,
- That there will be a discussion of all findings on a current basis to permit the audit client to assist in developing the improvement actions and take timely improvement action,
- That there will be an exit conference at the completion of the fieldwork to reconfirm all findings and improvement actions planned,
- That there will be a collective review of the draft report,
- And the methods of distribution of the final audit report.

d) *Areas of special concern and consulting Activities:*

- It is important that the client identifies issues or areas of special concern that should be checked
- Auditors also should ask for suggestions of problem areas where the auditors can be of assistance to the activity management.
- Careful consideration must be given to any suggestions and requests to ensure that there is need of audit attention. Do not become involved in functional or operating activities).

e) *Cooperative Administration:*

- Inquire about working hours, access to records, available work area for participating internal auditors, the audit client's various work deadline requirements, and any other information that will help schedule the audit activities to fit into the office routine with minimal disruption to the audit client's personnel.

f) *Tour of the facility for familiarization:*

- Arrange to meet other personnel the auditor will be working with during the audit.
- Also arrange for a familiarization tour of the physical facilities, necessary security clearances, and a safety orientation where appropriate.

1.4.28. Appendix 25: Entrance Conference Minutes

W/P Ref _____



TANZANIA SOCIAL ACTION FUND

Client: _____ Prepared by: _____
 Title: Entrance Meeting Minutes Prepared on: _____
 Period _____ Reviewed by: _____
 Reviewed on: _____

Date and Venue:

I. Attendees:

Name	Title	Org./Dept	Telephone/E-mail
1. _____	_____	_____	_____
2. _____	_____	_____	_____
3. _____	_____	_____	_____
4. _____	_____	_____	_____
5. _____	_____	_____	_____

II. Opening Remarks/ Introduction:

-
-

III. Objectives and Plan of the Whole Audit:

-
-

IV. Other Issues From the Client to be Considered:

-
-

V. Logistical Arrangement and Conclusion:

••

Auditee

Signed by _____ Title _____
 Date _____

Auditors

Signed by _____ Title _____
 Date _____

1.4.30. Appendix 27: Example of an Internal Control Questionnaire (Icq)

<i>W/P Ref:</i>				
No.	Question on Expected Controls	YES	NO	Auditor's Comments
1.	Is there inadequate segregation of duties? Separation of authorization and payment procedures?			
2.	Are approved imprest procedures contravened? a) Imprest drawn against properly authorized warrant and not exceeded? b) Replenishment and retirement procedures correctly carried out? c) Cash book, vouchers, supporting documents submitted for replenishment and retirement? d) Imprest cash book posted daily and regular balanced? e) Regular departmental cash checks carried out?			
3.	Can unauthorized or improperly supported payments be made? a) Imprest Cash Vouchers properly authorized and supported by receipts, invoices etc? b) Is Vote Book entered and initialed? c) Correct budget codes shown? d) Payments made within authorized budget allocations?			
4.	Etc.			
5.	Etc.			

1.4.31. Appendix 28: Preliminary Survey Report

W/P Ref _____



TANZANIA SOCIAL ACTION FUND

Client: _____	Prepared by: _____
Title: <u>Preliminary Survey Report</u>	Prepared on: _____
Period: _____	Reviewed by: _____
	Reviewed on: _____

Objectives

Understanding the client operation and assess the internal control to create audit program for substantive tests.

Work performed

1. Obtaining the documentation from the audited entity, and reviewing the documentation provided and previous report.
2. Interviewing
 - i)

Results

(1) Laws, regulations, manuals:

The related regulations, specifically for this engagement, are as follows.

.....

(5) Other issues: (Refer to)

Encountered problems described

(6) Test of Control: (Refer to

Based on the analysis through the interview and walkthrough,

Conclusion

- Obtained the understanding that operation related to procurement management was conducted as described in narrative notes, and confirmed the significant issues to be focused on.
- Confirmed

1.4.32. Appendix 29: Specimen of Audit Program

W/P Ref _____	
 <p style="margin: 10px 0;">TANZANIA SOCIAL ACTION FUND</p>	
<p>Client:</p> <p>Period:</p> <p>Title: Audit Program- Payroll Payments</p>	<p>Prepared by</p> <p>Prepared on</p> <p>Reviewed by</p> <p>Reviewed on</p>

Audit Objective	Ref To (FA sheet)
Objective 1 -To ascertain that only valid employees are paid at the correct and authorized rate Objective 2 Objective 3 -To ascertain that the calculations of all payments and deductions are correct and in accordance with the relevant taxation and other	FA-1 FA-2 FA-3

Audit Program	Done by	Date	W/P Ref
<i>Payroll Payments</i>			
1 Agree 100% payroll payments to the register, check that all the amounts tally			
2 ii) Using the current approved salary structure, and a 30% sample of all staff, confirm that: all posts are paid as per the established grade.			
3 Review the deductions made and ascertain that they are reasonable. Investigate any large variances found			
4 Get a list of the significant allowances/ advances and ascertain that the transactions were approved by the relevant person and that the correct procedures were followed			
5 Check 100% of the net amounts per the payroll to the bank transfer instructions			
6 Ascertain that the total amount of the bank transfer instruction is reflected on the bank statement			
<i>Payroll Deductions</i>			
7 Review the casting of the payroll deductions to ascertain that the give total is correct			
8 Ascertain that the deductions have paid to the respective creditors e.g. TRA, NHIF etc			
9 Ascertain that the recovered advances have been correctly recorded in the advances register			

	<i>Payroll Records</i>			
10	For the selected sample of employees, verify that they are actually in existence			
11	Confirm that the contained salary grade in each staff's personal file is the same as that contained in the scheme of service			
12	Ascertain that there is a permanent record of each employee's service			
13	Ascertain that the necessary changes have been made to the Register, especially with regard to new employees and those who have left			

<p>Auditor in Charge</p> <p>Signature:</p> <p>Date:</p>	<p>Chief Internal Auditor</p> <p>Signature.....</p> <p>Date...</p>
---	--

1.4.33. Appendix 30: Testing Sheet

W/P Ref



TANZANIA SOCIAL ACTION FUND

Client:
Period:
Title: Audit Program- Payroll Payments

Prepared by
Prepared on
Reviewed by
Reviewed on

Object Copied from Audit Program.

1. To ascertain that only valid employees are paid at the correct and authorized

Procedure Copied from Audit Program.

- 1 Agree 100% payroll payments to the register, check that all the amounts tally
- 2 Using the current approved salary structure, and a 30% sample of all staff, confirm that: all posts are paid as per the established grade.
- 4, 5, 6, 10, 11, 12

Criteria, Basis Describe criteria and basis for the procedure, if any.

- Include also here the method used to select samples

Work done Create testing to be performed (works to be done) for each program and fill in here, before testing.
Conduct testing by performing the described works.


Results Describe results of testing.

Findings Any findings should be referred to Five Attribute Sheet.
Five Attribute Sheet should be prepared for each finding.
Details of finding are described on Five Attribute Sheet.

Conclusion Describe conclusion briefly.

1.4.34. Appendix 31: Summary of Findings and Recommendations (SOFR)

W/P Ref _____



TANZANIA SOCIAL ACTION FUND

Client: _____ Prepared by: _____
 Title: **Summary of Findings and Recommendations (SOFR)** Prepared on: _____
 Period: _____ Reviewed by: _____
 Reviewed on: _____

Summary of findings - values of errors

Five attribute sheet	Description	No. errors found	Estimated for whole	Estimated value in shillings	Report
.....					

Summary of findings - non-compliance with Financial Regulations:

Five attribute sheet	Description	Impact on assurance opinion	Report
.....			

Audit Conclusion:	Auditor in charge Signature:..... Date:.....	Chief Internal Auditor Signature:..... Date:.....
-------------------	--	---

1.4.36. Appendix 33: Exit Meeting Minutes

W/P Ref _____



TANZANIA SOCIAL ACTION FUND

Client: _____
 Title: Exit Meeting Minutes
 Period _____

Prepared by: _____
 Prepared on: _____
 Reviewed by: _____
 Reviewed on: _____

Date and Venue:

I. Attendees:

Name	Title	Org./Dept	Telephone/E-mail
1. _____	_____	_____	_____
2. _____	_____	_____	_____
3. _____	_____	_____	_____
4. _____	_____	_____	_____

II. Opening Remarks:

-
-

III. Key issues/findings observed:

-
-

IV. Reaction/Comments from the auditee's members:

-

V. Conclusion and Agreement on the way forward:

-

Auditee

Auditors

Signed by

Title

Signed by

Title

Date

Date

1.4.37. Appendix 34: Specimen of an Internal Audit Engagement Report



TANZANIA SOCIAL ACTION FUND

SUBJECT:

EXECUTIVE SUMMARY

(May not be required when reports can be kept short) The executive summary should:

- Reiterate the objectives and scope of the engagement and include brief descriptions of the audit entity,
- The rationale for the audit, and the criteria and approach employed, including references to professional standards.
- A conclusion is required for each objective, and a summative conclusion may be provided.
- A statement of assurance should be included or referenced, if it is located in the conclusions section or provided in a covering memorandum.
- Key recommendations and management responses may also be included.
- Above all, management should be able to readily focus on and understand the important issues being reported.

INTRODUCTION

- May cover general information on the area being audited e.g. a project, organization etc
- Also its establishment law, objectives and functions.

OBJECTIVE

- Reason for the engagement and the specific objectives

SCOPE

- Context of the subject matter (e.g. a description of the program, activity, issue, organization, or system examined, its place within the department or agency, and its importance or a description of exclusions)
- Timing (the period covered by the evidence examined)

APPROACH OR METHODOLOGY

- Criteria (against which the observations and assessments were made and conclusions were drawn)
- Work conducted
- Standards used (any professional standards, e.g. IIA, governing how the work was done)
- Timing (the period during which the work was done)

FINDINGS AND RECOMMENDATIONS

- For each area of observation/finding:

- (A paragraph(s) may be employed to introduce the essence of the observation)
- Condition; Criteria; Cause and Effect/ Impact and Exposure to risk
- Recommendation (action required and responsibility) = **sub-heading**
- Management (Auditee/ Head of Unit/Department) Response and Action Plan (or as a separate section as below) = **Sub-heading**
 - Action to be taken for each recommendation
 - Timing

CONCLUSIONS

- Conclusions on objectives and any qualifications
- Compliance with relevant laws, regulations, policies, and standards
- A summative conclusion may be desirable
- A statement of assurance may be included or may be referenced if it is addressed in a covering memorandum
- Other higher level results relative to engagement objectives

COMPLIANCE PLAN

- In the final conclusion of the audit, the following compliance plan was agreed between the auditors and management

<i>Actionable Area</i>	<i>Person Responsible</i>	<i>Action Plan</i>	<i>Due Date</i>


- We have no further comments and agree to the action plan as committed above

	Auditor	Auditee
Name		
Signature	Signed in original	Signed in original


ACKNOWLEDGEMENT

APPENDICES

1.4.38. Appendix 35: Audit Report Review Checklist

W/P Ref _____					
 <p>TANZANIA SOCIAL ACTION FUND</p>					
Client: _____ Title: Audit Report Review Checklist			Prepared by: _____ Prepared on: _____ Reviewed by: _____ Reviewed on: _____		
Period _____					
S/No	Particulars	Prepared by		Reviewed by	
		Sign	Date	Sign	Date
	<i>Reporting</i>				
1	Are the reports cross-referenced to working papers?				
2	Are all material points, findings and recommendations noted during the audit included in the report?				
3	Is there any uncompleted audit performance? No pending items on the field work /testing are left?				
4	Are the dates of the audit, title of the report and the name of auditee consistent on the cover and throughout the report?				
5	Does the scope section of the report include appropriate comments regarding internal controls?				
6	Are figures used uniformly throughout the report? (summary, findings /recommendations and exhibits)				
7	Do the recommendations contained in the report follow from specific findings included in the report?				
8	Do the recommendations provide constructive consultation to the auditee (i.e., how the auditee can improve the pointed-out situations)?				
9	Does the report summary contain the audit objectives and address the significant matters discussed in the body of the report?				
10	Do the findings /recommendations elaborate on significant matters discussed in the summary report?				
11	Is the report accurate, complete, constructive, convincing and objective?				
12	Is the language of the report clear, simple and concise? Paragraphs and sentences OK?				
13	Are the spelling and grammar OK?				
	<i>Administration</i>				
14	Is a copy of the auditee's official written comments on the draft report included in the W/P file?				
15	Is a transmittal letter attached?				
16	Is a report distribution list attached?				
17	Have announced copies of the final report been distributed?				

1.4.39. Appendix 36: Follow-Up Audit Documentation

W/P Ref _____	
 TANZANIA SOCIAL ACTION FUND	
Client: _____	Prepared by: _____
Title: <u>Follow-up Audit</u>	Prepared on: _____
Period: _____	Reviewed by: _____
Subject: _____	Reviewed on: _____

Ref. No. From Report	Recommendation	Agreed Action Plan	Implementation Status	Auditor's Comments or Remarks

1.4.40. Appendix 37: Initial Investigation Plan

INITIAL INVESTIGATION PLAN			Ref No. _____
Terms of Reference:			
Size Score: <i>(tick appropriate)</i>	Large <input type="checkbox"/>	Medium <input type="checkbox"/>	Small <input type="checkbox"/>
Resource Budget:	Planned <input type="checkbox"/>	Actual <input type="checkbox"/>	Comments <input type="checkbox"/>
Investigation Hours			
Travel Expenses			
Other Expenses			
Fees for experts			
Total Costs:			
Chief Investigator Signature:		Sponsor Signature:	

1.4.43. Appendix 40: Structure of an Investigation Report

REPORT INTO XYZ CLAIMS	
EXECUTIVE SUMMARY	
Terms of reference General methodology Findings in brief Recommendations	
MAIN BODY OF THE REPORT	
Background to the investigation Work carried out Special factors (if any)	
Issue One:	Background Detailed evidence Conclusions Recommendations
Issue Two:	Background Detailed evidence Conclusions Recommendations
Issue Three	Background Detailed evidence Conclusions Recommendations
Appendices	List of documents reviewed List of interviews Timeline of events

1.4.44. Appendix 41: Indexing System for Working Papers

S/N	AUDIT PROCESS ITEM/ FORMS OR PAPERS TO BE KEPT	INDEX
	AUDIT REPORTING	A-0
	Transmittal Letter	A-
	Final Report	A-
	Management Response on Draft Report	A-
	Draft Report	A-
	Exit Meeting Minutes	A-
	Audit Report Review Records	A-
	Matters of Next Audit	A-
	FIELD WORK/ TESTING	B-0
	Record of Audit Findings/Five Attributes Form	B-
	Interview/ Questionnaire Forms	B-
	Spreadsheets/ samples/photos etc	B-
	Interim Exit Meeting Minutes	B-
	Fieldwork Check List	B-
	PRELIMINARY SURVEY	C-0
	Five Attributes Form (Lead Sheet)	C-
	Internal Control Questionnaire	C-
	Summary of Interview Form	C-
	Auditee Self-Assessment Questionnaire	C-
	Flow Charts /Narrative Notes	C-
	Audit Programs	C-
	Risk Assessment Form	C-
	Internal Control Evaluation Schedule	C-
	Entrance Conference Minutes	C-
	Preliminary Survey Report	C-
	Preliminary Review Check List	C-
	PLANNING (IN- OFFICE REVIEWS)	D-0
	Team Meeting Minutes	D-
	Engagement Plan	D-
	Personal Time Analysis Sheet	D-
	Five Attributes Form (Lead Sheet)	D-
	Planning Check List	D-
	ADMINISTRATION	E-0
	Internal Memo for Approval	E-
	Letter of Appointment (Terms of Reference)	E-
	Other Correspondences with the Auditee	E-

GLOSSARY OF DEFINITIONS

Act – refers to the Local Government Act,

Added Value -Value is provided by identifying operational improvement, and /or reducing risk exposure through both assurance and consulting services, thereby improving the likelihood of achieving organizational objectives,

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

Auditees -TASAF Management Unit, PAAs, such as a, CPWMCs, CCTMCs, that is a subject of an audit activity.

Audit Objectives are broad statements developed by internal auditors and define intended audit accomplishments.

Audit Procedures are the tasks the internal auditor undertakes for collecting, analysing, interpreting, and documenting information during an audit. Audit procedures are the means to attain audit objectives.

Audit Program is a document which lists the audit procedures to be followed during an audit. The audit program also states the objectives of the audit.

Audit Report is a signed, written document which presents the purpose, scope, and results of the audit. Results of the audit will include findings, conclusions (opinions), and recommendations.

Audit Scope refers to the activities covered by an internal audit. Audit scope includes, where appropriate:

- (a) Audit objectives
- (b) Nature and extent of auditing procedures performed
- (c) Time period audited
- (d) Related activities not audited in order to delineate the boundaries of the audit

Audit Working Papers record the information obtained, the analyses made, and conclusions reached during an audit. Audit working papers support the bases for the findings and recommendations to be reported.

Code of Ethics - The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance - Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest - Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual’s ability to perform his or her duties

and responsibilities objectively.

Control -Any action taken by management, PAAs, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment -The attitude and actions of the management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values
- Management's philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices
- Competence of personnel

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

Continuous Professional Development -The Continuous Professional Development can be described as a scheme under which participants can access information for the betterment of their professional services. It refers to learning activities that develop and maintain capabilities to enable professional accountants to perform competently within their professional environments.

Due Professional Care calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Due professional care is exercised when internal audits are performed in accordance with the *Standards for the Professional Practice of Internal Auditing*. The exercise of due professional care requires that.

- Internal auditors be independent of the activities they audit
- Internal audits be performed by those persons who collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly
- Audit work be planned and supervised
- Audit reports be objective, clear, concise, constructive, and timely

Internal auditors follow up on reported audit findings to ascertain that appropriate action was taken. **Error** as it relates to internal audit reports is an unintentional misstatement or omission of significant information in a final audit report.

External Auditors refers to those audit professionals who perform independent annual audits of an organization's financial statements i.e. National Audit Office (NAO).

External Reviews of the internal auditing department are performed to appraise the quality of the department's operations. External reviews should be performed by qualified persons who are

independent of the organizations and who do not have either a real or apparent conflict of interest e.g. IDA, GoT.

Engagement -A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives -Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Work Programme -A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

Follow-up by internal auditors is defined as a process by which they determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings. Such findings also include relevant findings made by external auditors and others.

Fraud - Any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance -The combination of processes and structures implemented by the PAAs and/or Management in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.

Director of Internal Audit:- Top position within the Directorate of Internal Audit responsible for internal audit activities.

Impairments - Impairments to individual objectivity and organizational independence may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, properties and resource limitations (funding).

Illegal Acts refers to violations of laws and governmental regulations.

Independence allows internal auditors to carry out their work freely and objectively. This concept requires that internal auditors be independent of the activities they audit. Independence is achieved through organizational status and objectivity.

Information is data the internal auditor obtains during an audit to provide a sound basis for audit findings and recommendations. Information should be sufficient, competent, relevant, and useful.

Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.

Internal Auditing Department includes any unit or activity within an organization which performs internal auditing functions.

Internal Auditor is an individual within an organization's internal auditing department who is

assigned the responsibility of performing internal auditing functions.

Internal Control is a process within an organization designed to provide reasonable assurance regarding the achievement of the following primary objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, and regulations.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or programs.

Irregularity refers to the intentional misstatement or omission of significant information in accounting records, financial statements, other reports, documents or records. Irregularities include (a) fraudulent financial reporting which renders financial statements misleading and (b) misappropriation of assets. Irregularities involve:

- Falsification or alteration of accounting or other records and supporting documents
- Intentional misapplication of accounting principles
- Misrepresentation or intentional omission of events, transactions, or other significant information

Internal Audit Activity -an independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Check - It means a system under which the work relating to carrying out and recording of transactions is allocated various persons in such a manner that the work of one person is automatically checked by another and thus possibilities of fraud or error or irregularity are minimized, if not completely eliminated.

Key Audit Findings are those conditions which, in the judgment of the director of internal auditing, could adversely affect the organization. Significant audit findings may include conditions dealing with irregularities, illegal acts, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses.

Objectives are the broadest statements of what the organization chooses to accomplish.

Objectivity is an independent mental attitude which requires internal auditors to perform audits in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

Quality Assurance is a program by which the director of internal auditing evaluates the operations of the internal auditing department. The purpose of the quality assurance program is to provide reasonable assurance that internal auditing work conforms to the *Standards for the Professional*

Practice of Internal Auditing, the internal auditing department's charter, and other applicable standards. The quality assurance program should include the following elements:

- Supervision
- Internal reviews
- External reviews

Recommendations are actions the internal auditor believes necessary to correct existing conditions or improve operations.

Residual Risk -The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

Risk is the probability that an event or action may adversely affect the organization or activity under audit.

Risk Assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process should provide a means of organizing and integrating professional judgments for development of the audit work schedule.

Risk Management - A process to identify, assess, manage and control potential events or situations in order to provide reasonable assurance regarding the achievement of the organization's objectives.

Shall -The use of the word "shall" in the standards represents a mandatory obligation.

Standards for the Professional Practice of Internal Auditing (the Standards) are the criteria by which the operations of an internal auditing department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be. **Supervision** is a continuing process, beginning with planning and ending with the conclusion of the audit assignment. Supervision includes:

- Providing suitable instructions to subordinates at the outset of the audit and approving the audit program
- Seeing that the approved audit program is carried out unless deviations are both justified and authorized
- Determining that audit working papers adequately support the audit findings, conclusions, and reports
- Making sure that audit reports are accurate, objective, clear, concise, constructive, and timely
- Determining that audit objectives are being met.