Internal Audit Charter
&
Risk-Based Internal Audit Manual

FINANCE DIVISION, MINISTRY OF FINANCE

(Revised Edition 2026)

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Preface

Internal Audit is widely recognized across the world as a critical function in strengthening accountability, transparency and effective governance in the public sector. By providing independent and objective assurance and advisory services, internal audit enhances the efficiency and effectiveness of organizational operations. It supports sound risk management, internal control, and governance processes, thereby helping organizations achieve their strategic objectives. In Bangladesh, the growing emphasis on good governance, fiscal discipline and efficient public financial management has further highlighted the importance of establishing strong internal audit systems within public sector organizations.

Recognizing this importance, the Finance Division has taken the initiative to establish Internal Audit Units (IAU) across several Ministries/Divisions, Departments and Agencies (MDAs) of the Government of Bangladesh. The internal audit processes in these MDAs is guided by a structured framework defined through the Internal Audit Charter and the Risk-Based Internal Audit (RBIA) Manual published by Finance Division in 2023. The Internal Audit Charter outlines the mandate, authority, roles and responsibilities of the Internal Audit Units, while the RBIA Manual provides detailed methodologies, procedures and tools for conducting risk-based internal audits in line with recognized professional practices.

During the implementation of internal audit activities, practical experiences and operational insights highlighted the need for certain refinements. In addition, the release of the **Global Internal Audit Standards 2024** necessitated updates to ensure alignment with the latest international standards and best practices. Accordingly, relevant changes have been incorporated into this revised version of the Manual.

The Finance Division hopes that this Manual will serve as a practical and useful guide for Internal Audit functions, management and other stakeholders involved in strengthening internal audit practices across the public sector.

Dhaka, March 2026

Amir Khosru Mahmud Chowdhury, MP

Minister

Ministry of Finance

Government of The People's Republic of Bangladesh

Foreword

Internal audit plays a crucial role in achieving the objectives of government organizations across the world. By providing independent and objective assurance as well as recommendations, internal audit plays a pivotal role to improve organizational performance, strengthen governance and ensure effective risk management and internal control systems. It also contributes to reliable financial reporting by verifying compliance with existing laws, rules, regulations and circulars. In Bangladesh, the importance of internal audit in the public sector has increasingly been recognized as an essential mechanism to enhance accountability, transparency, performance, and efficiency within Ministries/Divisions, Departments, and Agencies (MDAs).

In this context, the Finance Division introduced a Model Internal Audit Charter and a Risk-Based Internal Audit (RBIA) Manual in 2023 to guide the establishment and management of internal audit units across various MDAs. The internal audit processes in these Departments are carried out in accordance with the framework outlined in the Internal Audit Charter and the methodologies described in the RBIA Manual.

The Internal Audit Manual is structured into three parts. Part One presents the background, legal basis, objectives, principles, and key concepts of internal audit. Part Two describes the processes of internal audit planning, conducting audit activities, reporting, follow-up procedures, documentation, and the quality assurance process in accordance with the standards of the Institute of Internal Auditors (IIA). Part Three contains relevant forms, templates, and appendices supporting the internal audit processes, as well as the responsibilities and duties of the Internal Audit Unit (IAU). It also includes the Terms of Reference (TOR) and ethical principles relating to the Audit Committees of MDAs and the Central Audit Committee.

Since the publication of the Internal Audit Charter and RBIA Manual in 2023, practical experience gained during the implementation of internal audit activities and the introduction of the **Global Internal Audit Standards 2024** have required certain updates and amendments to the Manual to ensure continued alignment with international standards and evolving practices.

The Internal Audit Charter outlines the objectives, authority, responsibilities, and organizational positioning of the internal audit function. The Finance Division expects all MDAs to apply the Internal Audit Charter and the Risk-Based Internal Audit Manual uniformly and consistently in carrying out internal audit activities. The manual shall be further revised as required to reflect major changes in international standards, regulatory requirements and implementation needs.

Dhaka, March 2026

(Dr. Md. Khairuzzaman Mozumder)
Secretary
Finance Division
Ministry of Finance

Executive Summary

The Government of the People's Republic of Bangladesh enacted the Public Money and Budget Management Act 2009 (PMBM Act–2009) to strengthen Public Financial Management (PFM) in the public sector. The Act provides a legal framework for fiscal forecasting, budget preparation, execution and financial reporting across Ministries/Divisions, Departments, and Agencies (MDAs). It aims to ensure improved financial discipline, transparency, and accountability in the management of public resources.

In line with the provisions of the PMBM Act–2009 and the constitutional mandate for public financial oversight, systems such as Public Accounts and Public Audit play important roles in ensuring transparency and reliability in government financial management. Section 19 of the PMBM Act–2009 highlights the importance of internal control systems within MDAs and defines the responsibilities of Principal Accounting Officers (PAOs) in maintaining effective internal control mechanisms. As part of this internal control framework, Internal Audit has emerged as a globally recognized practice in both public and private sectors for improving organizational governance, risk management, and operational efficiency.

Internal Audit provides independent and objective assurance that organizational processes are functioning effectively. It contributes to safeguarding public resources, ensuring compliance with laws and regulations, addressing operational weaknesses, and strengthening accountability within government institutions. To support the effective implementation of internal audit functions across MDAs, the Finance Division has published the Risk-Based Internal Audit (RBIA) Manual and the Internal Audit Charter. These documents provide a structured framework and guiding principles for the planning, execution, and reporting of internal audit activities.

The adoption and implementation of the Internal Audit Charter and the RBIA Manual in government organizations provide several important benefits, including:

Reduction of External Audit Issues:
Implementation of risk-based internal audit processes helps identify operational gaps and control weaknesses at an early stage. Addressing these issues proactively reduces the likelihood of significant observations during external audits and strengthens overall compliance.

Reliable Information for Decision-Making:
The risk-based audit approach emphasizes systematic risk identification and evaluation. Through audit findings and recommendations, it enhances the reliability and accuracy of financial information, supporting evidence-based decision-making within MDAs.

Improved Performance and Efficient Resource Utilization:
Risk-based internal auditing identifies areas of inefficiency and potential wastage in government operations. Addressing these issues contributes to better expenditure management, improved operational performance, and more efficient use of public resources.

Transparency and Accountability:
Internal auditors provide independent and objective assurance on governance processes within MDAs. Their activities promote transparency, ethical practices, and adherence to rules

and regulations, thereby fostering a culture of accountability throughout government institutions.

Currently, internal audit units have been established and operationalized in five high- spending government departments as part of the ongoing efforts to strengthen internal audit practices within the public sector. These initiatives are expected to serve as a foundation for expanding internal audit functions across other ministries and government institutions.

To ensure the sustainability and institutionalization of internal audit functions across government ministries and divisions, there are plans to establish a Directorate of Internal Audit under each ministry and division. This directorate will operate under the administrative authority of the Secretary/Principal Accounting Officer (PAO) of the respective ministry or division. It will also report to the Audit Committee as well as the Secretary/PAO, thereby strengthening oversight and governance mechanisms. The proposed Directorate of Internal Audit will be headed by a Director responsible for overseeing internal audit operations and ensuring effective implementation of risk-based internal audit practices. In addition, the structure will include the provision for a Risk Assessment Officer, who will play a key role in identifying and evaluating risks within the audit universe to support the planning and execution of risk-based internal audits.

The Internal Audit Charter and RBIA Manual have been developed with the support of an experienced panel of consultants from both public and private sectors, including Certified Internal Auditor (CIA) professionals. The preparation process followed internationally recognized standards of the Institute of Internal Auditors (IIA) under the Scheme on Internal Audit and Audit Follow-up of the Strengthening Public Financial Management Program to Enable Service Delivery (SPFMS) of the Finance Division.

While implementing internal audit activities, practical experience and operational insights identified the need for certain refinements to the existing guidance. Additionally, the issuance of the Global Internal Audit Standards 2024 required updates to ensure alignment with the latest international standards and best practices. Accordingly, the necessary revisions and improvements have been incorporated into this revised version of the Manual.

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Internal Audit Charter

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1. Internal Audit Charter

1.1 The Institute of Internal Auditors (IIA) defines internal audit as "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It 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."

The Secretary is required to prepare an Internal Audit Charter for the organization with the assistance of the Head of the Internal Audit Unit (IAU/DIA) and **is required to use this model charter for their organization**. Changes in emphasis may be required to reflect the role of internal audits in the particular organization. Changes are possible but will require the approval of the Finance Division. Changes may not exclude mandatory requirements for risk-based internal audits and planning. Additional responsibilities such as supporting fraud control efforts and introducing risk management practices are acceptable functions but must not take resources from the internal audits. The model charter emphasizes risk-based audit as being appropriate for new internal audit functions. The model charter is also cautious in the use of the language of risk management. While the use of risk management terminology in the IIA standards is recognized, the actual use of risk management techniques in Bangladesh is still emerging. The Internal Audit Charter for each MDA should be formally issued by the PAO with the approval of the Finance Division.

2. Introduction

2.1 The Secretary has established the [name of internal audit unit] as an important part of [organization's] governance framework.

2.2 This charter provides the framework for the conduct of the internal audit function in the [organization] and is required to be formally issued by the Secretary on the recommendation of the Audit Committee with the approval of the Finance Division.

3. Mission and Purpose of internal audit

3.1 Internal audit's mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The purpose of an internal audit is to provide an independent and objective review and advisory service to the Secretary that the financial and operational controls, which are implemented to ensure the achievement of [the organization's] objectives, are operating in an efficient, effective manner, and assist management in improving the performance of [the organization].

4. Independence

4.1 Independence is essential to the effectiveness of the internal audit function. Internal audit has no direct authority or responsibility for the activities it reviews. The internal audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in original line processing functions or activities [except as noted below].

4.2 The Head of Internal Audit is accountable to the Secretary for the efficient and effective operation of the internal audit function. Thus, the Head of Internal Audit will send audit reports functionally to the PAO and PAO will send those audit reports to the MDA audit committee for reviewing audit findings. The audit committee will review audit reports and provide advice to the PAO on significant issues identified and action to be taken on issues raised.

4.3 The Head of Internal Audit has direct access to the Secretary, the Chair, and members of the Audit Committee. Periodic meetings without management should be held between the Head of Internal Audit and the Audit Committee to ensure full and frank briefings and answer questions on sensitive matters.

4.4 The Head of Internal Audit has or is expected to have roles and/or responsibilities of establishing safeguards to limit impairments to independence and objectivity. If independence or objectivity is impaired in fact or appearance, the Head of Internal Audit will disclose the details of the impairment to the appropriate parties. The Head of Internal Audit is to confirm at least annually the independence of the internal audit activity to the Audit Committee in writing.

4.5 The MDA Audit Committee should be independent of its activities. This independence assists in ensuring that the MDA Audit Committee acts objectively and impartially and remains free from any conflict of interest.

5. Authority, Access and Confidentiality

5.1 Subject to compliance with any [organization] security policies, internal auditors are authorized to have full, free, and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Head of Internal Audit considers necessary to enable internal audit to meet its responsibilities.

5.2 The Head of Internal Audit can raise appropriate inquiries to the management and can determine if there are any inappropriate scope of work or resource limitations to delivering the annual audit plan.

5.3 All records, documentation, and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The Head of Internal Audit and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during their work.

6. Roles and Responsibilities

6.1 The responsibilities of the internal audit unit are determined by the governance arrangements established by the organization.

6.2 In the conduct of its activities, internal audit will play an active role in developing and maintaining a culture of accountability, integrity and cost consciousness, and encouraging the integration of risk management into day-to-day operating activities and processes. The Head of Internal Audit is responsible for ensuring the following:

i. Submitting at least annually a risk-based internal audit plan following the IA Manual;
ii. Communicating with the Director of Internal Audit, Secretary, and the Audit Committee on the impact of resource limitations on the plan;
iii. Ensuring the internal audit activity has access to appropriate resources for competency and skill;
iv. Managing the activity (following IA Manual) appropriately for it to fulfill its mandate.
v. Ensuring conformance with Global Internal Audit Standards 2024 of IIA;
vi. Communicating the results of its work and following up on agreed-to corrective actions;
vii. Coordination with other assurance providers.

7. Internal Audit Activities

Internal audit activities will encompass the following areas:

7.1 Audit activities include audits of the following type:

7.1.1 **Risk-Based Audit**

Internal Audit is to assess the adequacy of risk management, control, and governance processes (following the IA Manual) as designed and represented by management, and that management has established procedures and systems with the following focus:

i. Risks are appropriately identified, managed, and reported;
ii. Required financial, managerial, and operating information is accurate, reliable, and timely;
iii. Employees' actions comply with policies, standards, procedures, and applicable laws and regulations;
iv. Resources (including assets) are acquired economically, used efficiently, and adequately protected;
v. Quality and continuous improvement are fostered in the department's control process;
vi. Significant legislative or regulatory issues impacting the department are recognized and addressed appropriately;
vii. Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
viii. Opportunities for improving management control, cost optimizing, reporting, and the organization's reputation may be identified during audits. These opportunities will be communicated to the appropriate level of management.

7.1.2 The responsibility for risk management, control, and governance processes ultimately rests with the Secretary and with management. However, in absence of a risk management unit Internal Audit can conduct a risk assessment of its own following the IA Manual to prepare the annual audit plan.

7.2 Advisory services

7.2.1 In providing advisory services, internal audit needs to maintain independence. It is the responsibility of [organization] management to accept or reject advice

provided by internal audits. Internal Audits cannot be made accountable for the decision made in this regard.

7.2.2 Internal Audit can provide advice to [organization] on a range of matters including:

i. **New programs, IT systems, and processes**: Providing advice on the development of new programs IT systems, and processes, and/or significant changes to existing programs and processes including the design of appropriate controls;
ii. **Risk management:** Assisting in the identification of risks and development of risk mitigation and monitoring strategies and reporting on those if required;
iii. **Fraud control:** Assisting in identification of the risks of fraud and development of fraud prevention and monitoring strategies.

7.3 Audit support activities

7.3.1 Internal Audit is also responsible for:

i. Assisting the Audit Committee to discharge its responsibilities;
ii. Providing secretarial support to the Audit Committee;
iii. Monitoring the implementation of agreed recommendations;
iv. Disseminating across the organization better practices and lessons learned arising from its audit activities and managing the audit function.

7.4 Quality Assurance and Improvement Program

The Head of Internal Audit is responsible to maintain a quality assurance and improvement program that covers all aspects of the internal audit activity including its evaluation of conformance to IIA Standards.

The Head of Internal Audit is to report periodically the results of its quality assurance and improvement program to senior management and the Audit Committee and to obtain an external assessment of the activity at least once every five years.

7.4.1 Scope of internal audit activity

The scope of the internal audit activities encompasses, but is not limited to, objective examinations of evidence to provide independent assessments on the adequacy and effectiveness of governance, risk management, and control processes.

The Head of Internal Audit will report periodically to senior management and the Audit Committee on the results of its department and the work the activity performs.

Internal Audit reviews cover all programs and activities of the [organization] together with associated entities as provided for in relevant business agreements, memorandum of understanding, or contracts. Internal Audit activity encompasses the review of all financial and non-financial policies and operations.

7.4.2 **Standards**

The internal audit activity will govern itself by adherence to the mandatory elements of The IIA's International Professional Practices Framework (IPPF) including Core Principles and Purpose of Internal Auditing of Global Internal Audit Standards, and its five domains (Purpose of IA, Ethics and Professionalism, Governing the IA Function, Managing the IA function, Performing IA services). This includes Mandatory Topical Requirements and Global Guidance.

Internal audit activities will be conducted following the relevant professional standards including:

i. Global Internal Audit Standards issued by the Institute of Internal Auditors;
ii. IT Audit Framework (ITAF™) issued by ISACA;
iii. Standards issued by International Standards Organization; and

Other relevant Professional Standards and Best Practices.

7.4.3 **Staff capacity/competency/requirement**

In the conduct of internal audit work, internal audit staff will:

i. Comply with relevant professional standards of conduct;
ii. Possess the knowledge, skills, and technical proficiency relevant to the performance of their duties;
iii. Be skilled in dealing with people and communicating audit, risk management, and related issues effectively;
iv. Their technical competence through a program of professional development, and exercise of due professional care in performing their duties.

7.4.4 **Relationship with external audit (Office of Comptroller and Auditor General)**

Internal Audit (IA) and External Audit (EA) activities will be coordinated to help ensure the adequacy of overall audit coverage. EA and IA are both concerned with risks related to [organization] and potentially drive audit activities. Although both may address the same risk, the scope, approach, and extent of work may differ. Therefore, thorough coordination between EA and IA in identifying and addressing risks is essential to ensure adequate and efficient coverage. Periodic meetings and contact between internal and external audits shall be held to discuss matters of mutual interest. External auditors will have full and free access to all internal audit plans, working papers, and reports.

7.4.5 **Planning**

The Head of Internal Audit will prepare an audit strategic business plan and a risk-based internal audit annual plan to determine the priorities of the internal audit activity. Consistent with the organization's goals. The main objectives of - Internal Audit Planning are:

i. Perform an audit risk assessment at [organization] process level by taking into account stakeholder expectations, budget, accounts and development projects, former audit results, and the risk assessment;
ii. Complete an annual internal audit Plan linking audit risks from the internal audit Risk Assessment with business processes and locations and considering pervasive audit needs;
iii. Determine resources necessary to execute the annual internal audit plans, rectifying any discrepancies between plans and actual resource availability;

iv. Follow up on the progress of the implementation of the annual internal audit plan.

7.4.6 **Reporting**

The Head of the IAU/DIA will send audit reports administratively to the PAO and functionally to the MDA Audit Committee for review. The PAO will send the issues for coordination and resolve to the CIAC as and when necessary.

The Head of Internal Audit will report to each meeting of the Internal Audit Committee on: audits completed; progress in implementing the strategic business plan and audit work plan, and the status of the implementation of agreed internal and external audit recommendations.

Head of the IAU/DIA will also report to the Audit Committee at least once quarterly on the overall state of internal controls in the [organization] and any systemic issues requiring management attention based on the work of internal audit, and if relevant, other official reviews that may have taken place.

7.4.7 **Administrative arrangements**

Any change to the position of the Head of Internal Audit, or an external service provider (if any), will be approved by the concerned Secretary and Finance Division. The Audit Committee will be consulted as part of the process.

7.4.8 **Review of the charter**

If required, this charter will be reviewed annually by the MDA Internal Audit Committee. Changes may be required, or recommended, by the Finance Division as the authority responsible for oversight of internal audits in the government of the People's Republic of Bangladesh. On the basis of proposal of concern IAU/DIA and IAC the concerned Secretary will send for the vetting of Finance Division.

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Abbreviations

ACC	:	Anti-Corruption Commission
AIAP	:	Annual Internal Audit Plan
APA	:	Annual Performance Agreement
CA	:	Chartered Accountants
CAAT	:	Computer Assisted Audit Techniques
CAE	:	Chief Audit Executive
C&AG	:	Comptroller and Auditor General of Bangladesh
CIA	:	Certified Internal Auditor
CIAC	:	Central Internal Audit Committee
CISA	:	Certified Information Systems Auditor
COSO	:	Committee of Sponsoring Organizations
CGA	:	Controller General of Accounts
CPA	:	Certified Public Accountant
CPTU	:	Central Procurement Technical Unit
DDO	:	Drawing and Disbursing Officer
DIA	:	Directorate of Internal Audit
EA	:	External Audit
FD	:	Finance Division
FRC	:	Financial Reporting Council, Bangladesh
GAS	:	Generalized Audit Software
GIAS	:	Global Internal Audit Standards
GoB	:	Government of Bangladesh
GRC	:	Governance Risk Management and Control
HIA	:	Head of Internal Audit
IA	:	Internal Audit
IIA	:	Institute of Internal Auditor
IA-CM	:	Internal Audit Capability Model
IAF	:	Internal Audit Function
IAP	:	Internal Audit Process
IAU	:	Internal Audit Unit
IMED	:	Implementation Monitoring and Evaluation Division
INTOSAI	:	International Organization of Supreme Audit Institutions
IPPF	:	International Professional Practices Framework
ISACA	:	Information Systems Audit and Control Association
ISSAI	:	International Standards of Supreme Audit Institutions
IT	:	Information Technology
ITAF	:	IT Audit Framework
IS	:	Information System
KPI	:	Key Performance Indicators
MDA	:	Ministry Divisions Agency
OCAG	:	Office of the Comptroller and Auditor General
OCE	:	Official Cost Estimate
PAO	:	Principal Accounting Officer
PEC	:	Proposal Evaluation Committee

PMBMA	:	Public Money and Budget Management Act
POC	:	Proposal Opening Committee
PPA	:	Public Procurement Act
PPR	:	Public Procurement Rules
QA&IP	:	Quality Assurance and Improvement Program
QAR	:	Quality Assessment Review
RBIA	:	Risk Based Internal Audit
RR	:	Risk Register
SMART	:	Specific Measurable Achievable Relevant and Time
TEC	:	Tender Evaluation Committee
TOC	:	Tender Opening Committee
ToR	:	Terms of Reference
VAT	:	Value Added Tax

PART 1 GUIDELINES

1. Introduction

As the government introduced financial management reforms in the public sector, internal audit has gained increasing acceptance as a provider of services to heads of Ministries, Departments and Agencies (MDA) in their efforts to improve service delivery, efficiency and economy of government operations. Internal audit services in the government of Bangladesh (GoB) have been limited in terms of the number of MDA and scope of work. The government intends to gradually introduce internal audit as an essential element of improving the internal control framework in all MDA as the means to improve the effectiveness, efficiency and economy of all aspects of government operations.

2. Legal basis of Internal Control and Internal Audit

In common with private sector business many governments worldwide introduce internal audits as a service to heads of MDA to improve operations, safeguard resources, ensure compliance with rules and regulations and enhance the accountability of organizations and officials.

Section 19 of the Public Moneys and Budget Management Act 2009 (PMBM, Act-2009) states that duties and responsibilities of the Principal Accounting Officer (PAO) related to internal control shall be as follows:

- To ensure efficient and transparent financial management and internal control process at the relevant Ministry or Division or other Institutions;
- To make sure appropriate and effective utilization of resources of the relevant Ministry or Division or other Institutions;
- To ensure compliance of relevant acts, rules and regulations and bona-fide of all financial expenditures at the relevant Ministry or Division or other Institutions and their subordinate departments and agencies;
- To take appropriate measures for collection of all obtainable revenues by the relevant Ministry or Division or other Institution and to prevent unapproved and wasteful expenditures.

This imposes significant accountabilities on the Principal Accounting Officers (PAOs) in ensuring that the MDA has appropriate internal control systems and processes and that expenditures are made following Parliament approvals, government resources are safeguarded and government accountability is met through reliable financial reporting.

In July 2005, the Finance Division issued an Internal Control Manual. It applies to all government budget sector organizations and provides a tool kit for implementing internal control. Internal control is the whole system of control (financial or otherwise established) to provide reasonable assurance of efficient and effective public services, reliable financial information and reporting, and compliance with applicable laws and regulations. Internal audit will assume responsibility for periodically evaluating internal control operations to identify weaknesses and recommend corrective measures.

3. Definition of Internal Control

The Concept of internal control has been used in organizations for a long time. The work of the US Treadway Commission in the mid-1980s, as a reaction to poor financial control and financial reporting by business enterprises, is responsible for the uptake of internal controls by organizations across the world [The Treadway Commission was a private sector initiative in the US supported by a Committee of Sponsoring Organizations of business and professional bodies. This initiative is known as the Committee of Sponsoring Organizations (COSO) framework].

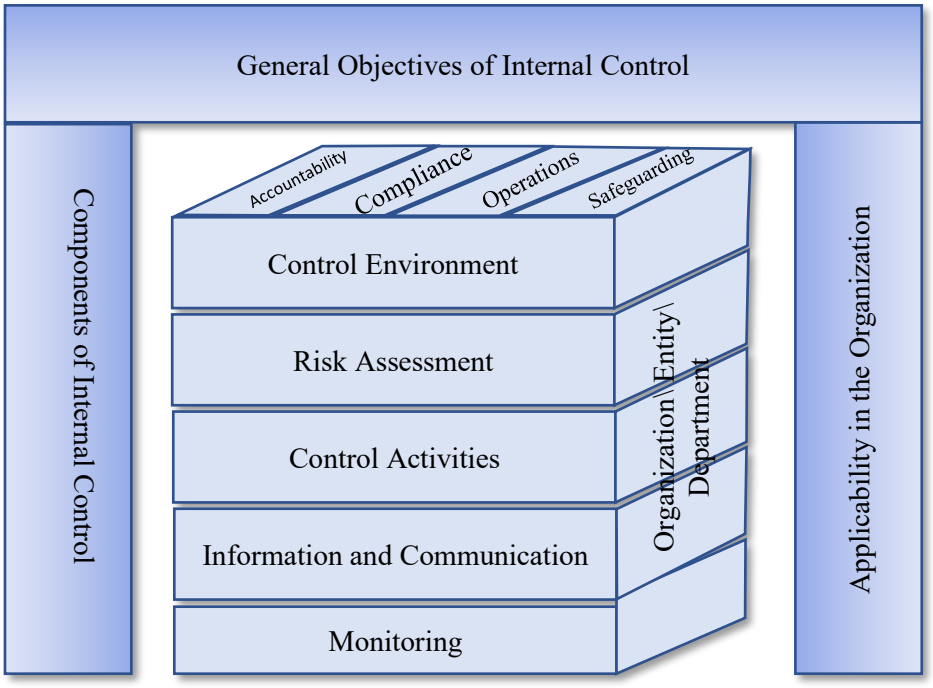
COSO originally defined internal control as follows:

> 'Internal Control is broadly defined as a process, effected by an entity's management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
>
> - Effectiveness and efficiency of operations;
> - Reliability of Financial Reporting;
> - Compliance with applicable laws and regulations;
>
> Internal Control is relevant to an entire enterprise or any of its units or activities.'

International Organization of Supreme Audit Institutions (INTOSAI) defines internal control in the public sector context as follows:

> Internal control is an integral process that is affected by an entity's top management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:
>
> - Fulfilling accountability obligations; (ACCOUNTABILITY)
> - Complying with applicable laws and regulations; (COMPLIANCE)
> - Executing orderly, ethical, economical, efficient and effective operations; (OPERATIONS)
> - Safeguarding resources against loss, misuse and damage; (SAFEGUARDING RESOURCES)

The following figure represents the components of internal control, its objectives and its applicability in the public sector.



The scope of internal control imposed on Heads of MDA by Section 19 of the Public Moneys and Budget Management Act-2009 is broadly consistent with the INTOSAI definition of internal control.

4. Definition of Internal Audit

The Institute of Internal Auditors (IIA) defines internal audit as "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It 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 audit undertakes an examination of administrative and financial control systems in use for the conduct of operations, safeguarding and proper management of a ministry's resources and ensuring compliance with rules and regulations for which the PAO has ultimate responsibility in accordance with Section 19 of the PMBM Act-2009. Internal audit provides information, analysis, appraisals and recommendations concerning the activities reviewed. This includes promoting effective financial and operational control at a reasonable cost.

5. Definition of Risk-Based Internal Audit

Risk-based internal audit is an internal methodology which is primarily focused on the inherent risks involved in the activities or systems and provides assurance that risk is being managed by the management within the defined risk appetite level. The scope of a risk-based internal audit should include a review of the systems in place for ensuring compliance with rules and regulations; identifying potential inherent risks and control risks if any; suggesting various corrective measures addressing the root cause of control failure and undertaking follow-up reviews to monitor the action. For the auditor to add value and to improve the ministry/department's operations, it is important for the auditor to understand the business objectives of the MDA and the risks that threaten or need to be taken the opportunity to achieve these objectives. Knowing where the significant risks lie, makes it easier for the internal auditor to focus their audit effort on the areas where the most value can be added.

6. Organization and Staffing of Internal Audit

The first step in establishing internal audit services is to create an Internal Audit Unit (IAU/DIA) as per the hybrid model provided in **Appendix 1.** Each unit shall have a Head of Internal Audit (HIA) who reports to the PAO. The organizational structure would be determined by the PAO recognizing the needs of the MDA, in particular complexity and geographical spread of its operations.

The Head of the IAU/DIA is solely responsible for the overall planning, programming and execution of internal audit functions and is not a part of operational management. The development and implementation of a comprehensive staffing strategy as part of the internal audit strategic plan may be successful in obtaining sufficient staff with the necessary skills and experience.

6.1 Responsibilities of Head of Internal Audit

The HIA is the most senior position within the entity responsible for internal audit and is vital to the success of the function. The person should play both a strategic leadership role and ensure that the internal audit program is delivered efficiently and effectively. The HIA is normally responsible for:

a. The efficient and effective operation of the internal audit function;
b. Establishing appropriate policies and procedures for preparing and implementing audit plans;

c. Developing the internal audit strategic plan and annual work plan that outlines the objectives, priority and proposed internal audit coverage;

d. Managing the strategies to achieve internal audit objectives;

e. Developing strong relationships with key stakeholders including the MDA head, senior officials and the OCAG;

f. Providing effective and timely advice to senior management;

g. Liaising with other internal and external assurance providers in the development of internal audit plans;

h. Formulating staffing and budget requirements to ensure that internal audit resources are effectively deployed;

i. Ensuring the timely completion of internal audit assignments and presentation of high-quality reports;

j. Monitoring the implementation of internal audit plans and management strategies;

k. Maintaining an appropriate process for monitoring and reporting the status of previously agreed internal or OCAG recommendations;

l. Assessing the overall performance of the internal audit functions;

m. Managing staff with appropriate experience and skills;

n. Providing opportunities for training and development to increase knowledge of the internal audit staff maintain their professional skills; and

o. Oversighting external providers where entities have co-sourced or outsourced (if any) internal audit arrangements.

6.2 MDA Audit Committee to Assist Head of MDA in overseeing Internal Audit

An independent and oversight MDA Audit Committee needs to be formed in the MDA. The PAO should establish an Audit Committee at the Ministry/Division consists of five (5) members who are all independent of the MDA. The role of the Committee is to provide independent assurance and assistance to the PAO on control, governance and risk management. The Committee will review the reports submitted by the Head of IAU/DIA through the PAO and submit the review-report with suggestions promptly and constructively to the PAO. It is common practice for Head of an organization to be supported by an oversight committee for internal audit. This is generally a separate Audit Committee.

Detailed information on the composition and operation of the MDA Audit Committee can be found in **Appendix 2**.

6.3 Internal Audit Wing of Finance Division

Internal audit as a professional activity is at a very early stage of development in the public sector in Bangladesh. To realize the benefits of internal audit, a centrally based effort can lead the drive for implementation of internal audit in the MDA. The strategic responsibilities of the Internal Audit Wing should be determined by the Secretary of the Finance Division, Ministry of Finance and include the following:

- To develop and promote internal audit methodologies on the basis of internationally accepted standards and best practices;
- To provide assurance to the Secretary of the MDA on the development, effectiveness, and professionalism of Internal Audit.

While pursuing these responsibilities, the tasks of this Wing should include:

a. Coordinating the training of internal auditors across the government;

b. Advising on the application of international standards and code of ethics;

c. Advising on all aspects of internal audit independence;

d. Advising MDA on the selection of internal auditors;

e. Coordinating with the Comptroller and Auditor General;

f. Working with all stakeholders in the production of an audit manual and charter tailored to the requirements of Bangladesh;

g. Providing a forum for the application of risk assessment techniques;

h. Keeping abreast of developing trends and new approaches in internal audit;

i. Forming a relationship with the audit committees;

j. Promoting consistency and spreading best/better practices as identified by the professions, and also by other managers within the public sector. The speed of performance improvement improves when organizations are required to review better practices identified in other organizations and implement them unless there is a strong case why the change should be deferred.

The above-mentioned Internal Audit Wing should also have a monitoring role. Regular meetings will be arranged for the Heads of Internal Audit Units from all Government MDA and shall assist Central Audit Committee in all matters.

Elaboration of the Central Audit Committee can be found in **Appendix 3** of this Manual.

7. Internal Audit relationships with other bodies

7.1 Internal Audit Wing of Finance Division

The Finance Division is responsible for the policies and standards for the professional practice of internal audit in the GoB. Its activities include:

a. Establishing standards of and providing policies and recommendations regarding the IA functions including the model internal audit charter and the maintenance and updating of this Manual;

b. Coordinating certain personnel policies (e.g., grading, job descriptions etc.) in consideration of relevant laws and governmental policies; and

c. Monitoring performance of IA services generally in coordination with other review bodies.

From time to time the Finance Division may undertake reviews of Internal Audit operations in specific ministries/divisions to ensure the quality of IA and/or for other reasons.

7.2 Office of the Comptroller and Auditor General

The Office of the Comptroller and Auditor General (OCAG) objectives are different from those of Internal Audit as s/he has to report to Parliament. The audit opinion issued by the OCAG provides reasonable assurance to Parliament that reliable government systems and processes are in place and operating as intended, and that funds appropriated by Parliament have been expended for approved purposes.

Internal Audit and OCAG may exchange planning information and coordinate audit activities

as the OCAG considers appropriate. Copies of Internal Audit reports are made available to the OCAG after finalization with MDA management.

From time to time, OCAG may review Internal Audit's operations. This may involve assessing the work of Internal Audit to determine the reliance that may be placed upon it.

Establishing a professional working relationship between the IAU/DIA and the OCAG should deliver benefits to both. It is important that internal audit seek input from the OCAG in developing the internal audit strategic plan and annual audit plan. It is also important that the internal audit consults with the OCAG during the annual planning phase that addresses key risks and critical processes of the entity's audit universe and proposed audit coverage to minimize workload. By engaging OCAG in this way, potential overlaps and gaps in overall audit coverage can be identified and addressed, and it will assist in maximizing the extent to which OCAG can rely on the work of internal audit in undertaking its work.

Cooperation between internal audit and OCAG should address the following issues:

i. Ensuring adequate audit coverage;
ii. Information on respective audit plans and programs;
iii. Periodic meetings to discuss matters of mutual interests;
iv. Availability of IA audit reports to the OCAG;
v. Creation of an institutional mechanism to ensure common understanding and sharing of audit techniques and methods including IT usage; and
vi. Review of the performance of internal auditors by the OCAG.

8. Measuring Performance of Internal Audit

The PAO and Audit Committee should make appropriate arrangements to monitor the performance of the IAU/DIA. This could include the review of a report from the Head of Internal Audit that covers the completion of audits included in the annual plan, staffing, the effectiveness of quality assurance arrangements, the performance, and development of staff, and comments on internal audit Key Performance Indicators (KPI).

The KPI used to measure performance are of central importance because those features that are measured are the matters that tend to receive the highest priority. It is important, therefore, that the KPI for internal audit is aligned with the internal audit strategic business plan and annual audit plan and help to drive the behavior the entity expects from internal audit.

It is also important that performance is measured over time to identify trends, and that performance is measured against both qualitative and quantitative targets. Such targets should be challenging but realistic. The most suitable KPI will vary from entity to entity depending on their internal audit strategic plan. KPI normally would be limited in number but as a minimum would measure the timeliness, cost, and quality of both audit work and any other services provided by internal audit. Better practice KPI include the measurement of

i. Delivery of Internal Audit Annual plan;
ii. Timeliness and cost of audits;
iii. Quality of audits and audit support activities, including stakeholder satisfaction
iv. Internal audit staff satisfaction; and
v. Overall contribution made by internal audit to the organization's objectives.

It is relatively straightforward to measure the cost and timeliness of internal audit reports. It is more difficult to measure, in an objective way, the quality of internal audit services or the contribution internal audit makes to the MDA. Consequently, measurement of the effectiveness of the value added by individual reports and the internal audit function itself is

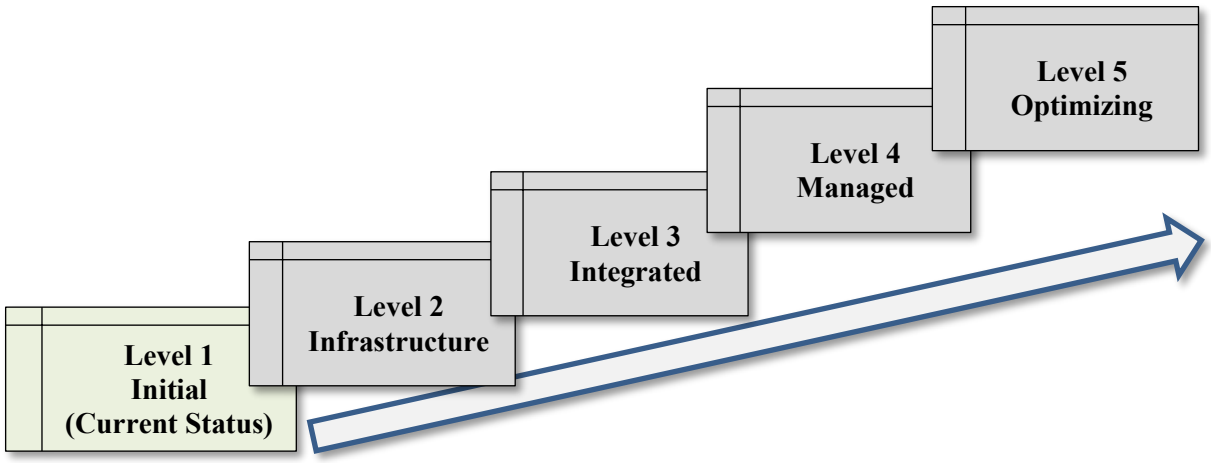
generally best measured by seeking the views of key stakeholders and occasional external reviews of IAU/DIA achievement.

9. Strategic Plan for Internal Audit Capacity Building

The Internal Audit Capability Model (IA-CM) is a framework that identifies the fundamentals needed for effective internal auditing in the public sector and consists of five levels taking into consideration the following elements of the internal audit activity:

i. Services and role of internal auditing;
ii. People management;
iii. Professional practices;
iv. Performance management and accountability;
v. Organizational relationships and culture;
vi. Governance structures;
vii. Information technology (adaptation).

Bangladesh's status according to Public Sector Internal Audit Capability Model (IA-CM)



IA in Bangladesh according to the IA-CM is currently at the initial level. In addition to its use as a self-assessment and continuous improvement model for IA activities, the IA-CM could be used by senior management and legislators to evaluate the need for and the type of IA activity appropriate for MDA. To move to the upper levels in each element of the IA-CM, sustained commitment from the GoB leadership is required. For example, progress to level 2 (Infrastructure) will require professionally qualified staff; workforce coordination; professional practices and processes framework; audit plan based on management/ stakeholder priorities; reporting relationships established; and use of office productivity software.

10. Internal Audit Charter

The sustainable implementation of the internal audit function is a long-term process taking several years to have professionally trained and independent units established within MDA

and other institutions. Internal audit works effectively when Heads of MDA are required to establish, maintain, and enforce appropriate internal control systems and procedures.

The authority, purpose, responsibility, and scope of the internal audit activity must be formally defined in an Internal Audit Charter. MDA should use the model charter (shown as a separate document). The Internal Audit Charter provides the mandate for internal audit and therefore should be formally issued by the PAO on the recommendation of the MDA Audit Committee with the vetting of Finance Division.

The charter includes among other things:

i. Ensure functional independence including specification of the position of the internal audit activity within the organization;

ii. Allow unrestricted access to records, personnel, and physical properties relevant to the performance of individual audit assignments;

iii. Define the scope of internal audit activities; and define reporting requirements.

11. Global Internal Audit Standards

The purpose of the internal audit standards is narrated by its purpose statement which states: Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.
Internal auditing enhances the organizations:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest

11.1 Audit Standards

This Manual has been prepared to conform to the International Standards for Internal Audit as promulgated by the Institute of Internal Auditors. Finance Division is responsible for keeping the GoB Internal Audit standards aligned with the IIA standards.

Internal auditors at all levels need to gain an understanding of the Global Internal Audit Standards including the principles and standards of Ethics and Professionalism. These documents not only regulate the work of members of the IIA, but also provide valuable guidance on all phases of the internal audit process and the expected behavior of internal auditors.

Whilst the status of Internal Audit and the impartiality of internal audit staff are important features of independence this is also strengthened by the processes themselves and auditors should ensure that the Standards and processes set out in this Guide are applied and that their professionalism is not compromised in any way. It is the responsibility of each auditor to report to the Head of Internal Audit any circumstances which would compromise his/her ability to act impartially.

11.2 The Five Domains of the Global Internal Audit Standards

The Global Internal Audit Standards are organized into five Domains, fifteen Principles across Domains II–V, where each Standard includes mandatory Requirements, Considerations for Implementation, and Examples of Evidence of Conformance.

Domain I: Purpose of Internal Auditing

This domain sets the foundational tone, combining the spirit of the previous Mission of Internal Audit and the Definition of Internal Auditing into a single, cohesive purpose statement focused on value.

Principle	Core Concept
P1: The Purpose of Internal Auditing	Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing independent, objective assurance, advice, insight, and foresight.

Domain II: Ethics and Professionalism

This domain consolidates and integrates the previous Code of Ethics and Attribute Standards related to the internal auditor's conduct. It clearly defines the behavioral expectations for all internal auditors.

Principle	Core Concept
P2: Demonstrate Integrity	Internal auditors must be honest, act with professional courage, and uphold the organization's ethical expectations.
P3: Maintain Objectivity	Internal auditors must maintain individual objectivity and disclose any potential impairments.
P4: Demonstrate Competency	Internal auditors must possess the necessary competencies and engage in mandatory continuing professional development (CPD).
P5: Maintain Confidentiality	Internal auditors must respect the value and ownership of information and not disclose it without appropriate authority.

Domain III: Governing the Internal Audit Function (The Governance Link)

As discussed in our previous response, this is a major structural update. It focuses on the formal governance necessary for the IAF to succeed, detailing the **Essential Conditions** required of the Board and Senior Management.

Principle	Core Concept
P6: Authorized by the Board	The IAF must have a formal, approved mandate, charter, and management support.
P7: Positioned Independently	The CAE must report to the Board, and the Board must approve the CAE's appointment, performance review, and removal.
P8: Overseen by the Board	The Board must actively oversee the IAF's performance, resources, and quality assurance process.

Domain IV: Managing the Internal Audit Function (The CAE's Management Mandate)

This domain focuses exclusively on the responsibilities of the Chief Audit Executive (CAE) in establishing, operating, and continuously improving the Internal Audit Function.

Principle	Core Concept
P9: Manage the Internal Audit Strategy	The CAE must develop and implement a formal strategy that aligns the IAF with the organization's strategic objectives and key risks.
P10: Manage Resources	The CAE must ensure the IAF has adequate resources (people, technology, finance) to fulfill its mandate.
P11: Manage Communication	The CAE must build trust, collaborate with other assurance providers (like the second line), and communicate results to all necessary stakeholders.
P12: Manage Quality	The CAE must develop performance objectives and a quality methodology to drive continuous improvement.

Domain V: Performing Internal Audit Services (The Execution)
This domain addresses the practical steps required for planning and executing individual assurance and advisory engagements.

Principle	Core Concept
P13: Plan the Engagement	Internal auditors must establish the engagement objectives, scope, and resource requirements based on a preliminary risk assessment.
P14: Perform the Engagement	Internal auditors must perform procedures to obtain sufficient, reliable, and relevant information to achieve the engagement objectives.
P15: Communicate and Monitor Outcomes	Internal auditors must communicate engagement results to stakeholders and follow up on management's action plans.

These five domains together create a framework designed for a modern, value-driven, and strategically integrated internal audit function that is prepared to meet the demands of an evolving risk landscape.

11.3 Code of Ethics

The Code of Ethics states the principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct and behavioral expectations rather than specific activities.

The independence, powers, and responsibilities as auditor place high ethical demands on internal audit organizations and the staff they employ or engage for audit work. The conduct of the auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of auditors, the Audit Organizations that they represent, and the quality and validity of their audit work in an unfavorable light and may raise doubts about their reliability and competence. The adoption and application of a code of ethics for auditors in the public sector promote trust and confidence in the auditors and their work. Auditors' integrity, independence and objectivity, confidentiality and competence are linked to the adaptation and application of the Code of Ethics. The Code of Ethics is integrated in the new Global Internal Audit Standards as a separate standard under Domain II: Ethics and Professionalism which can be found in **Appendix 4** of this Manual.

PART 2 THE INTERNAL AUDIT PROCESS (RISK-BASED AUDIT)

Chapter– 1 - Risk-Based Audit Strategy and Annual Internal Audit Plan

1.1 Background

The risk-based audit technique requires auditors to assess whether adherence to financial regulations and other guidelines will be enough to effectively reduce the risks that the business confronts in accomplishing organizational goals. Risk analysis allows the auditor to assess a system or a collection of systems' susceptibility. Although the analysis and evaluation are mostly based on the auditor's subjective judgment and expertise, other procedures can be employed to make them more systematic and, to some extent, more objective. Due to the efficient use of audit resources, auditors are unable to verify every aspect and transaction of the business while delivering assurance services and other internal audit-related responsibilities. Resources are constantly constrained by nature, and an internal auditing unit is no exception. If the IAU/DIA concentrates on using its resources, especially the auditors' available working days, in a way that maximizes the achievement of the duties outlined in the legal framework on the establishment of the IAU/DIA, efficient and effective use of internal audit resources is possible.

There may be a significant number of audit tasks and a variety of auditable areas at MDA. Due to cost effectiveness and effective use of audit resources, not every location can be examined every year. The issue of the efficient use of audit resources is addressed by risk-based auditing, which lays the foundation for services that give value to the organization.

1.2 Definition of Risk

The institute of internal auditors has defined risk and risk related concepts.

1.2.1 **Risk**: A risk is a potential for an occurrence of an event that will affect the accomplishment of objectives. Impact and likelihood are used to quantify risk.

1.2.2 **Risk management**: Risk management is a process that identifies, evaluates, manages, and controls potential occurrences or situations to give reasonable assurance regarding the accomplishment of the organization's goals.

1.2.3 **Risk appetite level**: The risk appetite level is the amount of risk that a business is willing to accept.

1.2.4 **Residual risk**: Residual risks are those risks that remain after management has taken steps to lessen the impact and possibility of an adverse event, including control measures to address risk.

1.3 Risk-Based Audit Strategy

The IAU/DIA's strategy is focused on risk-based auditing. It concentrates on and allocates audit resources for high-risk areas. A risk-based audit strategy is a methodology, approach, and mindset that is based on audit selection on the likelihood and impact of adverse events or risks. One way to think about a risk-based audit is to audit the areas that are important to achieve organizational goals. Consequently, the risk-based auditing technique serves as the strategy for internal audit activities when conducting an audit of those areas that are crucial to achieving MDA objectives.

It is neither cost-effective nor seen as a value-adding internal audit activity to audit every transaction. Risk-based auditing practices include identifying the audit universe, choosing the auditable areas based on risk analysis and the resources available, creating a risk-based annual audit plan, creating an audit plan or program for a specific audit, and conducting audit

examinations using sampling.

The risk-based audit approach aids the auditor in determining the degree of risk connected to a given audit area, such as certain accounts and transactions. This auditing strategy prevents both over- and under-auditing, which increases cost effectiveness without lowering audit quality. In contrast to system-based auditing and substantive testing, risk-based auditing incorporates inherent risk, control risk, detection risk, sampling risk, and other analytical procedures.

As a result, the core of a risk-based audit strategy is customer-focused, starting with the goals of the activity being audited, then moving on to the threats or risks that may prevent those goals from being achieved, and finally moving on to the steps and techniques that can be taken to reduce those risks. The likelihood that audit objectives won't be accomplished will be reduced by the risk-based audit technique. Expanding the scope, targeting some non-traditional areas, and concentrating on assisting management in achieving their goals are key components of risk-based auditing.

1.4 Risk Register

Typically, organizations identify the key risks pertaining to the operation and management of programs and projects and create a risk register. In this case, the internal audit must confirm the risk identification procedures used by management. The IAU/DIA can validate the risk register as the primary source for generating the yearly audit plan if the risk identification methodology is acceptable and effective. When creating an annual plan and individual audit plan or program, the IAU/DIA must adhere to the entire risk assessment process.

1.5 Audit Risk

The goal of a risk-based audit strategy, producing a risk-based yearly internal audit plan, and creating a risk-based individual audit plan in accordance with the risk assessment framework is to give the senior management of MDA a level of assurance that is reasonable. Internal auditing is not a risk-free endeavor, so the auditor must keep this in mind while they carry out this duty. For example, audit risks include the potential for the auditor to issue an unqualified audit opinion in the event of the financial statements have materially misstated, to give false assurance, and to issue a qualified audit opinion when the financial statements present a truthful and fair view. System evaluation, the integrity of performance reporting, and other audited topics might all be subject to the same audit risk associated with delivering a false opinion on financial statements.

Audit risks are divided into three categories: inherent risk, control risk, and detection risk. Prior to take into account the role of internal control, inherent risk is tied to environmental elements that could cause a material error. Such a risk is typically connected to an entity's legal structure, policy framework, financial situation, and operational setup. Control risk is the possibility that a misrepresentation will take place, be serious either alone or when combined with additional misstatements and not be promptly caught or prevented by the entity's internal control. Control risk is weighed against the likelihood of internal controls preventing material errors or recognizing them early. When audit procedures fail to detect a material error that is not picked up by internal controls, a detection risk arises. Audit risk is the end outcome of all three forms of risk. Below is the formula for calculating audit risk:

Audit Risk = Inherent Risk * Control Risk * Detection Risk

1.6 Risk-Based Planning

The following provisions, which are in line with the guidelines issued by the Institute of

Internal Auditors, should be considered by auditors when creating a risk-based yearly audit plan.

1.6.1 **Priority of Internal Audit Activity**: To decide the priorities of the internal audit activity in line with organizational goals, the Director of the IAU/DIA must create risk-based plans.

1.6.2 **Responsibility:** The task of creating a risk-based plan falls under the purview of the IAU/DIA's director. In addition to applying risk appetite levels established by management for the various activities or parts of the business, the Director of the IAU/DIA also considers the organization's risk management framework. After consulting with senior management and the Audit Committee, the Director of internal audit employs his or her risk assessment methodology in the absence of a framework.

1.6.3 **Inputs of senior management:** A documented risk assessment that is performed at least once a year must serve as the foundation for the internal audit activity plan of engagements. In this procedure, senior management's and the Audit Committee's suggestions must be taken into account.

1.6.4 **Expectations of senior management**: For internal audit opinions and other conclusions, the Director of the IAU/DIA must determine and take into account the expectations of senior management, the Audit Committee, and other stakeholders.

1.6.5 **Communication of Plan:** The internal audit activity plans and resource requirements, including substantial interim modifications, must be communicated to senior management and the Audit Committee for assessment and approval by the Director of the IAU/DIA. The impact of resource limits must also be communicated by the Director of the IAU/DIA.

1.7 Risk Assessment Procedure

There is a need for risk to be assessed given that the impact of risk could have an adverse effect on the attainment of MDA objectives and that the IAU/DIA has a duty to assist the MDA in accomplishing its goals. Risk is everything that could prevent the MDA objectives from being achieved, and assessment must be based on the likelihood and impact of risky occurrences occurring. In other words, when evaluating the risk, it is necessary to identify any adverse events that can undermine the value provided and/or prohibit the successful implementation of operations inside the MDA. Leading the risk assessment process and creating a risk-based internal audit plan are the duties of the Director of the IAU/DIA.

International Standard on Auditing has provided the following three procedures that can enhance the quality of procedure and results of risk assessment.

1.7.1 **Discussion with the client:** The management of the client must be consulted regarding the audit goals, expectations, and strategies for accomplishing them.

1.7.2 **Analytical Procedures**: In order to establish a foundation for creating and implementing responses to the identified risks, analytical methods support the auditor in spotting unusual transactions and assist in assessing the risks of material misstatement.

1.7.3 **Observation and Inspection**: The audited business and its surroundings are revealed through observation and inspection processes. The procedures can include a wide range of an entity's activities, as well as management records and reports, as well as the entity's locations and plant facilities.

1.8 Risk Influencing Factor

While identifying and assessing the significance of audit risk and its effects on financial statement, the auditor is required to consider the following matters:

1.8.1 **Fraud**: whether there is a fraud risk.

1.8.2 **Specific attention**: If the risk is related to significant economic, accounting or other development and therefore requires specific attention.

1.8.3 **Complexity**: Whether the risk is related to the complexity of the transaction.

1.8.4 **Related party transactions**: Whether there is a chance of significant transactions with related parties.

1.8.5 **Unusual transactions**: Whether the risk entails sizable uncommon, and unusual transactions.

1.9 Risk-Based Annual Internal Audit Plan

Ad hoc operations are not permitted by the IAU/DIA. Planning well is necessary to guarantee that the internal audit will cover every risk connected to achieving MDA objectives. The advantages of the proposed move and activities have been acknowledged by internal auditing's best practices. Senior management, project and operational managers, functional officials, beneficiaries, and other stakeholders are all consulted as part of the rigorous annual internal audit plan process to determine the risky areas that call for an audit. It also looks at prior audit reports, details regarding program and project management, offices, and/or operations, as well as new developments within the organization, and it searches for any potential sources that might have information about risk. Professional judgment and serious involvement of the internal audit team is a prerequisite in collecting and using information collected in ranking levels of inherent and residual risk.

The IAU/DIA must then construct its annual plan while taking risk into account and internal audit resources are readily available. The minimum room for personal belief during risk assessment provided by the standard procedure for risk assessment and the preparation of yearly internal audit plans may be helpful. It will improve the objectivity of the risk assessment process and provide procedures that provide reasonable assurance about the risk assessment results and the comprehensiveness of the yearly internal audit plan.

An annual internal audit plan should include a client profile, which includes details about MDA and the major projects and/or offices under MDA, a list of auditable plans, projects, and offices, as well as a description of any activities or problems. It should also include the deployment of internal audit resources, an operational schedule, and the option for revision as and when necessary. By August the plan must be completed and authorized. Internal audit activity's authority is further strengthened by the requirement for the PAO's approval.

1.10 Procedures of Capturing Inputs and Information for Risk Assessment

1.10.1 **Defining audit universe**: The IAU/DIA must first compile a list of the whole audit universe that falls under its purview. The MDA is the beginning point for defining the audit universe, which includes a comprehensive list of projects and the offices of organizational units, including cost centers and non-cost centers. Regardless of the risk involved in their management or operation, this list includes all organs and unique activities covered by MDA. The resource below is helpful because it might offer a thorough list of the audit universe along with contacts to be made for risk assessment.

i. MDA plans;
ii. Projects under MDA;
iii. Distinct units or functions of the MDA;
iv. Business or organizational processes;
v. Regulatory or statutory requirements;
vi. Experience of internal auditors, previous audit reports and other information.

Form 1 is a standard format for listing the audit universe that further elaborates on preparing comprehensive list of the auditable areas or audit universe.

1.10.2 Inputs of senior management: Senior management must receive assurance services from the IAU/DIA. Regular meetings are helpful in understanding their issues and gathering information about the risks associated with program and project management and/or operational areas. The Head of Internal Audit should ask senior management at MDA to submit their input as a source for choosing the projects and activities that will be audited in the upcoming year as part of the process of building a risk-based yearly audit plan.

Form 2 is a standard format and further elaborates the procedure for getting inputs from senior management. This request has to submit by July to head and all deputies of the MDA and relevant MDA management.

1.10.3 Capturing inputs from line management: If the IAU/DIA does not gather feedback from MDA management, the risk assessment process and the creation of a risk-based annual audit plan cannot be finished and successful. The target audience for this is made up of project managers, project directors, and office or unit heads. They can provide details about areas where they are having issues or explore whether another area needs an independent audit or assessment. Requests must be sent to the IAU/DIA, which must also assist by offering input.

Form 3 is standard format and further elaborates procedures for getting inputs from project management which includes MDA Division heads, project and/or operational managers. The input providers will rank auditable issues/areas as per their understanding of the requirement of audit and that serves as a base to assess risk associated with auditable areas. This request has to submit by July.

1.10.4 Capturing inputs from officials, beneficiaries and other stakeholders: It is essential for a risk-based auditing plan to address the worries of authorities participating in project management and/or operational areas, beneficiaries, and those not directly involved in project implementations. Depending on the person or group being evaluated for inputs and the type of information required from the process, the internal auditor may employ a variety of tools for obtaining inputs. Some of them are discussed below:

i. **Workshop**: tool for capturing inputs through group discussion

To better understand the worries of persons working in MDA as employees, advisors, or in other capacities, the IAU/DIA may use a workshop method. For one sort of group, such as finance officials or procurement officers, a workshop can be organized. A workshop with participants from many fields, such as finance officials, procurement officers, project implementation officers, human resource officers, and so on, can also be organized. In order to find auditable areas and risk issues linked with; it is crucial to efficiently arrange and enable workshops. It is the responsibility of IAU/DIA to request in advance with objectives of the workshop and outline of the workshop to all participants. All logistics, note taking and facilitation arrangements have to be made in well advance.

Summarized inputs of the workshop need to be presented to the group and recorded in format, **Form 4.**

ii. **Discussion and meeting:** with individual and/or team

The offices of the appropriate officials or stakeholders who have a significant role in project implementation and/or operational MDA aspects can be visited by the IAU/DIA. It is crucial that the IAU/DIA prepares talking points or outlines and alerts the individual or team with whom the conversation and/or meetings are going to be organized in advance. In this kind of meeting, the auditors' ears rather than their mouths play the role. While listening is the meeting's strategy, the internal auditor should take an active part in order to keep the meeting on schedule and to obtain clarification and confirmation. Summarized inputs need to be presented to the group and recorded in format, **Form 4.**

iii. **Questionnaire**: to collect opinions of stakeholders

A common method for acquiring data that an internal audit might use in its annual planning is the use of questionnaires. This method is more suited for the subject matter because it involves broader stakeholder impressions and opinions rather than a lot of specific facts. A set of questionnaires must first be created by the IAU/DIA. When constructing a questionnaire, make sure that the response can be completed in 30 minutes and that it can only be 'Yes' or 'No' or a ranking of 1 to 3.

There should be a plan in place to keep the responder's identity as secret. If the respondents are chosen to represent the population and the questions are narrowly focused, the tabulation and analysis of the results might offer a new perspective on the stakeholders. The IAU/DIA must finish the results of the tabulation and analysis and then rank the risks. The **Form 4** is required to be used for input recording and risk ranking.

iv. **Public meeting**: an important procedure for capturing inputs

Auditors in the public sector are using community meetings more frequently to receive direct feedback from regular people on their concerns, demands, and suggestions. The target audience for the projects, such as real beneficiaries of social land concessions, can offer helpful information that could aid internal auditors in identifying and evaluating risks related to managing the project, defining project activities, and other crucial issues for the efficient and effective implementation of the project. If women are included in the selection of attendees for public meetings, internal audit work would be considerably aided. It is paramount to have proper focus on group/ community for public meetings for the success of the process. Civil society and organized communities could also be targeted groups for the meeting.

The IAU/DIA must prepare the lines or points that will be the subject of discussion. Participants should have the chance to express their opinions on other issues as well, so long as they are connected to the MDA. The meeting should be properly noted and compiled contributions must be provided to the group and recorded in format **Form 4**.

1.11 Assessment of Broad Risk by Internal Auditors

The IAU/DIA in its endeavor of assessing the broad risk that forms a base for risk based internal audit planning has to focus on all areas of risk and needs to follow standard procedure.

1.11.1 Considerable points while assessing risks: Internal audit's scope of work is broad in that it must assess and contribute to the enhancement of governance, risk management, and control processes via the use of a methodical and disciplined methodology. It is crucial to take this into account when assessing risk and creating an annual internal audit strategy. The following 11 points, which pertain to governance, risk management, and control, should be taken into consideration and risk assessed by the IAU/DIA:

i. Ethics and values within the MDA;
ii. MDA and Projects/offices performance management and accountability;
iii. Communicating risk and control information to appropriate areas of the MDA and Projects/offices;
iv. Objectives support and are aligned with the MDA objectives;
v. Significant risks are identified and assessed by MDA;
vi. Relevant risk information is captured and communicated in a timely manner across MDA;
vii. Reliability and integrity of financial and operational information;
viii. Effectiveness and efficiency of operations and programs;
ix. Safeguarding of assets;
x. Compliance with laws, regulations, policies, procedures, and contracts;
xi. Potential for the occurrence of fraud and how the MDA and projects manage fraud risk.

1.11.2 Risk assessment sheet: For each of the aforementioned 11 items, the IAU/DIA must create a risk assessment sheet. No new auditable areas will be considered in this risk assessment process; instead, it will consider the auditable areas that have previously been identified and are undergoing the risk assessment method. A list of offices, projects, and locations for risk assessment is contained in **Form 1**. When rating each auditable area, internal auditors must rely on their expertise, experience, comments from prior audit reports, and, most importantly, professional judgment. The internal auditor should be knowledgeable with the MDA's goals, projects, and operational units, as well as the measures are taken to attain those goals. Review of the documents related to the MDA, projects and offices and understanding the business process is most effective way for auditors to become familiar with and do a reasonably fair assessment of risk associated with project and office or operational management. The list of the documents worth review may be long, below is the list that gives an idea for internal auditors on what type of document they should review:

i. Mandate of the MDA;
ii. Legal provisions relating to operation of MDA;
iii. Organizational structure of MDA, projects and offices;
iv. Objectives of individual projects and operational units;
v. Agreement with Development partners;
vi. Technical manual being used by MDA, projects and offices;
vii. Procurement procedure in MDA, projects and offices;
viii. Human resource management including outsourcing and co-sourcing (if any);
ix. Financial management of MDA, projects and offices.

Form 5 is the format for recording the rank assessed by IAU/DIA.

1.12 Consolidated List of Auditable Issues with Ranking:

The next step of the risk assessment process is to consolidate all information and input collected and assessments made by the audit team. **Form 5** is prepared as comprehensive list of various projects/ operations and issues auditable. IAU/DIA must use the same list of auditable areas and allocate ranking for each of the auditable areas. **Form 6** is the suggested standard format for recording ranks revealed through various sources of inputs and information showing audit warrant level of each auditable area. It is updated and consolidated list of auditable areas with ranking.

1.13 Risk Points of Auditable Issues/Areas

The list of all auditable areas with their relative risk levels as determined by senior management, project and/or operational management, external stakeholders, and IAU/DIA assessment is included in the consolidated list of auditable areas with ranking. They provide insight into the level of risk related to auditable areas. The IAU/DIA must next create a list of the auditable areas based on points. As risk linked with projects and offices under MDA is assessed using mathematical points, this will simplify the risk assessment process.

For this purpose, 5 points will be allotted to the must auditable areas having rank 1. Likewise, 3 points for those areas which are important and having rank 2, and 1 point for those not important and having rank 3 should be allotted. All identified areas are to be assessed on equal ground and thus require points to be allocated for each source of input in case of each auditable area. There will be situations in which some of the sources are not used to get input. To be reasonable 3 points will be allotted for the issues in such situation. **Form 7** will provide further information on how to allocate points and prepare a comprehensive list of risk points in each auditable area.

1.14 Factors to Account Risk Associated with Auditable Issues/Areas

Previous step, preparation is **Form 7** completes the process of allocating risk points based on the ranking of senior management, project or operational managers, beneficiaries, functional officials and other stakeholders. Assessment of IAU/DIA on risk associated with 11 points, which are related to the governance process, risk management and internal control system is the only input from auditors regarding risks. Additional role of internal auditors in assessment of risks is required as that could lead to better assessment of risks. List of the auditable areas and risk points will be the same as completed and as recorded in **Form 7**. This process will allow internal auditors to use risk factors for each risk identified and recorded with risk points.

Internal auditors' professional judgment plays a big role in this step, thus it's little subjective. To allocate the elements that are used to multiply the points of each auditable area, the Director of the IAU/DIA, Assistant or Deputy Director of the IAU/DIA, and auditors must sit at the same table. Since the risk is calculated based on the Likelihood of an occurrence endangering the achievement of a goal and he Impact that could result from it. Likelihood can be divided into three groups for the sake of applying factors: most likely, likely, and less likely. There are three categories for impact factors as well: high, major, and low. The primary factor that an internal auditor must consider when determining the impact of an event is its materiality. The higher the materiality, higher the impact of the event under assessment will be.

Based on the professional judgement of Director of IAU/DIA, Deputy Director of IAU/DIA and auditors, each auditable area has to be assessed as per both likelihood and impact. Then factors are assigned to multiply the risk points of each auditable area. So far as the likelihood is concerned, multiplying factors for most likely, likely, and less likely should be 1.00, 0.80 and 0.25 respectively. Likewise for impact, multiplying factors 1.00, 0.80 and 0.25 will be used for high, significant, and low impact. The total of the risk points after applying multiplying factors will give a numerical value suggesting factored risk associated with all auditable areas. **Form 8** provides further information and guidance on how to provide a factor for each auditable area and to calculate factored risk points. **Form 8 A** will be used for ranking the auditable areas in accordance with the factored risk points.

1.15 Estimation of Audit Resource/Working Days Available

The IAU/DIA must estimate the audit resources that are available. Auditors, the Assistant/Deputy Director of the IAU/DIA, and the Director of the IAU/DIA must participate in every audit. Days are set out for both managerial and non-audit work by the Director and Assistant/Deputy Director of the IAU/DIA. The number of auditors available working days is crucial since it determines how many audits may be conducted. During the months of July and August, all auditors will be busy determining general risk and creating a yearly audit plan based on risk. The auditors must follow up on earlier reports and perform managerial duties as well. Therefore, total working days minus leave days and working days for follow-up and managerial work and rest months will be the available working days for conducting audits.

Based on the number of auditors, the ratio of working days can be allocated to each audit. Not necessarily each audit requires the same ratio of working days of auditors, however, estimation has to be based on the number of auditors.

Form 9 is the format for calculation of available working days of each level of auditors.

1.16 Final List of Auditable Issues/Areas

Upon completion of ranking as per total risk points, **Form 8** and estimation of available total workingdays, **Form 9** IAU/DIA has to estimate working days required for each audit. The standard format that lists down the auditable areas and correspondent working days showing numbers of audits that can be undertaken as per available audit working days is **Form 10**. The

audit assignments will be listed according to the ranking that is determined by the sum of the factored risk points, and the expected number of working days will be allotted for each audit. Since there can be no more audits conducted if working days are not balanced, balancing working days demonstrates the additional audit assignments that can be carried out in the upcoming year.

If two or more auditable areas of the same project or office (Financial Management, Procurement and Contract Management, Project and/or Operational Management, or other issues) fall under the final list of auditable issues/areas, all should be covered by one audit assignment. Further, the scope and period to be covered by the audit has to be defined while allocating working days during 1st quarter of Financial Year (FY) 20xx . Working days estimated at this stage may need to be revised when the audit team prepares the audit plan/program and that again may not be actual when audit execution and reporting complete. The Director of IAU/DIA has to monitor working days planned and actual and make sure that all audit assignments are undertaken unless there is a situation that is beyond control. If such is the case the Director of IAU/DIA should report and get approval from the PAO's as an amendment of the annual internal audit plan.

1.17 Strategic Business Plan and Annual Audit Plan

The Head of IAU/DIA has to develop strategic business plan and annual audit plan setting out the priorities of internal audit activity.

1.17.1 Strategic business plan: The Head of Internal Audit will prepare a strategic business plan for strategic direction of internal audit normally for three years on the basis of the degree of risks, size, complexity, volume of activities, resource availability of the organization. The strategic audit plan or long-term planning of the IAU/DIA of the MDA must identify all the auditable areas to be covered by the IAU/DIA during the subsequent years i.e. beyond just the current year. The strategic audit plan is to be maintained and reviewed annually on the basis of changes in activities of the MDA.

1.17.2 Annual audit plan: The PAO must provide the IAU/DIA permission to prepare annual audit plan for upcoming year. To receive approval by the end of August, the yearly internal audit plan must be submitted well in advance. The IAU's /DIA's strategy may need to be revised in accordance with the PAO's instructions as the auditable areas must be chosen mostly but not exclusively based on risk assessment. This is one of the primary justifications for mandating that the IAU/DIA develop and submit a draft yearly plan for the PAO's evaluation by the end of August. The annual audit plan consists of not only the list of auditable areas but also client profile, schedule of audit assignments, and other matters that put light on the objective, scope and approach of the audit.

Form 11 is the structure which provides information on the subject matter and text of risk-based annual internal audit plan.

1.18 Amendment of Annual Audit Plan

There is a chance that the IAU/DIA will need to accept additional audit engagements that are not in the annual plan. There may be a need to conduct a new audit due to instructions from the PAO, concerns expressed by deputies of the MDA, requests from projects or offices, development partners' interests, concerns from civil society, issues from the media, and other justifiable causes. In order to complete a new audit, the IAU/DIA must examine the working days available and possibly drop other tasks from the annual internal audit schedule. Likewise, there may be a situation where some of the areas have to drop for other reasons as well. Such changes have to be approved by PAO; therefore, the IAU/DIA has to prepare a request/proposal to add a new audit or remove any auditable area from the approved annual plan.

1.19 Process of Risk Assessment and Annual Plan Preparation

The whole process of risk assessment and annual planning is sequential. Each step provides information and a base for the next step. The process of broad risk assessment requires the IAU/DIA to prepare 11 standard formats or forms. The IAU/DIA can allocate 2 months, July and August, for the whole process of risk assessment and annual plan preparation. The following summary provides information on the process, forms to be used for risk assessment and preparation of risk based annual internal audit plan.

Steps of Risk assessment and Annual Internal Audit Plan Preparation

Steps	Description	Form
Step 1	Defining audit universe (Auditable Offices/Projects)	1
Step 2	Input from Senior management	2
Step 3	Input from Line management	3
Step 4	Input from Head of Auditee Office, Beneficiaries and Other Stakeholders	4
Step 5	Assessment of broad risk by IAU/DIA	5
Step 6	Consolidated list of auditable issues/areas with ranking	6
Step 7	Consolidated list of auditable areas with risk points	7
Step 8	Factoring the Risk Points of Auditable Areas	8
	Consolidated Risk Points of all Areas	8A
Step 9	Calculation of available working days	9
Step 10	Risk based rank of auditable issues/areas and working days	10
Step 11	Preparation and approval of Annual Internal Audit Plan (AIAP)	11

Chapter– 2 - Risk Assessment Framework and Internal Audit Plan

2.1 Background

It is the responsibility of the IAU/DIA to give the MDA a fair level of assurance that resources are used economically for the intended purpose, and that project management and operations are efficient and effective. It is essential that the IAU/DIA, when providing assurance services, recognizes those situations that may jeopardize the MDA's attempts to attain its goals. Individual audit assignment based on risk assessment can provide value-adding services. Risk assessment framework provides a procedure for assessing inherent risk, control effectiveness and residual risk associated with the area under audit. This will then form the basis of preparing an internal audit plan for individual audit assignment.

2.2 Risk and Objectives of Assessing Risk

2.2.1 **Risk**: Events that pose a risk to project performance, operational effectiveness, and vital MDA services are referred to as risks. A risk is essentially anything that can keep the MDA from accomplishing its goals. There are two types of risk: residual risk and inherent risk.

i. The auditor's anticipation of risk prior to taking into account the efficacy of internal controls is measured by inherent risk;

ii. Residual risk is the level of risk that remains after taking into account the mitigating effect of related controls.

2.2.2 **Audit risk:**

Internal auditing has the risk of undermining management performance through wrong reports and false assurances. The likelihood or risk that the auditor may draw an incorrect audit conclusion is what is referred to as an audit risk. Such a conclusion if reported to the management may result in inappropriate inputs for decision making process. Further a false assurance could lead to an ineffective control mechanism that will have an adverse effect in the project and/or operational management of MDA. Two types of audit risks are discussed below:

i. The first form of audit risk is when the audit process fails to identify any substantial weaknesses that are present and comes to the conclusion that there are none. As a result, the auditor may issue an unqualified audit opinion even when the financial statements may not reflect a true and fair view. The management of MDA receives false assurance from audit reports that omit instances of mismanagement, underperformance, and noncompliance when such circumstances occur.

ii. The second sort of audit risk is the auditor determining that a material weakness exists when there isn't one. As a result, the auditor may offer a qualified audit opinion even though the financial statements show a true and fair picture. Similarly, an audit report may contain observations that suggest poor management, under performance, and non-compliance when none of those conditions exist.

2.2.3 **Objective of risk assessment:**

In order to provide the MDA management with reasonable assurance and keep the audit risk below an acceptable level, the purpose of risk assessment is to provide internal audit resources for the audit of high-risk issues.

i. The risk evaluation will serve as the foundation for creating an audit plan or program that will direct the execution of the audit. It reduces the possibility of major issues escaping audit examination and the scenario where audit resources are diverted to auditing less crucial concerns. The following points are not exhaustive, but they are sufficient to give an understanding of the factors that go into risk assessment.

ii. Risk assessment procedure minimizes audit risk as it provides a framework for

focusing the audit on high-risk areas.

iii. Audit could focus on the high-risk areas and thus effectively and efficiently utilize internal audit resources.

iv. IAU/DIA could add value and improve the operations of MDA.

v. It includes the objective of determining the perceptions, assumptions, and judgments of the executives of the MDA and project/ operational managers regarding control and assessment of risk.

vi. Preliminary assessment of adequacy and effectiveness of internal control system is another reason for risk assessment.

vii. Risk assessment aims to develop and document the auditor's risk assessments. In doing so, perspectives of management and auditors' assessment are taken into account.

To summarize the points raised above, the primary goal of risk assessment at the level of individual audit engagements is to pinpoint high-risk areas for audit emphasis in order to maximize the value internal audit might bring to MDA's operations while minimizing audit risk.

2.3 Risk Assessment Framework

Risk assessment for the area being audited is a crucial and basic step in internal audit planning. A framework for risk assessment is provided, along with a list of steps and activity sequences. Three components and procedures make up the framework for risk assessment: evaluation of inherent risk, the effectiveness of controls, and residual risk. Before beginning the risk assessment process, the auditor must first choose an auditable area from the authorized yearly internal audit plan and gather knowledge of that auditable area. The process of gaining an understanding of the auditable area, which is known as "Understanding Business" is very critical in the audit process. This process enables auditors to collect relevant information, acquire knowledge, and get view of the management on operational and performance related risks. The process of understanding a business gives information for the identification of important issues, the assessment of inherent risk, the evaluation of the effectiveness of the controls, and lastly the evaluation of residual risk. On the basis of the auditors' increased knowledge of the auditable area, the risk assessment framework advances in this way. The framework for risk assessment is made up of three basic parts:

- Assessment of Inherent Risk;
- Assessment of Control Effectiveness;
- Assessment of Residual Risk.

2.4 Selecting Auditable Area

The approved yearly internal audit plan must be used by the IAU/DIA to select audit assignments. IAU/DIA cannot conduct any audit that is not listed in the yearly plan unless the Head of MDA gives permission to add a new audit. Selecting an audit assignment from the yearly plan is the first step in carrying out risk-based audit assignments because the annual internal audit plan includes the auditable areas based on a broad risk assessment.

2.5 Understanding Business

For each audit, the Director of the IAU/DIA should form a team and notify the subject of the audit of its impending arrival. The team consists of auditors and, in some situations, experts. The audit team must comprehend and record information on the organizational structure, legal requirements, standards and procedures, human resources, governance, risk management, and control mechanisms that are relevant to the audited area. The procedure helps auditors to develop a thorough grasp of the subject under audit. The primary result of this process is adequate documentation of information that could serve as inputs important to assessing risk and developing an audit plan or program.

2.5.1 **Goals, objectives and strategies**: In order to know the targeted performance level as well as the means and methods of obtaining performance level, the auditor should comprehend the goals, objectives, and strategy of the area under audit. This further narrows the emphasis of the audit activities to the most significant parts or risky issues of the area under audit. The aims and objectives can be used as a standard for judging how well the project or operating area is performing. The auditor can identify risk by knowing the auditee's goals, objectives, and strategy.

2.5.2 **Categories of objectives**: While reviewing the objectives related to the area under audit, the audit team has to consider the following three broad categories of objectives:

i. **Operational objective:** Effective and efficient use of resources;
ii. **Reporting objective:** Preparation and submission of correct, complete, concise, clear, and objective financial and operational reports in a timely manner;
iii. **Compliance objective:** Compliance with applicable laws and regulations, policies and procedures, manual and standard operating procedures, established controls and contracts.

2.5.3 **Review Basic information**: The preliminary step of understanding business is to review basic documents related to the area of audit.

- If prior audits of the area have been conducted by the IAU/DIA, the audit team should review and become familiar with the information available from the audit files including progress and results of follow-up process.
- Knowledge regarding operations of the auditable area is a major input for understanding business. The audit team has to gather sufficient and specific information to become familiar about potential events of the risks.
- Develop a good understanding about the objectives, resources, activities, contracts, procedures and control environment.
- Understanding of how the auditee organizes its operations.
- Understand the management's view about the processes it has put in place for achieving its objectives.

2.5.4 **Accountability lines**: One of the crucial factors that the audit team should take into account when learning about the organization is the understanding of the accountability line and procedure. Understanding accountability lines can be gained through information on organizational structure, primary responsibility centers, their roles and responsibilities, relation to programs and activities, and attaining targets and objectives at various levels.

2.5.5 **Current status of the project/office:** The auditor should obtain information on the current status of the project/office as it is essential to gain a complete understanding. Moreover, factors that affect project/office performance, accountability and matters significant in the achievement of project/office objectives should be identified.

2.5.6 **Historical performance**: A review of historical performance is one main activity the audit team should complete in due process of understanding the business of the area under audit.

- Review the auditee's capability to achieve its objectives as indicated by recent past performance;
- Analyses past projects in strategic initiatives to gain management's view;
- Historical performance then can give an idea about how management trade-offs between long-term and short-term objectives;
- Process of performance monitoring and measuring.

2.5.7 **Sources of information**: To thoroughly understand the activities of the audited area, the audit team must gather information, evaluate and analyze information, and then document the results. While looking for pertinent information, an auditor should take into account a variety of

sources. The full list of information sources is provided below. The sources of information may vary depending on the audit's focus because the audit team must be practical in its quest for understanding.

i. Previous permanent file and current file;
ii. Relevant legislation, regulations and circulars of MDA;
iii. Long-term and short-term plan;
iv. Policies, procedures, manual and standard operating procedures;
v. Organizational structure, responsibility centers and cost centers;
vi. Lines of accountability;
vii. Project appraisal and/or feasibility study documents;
viii. MDA periodic and annual reports;
ix. Aide Memoire and other reports;
x. Audit reports issued by OCAG;
xi. MDA and other 'Websites;
xii. Annual work plan and budget;
xiii. Staffing table, approved positions and personnel;
xiv. Human resources development and training programs;
xv. Turnover of key staff;
xvi. Enquire into and consider key factors, if any behind past success or failure;
xvii. Enquiry about any case of corruption noticed by the Head of the project/office;
xviii. Enquiry if there is the practice of regular staff meetings and review decisions;
xix. Enquiry about grievances and suggestions handling process;
xx. Enquiry into the procedures by which the physical existence of assets is safeguarded and proper utilization is assured;
xxi. Financial management information system and accounting system;
xxii. Participating in orientation/subject matter training courses organized that are related to the area of the audit;
xxiii. Media coverage and external reports;
xxiv. Site visits and observations of program operations;
xxv. Formal reports prepared by central agencies, in-house task forces or outside consultants, which are related to the area of audit;
xxvi. Photographs or other visual aids taken or prepared by the auditors or obtained from other sources;
xxvii. Management meeting minutes;
xxviii. Meeting with senior management and project/operational managers;
xxix. Meeting with functional officials and personnel;
xxx. Meeting with other stakeholders including beneficiaries.

2.5.8 Documentation of understanding: The internal audit process can be judged to have been carried out in a professional manner, if the documentation of what was done, by whom, and the outcome is complete. The IAU/DIA must document and validate the knowledge acquired through the method described above. It's possible that not all of the information received and analyzed will be necessary to document for further consideration. Only substances of understanding are recorded selectively. The aim of recording understanding is to provide a preliminary and general view of the significant matters and risks associated with the area under audit. Furthermore, the material should give a professional auditor a clue as to how to look at threats to the accomplishment of the audit's goals. For instance, it is necessary to document any legal requirements and other mandatory policies, such as internal control systems, that are essential to attaining goals and pose a risk of non-compliance. Similarly, the knowledge that could be used as a source of supporting data while assessing risk needs to be documented.
Each source's contribution to understanding must be separately documented. The sources provided above are just for reference. If a point is unrelated to the audit at hand, the audit team may leave it out. The audit team should seek out more information sources to better comprehend the situation and record their findings. After acquiring an understanding, the audit team must locate other pertinent sources and collect the data.

Form 12 is the format required for documenting acquired understanding. The audit team could employ a variety of techniques to accurately and succinctly capture facts. **Form 12** lists the methods and objectives of information recording that are most frequently utilized.

2.6 Review Relevant Information Captured while Preparing Annual Audit Plan

The audit team should review the data that was gathered, recorded, and assessed throughout the creation of the yearly plan. A readily available source for learning about the MDA is a review of pertinent data that was recorded during the creation of the yearly plan. **Form 12** should be used to record the pertinent data that was obtained from the documents required to prepare the yearly audit plan.

2.7 Analysis of Key Processes

The processes that determine workflow, the output of the process units or officials responsible for the performance, their connection to the process's aim, and finally their location and role in the overall process of accomplishing organizational goals or objectives are considered key processes. The internal audit team will be able to comprehend key processes through analysis, which will also provide them with a better grasp of the risks related to those processes. Analysis of key processes involves identifying and gaining an understanding of the key processes of the area under audit, the operational risks associated with those processes, and how the auditee mitigates those risks. When the auditor understands the characteristics of processes that contain significant operational risks, S/ he will be able to gain a better understanding of the potential impact of those risks relating to the achievement of process, activity, and finally organizational objectives. This effort involves identifying process objectives, identifying the flow of work within the process and understanding the effectiveness of the process management.

The audit team must identify the main processes that are essential to attaining the goals of the audited area, regardless of whether they are properly documented by the auditee. Key processes have been identified for detailed study, which can be carried out through desk review, field and process observations, and discussions with the process owner, senior management, and other stakeholders.

2.7.1 Components of Key process: The points presented and discussed below are components of the key process, analysis and use of that for risk assessment.

i. **Process objectives:** The objectives of the process are statements that define the direction needed with respect to the process. Objectives often relate to items such as budget plan, budget disbursement, accounting and reporting, need identification and procurement of goods, works and services, recruitment and development of human resources.

ii. **Inputs**: The inputs to a process represent the elements, materials, resources, or information needed to complete the activities of the process.

iii. **Activities:** The process is a conglomerate of more than one activity. While some activities may be performed in succession, the majority of them depend on one another to fulfill the process purpose (s).

iv. **Outputs:** The outputs represent the result of the process - the product, deliverable, information or resource that is produced.

v. **Risks:** Each process consists of risks. If not mitigated, that will threaten the attainment of the process objective (s).

vi. **Control system**: Procedures and mechanism in place, that provide assurance that the risks are reduced to a level acceptable and the process's objectives can be achieved.

vii. **Critical success factors**: Critical factors for success are the prerequisites and areas of dependency for a process to be successful. That may be inputs, supporting activities or any provision that is necessary for achievement of process objective (s).

viii. **Key performance indicators**: Key performance indicators are quantitative measurements, both financial and non-financial. Indicators are supposed to be specific, measurable, achievable, and relevant and time bound - SMART.

ix. **Symptoms of poor performance**: There may be evidence which may exist and indicate that the process may not be operating to its most effective level.

x. **Improvement opportunities**: Performance improvement opportunities are areas for performance or process improvement.

2.7.2 **Results of key process analysis**: The process of risk assessment benefits from operational process analysis. For a number of good reasons, this procedure is often helpful and used in the internal audit process. The following list includes some of the outcomes that can be attained by analyzing important processes.

i. Identification of operational risks to be considered while assessing risk;
ii. Understanding how the results of the process are reflected in the overall results of the area under audit;
iii. Supportive in determining audit objectives and scope required to achieve the audit objective;
iv. Understanding of the level of risk which management is likely to accept;
v. Provides opportunity for auditors to apply professional judgment to determine whether the risk, likelihood and impact of risk, is of acceptable level;
vi. Helpful in the identification of performance improvement opportunities.

2.7.3 **Documentation of analysis results**: The analysis has to be focused on and should include the components of the key process which are discussed above.

Form 13 is used to record the analysis completed for each key process.

2.8 Assessment of Inherent Risk

> Inherent risk is a measure of the auditor expectation of risk before considering the effectiveness of internal controls.

Nothing is risk-free, and this is a universal fact. There is always a risk involved with every activity, procedure, and action. Inherent risk is the risk that comes with a system, a process, or a transaction by default. Since a "risk-free environment" is not attainable, determining acceptable risk is necessary. The Concept of “risk appetite level” addresses the issue of “no risk-free environment”. Management could fix the risk appetite level or the risk it is willing to accept related to its functions and activities. If such a level is not fixed auditor has to determine to what extent and what type of risk can be acceptable in the context of the audit area and the objective associated with the auditable area. When deciding what level of risk is acceptable, the trade-off between acceptable risk and cost of management is taken into account. Since nothing is risk-free and it is not cost-effective to audit every risk-related activity or transaction, it is important to concentrate on those that are big, meaningful, and dangerous enough to warrant an audit. A framework for risk-based auditing and risk assessment is crucial once more.

2.8.1 **Identification of inherent risk:** The identification and recording of pertinent information that may give a variety of risk-related inputs for designing individual audits are audit processes that include understanding business and key process analyses. The audit team must examine the information that has been documented with a focus on identifying any inherent risks that are

essential to the attainment of the objective(s) pertaining to the audited area. Significant matters are ones that are crucial and may include the risk that is higher than what is reasonable. The audit team should make sure that all key issues and risks are listed because the audit planning process is mostly based on and restricts itself to the study of the specified concerns. When assessing the inherent risk connected with important matters, the audit team must take the following factors into account.

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

2.8.2 **Validation of the inherent risks**: Audit team has to record all significant matters as inherent risks using **Form 14.** Discussion among auditors and consultation with auditee is required to make sure all significant matters associated with inherent risk are listed and irrelevant or insignificant issues are not included as an inherent risk.

2.8.3 **Likelihood**: How likely it is that the adverse event will take place is a likelihood. Likelihood is one element of inherent risk. There are five rankings of likelihood:

i. Almost certain
ii. Likely
iii. Moderate
iv. Unlikely
v. Rare

When ranking likelihood, the audit team should take into account the likelihood of the event occurring frequently, the working environment, the processes and skills in place, the staff's commitment, morale and attitude, and the history of prior incidents, among other factors.

2.8.4 **Impact:** Audit team further rank the impact of a potential adverse event which is another element of inherent risk. Five ranks of impact to be considered while ranking the impact of each adverse event:

i. **Catastrophic:** Disaster event, with the potential to lead to the collapse of the operations;
ii. **Major:** A critical event which with proper management can be endured;
iii. **Moderate:** A significant event which can be managed under normal circumstances;
iv. **Minor:** Event, the consequences of which can be absorbed but management effort is required to minimize the impact;
v. **Insignificant:** Event, the impact of which can be absorbed through normal activity.

2.8.5 For Likelihood and Impact rankings mentioned above detailed Criteria are required to determine consistent analysis. The detailed criteria of Likelihood and Impact are mentioned below:

Likelihood Criteria Table

Level	Rating	Description	Estimated Frequency
5	Almost Certain	Expected to occur in most circumstances	Occurs frequently (e.g., > once/month)
4	Likely	Will probably occur in most circumstances	Occurs regularly (e.g., once every 1–6 moths)
3	Moderate	Might occur at some time	Occurs occasionally (e.g., once in 6–12 months)
2	Unlikely	Could occur at some time, but not expected	Occurs rarely (e.g., once in 1–5 years)
1	Rare	Exceptional circumstances; highly unlikely to occur	Occurs very rarely or < once in 5 years

Impact Criteria Table

Level	Rating	Definition	Example, Impacts by Category
5	Severe / Catastrophic	Irreversible damage; threatens organization's sustainability or mission, severe reputational damage	Disaster event, with the potential to lead to the collapse of the operations; -Financial: Loss > 10% of budget or major funding revoked -Operational: Total system outage > 5 days -Reputational: National/international media scandal - Compliance: severe violation of rules and regulations, criminal penalties - Safety: Death or permanent injury Severe misuse of assets, over procurement without planning
4	Major	Serious impact; long-term disruption; requires executive-level intervention, major reputational damage	A critical event which with proper management can be endured. - Financial: Loss of 5–10% of annual budget - Operational: Prolonged downtime (1–5 days); critical service disruption - Reputational: Major media coverage - Compliance: Regulatory penalties or major audit findings - Safety: Serious injury

3	Moderate	Noticeable impact; managed with departmental resources; short-term disruption, occasional negative media coverage	A significant event which can be managed under normal circumstances. - Financial: Loss of 1–5% of budget - Operational: Short service interruption (hours–1 day) - Reputational: Complaints or negative press - Compliance: Reportable but non-penalized breach - Safety: Minor injury or health risk
2	Minor	Limited impact; easily contained; does not affect service delivery, outside media coverage are less occasional	: Event, the consequences of which can be absorbed but management effort is required to minimize the impact; - Financial: <1% budget impact - Operational: Minor performance degradation - Reputational: Internal concerns only - Compliance: Not reportable - Safety: No injury; near miss
1	Insignificant	Minimal or no measurable impact, minimum internal or external reputation loss	Event, the impact of which can be absorbed through normal activity. - Financial: No material loss - Operational: No service disruption - Reputational: No public reputation loss - Compliance: Fully compliant - Safety: No risk to people or assets

2.8.6 **Ranking of the Inherent risk**: Based on ranked likelihood and impact regarding significant matters, Inherent risk ranking can be completed using the following matrix.

Likelihood	**Impact**				
	Insignificant	**Minor**	**Moderate**	**Major**	**Catastrophic**
Almost Certain	High	High	**Very High**	**Very High**	**Very High**
Likely	Moderate	High	High	**Very High**	**Very High**
Moderate	Low	Moderate	High	**Very High**	**Very High**
Unlikely	Low	Low	Moderate	High	**Very High**
Rare	Low	Low	Moderate	High	High

The matrix provides four rankings of inherent risk- Very High, High, Medium, and Low, which are based on the ranking of likelihood and impact. For example, the ranking of inherent risk will be high if the likelihood is almost certain and the impact is Moderate, Major or Catastrophic. An internal audit team completing a comprehensive assessment of inherent risk so as to form a base

for preparing an audit plan that focuses on risky issues is critical for the implementation of a risk-based audit strategy. The audit team has to prepare a complete list of assessed inherent risks as **Form 14.**

2.9 Assessment of Internal Control

> **Control:** Any action taken by management, board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.
>
> **Control processes:** The policies, procedures, and activities designed and operated to manage risks to be within the level of an organization's risk tolerance
>
> **Global Internal Audit Standards Glossary**

The internal controls that reduce the risk by lowering the likelihood and impact of unfavorable events are not considered in the assessment of inherent risk. The audit team must identify the internal control measures in place to address each risk after the inherent risks have been evaluated. Primary controls (preventive), secondary controls (detective), and mitigating controls are typical categories of controls. Primary controls are aimed to stop errors or fraud from happening and are preventive in nature. Secondary controls are intended to recognize or detect errors or fraud that have already taken place. Controls that reduce or lessen the risk are known as mitigating controls.

2.9.1 **Consideration of control environment**: Internal audit team has to assess the effectiveness of internal control in place against each inherent risk listed in **Form 14.** It is necessary to consider the overall control environment within the MDA while assessing control effectiveness against individual inherent risk. The institute of internal auditors describes the control environment as the attitude and actions of management and MDA management regarding the importance 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:

i. Integrity and ethical values;
ii. Management's philosophy and operating style;
iii. Organizational structure;
iv. Assignment of authority and responsibility;
v. Human resource policies and practices;
vi. Competence of personnel.

2.9.2 **Assessing control effectiveness**: While internal control is management's job, internal auditors have the duty to help controls by assessing their efficacy in mitigating risks in the organization's governance, operations, and information system:

i. Reliability and integrity of financial and operational information;
ii. Effectiveness and efficiency of operations and programs;
iii. Safeguarding of assets;
iv. Compliance with laws, regulations, policies, procedures and contracts.

The effectiveness of the controls in place might be assessed by the internal audit team by taking

into account both primary and secondary controls for each inherent risk while also taking into account the overall control environment. Having a secondary control may lead to over-control if the primary control is sufficient and functioning well. The mitigating controls may assist in creating a situation that is at least tolerable when the control system is poor. Assessment of internal control requires a thorough understanding of the business, concept of control environment, and most importantly experience of auditors.

2.9.3 **Ranking of control effectiveness**: Control effectiveness is assessed on four levels. The audit team while assessing the effectiveness of internal control ranks with the following reference for each inherent risk listed on **Form 14.**

- Controls are robust, well-designed, and consistently applied. No significant weaknesses were identified, providing a reasonable level of assurance that objectives are being achieved. **Rank: Satisfactory**;
- Controls are generally effective, but minor administrative gaps or inconsistencies exist. **Rank: Needs Minor Improvement;**
- Design or operating gaps exist that could lead to moderate exposure. Risks are barely managed. **Rank: Needs Significant Improvement;**
- Controls are absent, poorly designed, or fail frequently. Material weaknesses exist. **Rank: Unsatisfactory.**

2.10 Ranking Residual Risk

Once the assessment of control effectiveness is completed the audit team should use the following matrix to determine residual risk.

Inherent Risk Rating	Control Effectiveness			
	Satisfactory	Needs minor Improvement	Needs Significant Improvement	Unsatisfactory
Very High	Moderate	High	**Very High**	**Very High**
High	Low	Moderate	High	High
Moderate	Low	Low	Moderate	Moderate
Low	Low	Low	Low	Low

The matrix provides four rankings of residual risk, very High, High, Moderate and Low. The rank of residual risk is based on the ranking of inherent risk and the ranking of control effectiveness. For example, if the ranking of inherent risk is high and the ranking of control effectiveness is weak or some weakness, the ranking of residual risk will be high. The internal audit team upon completing an assessment of residual risk will be in a position to prepare an audit program for each residual risk ranked as very high, high and moderate. Normally there is

no need to conduct an audit examination in case of those residual risks which are ranked low. The audit team has to prepare a complete list of assessed residual risks and develop an audit program as Form 15. This form is also prepared based on the information of Form 14. That is, however, only for reference and therefore, not necessarily present the real case.

2.11 Internal Audit Plan

Every audit assignment needs to be well planned out so that it can be executed. The planning phase gives the auditors some assurance that they have gained knowledge of the subject under audit and have also identified and evaluated any potential occurrences that could have a negative influence on the accomplishment of connected goals. Therefore, a key activity in the audit planning process is the examination of the risk assessment framework, inherent risk, control efficacy, and residual risk as indicated above. The audit team will be prepared to create an internal audit plan.

Form 16 for the auditable area once the risk assessment framework's procedures are complete. An internal audit plan should include audit objectives, the scope of the audit, the timing of the audit and resource allocations.

Form 15, which is based on residual risk ranks, and details audit program is an integral part of audit planning.

2.11.1 Introduction: Internal audit plan should provide introductory information about the office or area under audit. The information provides a general background on the area under audit. The following points, for example, are relevant to present as introductory information on the office/ area of audit.

- Name and location of the project/office;
- Area under audit (Financial management/ Procurement and Contract; administration/ Project or operational management/ other issues);
- Objective of the area under audit;
- Financial performance of the period under audit;
- Program/operational performance of the period under audit.

The introduction information is included to give readers a general impression of the office and audited area. The audit team should take into account additional pertinent data to include at this point while keeping in mind the aim.

2.11.2 Audit objectives: Audit objectives relate to why the audit is being conducted and are based on the audit mandate. Internal audit is for providing independent, objective assurance services through assessment of governance process, risk management and control process and offering recommendations for improvement. The assistance offered by the internal audit should aid the auditee in achieving its goals. As a result, when choosing the audit objective, the audit team should pay attention to the goal of the audited area and take into account any potential risks. The auditor should determine or evaluate the audit goal with the intention of developing an audit that has the ability to enhance MDA administration. The audit objective should therefore not only consider warning against defective practices but also identify and promulgate improvement opportunities through good practice. Given the size, complexity and diversity of operations, it is normally impracticable to attempt to assess all the issues of the area under audit in any meaningful way. Consequently, audit objectives are usually directed towards specific issues under auditable area which is risky.

Standard 13.2 Engagement Risk Assessment

Internal auditors must establish and document the objectives and scope for each engagement. The engagement objectives must articulate the purpose of the engagement and describe the specific goals to be achieved, including those mandated by laws and/or regulations.

Standard 13.3 Engagement Objectives and Scope

Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided, including:
- The organization's strategy and objectives.
- Probability of significant errors, fraud, noncompliance, and other risks that might affect objectives, operations, or resources.

Standard 4.2 Due Professional Care

The audit objective is supposed to focus on an analysis of economy, the efficiency of administrative and project/office effectiveness under MDA. The audit team should consider the following points while determining the audit objective (s).

i. Objectives, which should be clear enough to identify the desired outcomes;
ii. Financial, human, physical and information resource inputs used;
iii. Processes or activities by which the inputs are converted into outputs;
iv. Goods, services or other results which constitute the output;
v. Actual impacts or outcomes, both intentional and unintentional.

The audit team has to determine the audit objective as per the audit areas and risks assessed. While determining audit objective main objective describing board objective can be set out such as "evaluation of adequacy and effectiveness of the internal control system", "ensure financial statements are presented fairly", "ensure project/office is managed efficiently and effectively", "operation of … service is efficient", and "ensure safeguarding and utilization of assets is as per policies and procedures". After stating the overall purpose, providing any extra particular audit objectives that show the focus on risks during the audits was successful because they will help to further direct the audit process.

One common goal of the audit is to assess the sufficiency and effectiveness of the internal control system. Effectiveness relates to the status of implementation and its impact on the attainment of the target for the system that has been put in place, whereas adequacy refers to the availability of internal controls in place that is adequate and updated to meet the demand. The audit aim varies depending on the subject being examined, and it is influenced by the determined risk.

Some examples of broad audit objectives are below for reference:

i. **Financial Management:** The objective of the audit is to determine whether the financial statements present a true and fair view of the financial performance and are presented fairly in all material respects, in conformity with public sector accounting standard and relevant practices in project accounting or other standards acceptable to the development partner, and that the reported disbursements are made in accordance with the financing agreements.

ii. **Procurement and Contract Management:** The main audit objective is to ensure that the procurement of goods and services including public works has been done efficiently, economically, and effectively within the provision of the Public Procurement Act and Public Procurement Rules, contract agreement, and other relevant guidelines.

iii. **Project Management:** The objective of the audit is to ensure that the project planning, execution, monitoring, evaluation, and overall project management are adequate and applied effectively. The audit also has the objective of assessing the project performance against its target and assessing whether there were any aspects of project management which could be undertaken in a more efficient and effective manner.

iv. **Operation:** The objective of the audit is to ensure that the operation is as per the procedure in place and it is efficient enough to support project implementation as well as in achieving the objectives of operations.

> The scope must establish the engagement's focus and boundaries by specifying the activities, locations, processes, systems, components, time period to be covered in the engagement, and other elements to be reviewed, and be sufficient to achieve the engagement objectives.
>
> **Standard 13.3 Engagement Objectives and Scope**

2.11.3 **Scope of audit**: Audit scope defines the period, and area with the main issues and transactions to be covered by the audit exercise. The scope must be sufficient to satisfy the objectives of the audit.

Based on the data gathered throughout the planning phase, the auditor determines the audit scope. To record decisions made on resource requirements and the overall strategy for the audit, the scope of the audit should be specifically outlined in the audit plan. The achievement of the audit goal serves as a major criterion for choosing the audit's scope. The audit team can identify the scope of the audit once the audit objective(s) have been established. The nature of the areas under audit determines the scope of the audit. It may be limited to some specific activities such as annual work plan and budget preparation, design of construction work, procurement of goods, works and services, and quarterly financial reporting. It may cover related activities of one or two quarters of the whole year or in some instances, an internal audit may need to the extent of its scope beyond a financial year. The scope of audit beyond a financial year is not in normal case of financial transactions but maybe in case of project management and procurement-related issues/areas. Internal audit must extend its scope for extended periods as necessary if the case involves fraudulent actions and corruption. This way, the audit scope could be the area of the MDA (process, activity, or function) that needs to be looked at, as well as the audit's subjects and duration.

Some examples of audit scope are below for reference:

i. **Financial Management:** The audit covers the financial transactions and selected documents supporting and validating transactions of the (third and fourth quarter) of the FY (20xx) Periodic and yearly financial reports and statements submitted to the donors and senior management of MDA for their conformity project accounting requirements of development partners are also included in the audit scope.

ii. **Procurement and Contract Management:** The scope of the audit includes contract awarding decisions by (…...) during the (year.....) for procurement of goods, services and public works. Need identification, specifications, cost estimation and tender documents, tender invitation, evaluation and award of contract will be under the scope of the audit. To achieve the audit objective, the audit the scope will also include Contract Management compliance with contractual provisions, and payments made during the period of…… Those contract awarding decisions and related need identification, specifications, cost estimation and tender documents, tender invitation, evaluation and awarding decisions will be reviewed even if the contract awarding decisions are made earlier than the period. The audit scope will be extended to field visit and observation of works performed by the contractor/supplier.

iii. **Project Management:** Audit scope includes the project performance against its target. As required, audit scope includes and covers the pre-implementation activities, and review documents such as feasibility studies and project documents. The audit scope will be extended to field observations and visits to achieve the objectives of the audit.

iv. **Operation:** Scope of audit is (asset management) activities performed by (logistic) office of MDA. Assets management system and transactions of (year), financial transactions and decisions related to those activities will be under the scope of the audit.

2.11.4 **Detail Audit program**: The detailed audit program guides the audit team in audit execution. The audit program includes all audit warrant residual risk, ranking of residual risk along with, methodology with sample for audit test. The audit program will guide the audit execution phase and completion of audit test as per the program that ensures the achievement of the audit objective of the audit.

Form 15 provides a guide for the audit team and should be used as the standard format of the audit program.

> Internal auditors must develop and document an engagement work program to achieve the engagement objectives.
> The engagement work program must identify:
> • Criteria to be used to evaluate each objective.
> • Tasks to achieve the engagement objectives.
> • Methodologies, including the analytical procedures to be used, and tools to perform the tasks.
> • Internal auditors assigned to perform each task.
> The chief audit executive must review and approve the engagement work program before it is implemented and promptly when any subsequent changes are made.
>
> **Standard 13.6 Work Program**

2.11.5 **Timing of the audit**: The audit plan specifies the duration of audit execution, starting date and date of audit completion i.e., issuing an internal audit report.

2.11.6 **Audit resources**: Internal audit plan identifies the resources required to complete audit. Working days of the Director, Assistant/Deputy Director and auditors of the IAU/DIA have to be estimated. The inputs of experts, if any should be mentioned in the plan. International standards suggest that the internal auditor must determine appropriate and sufficient resources to achieve audit objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2.12 Risk Assessment Framework and Internal Audit Plan Preparation

Risk assessment framework development and audit planning are two sequential processes. Every audit requires the creation of an audit strategy or program, which should be based on the determined residual risk. Five consecutive processes must be followed, and five common formats or forms must be ready. The procedure and forms to be utilized in risk assessment and creating an internal audit plan for an engagement are summarized in the next section.

Five Steps of Risk Assessment Framework and Internal Audit Plan Preparation

Steps	Description	Forms
1	Understanding the business and recording significant information	12
2	Analyzing key processes and recording significant information	13
3	Determination of likelihood and impact, and assessment and preparation of inherent risk ranks	14
4	Assessing internal controls, ranking residual risk and developing the detailed audit program	15
5	Preparation and approval of Internal Audit Plan	16

Chapter 3 - Audit Execution

3.1 Background

The audit procedure includes planning, execution and reporting. The overall internal audit process diagram is provided in **Appendix 5** of this manual. The second step in the audit process is audit execution. Implementing the authorized audit plan is known as audit execution. Each audit program is examined, analyzed, and evaluated by the audit team after they have identified

> Internal auditors implement the engagement work program to achieve the engagement objectives. To implement the engagement work program, internal auditors gather information and perform analyses and evaluations to produce evidence.
>
> **Principle 14 Conduct Engagement Work**

and gathered pertinent data and supporting documentation. It is crucial to oversee audit work to ensure that the approved plan has been carried out as intended and that auditee concerns have been taken into consideration.

3.2 Audit Team Formation

The team that developed the audit plan is often the one that is assigned by the Head of the IAU/DIA to carry out the audit. The Director of the IAU/DIA certifies that there are no conflicts of interest before assigning auditors for the audit. Any auditor who appears to be experiencing a conflict between personal and professional interests should not be part of the audit team due to personal relationships and other factors. The team will be led by a team leader. To ensure a well-executed audit in the area of technical difficulties, technical expert(s) may be included in some audits. The team leader is responsible for the overall management of the audit process and guide team members in conducting audits as per programs assigned to them.

3.3 Understanding of Audit Plan

The key to a successful audit execution is having a thorough understanding of the audit plan. The audit team should go over the audit plan, **Form 16**, and discuss about the objectives of the audit as well as the scope of the audit chosen to accomplish those goals. This will remind the audit team of the purpose of the audit as well as the parameters of the assessment. Another document the audit team will discuss is the detailed audit program, **Form 15**, which lists the issues to be audited along with the methodology and a sample of the transaction to be audited. Responsibility of the team leader and each member of the audit team regarding the execution of audit test, time available, sites visit, personnel and official to contact and documents to review are available in audit program **Form 15**. A detailed conversation to clarify what the audit team will do during the audit execution will provide them with a clear road map. Other issues that need to be discussed again include the coordination of the audit team's efforts, joint projects, and the participation of any technical experts.

3.4 Entry Meeting

Particular attention is given to the concerned department or unit heads during the entry meeting. Before the audit is executed, there are initial official meetings with the auditee. Typically, these meetings last for the required amount of time. Following the meeting, the senior and middle-level managers from the auditee side and each member of the audit team from the auditor side introduce themselves. The audit team leader outlines the general objective, the scope, the methodology, the approaches, and the anticipated time frame for the audit.

Later, the Head of the entity provides general information about the office regarding its role, resources, constraints and challenges the office is facing. Further, issues regarding logistic arrangement and assignment of coordinator from the auditee for audit exercise are discussed in entry meeting. The entry meeting, therefore, covers the following:

i. Familiarizing between audit team and officials of the auditee;

ii. Explain audit objectives, scope, and timing;

iii. General preview from auditee;

iv. Logistic arrangement needed for the audit.

Entry meeting is a formal arrangement, thus required recording and documenting the event. **Form 17** is the format suggested for the purpose. The audit team has to prepare two copies of **Form 17,** one for the auditee and one for the audit file.

3.5 Identifying Information

To perform analyses and evaluations, internal auditors must gather information that is: Relevant, Reliable and Sufficient.

Standard 14.1 Gathering Information for Analyses and Evaluation

The audit execution process moves further with the identification of information required for each of the audit programs, **Form 15**. The audit program itself provides reasonable guide that what information is required to satisfy each of the audit programs under it.

i. **Sufficient Information**: Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusion as the auditor.

ii. **Reliable Information**: The best of information is reliable information, which can be obtained by using appropriate engagement techniques. Evidence that is gathered from a third party, directly by physical examination, verification, and inspection, evidence in the form of an original document, or a witness's testimony is thought to be more trustworthy.

iii. **Relevant Information**: Relevant information supports engagement observations and recommendations and is consistent with the objectives of the engagement.

The auditor must determine the necessary data for each audit program. The audit program directs the auditor as to what kind of information has to be acquired and how. Although auditors may be in charge of specific audit programs, teamwork and discussion practices will aid in identifying the information required.

3.5.1 Consideration of information required as per 5 Cs: For each of the audit programs, the execution of the audit must be completed. The outcome of an audit's execution is an audit observation. While determining the needed information and ways to obtain, analyze, and evaluate of collected information auditor has to consider five elements of an audit observation are **Criteria, Condition, Cause, Consequence and Corrective Action**:

i. **Criteria**: Standards are criteria. Sources of criteria include legal documents, manuals, protocols, and reasonable and ethical behaviour. In the absence of well-established and/or legally binding evaluation criteria, the auditor should collaborate with the auditee to design criteria that include examples of best practices.

ii. **Condition**: The term "condition" describes what is real. What has been done in the past, what is being done now, or the current circumstance is the condition. To determine whether the condition deviates from the standards beyond what is considered acceptable, the condition should be compared to the criteria. The basis for the audit conclusions will be the comparison of the criteria and the condition.

iii. **Cause**: Audit observation should include the reason(s) why the deviation exists. The cause can be defined as the source or factor for the occurrence of an event that does not meet the criterion.

iv. **Consequence**: The impact of a project or operation as a result of a criterion and condition difference is referred to as a consequence. Therefore, the consequence is the outcome or impact of an instance or circumstances not meeting the requirements. Audit findings should provide a clear reading of the consequences (s).

v. **Corrective action**: Internal auditing involves evaluation as well as suggestions for advancement. Therefore, each observation calls for a proposal outlining a course of corrective action. In order to direct action that could support an adequate and successful system, corrective action should consider the cause and consequence and prescribe solutions to address those.

3.5.2 **Sampling**: Audit sampling is an application of an audit procedure to less than 100% of items within a population, for instance, an account balance, class of transactions, inventory and assets for the purpose of examination and evaluation. Audit execution related to most of the audit programs is performed not by checking all transactions or events and thus selection of the sample is required. Auditors may have general ideas from audit program itself about the size and methods of selecting information or sampling for audit trail. The size of the sample is generally affected by the level of assurance required to place reliance on internal controls. Further, sample size generally depends on materiality, the nature and reliability of the data, the degree of confidence desired and the degree of non-compliance. The following conditions must be met to constitute audit sampling:

i. Less than 100% of the population to be examined;
ii. Sample size and nature are to be representative of the population;
iii. Sample results to be used to assess control risk.

Statistical and non-statistical samplings are two approaches to audit sampling. Either approach, when properly applied, can provide sufficient competent evidence.

i. **Statistical sampling**: Statistical sampling is selecting samples in such a way that the laws of probability can be used to make statements or generalizations about a population. The sample sizes also may be selected using available sampling software or the application of other Computer Aided Audit Techniques **(Appendix 6)**. A statistical sampling approach required meeting two criteria, first the sample has a known probability of selection that is, the sample must be expected to be representative, and second the sample results must be quantitatively or mathematically evaluated.

ii. **Non-statistical/ judgmental sampling**: If a sample is projected to the population that does not meet both the requirements for statistical sampling, it is, by definition, a non-statistical sample. The auditors use their professional judgment and experience while determining samples following the non-statistical sampling technique. Non-

statistical sampling is the determination of sample size and items using judgmental reasoning rather than probability concepts.

3.6 Analysis and Evaluation

Once the audit team determines the required information, sampling techniques and sample size, and sources of information it moves forward to collect and evaluate the information/evidence.

Internal auditors must analyze relevant, reliable, and sufficient information to develop potential engagement findings.
Internal auditors must analyze information to determine whether there is a difference between the evaluation criteria and the existing state of the activity under review, known as the "condition."
A difference between the criteria and the condition indicates a potential engagement finding that must be noted and further evaluated.

Standard 14.2 Analyses and Potential Engagement Findings

Internal auditors must evaluate each potential engagement finding to determine its significance. When evaluating potential engagement findings, internal auditors must collaborate with management to identify the root causes when possible, determine the potential effects, and evaluate the significance of the issue.
Internal auditors must prioritize each engagement finding based on its significance, using methodologies established by the chief audit executive.

Standard 14.3 Evaluation of Findings

3.6.1 **Test Procedures**: There are two main areas of concentration for audit tests. The first is the suitability of the internal control system, and the second is its efficacy. Adequacy or effectiveness of the internal control system must be assessed by the auditor in accordance with the nature of the test required by the audit program, **Form 15.** Procedures to be utilized in assessing the sufficiency and effectiveness of the system include the test of control and the substantive test.

i. **Test of control**: A test of control procedure is appropriate if the audit program indicates that the adequacy of the internal control system in place has to determine. Information required for the procedure can be obtained through an evaluation of the adequacy/design of the internal control system.

ii. **Substantive test**: If the audit program requires determining the functioning/ operating of the system in place, a procedure of substantive test has to complete. Normally when the internal control system is assessed as substantially adequate then it turns to assess whether the system is functioning as it is supposed to be when there appears weak control environment and not providing sufficient, relevant and reliable evidence on which to base the opinion. It necessitates a thorough test and analysis of transactions through documentary evidence numbered chronologically, the calculation for accuracy, justification of budget expenditures, a test of supporting evidence for transactions, authorization, entry into books of accounts, and base of information reported by financial and performance reporting.

3.6.2 Obtaining/ gathering information/ evidence: Audit procedures move forward using appropriate test procedures for obtaining/gathering information/evidence that could address the need of each audit program documented in **Form 15**. The outcomes of earlier tasks, such as the information that was designated as necessary and the established sampling technique and size, must be followed while carrying out this task by the auditor. The auditor should keep in mind that the exercise should produce sufficient, reliable, relevant, and useful information.

There are various techniques to be usedfor obtaining/gathering information/evidence are**:**

i. **Inspection:** Reviewing or examining records, processes or properties and comparing with what is expected (this can be defined in the policies, procedures, laws, regulations or standards).

i. **Enquiry:** Seeking information from a knowledgeable person. This procedure will be used to obtain explanations required as a result of audit findings.

ii. **Physical inspection:** Examining the item personally to confirm that it exists.

iii. **Vouching:** Testing the validity of a transaction or recorded information by following it back to a tangible source.

iv. **Tracing:** Testing the completeness of information by tracking information forward from a tangible source to a subsequent prepared document/report. The difference between vouching and tracing is the direction of the audit procedure, i.e., vouching for moves backwards from the final document to the source whereas tracing moves forward from the source to the final document.

v. **Computation:** Checking the arithmetic accuracy of accounting records or performing independent calculations.

vi. **Confirmation:** Soliciting and obtaining written verification of the information from an independent third party e.g., circularization to debtors and suppliers to confirm accounts receivable and accounts payable balances respectively.

vii. **Analytical procedures:** Evaluating the relationship between financial and non-financial data and investigating unexpected fluctuations. Analytical procedures include ratio, trend, and reasonableness tests; period-to-period comparisons; forecasts; benchmarking information against similar sectors or entity units.

viii. **Data analytics:** Data analytics for audit is the science and art of discovering and analyzing patterns, deviations and inconsistencies, and extracting other useful information in the data underlying or related to the subject matter of an audit through analysis, modelling and visualization for the purpose of planning and performing the audit. Data analytics is examining data sets in order to draw conclusions about the information they contain. With the increase in the volume of data being generated by entities (Big Data), data analytics is being adopted by Internal Auditors to enable them to develop recommendations that provide insight and foresight.

Some sources and commonly used techniques for obtaining/gathering information/evidence is described below:

- Review policy and legal documents;
- Review objectives of entity/process under review;
- Review organizational structure and Accountability mechanism;
- Review human resources;
- Review budget preparation procedure;
- Verification of activity plan with objectives of project/operation;
- Review the funds flow procedures and execution;
- Review the Accounting system and softwire;

- Vouching and examination of supporting documents;
- Examination of the ledger, and subsidiary ledgers;
- Examination of the advance ledger and individual advance accounts;
- Verification of bank statements and reconciliation statements;
- Review financial reports submitted to development partners;
- Review reports of financial review by the development partners;
- Review periodic and annual financial reports;
- Review procurement plan and annual program;
- Review procurement, manual and procurement process;
- Examine tender awarding decisions;
- Verify the work progress under contract;
- Test the compliance of contractual provisions;
- Examine the payment amount and verify with contract;
- Review progress reports and their credibility;
- Evaluate the overall objectives and periodic progress;
- Conduct field visits and examine works under contracts;
- Organize meetings and discussions with officials;
- Verify quality assurance procedures: goods, services and works;
- Observation and walk-through of the work procedures;
- Conduct physical verification;
- Seek third-party confirmation;
- Conduct trend analysis;
- Comparison and analysis of targets and achievements;
- Seek collaborative evidence;
- Confirmation of initial observation with officials;
- Questionnaire to officials;
- Seeking information by written request;
- Continues discussion with the auditee.

3.6.3 **Audit evidence**: In addition to gathering data to support audit reports, the audit team must also verify that the audit execution was carried out in accordance with approved plans and programs. The collection, assessment, analysis, and evaluation of evidence that supports audit reports and recommendations made therein should be given more attention by auditors. As a result, gathering, analyzing, and evaluating the facts are all crucial to reaching conclusions. Physical evidence, documented evidence, testimonial evidence, and analytical evidence are several types of audit evidence.

i. **Physical evidence:** Physical evidence is gathered by direct examination or observation of individuals, objects, or activities. Verifiable audit evidence about the existence of tangible assets is provided by their inspection. Looking at a process or method being carried out by others while making observations, such as physically counting inventory, is what is meant by observation.

ii. **Documentary evidence:** Documentary evidence consists of information that exists in some permanent form such as letters, contracts, accounting records, invoices, and management information on performance.

iii. **Testimonial evidence:** Questionnaires, interviews, or inquiries are used to gather testimonial evidence. Asking knowledgeable people inside or outside the business for information is inquiry. Responses to inquiries may give auditors knowledge they did not previously have or support audit evidence. Since testimonial evidence is not always conclusive, it should, if possible, be backed up by other types of information.

iv. **Analytical evidence:** Analytical procedures produce information in the form of

conclusions based on examining data for consistencies, inconsistencies, and cause-effect relationships.

3.7 Internal Audit and Detection of Fraud

3.7.1 Definition

The term fraud is commonly used to describe a wide variety of dishonest behaviors such as deception, bribery, corruption, forgery, false representation, collusion, and concealment of material facts. It is usually used to describe the act of depriving a person or organization of something by deceit, which may involve the misuse of funds or other resources or supply of false information.

Fraud may, therefore, be defined as any illegal act characterized by deceit, concealment, or violation of trust. 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.

3.7.2 Responsibilities

Internal auditors are not responsible to manage fraud risks on behalf of the MDA but to provide an assurance that risks, including fraud risks, are being managed effectively. The internal auditors, therefore:

i. Must exercise due professional care by considering the probability of significant errors, fraud or non-compliance;

ii. The Head of Internal Audit must report periodically to senior management on the internal audit activity's purpose, authority, responsibility and performance relative to its plan;

iii. Must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk;

iv. Must consider the probability of significant errors, fraud, non-compliance, and other exposures when developing the engagement objectives.

3.7.3 Role of Internal Audit Unit

Detection of fraud is not an objective of the IAU/DIA. However, the IAU/DIA needs to be constantly aware of such risks and manage it as part of its audit activities:

i. Review any risk assessments prepared for the organization seeking evidence on which to base an opinion that fraud risk has been properly identified and responded to appropriately;

ii. Provide an independent opinion on the effectiveness of the fraud prevention and detection processes put in place to reduce the risk of fraud;

iii. Review new programs and policies seeking evidence that fraud-risks have been considered where appropriate and providing an opinion on the likely effectiveness of controls designed to reduce the risk of fraud;

iv. Consider the potential for fraud in every assignment and identify indicators that fraud might have been committed or control weaknesses that might indicate a vulnerability to fraud;

v. Review areas where major fraud has occurred to determine how fraud was perpetrated and make recommendations about strengthening internal controls where appropriate;

vi. Assist with or carry out a fraud investigation on management's behalf. Internal auditors should only investigate fraud if they have appropriate expertise and understanding of the relevant laws to allow them to undertake this work effectively. If fraud investigation work is undertaken management should be made aware that the internal auditor is acting outside of the core internal audit remit and of the likely impact on the audit plan;

vii. Provide an opinion on the likely effectiveness of the organization's fraud-risk

strategy (fraud policy, fraud response plan, code of conduct etc.) and if these have been communicated effectively across the organization. Management has primary responsibility for ensuring that an appropriate strategy is in place and the role of an internal audit is to review the effectiveness of the strategy;

viii. Consider whether to report concerns of criminal activity that come to light as a result of audit fieldwork to an appropriate third party such as fraud or security personnel within the MDA.

3.7.4 Procedures in case of suspicion of fraud during an audit

If internal auditors during audit assignment identify control weaknesses that could allow fraud or find evidence of suspicion that fraud has been perpetrated or is occurring, the actions that should follow:

i. Refer to local internal policy/procedures on handling suspected and/or organization's fraud response plan;

ii. Decide whether to extend the audit work and design additional tests directed toward the identification of activities which may be indicators of fraud;

iii. Consider the rights of any alleged perpetrators;

iv. Decide whether there is clear evidence of fraud to recommend an investigation;

v. Ensure that the extent of the concern is captured and communicated so that implications can be considered in the formation of the Head of Internal Audit's overall assurance;

vi. Consider what point management should be advised and how to discuss with Legal Department for possible involvement of Court cases/Anti-Corruption Commission (ACC) investigation.

3.7.5 Procedures when suspicion aroused during an interview

As an audit interview proceeds, it may be that the answers given by the interviewee, coupled with other evidence known to the auditor, give rise to clear grounds to suspect that the interviewee has carried out a fraudulent act or indeed the interviewee may offer to confess.

At this point, the auditor will terminate the interview and refer to the Head of Internal Audit for further action. Under no circumstances should the auditor confront the suspect with evidence without the prior approval of the Head of Internal Audit. It is vital that all interviews with the suspected employee are conducted with due care to ensure that evidence is not invalidated as a result of an incorrect interview process.

3.8 Supervision

The purpose of supervision is to confirm that the audit program has been put into practice. The supervisor must ensure that the auditee's concerns are taken into account, that evidence is gathered and recorded, and that the auditors' skills are being developed.

> The chief audit executive must establish and implement methodologies for engagement supervision, quality assurance, and the development of competencies.
>
> **Standard 12.3 Oversee and Improve Engagement Performance**

The level of supervision needed depends on the expertise, experience, and complexity of the internal auditors and the engagement. The supervisor should review the working papers on a frequent basis to make sure that each audit program's observations are well-supported by evidence, recorded, and documented during the audit process rather than all at once after the audit is complete.

3.9 Working Papers

All work done by the audit team must be documented during the execution process. It is necessary to create a separate working paper for each of the audit programs listed in **Form 15**. The audit team also gathers evidence as needed to complete the audit work outlined in the audit program, such as copies of documents, photographs, questionnaire responses, copies of reports, and other items. The audit working paper associated with each audit program records the 5Cs of audit observation, which are the criterion, condition, cause, consequence, and corrective action.

Form 18 is suggested format for recording what auditor observed during audit. It also has provision for review by the supervisor. As mentioned above, this toolkit has to prepare separately for each of the audit programs and therefore, supervisor has to review during audit. If the review identifies need for additional audit task and evidence collection, analysis and evaluation, audit team has to perform accordingly.

Chapter 4 - Reporting

4.1 Audit Report

Each audit assignment must submit an audit report containing the results/findings of the audit test. Audit assignments are scheduled and carried out as a solo exercise in accordance with the annual internal audit plan. The outcomes of such activities will be shared with the auditee in the form of individual audit reports, along with copies to the relevant authorities. The primary goal of reporting is to convey audit findings and recommendations to the auditee management through a long-form report.

> For each engagement, internal auditors must develop a final communication that includes the engagement's objectives, scope, recommendations and/or action plans if applicable, and conclusions.
> The final communication must be accurate, objective, clear, concise, constructive, complete, and timely.
>
> **Standard 15.1 Final Engagement Communication**

4.2 Contents of Audit Report

Reports are main outputs that justify existence of internal audits and are means of providing assurance services. To be completed, a report should contain the following:

4.2.1 **Title:** The report should be appropriately titled, "Audit Area" in order to set it apart from other reports and to provide a general understanding of the audit purpose and scope.

4.2.2 **Addressee**: Internal audit report should be addressed to the PAO with copies to the Head of office/project and the Head of Department.

4.2.3 **Executive summary:** Executive summary has to summarize all contents of reports. Based on the observations, an assessment of the internal control system in place will be part of the executive summary. The executive summary, therefore, should reflect the outcome of the audit completed as per Audit Plan.

4.2.4 **Auditing methodology**: Users will have assurance that the audit was conducted in line with generally accepted audit practice if there is a statement about the auditor's compliance with applicable auditing processes. The IAU/DIA develops and completes audit assignments in accordance with the internal audit manual, which adheres to internal auditing best practices. Users will feel more confident if they can verify that the manual's instructions have been followed and are in compliance.

4.2.5 **Introduction**: The user of the report will have the necessary background knowledge after reading a description of the auditee and the audit area. The description should contain the organization's goals and objectives, the auditee's overall organizational structure, its financial situation, performance, and details that give a comprehensive overview of the auditee and the audited area.

4.2.6 **Audit objectives**: The objective and scope will establish the purpose of the audit. The report must include the objective(s) of the audit.

4.2.7 **Audit scope**: The boundary of the audit is mentioned as the scope. The users should be made aware of the nature and extent of information available in order to arrive at audit findings, conclusions and recommendations.

4.2.8 **Audit observations**: Audit findings are the primary product of the audit exercise. The audit findings should cover economy, the efficacy with which goals are achieved, and the efficiency with which resources are obtained and utilized. The criterion, condition, cause, consequence, and recommended corrective action for each audit issue should be included.

4.3 Quality of Audit Report

Only material that is backed up by audit evidence should be included in the internal audit report, which should be fact-based. The validity of the evidence will determine how accurate the report is. By reviewing draft reports with the appropriate level of management inside the audited organization, the accuracy of the report can be further improved. The report should be legible, understandable, uncomplicated, and concise.

The goal of the audit report is to confirm that the officials have taken the necessary remedial measures to improve MDA performance. The report should be written in a respectful, professional, and impartial manner. This would increase the report's acceptability and reduce the likelihood that the auditors will be seen as biased.

The standards promulgated by institute of internal auditors have mentioned accurate, objective, clear, concise, constructive, complete and timely as the quality of an audit report.

4.3.1 **Accurate**: Accurate reports are free from errors and distortions and are faithful to the underlying facts. Accuracy of the report contents creates confidence in the reports and encourages to implement recommendations.

4.3.2 **Objective**: Objectivity is a must in the audit profession. Audit reports should be fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances.

4.3.3 **Clear**: Clear reports are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information.

4.3.4 **Concise**: Concise reports are to the point and avoid unnecessary elaboration, superfluous details, redundancy, and wordiness. The auditor should focus on the message that is to be communicated through the report and draft the message or text of the report in a concise form.

4.3.5 **Constructive**: Internal audit reports should be constructive and help the organization and lead to improvement where needed.

4.3.6 **Complete**: Complete audit reports lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions.

4.3.7 **Timely**: Timely reports are opportune and expedient, depending on the significance of the issue, allowing taking appropriate corrective action. The reports should be issued by the date planned and mentioned in audit plan. Any delay requires justification and approval of the PAO.

4.4 Drafting Audit Report

Drafting audit report is the responsibility of the audit team.

Form 19 is the suggested format of the draft internal audit report that is presented to the auditee for discussion. It also contains additional space for management/auditee to provide their comments/views on the drafted matters. **Form 19** is, therefore, used in an exit meeting. The contents of the draft internal audit reports along with the sequence are to be in the following order:

4.4.1 **Executive summary:** The executive summary is the first section of the audit report and includes a brief overview of the office, project, and area of audit, audit objectives and scope, a summary of significant findings or key messages or auditee performance. It also includes a conclusion regarding the effectiveness of governance, risk management and control processes of the activity reviewed using a ratings of control effectiveness i.e., 'Satisfactory', 'Partially Satisfaction'**,** 'Needs Improvement', 'Unsatisfactory' and a list of high-risk recommendations.

> Internal auditors must develop an engagement conclusion that summarizes the engagement results relative to the engagement objectives and management's objectives. The engagement conclusion must summarize the internal auditors' professional judgment about the overall significance of the aggregated engagement findings.
>
> **Standard 14.5 Engagement Conclusions**

The rating scale indicating whether reasonable assurance exists regarding the effectiveness of controls is defined as follows:

Conclusion rating	**Description**
Satisfactory	The processes and controls that have been evaluated appear to be designed and implemented adequately, meaning they reasonably ensure that objectives will be met despite the existence of low risks.
Needs Minor Improvement	One or more findings were noted with an aggregated significance of low to medium risk that objectives will not be achieved.
Needs Significant Improvement	One or more findings were noted with an aggregated significance of medium to high risk that objectives will not be achieved.
Unsatisfactory	One or more findings were noted with an aggregated significance of high risk to very high risk that objectives will not be achieved.

Ref: IIA Audit Tool Determining Results of Internal Audit Services

4.4.2 **About auditee and audit**: Second section of the report provides introductory information on the auditee organization/project or area of audit, summary of findings and other relevant points, and audit objectives and scope to the users of the audit report. Brief of the introduction, audit objectives and scope mentioned in audit plan **Form 16** has to update and present here.

4.4.3 **Audit observation and its significance:** The internal audit report's primary body is found in the third part. As part of the audit program, each observation/finding included under the "5 Cs" on Form 18 is revised, updated, and presented independently.

> Internal auditors must prioritize each engagement finding based on its significance, using methodologies established by the chief audit executive.
>
> **Standard 14.3 Evaluation of Findings**

Significance and priority can be expressed through a rating or ranking which can be an effective communication tool for describing the significance of each finding and may assist management

with prioritizing its action plans. When determining the significance, internal auditors should consider:

- The impact and likelihood of the risk.
- The risk tolerance.
- Any additional factors important to the organization such as, policy issues, system flaws, inaccurate or unfair financial and performance reporting, issues involving amounts, losses or irregularities brought on by poor management, and other issues.

The finding-level significance captures the auditor's judgment on the severity of the finding and how urgently it needs management's attention. To determine the significance and priority of findings, it is critical to use following criteria (Risk Rating) which ensure consistent methodology.

Significance/Risk Rating	Definition
Low Risk	A low-priority finding that exposes the organization to minor issues or isolated inefficiencies with minimal impact. A process improvement is required e.g. No checklist in the top of the procurement file (PPR 2025, 60(3,4), Schedule 11).
Moderate Risk	A medium-priority finding with moderate risk exposures or control gaps e.g. moderate financial loss, negative local publicity, or immaterial fines or penalties) that could become high risk if not addressed. Timely management attention is required.
High Risk	A high-priority finding that exposes the organization to an unacceptable level of risk, one that could significantly impact the achievement of organizational objectives e.g. a high likelihood of a material financial misstatement or a violation of law or regulation or a serious operational breakdown. In these cases, immediate management attention is required.
Very High Risk	A top-priority finding that indicates a systemic control failure or a critical vulnerability with the potential for catastrophic impact. e.g. loss of life or patient safety incidents or severe findings on fraud and corruption or a catastrophic financial and data breach. The risk level exceeds the organization's risk appetite and requires instantaneous escalation to Senior Management and the PAO.

Ref: IIA Audit Tool Determining Results of Internal Audit Services

4.4.4 **Importance of Audit observations**: There should be some logic to the presentation of the audit observation. The order of the observations may be determined by the importance of the concerns, such as policy issues, system flaws, inaccurate or unfair financial and performance reporting, issues involving amounts, losses or irregularities brought on by poor management, and other issues. Additional audit observation information should include the amount involved and the observations' classification.

i. **Monetary involvement with observation:**
Audit observation may be related to the system deficiencies and non-functioning of the system in place. The deviation of the condition from the criterion leads to the situation of audit observation. In most cases of non-compliance and over payments and under realizations, losses/irregularity due to mismanagement, consequences can be measured in monetary terms. To this extent, a possible audit report has to quantify the consequences in monetary terms and

include them in the observation.

ii. **Classification of observations:**
There are various types of audit observations. The auditor must categorize audit observations based on causes and effects, failure of the system, and non-compliance. There are five categories for classifying audit observations: inadequacy of system, non-compliance, loss/ irregularity, recoverable, and miscellaneous. Senior management can learn more from the reporting of audit findings with classification, regardless of whether money is involved or not, and it also helps the follow-up process go more smoothly. The table below offers a generic framework for categorizing audit observations.

1	**Inadequacy of system**	Policy, legal provisions and internal control system in place may not be adequate to mitigate risk and enhance efficiency and effectiveness of operations and/or project management. An internal audit may observe the situation where the establishment of a new system or improvement in the system in place is needed. Such observations are classified as “Inadequacy of System”.
2	**Non-compliance**	This category includes audit findings that pertain to transactions, processes, and decisions that do not adhere to established legal requirements, manuals, standard operating procedures, other systems in place, contracts, and other criteria.
3	**Loss/irregularity**	This category includes any loss or irregularity to the organization discovered during an audit. If it is impossible to determine who is responsible for recovery yet the organization still experiences loss or irregularity, the observation falls under the category of "Loss/ irregularity". If a loss or irregularity can be recovered from a person or business, it is considered "recoverable."
4	**Recoverable**	Any money that was overpaid but not fully realized falls into this category. Any loss or irregularity to the auditee organization resulting from illegal conduct and non-compliance with contracts and agreed-upon processes of people and other organizations is also categorized as "Recoverable" if responsibility for payment by those parties can be demonstrated.
5	**Miscellaneous**	Observations which do not fall under any of the four categories are classified as Miscellaneous.

4.5 Escalation of Disagreement

If there is any disagreement with line management, Internal Audit will escalate the issue to senior management up to PAO. If the issue is not resolved, this will be escalated to the Finance Division.

4.6 Exit Meeting

With the auditee, a discussion of the draft audit report must be planned. The major purpose of the exit meeting is to confirm that the data in the draft report is accurate and comprehensive. Before the audit report is issued, this is the last opportunity for the audit team and auditee to communicate and discuss issues relating to the audit results. For documentation of the exit meeting, the audit team must prepare two copies of **Form 20**. One for the auditee and one for the audit file.

A draft copy of the report, incorporating the criteria, condition, cause, consequences, corrective action, conclusions and space for comments of the auditee should be provided to the appropriate level of management at an appropriate time prior to the exit meeting. In this way, the auditee/management is given the opportunity of studying the report and doing preparation prior to discussing it with the auditors.

Senior management may provide the audit team with new information and perspectives because it is not always possible to discuss all findings with them when the audit is being carried out. The auditor may need to review and evaluate fresh evidence. Positivity throughout this exercise will raise the possibility that the auditee will accept the reported issues.

4.7 Report Finalization

The audit team should consider the auditee's comments and any additional information obtained during the Exit Meeting. The team must update the data in the report's second component, which pertains to the auditee and audit. The third section of the report, which is the audit observation, needs more work. All five criteria - criterion, condition, cause, consequence, and corrective action - might need to be revised. During revisions, the auditor's positive disposition toward hearing the management's point of view and taking into account the issues the auditee faced should be expressed. Dropping some observations that are unimportant for reporting would be a wise move if senior management requested it and committed to future improvement.

The report finalization process has to be led at least by the Deputy Director of IAU/DIA. The process requires a review of the all working papers and the outcome of the exit meeting to make sure that the reported matters are substantiated by evidence. Internal audit reports are to be issued in the standard format.

4.8 Review and Issue of Audit Report

The audit report is issued by the Head of IAU/DIA's. It is also necessary for this procedure to review working papers to make sure that the reported matters are supported by evidence. While writing the report, the Head of the IAU/DIA should also take into account any improvements being made and the auditee's performance in the executive summary of the audit report that is based on observation and carefully constructed. A consistent format is necessary for the purpose, and a standard message must be included in the cover letter when releasing an audit report. The recommended format for a covering letter is **Form 21**. The formal audit report is to be issued to the Head of the MDA in a standard format.

Chapter 5 - Follow-Up of Audit Reports

5.1 Background

Reports on internal audits include suggestions for enhancing MDA's internal controls, risk management, and governance procedures. Some of the suggestions relate to specific transactions and call for recovery and regularization measures.

5.2 Follow-Up System

The IAU/DIA should adopt proper, prompt and adequate follow-up system on the implementation of management actions to resolve audit findings.

Internal auditors communicate the engagement results to the appropriate parties and monitor management's progress toward the implementation of recommendations or action plans.

Principle 15 Communicate Engagement Results and Monitor Action Plans

Internal auditors must confirm that management has implemented internal auditors' recommendations or management's action plans following an established methodology, which includes:
• Inquiring about progress on the implementation.
• Performing follow-up assessments using a risk-based approach.
• Updating the status of management's actions in a tracking system.
If management has not progressed in implementing the actions according to the established completion dates, internal auditors must obtain and document an explanation from management and discuss the issue with the chief audit executive. The chief audit executive is responsible for determining whether senior management, by delay or inaction, has accepted a risk that exceeds the risk tolerance.

Standard 15.2 Confirming the Implementation of Recommendations or Action Plans

5.3 Objectives of Follow-Up

Planning, execution, reporting, and follow-up are the four stages of the internal audit process. The HIA has a duty to monitor the implementation of the recommendations and conclusions of the audit. The following are the primary goals of creating and sustaining a follow-up system:

i. verify and report to senior management on the progress of the audit report in taking corrective action as recommended by the audit;
ii. remind the auditee to initiate corrective actions and inform its progress/update;
iii. realization of value that internal audit could add to the improvement of internal controls, risk management and governance process of MDA's;
iv. make sure that actions are taken against those who are responsible for mismanagement and are not following the legal and other provisions;
v. ensure that overpayment and/or under realizations are recovered;
vi. get feedback for self-assessment of the opinion, conclusion and recommendation of the audit.

5.4 Comments/Response on the Audit Findings

Observations of individual internal audit reports include criteria, conditions, cause of deviation from criteria, consequences, and corrective action or recommendations (5Cs). Discussions regarding the audit report should occur during the exit meeting. The IAU/DIA team will give the time to auditee if they request a review and consideration of the report in the event that they

do not fully concur with it. The auditee should provide their justifications within the stipulated period and time. The recommendations are not presented as binding legal decisions. Therefore, it is the auditee's responsibility to determine whether they agree with the audit recommendations. The auditee must send copies of the response to the HIA.

5.5 Review of the Comments/Responses

The auditee's comments/responses and supporting documentation are reviewed and examined by the auditor. The result of the review of individual recommendations may be any of the following:

i. Close recommendation as auditee has taken action as per the recommendation.
ii. Close recommendation as auditee disagrees on the recommendation and based on comments/responses, evidence and justification closing up of recommendation is appropriate.
iii. Keep recommendation open as auditee claims that the action has been taken but the evidence is missing and/or field visit and/or further examination, verifications are required to confirm.
iv. Keep recommendation open as auditee agrees but requires time to implement that.
v. Keep the recommendation open as the auditee did not comment on a particular recommendation.
vi. Keep recommendation open as auditee did not comment on whole of the report/ recommendations.
vii. Keep the recommendation open though the auditee disagrees with the recommendation, but comments/responses, evidence and justification are not convincing that accepting the risk of not implementing the recommendation is in favour of the organization.

5.6 Communication of the Review Decision

When a decision is made, the IAU/DIA should distribute the audit report to all concerned. When the Director of the IAU/DIA (HIA) is on leave, the Deputy Director of the IAU/DIA should sign the communication letter.

5.7 Database/Records of Follow-Up

Databases and follow-up records must be updated regularly by the IAU/DIA. All recommendations remain open in accordance with the decision that must be recorded in the database or follow-up records. The initial inclusion of recommendations in the database/follow-up records contains those recommendations on which the auditee's comments have already been taken into consideration. The Internal Audit Unit should notify the auditee of their obligation to keep a database of the recommendations they must implement and update each year in a letter.

The auditee must make a request and provide evidence that they have followed the suggestions. All persons who received a copy of the internal audit report should receive a copy of the request. The suggestion can then be closed for follow-up purposes when the IAU/DIA has completed the review, examination, and other tasks required to verify that the auditee has followed the advice. The IAU/DIA must inform everyone who received a copy of the Internal Audit Report of the follow-up results, whether they are closed or still open.

Database/records of follow-up have to update as per the decisions of closing of the recommendations. Each year the IAU/DIA has to prepare a new database that contains recommendations carried forward for follow-up. For recording recommendations of the current year new set of binding books and excel/Software databases have to use.

5.8 Follow-Up of Recorded Recommendations

The second part of the follow-up process begins once the choice regarding the auditee's answer has been made, information has been shared, and recommendations have been documented in a binding book/excel database. When a recommendation's implementation is finished or when it is no longer necessary to implement it, the auditee must submit a request together with supporting documentation to close the recommendations for further action. The IAU/DIA determines whether to close the recommendation or leave it open for further investigation after reviewing, verifying, and examining the comments and supporting documentation. The auditor checks, look over the records and other supporting materials provided by the auditee, and confirms that they validate their request. The audit procedure is quite important because there may be difficulties with the recommendations. Further, in some cases, it is quite subjective to judge if the recommendation is implemented substantially.

It takes approximately as much time and effort to assess whether the auditee has implemented the suggestions and policies that would address the deficiencies found as did the first audit. Internal audit teams may have to rely significantly on auditee comments, but they should add sample-based specific checks.

The audit team should maintain objectivity and not hold over ownership and attachment to the recommendation. Consideration of the auditee’s efforts to implement recommendations and commitment for improvement and non-occurrence of the same situation in future is another positive attitude of the auditor that is required while concluding if the recommendation is substantially implemented. Important point is to improve the operation’s effectiveness and efficiency therefore, if there are no signs of intentional wrongdoing and commitments are there for improvement a decision of closing recommendations for follow-up would be the best decision. A copy of the communication should be furnished to all who have received audit reports.

5.9 Disposal of Recorded Recommendations

The recommendations that had been carried out for more than three years underwent a fresh evaluation by the IAU/DIA. This reevaluation's purpose is to determine if it is worthwhile to leave those recommendations open for further action. Any recommendations that the department deems appropriate for closure should be reported for the Head of Internal Audit's approval. The final recommendation should have included justification and support, as well as a proposal for action against the individuals or organizations failing to carry out the recommendations. The database for the follow-up will be updated based on the decision. IAU/DIA will present proposal for disposal of recommendations in standard binding book/excel format.

5.10 Reports of Follow-Up Status

The IAU/DIA should prepare monthly follow-up reports that list the number of recommendations that were carried forward from the previous month, any new recommendations that were added, the number of recommendations that were closed during the month, and the remaining recommendations that were carried forward for the following month. The report should be in summary form but also contain other pertinent details like the cost associated with the suggestions and the name of the auditee in charge of carrying them out. The recommended format for the monthly follow-up report is **Form 22.** The PAO shall receive the monthly report no later than the first week of the following month. The IAU/DIA should look for opportunities to share the report at senior management meetings and other events so that auditees can discuss problems and the follow-up process can go along more quickly.

Chapter 6 - Documentation

6.1 Background

The planning phase of the internal audit process concludes with the release of the audit report. This internal audit manual offers a variety of recommendations for the planning, carrying out, and reporting stages of an audit. The audit manual includes common forms such as toolkits and matrix. Professional internal audit practice requires accurate documentation of each task accomplished, the development of toolkits, working papers, and evidence collections.

> Internal auditors must document information and evidence to support the engagement results. Internal auditors must retain engagement documentation according to relevant laws and/or regulations as well as policies and procedures of the internal audit function and the organization.
>
> **Standard 14.6 Engagement Documentation**

6.2 Objectives of Documentation

The audit team must gather and create numerous documents from diverse sources. The main objective of documentation is to make sure that all the records needed for the audit process are accessible and can be retrieved whenever necessary. Documentation supports the auditor report, aids the auditors in planning, carrying out, and managing the audit, and also offers evidence of how the audit was carried out.

6.3 Confidentiality

> Internal auditors must be aware of their responsibilities for protecting information and demonstrate respect for the confidentiality, privacy, and ownership of information acquired when performing internal audit services or as the result of professional relationships.
>
> **Standard 5.2 Protection of Information**

For the purpose of an audit, internal auditors have unrestricted access to the auditee's physical assets, including its people, systems, and data. All of the data received by auditors and the analysis of the audit team is solely for auditing purposes. One of the norms of ethics for internal auditors is confidentiality. One way to adhere to the ethics code is to have an appropriate documentation system.

6.3.1 **Using information**: The use and safeguarding of information that internal auditors obtain while doing their tasks should be done with caution. They shall not utilize any data gathered during the audit for any personal gain or in a way that would be against the law or the established procedure. Auditor responsibility for document protection necessitates a comprehensive documentation system.

6.3.2 **Custody**: All auditors are responsible for keeping audit files, documents and other evidence safe and making sure unauthorized access is prohibited.

6.4 Audit Files and Contents

The IAU/DIA must maintain numerous files and should have a mechanism in place for filing them. This has to improve in accordance with best practices, particularly the MDA filing

mechanism. This section discusses the two categories of audit files, i.e. current file and the permanent file.

6.4.1 **Permanent audit file**: Organizational charts, system notes, committee papers, research materials, past audit reports, and other pertinent information are all included in the permanent audit file. Even if it needs revisions on a yearly basis, information of a permanent nature is often gathered, created, and preserved in the Permanent audit file. Additionally, the IAU/DIA is required to update the 'Client /Auditee Office Profile ' whenever a substantial change occurs, but at least once a year.

Form 23 contains a list of the items/documents in the permanent audit file. Additionally, this will function as a file index.

6.4.2 **Current audit file**: It contains all working papers relevant to the year under audit, and it includes the audit plan, system notes and flowcharts, audit program, system evaluation, test results, records on control weaknesses, audit review notes, etc.

All documents that have been gathered, generated, and used as evidence must be managed individually for each audit assignment because it is a stand-alone exercise. The audit process begins with preparation, moves on to audit execution, and concludes with reporting of audit findings. The process of filing and documenting continues into the follow-up phase. All forms, relevant papers, and information/evidence must be documented and maintained in the correct order.

Form 24 is the standard format that index and provides information on what documents are kept in what order.

6.5 Indexing and Cross Referencing

Each document has an index number and is typically preserved in chronological sequence. The auditor not only gathers documents during the audit process but also creates new documents based on the examination of the documents and other evidence gathered. As a result, there is a connection between the documents in audit files. A reference is required to make it easier to identify the documents that are connected. Cross-referencing makes this process easier. For instance, the auditor has created three (**Form 12**) documents, all of which are based on the organizational structure document. In the index of those forms, there must be a cross reference specifying the organizational structure's index number.

6.6 Document Retention

6.6.1 **Document Retention:**

Final Audit Report: All final audit and consulting reports should be filed by the IAU/DIAs/DIAs for 10 years or as suggested by the GoB document retention policy.

Evidence collected on an audit engagement: It is crucial to take into account which evidence an internal audit needs to archive. If it is determined that evidence has to be included as part of the audit program documentation, this may be archived electronically or in binding book. Due to the need in connection with the External Quality Assurance evaluation, documents must be preserved for at least six (6) years in advance. To carry out their reviews, HIA may require more paperwork that is indicated in the audit program.
It is of importance that there exists an audit trail/link between audit programs, documentation of evidence and audit observation in the report.
Documents relevant to the internal audit department should be kept in a secure network drive for at least 6 years. These include:

i. Annual Audit Planning;

ii. Audit Committee Reports;
iii. Internal Audit Process;\ People's information relevant to audit and implementation of actions;
iv. General information relevant to audit and cannot be classified in above four categories.

6.6.2 Lessons Learned and Knowledge Transfer

Internal Auditing lesson learned and knowledge transfer should be the continuous process within the IAU/DIA and takes place in the following areas:

i. IA reviews feedback obtained from stakeholder satisfaction surveys to improve the audit process;
ii. IA documents in working paper contain good practice for controls in processes and ensure knowledge transfer to other similar units when reviewing similar processes;
iii. Risks identified during audits at the process level are systematically recorded on the MDA level to be considered in the Audit Risk Assessment (Planning Phase of IA);
iv. Audit reports and follow-up reports are reviewed for open points when the audit plan for the coming year is prepared;
v. Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development;
vi. All internal auditors should have at least 40 Continuous Professional Education (CPE) hours of training per year;
vii. All internal auditors are encouraged to develop and demonstrate competences. Internal Auditors may obtain professional credentials, such as the Certified Internal Auditor (CIA)/ Certified Information Systems Auditor (CISA) designation and other certifications and credentials. That would be the strength of career purview.

Chapter 7 - Quality Assurance and Improvement Program

7.1 Background

This program's goal is to offer a level of assurance that the audit work is carried out in compliance with the Internal Audit Charter and any other relevant policies and standards. Additionally, the Quality Assurance and Improvement Program (QA&IP) should offer a fair level of confidence that the IAU/DIA is managed effectively and efficiently, and that stakeholders believe it is improving the MDA operations and adding value.

7.2 Development and maintaining a Quality Assurance and Improvement Program

According to the above-mentioned guideline, the Head of IAU/DIA must prepare and maintain a Quality Assurance and Improvement Program (QA&IP) that addresses every aspect of internal

> The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function.
>
> **Standard 8.3 Quality**

auditing. Implementing procedures that are intended to give management of the MDA and the Audit Committee reasonable assurance that the IAU/DIA is operating as intended should be the responsibility of the Head of the IAU/DIA:

i. Performs following its Charter and Manual;
ii. Operates effectively and efficiently to add value to the MDA.

7.3 Both internal and external assessments

> The QAIP program includes two types of assessments:
> • External assessments.
> • Internal assessments.
>
> **Standard 8.3 Quality**

The quality assurance and improvement program must include both internal and external assessments and that mechanism shall ensure continuously enhancing of QA&IP.

7.4 Internal Assessments

Both ongoing and recurring internal evaluations should be part of the QA&IP. The entirety of the internal audit activity's job should be covered by these ongoing and periodic evaluations. Ongoing assessments are conducted through supervision of the work, involving:

i. Supervision of engagement by reviewer;
ii. Review of working papers;
iii. Internal Audit Process (IAP) in IA Manual;
iv. Feedback from customer survey on individual engagement;
v. Analysis of KPI and performance matrix/dashboard;
vi. Review of a report by the review committee.

The chief audit executive must establish a methodology for internal assessments, as described in Standard 8.3 Quality, that includes:
• Ongoing monitoring of the internal audit function's conformance with the Standards and progress toward performance objectives.
• Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with the Standards.
• Communication with the board and senior management about the results of internal assessments.

Standard 12.1 Internal Quality Assessment

Periodic reviews can be conducted through:

i. Annual audit client survey;
ii. Periodic assessment of working papers;
iii. Annual risk assessment for audit planning;
iv. Review of internal audit performance matrix;
v. Periodic performance reporting to Audit Committee.

7.5 External Assessments

External assessments should be carried out at least once five years by a qualified independent reviewer or review team from outside the MDA. The Head of the IAU/DIA should ascertain that the reviewer does not have a real or an apparent conflict of interest.
The IAU/DIA must rely on a formal, written report that expresses an opinion regarding its compliance with the International Standards for the Professional Practice of Internal Auditing and, where necessary, offer suggestions for improvement.

The chief audit executive must develop a plan for an external quality assessment and discuss the plan with the board. The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation.

Standard 8.4 External Quality Assessment

7.6 Reporting on the Quality Assurance and Improvement Program (QA&IP)

At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of the external quality assessments must be reported when completed. In both cases, such communications include:
• The internal audit function's conformance with the Standards and achievement of performance objectives.
• If applicable, compliance with laws and/or regulations relevant to internal auditing.
• If applicable, plans to address the internal audit function's deficiencies and opportunities for improvement.

Standard 8.3 Quality

The PAO and the Audit Committee should be informed of the findings of the IAU/DIA evaluation. A detailed action plan in response to the comments and suggestions made in the external assessment reports should be included with the reports. The Head of the IAU/DIA should take the proper follow-up measures to ensure that the action plans created, and suggestions mentioned in the QA&IP report are carried out promptly. Results of continued monitoring must be shared at least once per year.

Forms

There are in total 24 forms used in this manual. These are for guidance only. The forms can be reviewed, revised and updated as and when necessary, with the approval of the PAO after consultation with FD

.

Name of MDA: ……..
Internal Audit Unit
Form 1: Auditable Offices/Projects *(AIAP for the Year:…….)*

No.	Name of Offices /Projects	Person to be contacted	Contact number and E-mail
1			
2			
3			
4			
5			
…			
n			

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Notes:

- This list has to be prepared irrespective of risk of all cost centers (including Wing/Directorate etc.) as a comprehensive one;
- Audit Universe will be determined through organizing workshops, meetings with concerned officials, stakeholder consultation.
- This form will be updated every year by IAU/DIA.

Name of MDA: ……..
Internal Audit Unit
Form 2: Input from Senior Management *(AIAP for the Year: ……..)*

No.	Name of Offices /Projects	Please rank 1, 2 or 3 for each area of the audit. (Rank - 1 for must auditable, 2 for important and 3 for not important)			
		Financial Management	Procurement and Contract Management	Project and/or Operational Management	Other Issues (IT, Environment etc.)
1					
2					
3					
…					
n					

- Senior Management will provide rank of auditable offices that will help Internal Audit Unit (IAU/DIA) to prepare annual internal audit plan for the year.

Director/HIA/CAE
Internal Audit Unit

Notes:

- **Financial Management:** Budgeting, receiving proceeds, processing payments, recording the transactions, reporting to the senior management and donors, safeguarding documents and other activities related to financial management;
- **Procurement and Contract Management**: Need identification of goods, works and services; preparation of specification, cost estimate, and tender documents; tender invitation, tender evaluation and awarding of contract; monitoring the progress, verification of quantity and quality of goods, works and services, compliance with contract clauses and Payment; defect liability, warranty and afterwards services period, and other issues related to the procurement and Contract Management;
- **Project and/or Operational Management**: Identification of project and/or activities under the project, project progress and achievements against its objective and/or target, service delivery to beneficiaries, safeguarding and utilization of assets and equipment, human resources, and other issues related to the project and/or operational management;
- **Other Issues (IT, Environment etc.)**: There may be specific areas which are auditable in view of senior management. This column will be used to mention such issue(s) that warrant an audit.

Name of MDA: ……..
Internal Audit Unit
Form 3: Input from Line Management *(AIAP for the Year ……...)*

No.	Name of Offices /Projects	Please rank 1, 2 or 3 for each area of the audit (Rank - 1 for must auditable, 2 for important and 3 for not important)			
		Financial Management	**Procurement and Contract Management**	**Project and/or Operational Management**	**Other Issues (IT, Environment etc.)**
1					
2					
3					
…					
n					

- Line Management will provide rank of auditable offices that will help Internal Audit Unit (IAU/DIA) to prepare annual internal audit plan for the year.

Notes:

- **Financial Management:** Budgeting, receiving proceeds, processing payments, recording the transactions, reporting to the senior management and donors, safeguarding documents and other activities related to financial management;
- **Procurement and Contract Management**: Need identification of goods, works and services; preparation of specification, cost estimate, and tender documents; tender invitation, tender evaluation and awarding of contract; monitoring the progress, verification of quantity and quality of goods, works and services, compliance with contract clauses and Payment; defect liability, warranty and afterwards services period, and other issues related to the procurement and Contract Management;
- **Project and/or Operational Management**: Identification of project and/or activities under the project, project progress and achievements against its objective and/or target, service delivery to beneficiaries, safeguarding and utilization of assets and equipment, human resources, and other issues related to the project and/or operational management;
- **Other Issues (IT, Environment etc.)**: There may be specific areas which are auditable in view of senior management. This column will be used to mention such issue(s) that warrant an audit.

Director /HIA/CAE
Internal Audit Unit

Name of MDA: ……..
Internal Audit Unit
Form 4 : Input from Head of Auditee Office, Beneficiaries and Other Stakeholders (***AIAP for the Year:* ……..**)

No.	Name of Office /Project	**Rank 1, 2 or 3 for each area of the audit (**Rank - 1 for must auditable, 2 for important and 3 for not important**)**			
		Financial Management	**Procurement and Contract Management**	**Project and/or Operational Management**	**Other Issues (IT, Environment etc.)**
2					
3					
4					
5					
…					
n					

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Notes:

- IAU/DIA has to be completed this exercise by first week of July and retain all documents related to the input capturing exercise taken place;
- There is a need of preparing separate **Form 4** for workshop, discussion and meeting, questionnaire and public meeting;
- IAU/DIA should record information such as date, participants, venue, and facilitator of the workshops, and minutes capturing the detailed discussions including public meetings.

- **Financial Management:** Budgeting, receiving proceeds, processing payments, recording the transactions, reporting to the senior management and donors, safeguarding documents and other activities related to financial management;
- **Procurement and Contract Management**: Need identification of goods, works and services; preparation of specification, cost estimate, and tender documents; tender invitation, tender evaluation and awarding of contract; monitoring the progress, verification of quantity and quality of goods, works and services, compliance with contract clauses and Payment; defect liability, warranty and afterwards services period, and other issues related to the procurement and Contract Management;
- **Project and/or Operational Management**: Identification of project and/or activities under the project, project progress and achievements against its objective and/or target, service delivery to beneficiaries, safeguarding and utilization of assets and equipment, human resources, and other issues related to the project and/or operational management;
- **Other Issues (IT, Environment etc.)**: There may be specific areas which are auditable in view of senior management. This column will be used to mention such issue(s) that warrant an audit.

Name of MDA: ……..
Internal Audit Unit
Form 5: Internal Auditor Assessment of Broad Risk Associated with Auditable Area *(AIAP for the Year:……..)*

No.	Name of Office /Project	Auditable Area	Rank related to 11 considerable points (1, 2, or 3)												
			1	2	3	4	5	6	7	8	9	10	11	Total	Rank *
1															
2															
3															
4															
5															

* **Ranking:** If total score is: up to 11 = 1, from 12 to 22 = 2, and from 23 to 33 = 3 (Ref: RBIA Manual Part-2, Chapter – 1; 1.11.1)

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Notes:

- Director of IAU/DIA is responsible to lead this process of assessing the risk associated in the light of 11 points (Ref: RBIA Manual Part-2, Chapter – 1; 1.11.1) for each auditable area listed and updated in **Form 1**;
- DD,AD, Senior Auditors and Auditors are to be actively involved in the process of assessing the risk rank because benefits can be obtained through institutional memories and discussions;
- The 11 points are related to the broad risk. These risks related to the governance process, risk management and internal control of MDAs are very crucial in the risk assessment process. Thus, internal auditors putting serious efforts into the process is very critical.

Name of MDA: ……..

Internal Audit Unit

Form 6: Consolidated List of Auditable Areas with Ranking of Audit Needed *(AIAP for the Year:…….)*

No.	Name of Office /Project	Auditable Area	Ranks from various sources of inputs (1, 2 or 3)						
			Inputs from Senior Management (Form-2)	Inputs from Line Management (Form-3)	Inputs from Officials, Beneficiaries and Other Stakeholders (Form-4)				Rank of 11points (Form-5)
					Public Meeting	Workshop	Discussion & Meeting	Questionnaire	
1		Financial Management							
		Procurement and Contract Management							
		Project and/or Operational Management							
		Other Issues (IT, Environment etc.)							
2									
3									
4									
5									

Prepared by and date (Auditor/Sr. Auditor)

Verified by and date (AD/DD)

Approved by and date (HIA/CAE)

Notes:

- Office/Project should be updated as per **Form 1**;
- Information received and recorded in **Forms 2, 3, 4 and 5** are tabulated in this form.

Name of MDA: ……..
Internal Audit Unit
Form 7: Consolidated List of Auditable Areas with Risk Points *(AIAP for the Year:…….)*

No.	Name of Office/ Project	Auditable Area	Points based on ranking from various sources of inputs (Rank 1= 5, Rank 2= 3 Rank 3=1)							
			Inputs from Senior Management (Form-2)	Inputs from Line Management (Form-3)	Inputs from Officials, Beneficiaries and Other Stakeholders (Form-4)				Rank of 11points (Form-5)	Total
					Public Meeting	Workshop	Discussion & Meeting	Questionnaire		
1										
2										
3										
4										
5										

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Note:

- Information of **Form 6,** a list of auditable area and rank of risk showing the need of an internal audit, is the basis of this process.

Name of MDA: ……..

Internal Audit Unit

Form 8: Factoring the Risk Points of Auditable Areas ***(AIAP for the Year ……..)***

No.	Name of office/project	Auditable Area	Total risk points	Likelihood: Factors and Points			Impact: Factors and Points			Total of factored risk Points	Ranking as per total factored risk points
				Likelihood	Factor	Likelihood Risk points	Impact	Factor	Impact Risk points		
(1)	(2)	(3)	(4)	(5)	(6*)	(7= 4x6)	(8)	(9) **	(10= 4x9)	(11=7+10)	(12)
1											
2											
3											
4											
5											
6											
7											

* Factors for Likelihood: Most likely 1, Likely 0.80, and less likely 0.25

** Factors for Impact: High 1, Significant 0.80, and Low 0.25

Prepared by and date (Auditor/Sr. Auditor)

Verified by and date (AD/DD)

Approved by and date (HIA/CAE)

Notes:

- Auditable areas and total risk points before using the factor are to be taken from **Form 7;**
- Internal audit team seat to discuss and use their experience and professional judgement in assessing **"Likelihood"** and also the **"Impact"** of risk associated with each auditable issue;
- Based on the likelihood and impact, factors have to assign for each auditable area;
- Likelihood risk points have to calculate by multiplying total risk points by its factors;
- Impact risk points have to calculate by multiplying total risk points by its factors;
- Total of factored Risk Points are the summation of likelihood risk points and impact risk points;
- Based on total of factored risk points auditable issues/areas are ranked for priority of audit.

Name of MDA: ……..
Internal Audit Unit
Form 8 A: Consolidated Risk Points of all Areas *(AIAP for the Year…….)*

No.	Name of office/project	Risk Points				
		Financial Management	Procurement and Contract Management	Project and/or Operational Management	Other Issues (IT, Environment etc.)	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7=3+4+5+6)
1						
2						
3						
4						
5						

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Notes:

- Consolidated risk points are calculated to rank on the basis of all auditable areas, Financial Management, Procurement and Contract Management, and Project Management;
- This approach is fruitful for IAU/DIA to gain a better understanding of all auditable areas (Financial Management, Procurement and Contract Administration, and Project Management);
- This approach allows to cover all auditable areas on the basis of total risk associated with auditable offices.

Name of MDA: ……..

Internal Audit Unit

Form 9: Guideline for Calculation of Working Days Available for Internal Audit *(AIAP for the Year:……..)*

No.	Position	Number of staff	Working days	Leave days	Working days available	Working days for follow-up and managerial work	Working days available for Audit Execution	Total available Working days
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6 = 4 - 5)**	**(7)**	**(8= 6-7)**	**(9=3x8)**
1	Director/HIA/ CAE	1	200	15	185	45	140	140
2	Deputy/ Asst. Director/	1	200	15	185	45	140	140
3	Senior Auditor/ Auditor	2	200	15	185	20	165	330

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Name of MDA: ……..

Internal Audit Unit

Form 10: Risk-Based Rank of Auditable Issues and Working Days Allocation *(AIAP for the Year:……...)*

Rank	Offices /Project	Auditable Area	Scope of Audit (Period)	Available working days		Working days for the audit		Balance working days	
				Deputy/Asst. Director	Senior Auditor/ Auditor	Deputy/Asst. Director	Senior Auditor/ Auditor	Deputy/Asst. Director	Senior Auditor/Auditor
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9=5-7)**	**(10= 6-8)**
1									
2									
3									
4									
5									

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Name of MDA: ……..
Internal Audit Unit
Form 11: Risk-Based Annual Internal Audit Plan of the Year (20…..) *(AIAP for the Year……)*

1.1. Purpose of the annual internal audit plan

This annual internal audit plan has been prepared to guide internal audit activity of IAU/DIA in the year (20....). Approval of this plan by the PAO, further strengthen the purpose, authority and responsibility of IAU/DIA as mentioned in the internal audit charter.

1.2. Risk assessment and preparation of annual internal audit plan

The internal audit manual has been followed to assess risk associated with auditable areas of various projects and operational offices areas under MDA while preparing an annual internal audit plan. All procedures are documented using standard forms, which are part and partial of the internal audit manual. Risk assessment procedures have channeled inputs of MDA Head, project and operational managers, concern officials and other stakeholders and beneficiaries. IAU/DIA further refined the inputs and Information by using risk factors related to auditable areas.

1.3. Essence of the plan

The risk assessment process identified (...) potential audits. Based on the available audit resources, working days of audit team (...) audits are proposed to undertake in the year (20...). Out of that (...) are related to the projects under MDA and (...) are related to the offices' operational activities of MDA. Based on the areas (...) are related to financial management, (...) are to Procurement and Contract Management and (...) are related to the project and operational management, likewise (5) are other issues identified through the risk assessment process.

2. Client Profile

2.1. Overview

……
……

2.2. Objective

……

……

2.3. Budget of the MDA Annual Work plan and Budget Year…..

The following table provides brief information on the budget allocated for projects and operational areas:

No.	Offices /Projects	Estimated Budget and Expenditure
1		
2		
3		
4		
5		
	TOTAL	

3. Purpose, Authority and Responsibility of the Internal Audit Unit

3.1. Purpose

The IAU/DIA is to provide independent, objective, assurance services to add value and improve the operations of MDA. It helps the MDA accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. The IAU/DIA is guided by a value driven philosophy of partnering with other departmental units and development partners to continuously improve the operations of the projects and activities under MDA.

3.2. Authority

The internal auditor is authorized to enter and remain on the auditee's premises during working hours, entitled to full access to documents, reports or properties belongings to MDA's and may examine, make copies or extract documents from any report. The internal auditors of IAU/DIA will enjoy free access and support from the auditees in discharging internal audit responsibilities. Any staff not providing information, access and other support required for internal audit may be subject to disciplinary action. The authority of the internal auditor, therefore has unrestricted and timely access and support for audit purposes.

3.3. Responsibility

The chief of the IAU/DIA and other auditors are responsible for providing independent, objective assurance services to the MDA. The responsibility of the internal audit is to assess the adequacy and effectiveness of risk management, controls and governance process and recommend improvement. Helping in improving operations and in achievement of objectives of MDA are central to the responsibility.

4. Objectives of Audit

The internal audit has the objective of providing assurance services to senior management, project and operational management and other stakeholders on the implementation of projects and activities for the purpose they are intended to. Improve operational efficiencies and risk management, governance process and internal controls system at MDA, projects and offices activities under MDA through evaluation and offer recommendation for improvement is in center of internal audit objective. Internal audit activity with a focus on the following has an objective to help MDA achieve its objectives.

4.1. Governance related

i. Promoting appropriate ethics and values within the organization;
ii. Ensuring effective organizational performance management and accountability;
iii. Communicating risk and control information to appropriate areas of the organization; and
iv. Coordinating the activities of and communicating information among the MDA, OCAG and internal auditors, and management.

4.2. Risk management related

v. Organizational objectives support and align with the organization's mission;
vi. Significant risks are identified and assessed;
vii. Appropriate risk responses are selected that align risks with the organization's risk appetite; and
viii. Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

4.3. Internal Control related:

i. Reliability and integrity of financial and operational information;
ii. Effectiveness and efficiency of operations and programs;
iii. Safeguarding of assets; and
iv. Compliance with laws, regulations, policies, procedures, and contracts.

4.4. Fraud related:

The IAU/DIA has the objective of also evaluating the potential for the occurrence of fraud and how the organization manages fraud risk.

5. Audit schedule and Audit team

The IAU/DIA is responsible to cover all activities under MDA and provide audit/assurance services. To best utilization of limited internal audit resources and focus on the areas of high risks, the audit scope has been determined based on the risk assessed that is in line with the risk-based audit strategy. Based on the assessed risk and available internal audit resources are allocated for [number]audits. With [number] staffs the IAU/DIA can audit only [number] month's transactions from [dd/mm/yyyy] to [dd/mm/yyyy] of auditable offices and can audit

only[number] out of [number].

No.	Offices /Projects	Areas and Scope of Audit	Audit Schedule		Audit Team and (working days)	
			Starting date	Reporting date	Auditor	Auditor
1						
2						
3						
4						
5						

While preparing individual internal audit plans for audits of those areas, the IAU/DIA will have defined the objective of each audit. The nature of the areas under audit and objective will determine the scope of each audit. It may be limited to some specific activities such as annual work plan and budget preparation, design of construction work, procurement of goods, work and services, and quarterly financial reporting. It may cover related activities for one or two quarters of the whole year or in some instances internal audit may need to the extent its scope beyond a financial year. Scope of audit beyond a financial year is not normal for financial transactions but may be for project management and procurement related issues/areas. If the case is related the fraudulent activities and corruption, an internal audit has to expand its scope for longer periods as required. In this way the audit scope may be the part of the organization, programme, activity or function to be examined.

6. Methodology of Audit Execution

It is the auditable area and audit program under the individual audit plan/program and objective of audit that determines the methodology of audit execution. The objective of the individual audit plan/program will have identified the need for a specific audit execution methodology. Audit methodology, therefore, may include the evaluation of internal control and risk management system and may require conducting substantive or detailed tests. The substantive test procedure will include conducting examination, verification, evaluation, analysis, field visit and observation to meet the objectives of the audit plan/ program. Audit execution will be nothing more or less than putting an individual internal audit plans into action.

Identifying, analyzing, evaluating and documenting sufficient information to achieve the objective of an individual audit plan/program will be at the center of the audit execution process. Physical observation, interviewing, questionnaires, document review, and data analysis will

be the main techniques used in the audit execution process.

7. Outsourcing/ Co-Sourcing of Experts (if any)

IAU/DIA lacks the expertise in the technical areas. There is a need for outsourcing/co-sourcing expert's services for following audits. This will cost BDT ….. Outsourcing/co-sourcing of experts will not only support to the achievement of audit objectives of individual audits but also enhance the capacity of IAU/DIA in the related field. IAU/DIA also plan to involve experts working within the MDA for specific input and involvement in the audit.

No.	Office /Project	Issues/areas	Types of experts required
1			
2			
3			

8. Risk assessment and Annual audit planning.

Risk assessment and preparation of risk-based annual audit plan is one of the main annual activities of IAU/DIA. The process for the preparation of the annual audit plan for the year will run for two months, July and August. This will be a comprehensive consulting; evaluation exercise and Inputs and information should collect through discussion/meeting/questionnaire/workshop etc. with management and auditee that will channel concerns of senior management, project and operational managers, other officials, development partners, beneficiaries, and other stake holders in form of risk. IAU/DIA will process all inputs and information received, review its own records and use professional judgement to assess the risk and finalize the list of auditable areas that can be audited as per available internal audit resources/working days.

9. Approval Request

The IAU/DIA must submit an annual internal audit plan to the PAO for review and approval.

10. Approval of Annual Internal Audit Plan

The PAO and MDA Audit Committee reviews and approves the annual audit plan for the IAU/DIA of MDA to implement.

Name of MDA: ……
Internal Audit Unit
Form 12: Understanding of the Business

Name of Office/Project:
Audit area:
Source of Understanding: Organizational structure of Office/Project

- ---
- ---
- ---

Notes:

- This form has to be prepared for each source of information identified by the audit team;
- This form should be used for recording the information retrieved from the documentation of annual audit plan preparation;
- Summarization of the understanding gained, and documentation of the text is commonly used method of understanding process;
  - Organizational structure
  - Business process
  - Workflow
  - Summary descriptions
- Audit team could choose other ways of recording as well, so as to document information in concise form, which is clear, complete and understandable;
- It is important to bear in mind that while recording information focus is on risky issues. Those issues the audit team consider worth further consideration in the risk assessment process should be documented;
- More than one source of information may indicate a common risk.

Prepared by and date (Auditor/Sr. Auditor)	Verified by and date (AD/DD)	Approved by and date (HIA/CAE)

Name of MDA: ……..
Internal Audit Unit
Form 13: Analysis of Key Processes

Name of Office/Project:
Audit area:
Key processes:

No	Components of Key Process	Results of Analysis
1		
2		
3		
4		
5		
6		
7		
8		
9		

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Notes:

- Audit team has to complete analysis of selected key processes and record the result of the analysis as separate document for each process;
- This analysis is another source of information, first one is **Form 12**, which can help the audit team in identifying risks associated with the area of audit.

Name of MDA: ……..
Internal Audit Unit
Form 14: Inherent Risk Description and Ranks

Name of Office/Project:
Audit Area:

No.	Risk Description	Likelihood	Impact	Inherent Risk Rank
Objective, Structure and Human Resources Management				
1				
2				
3				
4				
5				
6				
7				

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Name of MDA: ……..
Internal Audit Unit
Form 15: Residual Risk Ranks and Audit Program

Name of Office/Project:
Audit area:

No.	Risk description	Rank of Inherent risk	Control effectiveness	Residual risk ranks	Audit program
1					
2					
3					
4					
5					

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Notes:

- Audit team may identify new issues to be audited during audit execution. They have to be prepared additional audit programs in this format and get approval in time and examine new issues;
- If more than one auditor is assigned for one audit, the Deputy Director of IAU/DIA has to be assigned audit work to them;
- Some examples of internal control questionnaires are provided in **Appendix 7;**
- Some examples of internal audit programs are provided in **Appendix 8.**

Name of MDA: ……..
Internal Audit Unit
Form 16: Internal Audit Execution Plan

Name of Office/Project:
Audit area:

1. **Introduction:**
2. **Audit Objectives:**
3. **Audit Scope:**
4. **Detail audit program: Form 15,** which is integral part of this plan, provides details of audit execution.
5. **Timing of the audit:** This audit is scheduled to start on [dd/mm/yyyy]. All tests, verifications, and field observation will be completed by [dd/mm/yyyy]and preliminary report will be issued by [dd/mm/yyyy].
6. **Audit resources:** (Mr./Ms. ….) will lead this audit. Auditors (Mr. / Ms.....) and (Mr. / Ms.....) will be in audit team. As there are some technical aspects involved in this audit, experts of the area (Mr. /Ms.) will be supporting for the execution of this audit and preparing the audit report as well on technical aspects.
7. **Working days:** The working days of audit manager (Deputy Director/ Asst. Director) and auditors were estimated during the preparation of the annual internal audit plan. The estimation of working days to execute this audit plan/program along with the previous estimate, for example, is tabled below:

No.	Position	As per annual plan	Estimated working days as per Audit steps			
			Planning	Execution	Reporting	Total
1						
2						
3						

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Name of MDA: ……..
Internal Audit Unit
Form 17: Entry Meeting

Name and Address of Office/Project:
Area of Audit:

No.	Description	Information
1		
2		
3		

1. Participants of Entry Meeting

No.	Name	Position	Organization	Email	Phone	Signature
1						
2						
3						

2. Information shared by Audit Team Leader

No.	Topics	Matters shared and discussed
1		
2		
3		

3. Information Shared by Head of the Auditee

No.	Topics	Matters shared and discussed.
1		
2		
3		

4. Logistic Arrangement

The logistic arrangement for audit such as workplace, Internet connection, field visit, and physical verification.

5. Coordinator(s) Assigned

The audit team requires prompt access to the documents, personnel and property. The auditee has to assign coordinator(s) to facilitate prompt access, logistic arrangement and other support required during audit execution and report drafting.

No	Name and position of Coordinator	Phone number and email	Responsible for
1			
2			
3			

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Name of MDA: ……..
Internal Audit Unit
Form 18: Audit Execution-Working Paper

Audit Program	
Auditor	
Criterion	
Condition	
Cause	
Consequence (s)	
Corrective action	
Review from supervisor	

Name of MDA: ……..
Internal Audit Unit
Form 19: Internal Audit Report
Part-One: Executive Summary

- Introduction
- Objectives
- Scope
- Significant positive aspects of activity under review, limitations, challenges and appreciation of cooperation.
- A summary of significant findings or key messages (including significant recommendations)
- Conclusion for the activity under review/processes.

Part-Two: Background

1. Introduction: (Updated version of Introduction recorded in **Form 16**)
2. Audit Objectives:
(Updated version of Audit objectives recorded in **Form 16**)
3. Scope of Audit
(Updated version of Audit scope recorded in **Form 16**)
4. Approach and Methodology
5. Limitations/ Challenges

Part-Three: Audit Findings/Observations

Heading	Description
Finding/Observation 1,2,3……..	
Risk Rating (Priority)*	
Condition	
Criteria	
Cause	
Consequence/impact	
Corrective action/Recommendations	
Classification of observation **	
Management Action Plan/Response	
Responsible Person for implementation	
Due date	

Ref: Communicating Final Engagement Results IIA Audit Tools:

***4.4.3 Audit observation and its significance**

****4.4.4 Audit observations**

Part – Four : Annexures

Name of MDA: ……..
Internal Audit Unit
Form 20: Exit Meeting

1. General Information:

No.	Description	Information
1	Name and location of office/project	
2	Audit area	
3	Location of exit meeting	
4	Date of draft handed over	
5	Date of exit meeting	
6	Numbers of audit observation	
7	Numbers of audit observations with amount involved	
8	The amount included in the draft report	

2. Participants of Exit Meeting:

No.	Name	Position	Organization	Email	Phone	Signature
1						
2						
3						
4						
5						

3. Concerns, views and suggestions from auditee to build a better relationship between audit and auditee, so as to enhance the likelihood of an internal audit adding value for the improvement of auditee operations and finally achievement of objectives.

Name of MDA: ……..
Internal Audit Unit
Form 21: Memo for Issuing Internal Audit Report

Date:

To .....
Title of Head of the Office/Project
…… Name of Office/Project
……..(Address)

I am pleased to forward the internal audit report of .....Office/Project. The audit was conducted during (……month and year 20…) We have conducted the audit as per the internal audit manual of MDA that requires, we plan and conduct the audit in line with good practices of internal auditing.

The findings of the audit were discussed with you/and or your office on (date .....). Comments and evidence received during the exit meeting and all evidence taken into account. This report contains (....) observations out of that (...) observations have monetary involvement. We have offered recommendations for your action that will lead to the improvement of the office/project management.

I, hereby, request your response on the report by 7 working days along with your plan for implementation of recommendations.

Director/HIA/CAE
Internal Audit Unit

CC:
- PAO
- Head of MDA

Name of MDA: ……..
Internal Audit Unit
Form 22: Follow-up Report of the Month of……

Summary of follow-up Status

No.	Name of the Office/ Auditee responsible for implementation of recommendations	Numbers of Recommendations and Amount									
		Recommendations carried forward from previous month		Additional recommendations of this month		Total		Recommendations resolved during this month		Recommendations carried forward for next month	
		Number	Amount (Tk) (if any)	Number	Amount (Tk) (if any)	Number	Amount (Tk) (if any)	Number	Amount (Tk) (if any)	Number	Amount (Tk) (if any)
1											
2											
3											

Note: The recommendations resolved during this month include the numbers of recommendations and the amount ….(Tk) (if any) based on the recommendations carried forward from previous month and additional recommendations of this month.

Part two: Amount involved as per classification:

No.	Classification of Observation	Opening balance	As per reports issued during the month	Total	Closed during the month	Closing Balance
1	Inadequacy of system					
2	Non-compliance					
3	Loss/ irregularity					
4	Recoverable					
5	Miscellaneous					

Some of the critical audit recommendations implemented and pending for implement are briefly summarized below.

1.
2.

Prepared by and date
(Auditor/Sr. Auditor)

Verified by and date
(AD/DD)

Approved by and date
(HIA/CAE)

Name of MDA: ……..
Internal Audit Unit
Form 23: Permanent File

Name of Office/Project:

No.	Documents/Information	Number of pages
1.	Policy documents	
2.	Laws/Rules - legal framework	
3.	Manuals	
4.	Project documents	
5.	Agreement of loan/grant	
6.	Target and achievement	
7.	Organizational structure of the project/operation.	
8.	Major audit findings of previous years, which were incorporated into the Annual Report	
9.	Other relevant documents and statements, useful for more than one Fiscal Year	
10.	Audit Universe: Auditable Offices/Projects **(Form 1)**	
11.	Internal Auditors' assessment of broad risk associated with auditable area **(Form 5**)	
12.	Updated Client profile	

Name of MDA: ……..
Internal Audit Unit
Form 24: Current File

Name of the Office/Project:

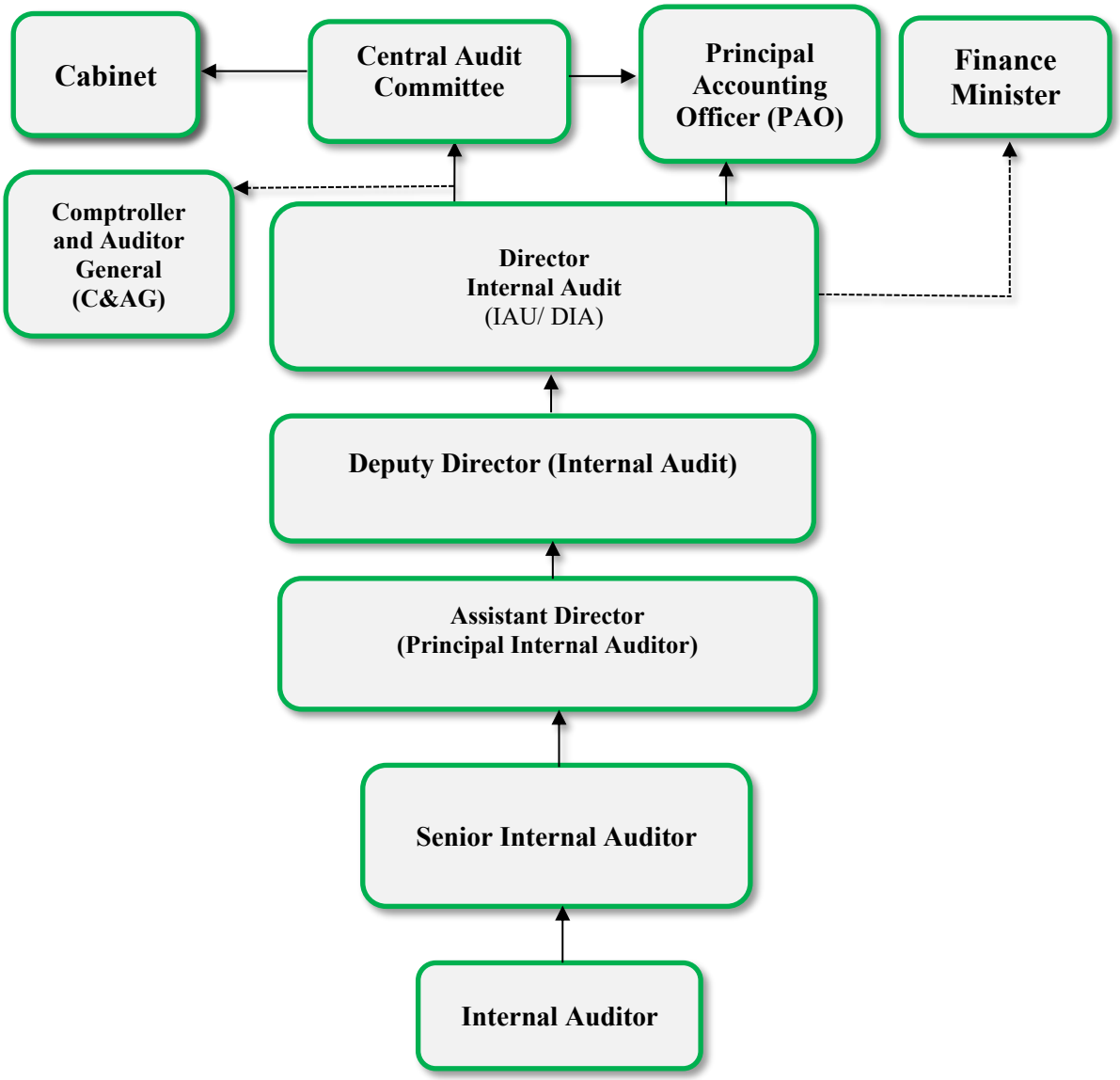
No.	Documents	Number of pages	Cross reference		
Planning stage					
1	Engagement letter				
2	Annual internal audit plan (**Form 11)**				
3	Understanding of the business (**Form 12**)				
4	Analysis of key business processes				
5	Analysis of key business processes completed (**Form 13**)				
6	Inherent risk assessment				
7	Inherent risk assessment matrix				
8	Inherent risk description and rank (**Form 14)**				
9	Assessment of internal control and assessment of residual risk				
10	Internal control and residual risk assessment matrix				
11	Residual risk ranks and audit program (**Form 15)**				
12	Preparation and approval of internal audit plan				
13	Internal audit plan (**Form 16)**				
14	All other planning forms				
Audit execution stage					
15	Entry Meeting (**Form 17)**				
16	Documents collected during audit execution				
17	Documents collected/developed related to the specific audit program				
18	Audit execution-working paper (**Form 18)**				

No.	Documents	Number of pages	Cross reference		
Reporting stage					
19	Internal Audit Report (**Form 19)**				
20	Exit Meeting (**Form 20)**				
21	Documents received during exit meeting				
22	Documents developed after exit meeting				
23	Memo issuing Internal Audit Report (**Form 21)**				
Follow - up stage					
24	Comments and evidence submitted by the auditee				
25	Follow-up request and evidence submitted by auditee on recommendations open for a follow-up				
Soft copies of information - related to all stages (if any)					
26	Soft copies (information saved in the computer) computer, file path and name				

Appendices

Appendix 1: Duties and Responsibilities of the Internal Audit Unit

Indicative high-level structure for Central Internal Audit Unit:



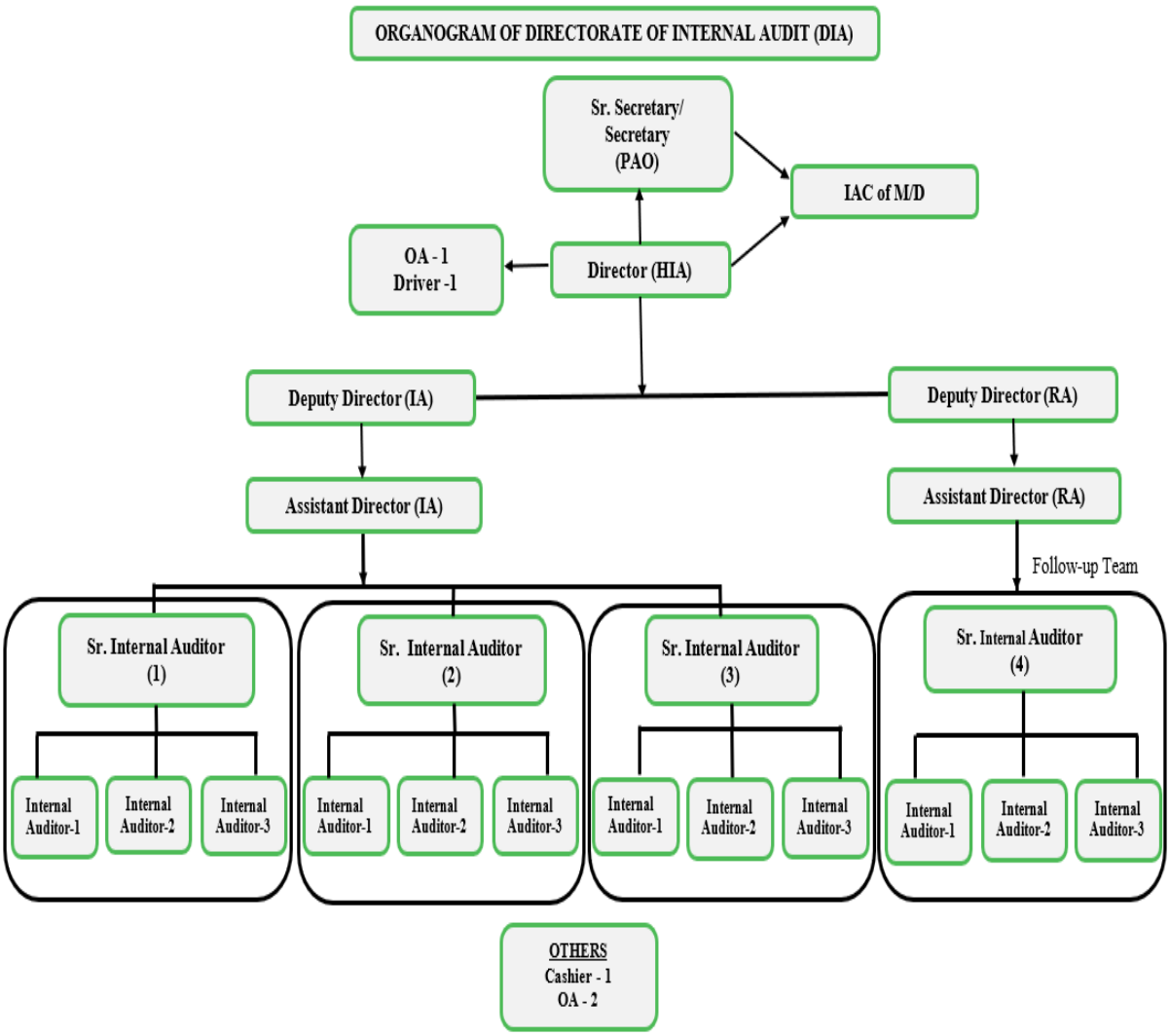
Duties and Responsibilities of the Internal Audit Unit (IAU)/ Directorate of Internal Audit (DIA):

Job descriptions for the Head of Internal Audit and other staff to be derived from the IAU/DIA and service within the overall civil service structure:

1. Reviewing the compliance with the existing government financial regulations, instructions, and procedures.
2. Evaluating the effectiveness of the Internal Control Systems.
3. Appraising the economy and effectiveness with which financial and other resources are being used.
4. Reviewing the reliability and integrity of record keeping and reporting on financial and operating information systems.
5. Reviewing Annual Appropriation Accounts, Fund Accounts and other accounting statements to ensure that accurate accounts are prepared to the required standards.

6. Investigation of irregularities identified or reported, and report on cases leading to wastage of resources or cases of general misuse or misappropriation of financial resources and Government property.
7. Ensure that revenue and other receipts due to the government are collected promptly, banked immediately and fully accounted for.
8. Carry out spot checks on areas such as revenue collection points, projects, and supply and delivery sites to ensure compliance with procedures and regulations.
9. Review budgetary controls on issuance of allotments, commitments, expenditures, revenue collection, and accounting from time to time.
10. Review the budgetary reallocation process to ensure legislative and administrative compliance and
11. Ensure that government physical assets are appropriately recorded and are kept in safe custody.

Ministry/Division/Agency Internal Audit Unit (IAU)/ Directorate of Internal Audit (DIA) Organogram:



M/D : Ministry/ Division
PAO : Principal Accounting Officer
IAC : Internal Audit Committee (consist of five members)
DIA : Directorate of Internal Audit *(a directorate will be established in each M/D directly under PAO consists of 11 or 20 or 29 or 39 or 58 etc. not under any Wing/Branch/Section).*

Dir : Director (HIA-Head of Internal Audit)
DD : Deputy Director (Deputy of HIA)
AD : Assistant Director [HIAT-Head of Internal Audit (2 or 3) Teams]
RA : Risk Assessment
SA : Senior Auditor [TL-Team Leader of Internal Audit Team (IAT)]
OA : Office Assistant

Minimum in a DIA:11 (Dir1+DD1+AD1+SA2+IA6);
Moderate: 20 (Dir1+DD1+AD2+SA4+IA12); **29** (Dir1+DD1+AD3+SA6+IA18); **Highest 39** (Dir1+DD2+AD4+SA8+IA24); **58** (Dir1+DD3+AD6+SA12+IA36)
Recommendation: For each Division 20 and for each Ministry 39
Details will be included in Recruitment Rules.

Note: This is an indicative organizational structure of an IAU/ DIA. The number of different posts of the IAU/ DIA should be on the basis of size, expenditure and functions of the MDA.

Duties and Responsibilities of the Internal Audit Units (IAU/DIA)/ Directorate of Internal Audit (DIA) in MDAs

i. Functionally, the Head of the IAU/DIA will send copies of all audit reports and their associated management action plans to the Principal Accounting Officer and will submit a quarterly administrative report. The administrative report will cover at minimum the following subjects:
    a) The scope of consulting services agreed upon by the management;
    b) The requests for service received;
    c) The consulting services provided;
    d) A comparison of audits and consulting services performed compared to the annual audit activity plan;
    e) A summary of the audits performed and their results; and,
    f) The status of management action plans arising from previous audits.

ii. Administratively, the selected Department's IAU/DIA will report to the Director of Internal Audit, Finance Division. Administrative reporting includes responsibilities for:
    a) The appointment and termination of the Head and other staff of the IAU/DIA;
    b) Approval of the annual risk assessment and audit activity plan;
    c) Ensuring adequate audit coverage through the multi-year audit activity plan of MDA risks;
    d) Approving the annual internal audit business plan and operating budget;
    e) Evaluating the annual performance of the IAU/DIA;
    f) Providing guidance and oversight to the IAU/DIA, ensuring GoB internal audit policies are followed, and ensuring the quality of internal audit work;
    g) Summarizing the results of audits and reporting unresolved risks to the Audit Committee.

Appendix 2: Terms of References (TOR) of Audit Committee for MDA

1. Purpose

The Audit Committee assists the Principal Accounting Officer (PAO) by offering independent objective advice (advisory service) and assurance on the adequacy and effectiveness of the MDA's arrangements in the areas of risk management, internal control, and accountability practices. It also provides structured oversight of the MDA's governance.

Core oversight areas:

- Ethics and conduct
- Risk management and internal controls
- Financial reporting integrity
- Internal and external audit effectiveness
- Compliance with laws and regulations
- Anti-fraud controls for the prevention and deterrence of fraud

2. Authority and Independence

The Committee is accountable to the PAO and acts independently of MDA management. It has authority to:

- Access all records, information, and personnel necessary to fulfil its responsibilities.
- Commission investigations into any matter within its scope.
- Meet privately with the Head of Internal Audit (HIA) and with external auditors (OCAG) - separately and without management present.
- Resolve disagreements between management and auditors on findings, scope, or access.
- Recommend external advisors or experts as needed.

3. Composition

No	Designation	Position
1	Ex-Additional Secretary or above/ Ex-Director General / Ex-Chief Engineer of the MDA concerned	Chairperson
2	A retired officer from the Office of the Comptroller and Auditor General (Director level or above).	Member
3	A representative from the Business Faculty of a Public University (not below the rank of Associate Professor).	Member
4	A representative from the Finance Division (not below the rank of Deputy Secretary).	Member
5	A representative from the Line Ministry (not below the rank of Deputy Secretary).	Member Secretary

The Head of MDA shall be a permanent invitee to Committee meetings but is not a voting member.

The Chairperson must possess sound communication and strong leadership skills.

- Membership and independence status shall be disclosed in the MDA's annual report.
- The PAO shall initiate replacement of any member whose independence becomes impaired.

4. The following roles and responsibilities of the IAC will be mentioned in the letter of appointment:

- Review the risk management framework and the MDA's risk register; assess whether key risks are being identified and managed.
- Review the significant accounting and reporting issues, and understand their impact on the financial statements.
- Review significant audit findings, recommendations, and management responses; follow-up implementation of action plans.
- Review significant control weaknesses reported by internal auditors and management responses.
- Report to the PAO after each meeting on activities, key findings, and recommendations.

5. Details Roles and Responsibilities of IAC

5.1 Ethics and Governance

- Review the MDA's code of conduct and ethics policies and the mechanisms for monitoring compliance.
- Advise the PAO on the adequacy of the MDA's governance arrangements and performance accountability processes.

5.2 Risk Management

- Review the risk management framework and the MDA's risk register; assess whether key risks are being identified and managed.
- Provide feedback to the PAO on the adequacy of risk management and recommend improvements.

5.3 Internal Control

- Review the adequacy of internal controls — financial, compliance, operational, and IT security.
- Review significant control weaknesses reported by internal or external auditors and management responses.

5.4 Financial Reporting

- Review the significant accounting and reporting issues, and understand their impact on the financial statements.
- Obtain assurance from the management with respect to the accuracy of the financial statements;

5.5 Internal Audit

- Review the Internal Audit Charter, budget, activities, staffing, skills and organizational structure of the Internal Audit; evaluate whether resources are sufficient to fulfil the mandate.
- Review and approve the annual risk-based audit plan (RBAAP); ensure it covers key risks.
- Concur on the appointment, replacement, or dismissal of the Head of Internal Audit (HIA).
- Receive the HIA's annual written confirmation of the internal audit's independence; approve any safeguards if independence is impaired.
- Review significant audit findings, recommendations, and management responses; monitor implementation of action plans.
- Ensure the internal audit has a Quality Assurance and Improvement Programme (QA&IP); review its results annually.
- Ensure an External Quality Assessment of the internal audit is conducted at least every five years.
- Resolve any restrictions on the internal audit's scope, access, or resources.
- Review internal audit’s performance against agreed KPIs and assess the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' Global Internal Audit Standards (GIAS 2024).

5.6 External Audit

- Review the findings and recommendations by external auditor, such as OCAG and management responses thereof.
- Review implementation of external auditor's recommendations by management.
- Ensure proper coordination between the internal audit and the external audit to avoid duplication and maximise coverage.

5.7 Compliance

- Review the effectiveness of the MDA's compliance monitoring system — covering laws, GFR, Treasury Rules, PPA/PPR, and government instructions.
- Review significant findings from regulatory examinations or auditor observations on compliance.

5.8 Reporting

- Report to the PAO after each meeting on activities, key findings, and recommendations.
- Submit an annual report to the PAO summarising activities, audit results, independence status, and QA&IP outcomes.
- Report immediately to the PAO any matter requiring urgent attention — including material risks or serious audit concerns.

6. Meetings and Procedures

Meetings

- The Committee meets at least four (4) times per year. The gap between meetings shall not exceed four months.
- Quorum: three (3) members. Members attend in person or via an accepted communication tool.
- The Committee holds at least one private session per year with the HIA and one with the external auditor without management present.

Agenda and Minutes

- The Head of Internal Audit (HIA) will provide secretariat function to facilitate the Committee's meetings and reporting duties.
- The HIA will in consultation with the Chairperson, prepare and send notices and meeting documents fifteen (15) working days before the meeting.
- The HIA will also prepare minutes and accurately transcribe all decisions of the Committee.

Conduct

- Members act in accordance with public service ethics and the MDA's code of conduct.
- Members disclose any conflict of interest promptly; the Committee determines whether recusal is required.
- Members participate in orientation training on appointment and relevant continuing development during their term.

7. Self-Assessment and Review of this ToR

- The Committee conducts an annual self-assessment of its performance and identifies training needs for members.
- The Committee will annually review its ToR to ensure that it remains relevant to the Committee's authority, objectives and responsibilities.
- All changes or amendments to the ToR will be discussed and approved by the PAO.

8. Approval

This Audit Committee ToR has been endorsed by the Chairperson and approved by the PAO.

Appendix 3: Terms of Reference (ToR) of Central Audit Committee at Finance Division

The Central Audit Committee (hereafter called as audit committee) is the oversight body for internal audit. The Audit Committee is a key part in the governance of the organization. The Audit Committee provides oversight of the internal audit function. Audit Committee dealings with the auditors enable it to assess the degree of assurance that the organization can obtain from the audit process.

The members of the Audit Committee are as follows:

No.	Designation	Position
1.	Secretary, Finance Division	Chairperson
2.	Head of Internal Audit Wing, FD	Member
3.	Representatives from concerned Ministries/ Divisions (Not below the rank of Joint Secretary)	Member
4.	Representatives from BPPA, IMED (Not below the rank of Director)	Member
5.	Head of concerned Department/ Institute	Member
6.	Representatives from Controller General of Accounts (CGA) Office (Not below the rank of Joint CGA)	Member
7.	Chief Accounts & Finance Officer of concerned Ministry/ Division	Member
8.	Director, IAU/DIA of concerned M/D	Member
9.	Independent External member Nominated by the Secretary, FD	Member
10.	Joint Secretary/Deputy Secretary, Internal Audit Wing, FD	Member-Secretary

The Head of Internal Audit will have to attend Audit Committee meetings unless, exceptionally, the Audit Committee decides that he/she be excluded from either the whole meeting or agenda item(s). The reasons for any such exclusion should be made known to the Principal Accounting Officer (PAO). The Head of Internal Audit have the right to access to the Chair of the Audit Committee to discuss any issues he/she wishes to raise.

The Audit Committee will be provided with a secretariat function by the Ministry of Finance with adequate operating budget.

A. Reporting

(i) The Audit Committee will submit report in writing to the Cabinet Division as part of the GPMS (APA) indicator on audit resolution. A copy of the report will be given to the Secretary/Principal Accounting Officer to the controlling ministries of implementing departments.

B. Responsibilities

(ii) The Audit Committee will advise on:

a) The strategic processes for risk, control and governance and the Statement on Internal Control;
b) The accounting policies, the annual financial statements;
c) The planned activity and results of internal audit;
d) Adequacy of management response to issues identified by audit activity;
e) Assurances relating to the governance requirements for the GoB;
f) (Where appropriate) proposals for tendering for either Internal or Outsourced/Co-sourced audit services or for purchase of non-audit services from contractors who provide audit services;
g) Anti-fraud policies, whistle-blowing processes, and arrangements for special investigations;
h) The Audit Committee will also periodically review its own effectiveness.

(iii) It will be the duty of the Audit Committee to ensure that the Head of an MDA:

a) Pursue the implementation of matters in all audit reports as well as financial matters raised in the reports of internal audit units in the MDA;
b) Annually prepares a statement showing the status of implementation of recommendations made in all internal audit reports as well as the Comptroller & Auditor-General's reports which have been accepted by Parliament and any other related directives of Parliament;
c) The statement will show remedial action taken or proposed to be taken to avoid or minimize the recurrence of undesirable features in the accounts and operations of the MDA and the time frame for action to be completed.;

C. Rights

The Audit Committee may:

(i) Co-opt additional members for a period not exceeding a year to provide specialized skills, knowledge and experience;
(ii) Procure Expert on special issue, if necessary.

D. Access

(i) The Head of Internal Audit will have free and confidential access to the Chair of the Audit Committee.

E. Meetings

The Audit Committee will meet at least two (2) times a year.
The Chair of the Audit Committee may convene additional meetings, as deem necessary:

(i) A minimum of five members of the Audit Committee including the Chair will be present for the meeting to be deemed quorum;
(ii) The Audit Committee may ask any other officials of the audited organization to attend to assist it with its discussions on any matter;
(iii) The Audit Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of matters;
(iv) The Cabinet Division or the Secretary/PAO may ask the Audit Committee to convene further meetings to discuss issues on which they want the Committee's advice.

For each meeting the Director of Internal Audit will provide the Audit Committee with:

(i) A report summarizing any significant changes to the GoB's Risk Register;

(ii) A progress report summarizing:

a) work performed (and a comparison with work planned);
b) key issues emerging from Internal Audit work;
c) management response to audit recommendations;
d) changes to the Periodic Plan;
e) any resourcing issues affecting the delivery of Internal Audit objectives.

As and when appropriate the Audit Committee will also be provided with:

a) Proposals for the Terms of Reference for Internal Audit;
b) The Internal Audit Strategy;
c) The Director of Internal Audit's Annual Opinion and Report;
d) Quality assurance reports on the Internal Audit function;
e) The public accounts of GoB and any other public body;
f) The draft statement on Internal Control;
g) A report on any changes to accounting policies;
h) A report on any proposals to tender for audit functions (if any);
i) A report on co-operation between Internal Audit and OCAG.

The above list suggests minimum requirements for the inputs which will be provided to the Audit Committee. In some cases, more may be provided. For instance, it might be agreed that Audit Committee members will be provided with a copy of every Internal Audit assignment report, or with copies of Principal Accounting Officers' (PAOs) assertion on internal controls.

Appendix 4: Ethics and Professionalism (Global IA standards: Domain II)

Principle 1 Demonstrate Integrity: Internal auditors demonstrate integrity in their work and behavior.

Standard 1.1 Honesty and Professional Courage

Requirements

Internal auditors must perform their work with honesty and professional courage. Internal auditors must be truthful, accurate, clear, open, and respectful in all professional relationships and communications, even when expressing skepticism or offering an opposing viewpoint. Internal auditors must not make false, misleading, or deceptive statements, nor conceal or omit findings or other pertinent information from communications. Internal auditors must disclose all material facts known to them that, if not disclosed, could affect the organization's ability to make well-informed decisions.

Internal auditors must exhibit professional courage by communicating truthfully and taking appropriate action, even when confronted by dilemmas and difficult situations.

The chief audit executive must maintain a work environment where internal auditors feel supported when expressing legitimate, evidence-based engagement results, whether favorable or unfavorable.

Standard 1.2 Organization's Ethical Expectations

Requirements

Internal auditors must understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and must be able to recognize conduct that is contrary to those expectations.

Internal auditors must encourage and promote an ethics-based culture in the organization. If internal auditors identify behavior within the organization that is inconsistent with the organization's ethical expectations, they must report the concern according to applicable policies and procedures.

Standard 1.3 Legal and Ethical Behavior

Requirements

Internal auditors must not engage in or be a party to any activity that is illegal or discreditable to the organization or the profession of internal auditing or that may harm the organization or its employees.

Internal auditors must understand and abide by the laws and/or regulations relevant to the industry and jurisdictions in which the organization operates, including making disclosures as required.

If internal auditors identify legal or regulatory violations, they must report such incidents to individuals or entities that have the authority to take appropriate action, as

specified in laws, regulations, and applicable policies and procedures.

Principle 2 Maintain Objectivity: Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

Standard 2.1 Individual Objectivity

Requirements

Internal auditors must maintain professional objectivity when performing all aspects of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances.

Internal auditors must be aware of and manage potential biases.

Standard 2.2 Safeguarding Objectivity

Requirements

Internal auditors must recognize and avoid or mitigate actual, potential, and perceived impairments to objectivity.

Internal auditors must not accept any tangible or intangible item, such as a gift, reward, or favor, that may impair or be presumed to impair objectivity.
Internal auditors must avoid conflict of interest and must not be unduly influenced by their own interests or the interests of others, including senior management or others in a position of authority, or by the political environment or other aspects of their surroundings.
When performing internal audit services:

- Internal auditors must refrain from assessing specific activities for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous 12 months

- If the internal audit function is to provide assurance services where it had previously performed advisory services, the chief audit executive must confirm that the nature of the advisory services does not impair objectivity and must assign resources such that individual objectivity is managed. Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by an independent party outside the internal audit function.

- If internal auditors are to provide advisory services relating to activities for which they had previous responsibilities, they must disclose potential impairments to the party requesting the services before accepting the engagement.

The chief audit executive must establish methodologies to address impairments to objectivity. Internal auditors must discuss impairments and take appropriate actions according to relevant methodologies.

Standard 2.3 Disclosing Impairments to Objectivity

Requirements

If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties.

If internal auditors become aware of an impairment that may affect their objectivity, they must disclose the impairment to the chief audit executive or a designated supervisor. If the chief audit executive determines that an impairment is affecting an internal auditor's ability to perform duties objectively, the chief audit executive must discuss the impairment with the management of the activity under review, the board, and/or senior management and determine the appropriate actions to resolve the situation.

If an impairment that affects the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions is discovered after an engagement has been completed, the chief audit executive must discuss the concern with the management of the activity under review, the board, senior management, and/or other affected stakeholders and determine the appropriate actions to resolve the situation.
If the objectivity of the chief audit executive is impaired in fact or appearance, the chief audit executive must disclose the impairment to the board.

Principle 3 Demonstrate Competency: Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully.

Standard 3.1 Competency

Requirements

Internal auditors must possess or obtain the competencies to perform their responsibilities successfully. The required competencies include the knowledge, skills, and abilities suitable for one's job position and responsibilities commensurate with their level of experience. Internal auditors must possess or develop knowledge of The IIA's Global Internal Audit Standards.

Internal auditors must engage only in those services for which they have or can attain the necessary competencies.

Each internal auditor is responsible for continually developing and applying the competencies necessary to fulfill their professional responsibilities. Additionally, the chief audit executive must ensure that the internal audit function collectively possesses the competencies to perform the internal audit services described in the internal audit charter or must obtain the necessary competencies.

Standard 3.2 Continuing Professional Development

Requirements

Internal auditors must maintain and continually develop their competencies to improve the effectiveness and quality of internal audit services. Internal auditors must pursue

continuing professional development including education and training. Practicing internal auditors who have attained professional internal audit certifications must follow the continuing professional education policies and fulfill the requirements applicable to their certifications.

Principle 4 Exercise Due Professional Care: Internal auditors apply due professional care in planning and performing internal audit services.

Standard 4.1 Conformance with the Global Internal Audit Standards

Requirements

Internal auditors must plan and perform internal audit services in accordance with the Global Internal Audit Standards.

The internal audit function's methodologies must be established, documented, and maintained in alignment with the Standards. Internal auditors must follow the Standards and the internal audit function's methodologies when planning and performing internal audit services and communicating results.

If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit communications must also cite the use of the other requirements, as appropriate.

If laws or regulations prohibit internal auditors or the internal audit function from conforming with any part of the Standards, conformance with all other parts of the Standards is required and appropriate disclosures must be made.

When internal auditors are unable to conform with a requirement, the chief audit executive must document and communicate a description of the circumstance, alternative actions taken, the impact of the actions, and the rationale. Requirements related to disclosing nonconformance with the Standards are described in Standards 8.3 Quality, 12.1 Internal Quality Assessment, and 15.1 Final Engagement Communication.

Standard 4.2 Due Professional Care

Requirements

Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided, including:

- The organization's strategy and objectives.
- The interests of those for whom internal audit services are provided and the interests of other stakeholders.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Cost relative to potential benefits of the internal audit services to be performed.
- Extent and timeliness of work needed to achieve the engagement's objectives.

- Relative complexity, materiality, or significance of risks to the activity under review.
- Probability of significant errors, fraud, noncompliance, and other risks that might affect objectives, operations, or resources.
- Use of appropriate techniques, tools, and technology.

Standard 4.3 Professional Skepticism

Requirements

Internal auditors must exercise professional skepticism when planning and performing internal audit services.

To exercise professional skepticism, internal auditors must:

- Maintain an attitude that includes inquisitiveness.
- Critically assess the reliability of information.
- Be straightforward and honest when raising concerns and asking questions about inconsistent information.
- Seek additional evidence to make a judgment about information and statements that might be incomplete, inconsistent, false, or misleading.

Principle 5 Maintain Confidentiality: Internal auditors use and protect information appropriately.

Standard 5.1 Use of Information

Requirements

Internal auditors must follow the relevant policies, procedures, laws, and regulations when using information. The information must not be used for personal gain or in a manner contrary or detrimental to the organization's legitimate and ethical objectives.

Standard 5.2 Protection of Information

Requirements

Internal auditors must be aware of their responsibilities for protecting information and demonstrate respect for the confidentiality, privacy, and ownership of information acquired when performing internal audit services or as the result of professional relationships

Internal auditors must understand and abide by the laws, regulations, policies, and procedures related to confidentiality, information privacy, and information security that apply to the organization and internal audit function

Considerations specifically relevant to the internal audit function include:

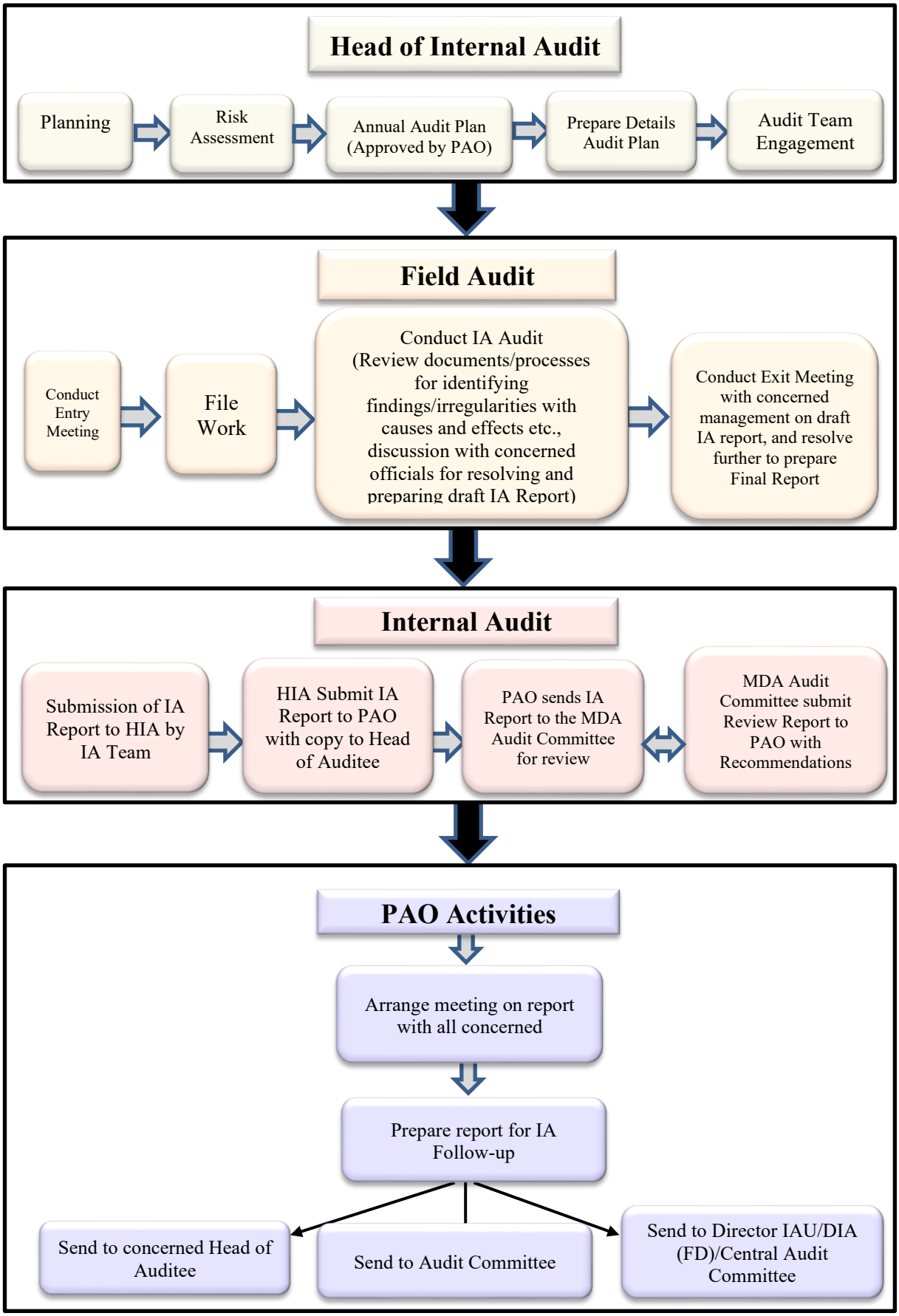
- Custody, retention, and disposal of engagement records.
- Release of engagement records to internal and external parties.
- Handling of, access to, or copies of confidential information when it is no longer needed.

Internal auditors must not disclose confidential information to unauthorized parties unless there is a legal or professional responsibility to do so.

Internal auditors must manage the risk of exposing or disclosing information inadvertently.

The chief audit executive must ensure that the internal audit function and individuals assisting the internal audit function adhere to the same protection requirements.

Appendix 5: Internal Audit Process Flow Diagram



Appendix 6: Auditing through CAAT/GAS

1.1 Gathering Audit Evidence

1.1.1 The use of CAATs/GASs should be controlled by the Information System (IS) auditor to provide reasonable assurance that the audit objectives and the detailed specifications of the CAATs/GASs have been met. The IS auditor should:

- Perform reconciliation of control totals if appropriate;
- Review output for reasonableness;
- Perform a review of the logic, parameters or other characteristics of the CAATs/GASs;
- Review the organization's general IS controls, which may contribute to the integrity of the CAATs/GASs (e.g. program change controls and access to system, program, and/or data files).

1.1.2 When using test data, the IS auditor should be aware that test data only point out the potential for erroneous processing; this technique does not evaluate actual production data. The IS auditor should also be aware that test data analysis can be extremely complex and time-consuming, depending on the number of transactions processed, the number of programs tested and the complexity of the programs/systems. Before using test data, the IS auditor should verify that the test data will not permanently affect the live system.

Generalized Audit Software

1.1.3 When using generalized audit software to access the production data, the IS auditor should take appropriate steps to protect the integrity of the organization's data. With embedded audit software, the IS auditor should be involved in system design and techniques should be developed and maintained within the organization's application programs/systems.

Utility Software

1.1.4 When using utility software, the IS auditor should confirm that no unplanned interventions have taken place during processing and that the utility software has been obtained from the appropriate system library. The IS auditor should also take appropriate steps to protect the integrity of the organization's system and files since these utilities can easily damage the system and its files.

Customized Queries or Scripts

1.1.5 Customized queries or scripts allow the IS auditor to specifically target desired information for analysis. Customized scripts are highly useful for environments where other CAATs/GASs are not available but usually require specific technical skill sets to create them. Therefore, the IS auditor should obtain assurance of their integrity, reliability, usefulness and security through appropriate planning, design and testing before reliance is placed on CAATs/GASs, and ensure that proper source data are used and that output from scripts and queries are in the proper format. Customized query and script code should be maintained in a secure location to prevent unauthorized changes from occurring.

Application Software Tracing and Mapping

1.1.6 When using application software tracing and mapping, the IS auditor should confirm that the source code being evaluated has generated the object program currently being used in production. The IS auditor should be aware that application software tracing and mapping only points out the potential for erroneous processing; it does not evaluate actual production data.

Audit Expert Systems

1.1.7 Audit expert systems are specialized tools that can be used to analyses the flow of data, through the processing logic of the application software, and document the logic, paths, control conditions and processing sequences. When using audit expert systems, the IS auditor should be thoroughly knowledgeable of the operations of the system to confirm that the decision paths followed are appropriate to the given audit environment/situation.

Continuous Monitoring and Assurance

1.1.8 Continuous assurance is an uninterrupted monitoring approach that allows management and IS auditors to monitor controls on a continuous basis and to gather selective audit evidence through the computer. It is a process that can be used to provide immediately (or nearly so) reporting by IS auditors and lends itself to use in high-risk, high-volume environments. In the current audit model (used by both internal and external auditors), a period of time passes between the completion of fieldwork and the issuance of the related audit report. In many instances, the impact of this delay in issuance makes the information contained in the report less useful or beneficial to the user. This is a result of the ageing of the information contained in the report that can be affected by such issues as auditee corrections to identified deficiencies, and further deterioration to the control environment (or related auditee data) resulting from identified control weaknesses or deficiencies.

1.1.9 Continuous assurance is therefore designed to enable IS auditors to report on subject matter within a much shorter time frame than under the current model. Theoretically, in some environments it should be possible to shorten the reporting time frame to provide almost instantaneous or truly continuous assurance.

1.1.10 By definition, continuous assurance requires a higher degree of reliance on an auditee's information systems than traditional auditing requires. This is a result of the need to rely upon system-generated information vs. externally produced information as the basis for audit testing. Hence, auditors need to make judgements on both the quality of the auditee's systems as well as the information produced by the system itself. Systems that are of lower quality, or produce less-reliable information, (and require a higher degree of manual intervention) are less conducive to continuous assurance than those that are of high quality and produce reliable information.

1.1.11 Environments that are of a higher quality and produce reliable information are better suited to reporting periods of a short to continuous duration. Environments that are of a lower quality or produce less-reliable information should use longer reporting periods to compensate for the period of time that must pass for users to review and approve or correct information processed by the system.

CAATs/GASs Documentation

Work papers

1.1.12 The step-by-step CAATs/GASs process should be sufficiently documented to provide adequate audit evidence.

1.1.13 Specifically, the audit work papers should contain sufficient documentation to describe the CAATs/GASs application, including the details set out in the following sections.

Planning

1.1.14 Documentation should include:

- CAATs/GASs objectives;
- CAATs/GASs to be used;
- Controls to be exercised;
- Staffing and timing.

Execution

1.1.15 Documentation should include:

- CAATs/GASs preparation and testing procedures and controls;
- Details of the tests performed by the CAATs/GASs;
- Details of inputs (e.g. data used, file layouts), testing periods, processing (e.g. CAATs/GASs high-level flowcharts, logic) and outputs (e.g. log files, reports);
- Listing of relevant parameters or source code.

Audit Evidence

1.1.16 Documentation should include:

- Output produced;
- Description of the audit analysis work performed on the output;
- Audit findings;
- Audit conclusions;
- Audit recommendations.

1.1.17 Data and files used should be stored in a secure location. In addition, temporary confidential data used as part of the audit should be properly disposed of in accordance with data handling procedures.

Reporting

1.2 Description of CAATs/GASs

1.2.1 The objectives, scope and methodology section of the report should contain a clear description of the CAATs/GASs used. This description should not be overly detailed, but it should provide a good overview for the reader.

1.2.2 The description of CAATs/GASs used should also be included in the body of the report, where the specific finding relating to the use of CAATs/GASs is discussed.

1.2.3 If the description of the CAATs/GASs used is applicable to several findings, or is too detailed, it should be discussed briefly in the objectives, scope and methodology section of the report.

Appendix 7: Internal Control Questionnaire

Control Environment Aspects	Yes	No	Comments
Organizational **StructuresAudit** **objectives:** ➢ To determine the adequacy of the organizational structures; ➢ To determine the functional status of the organizational structure. **Questions:** 1. Has the organizational structure been approved by the competent authority? 2. If so, based on a need assessment? 3. Is the present structure similar to that assessment? 4. Does the organization have clear objectives? 5. Is there a strategic plan with yearly implementation activities to fulfill those objectives? 6. Are the required activities achieved in the in the specified period? 7. Is there any supervisory authority to monitor the activities of officers and staff? 8. Are there clear delegations of responsibility and authority sufficiently defined in writing and understood at all levels of the entity? Are duties performed accordingly? Is delegation of responsibility and authorization appropriate? 9. Are there adequate job descriptions for the staff members? 10. Have there been significant changes in the organization which might have an impact on the effectiveness of internal controls? (e.g., loss of key personnel, outsourcing) 11. Is there an effective internal audit department\ cell? 12. If so, does the internal audit report directly to the Head of the organization?			

Management approach to controls	Yes	No	Comments
Audit objectives: ➢ To determine whether management approaches to control are effective or not. **Questions:** 1. Does management require reliable information and use it to make day-to-day activity decisions? 2. Is management's style of work characterized by planning and achieving objectives or by responding to crises? 3. To what extent does management participate in, direct, and review the planning, budgeting, and monitoring process? 4. Do managers implement the recommendations by external and internal auditors in a timely manner?			

Framework for Management Controls	Yes	No	Comments
Audit objectives: ➢ To determine the adequacy of the Framework for Management Controls. **Questions:** 1. Are plans, standard working procedures, practices, and policies which enhance internal control and the achievement of objectives and other intended results formalized and documented? 2. Are the following formally documented, policies and procedures available in the Control Environment Strategy (CIS) environment? a. A comprehensive security policy. b. System development life cycle methodology. c. Change control procedures. d. Operating procedures. 3. Are user manuals available for all staff members? 4. If the organization is planning or in process of implementing a new application system, are appropriate project management procedures for the control of the project documented?			

5. Is there an effective way of communicating plans, policies, and procedures? 6. Does the internal audit responsibility include the monitoring of compliance with the plans, policies, and procedures? 7. Do senior managers use statistics, and other information to control or evaluate the effectiveness and efficiency of activities? 8. Are mechanisms in place to identify and respond to unusual exceptional circumstances?			

Segregation of Duties	Yes	No	Comments
Audit objectives: ➢ To determine whether duties and responsibilities of authorization, execution, and recording of transactions are separated. **Questions:** 1. To what extent are the responsibilities for initiating transactions, approving, and recording transactions, and maintenance of custody over assets segregated? 2. Are methods in place to enforce segregation of duties? 3. Is segregation of duties maintained during staff absence through vacation, illness, or vacancies? 4. Does management set the objectives, put control mechanisms and activities in place, and monitor and evaluate the controls?			

Appendix 8: Audit Programme

Program on Personnel Management, Payroll, General Provident Fund and Pension

Objectives:

1. To understand the human resource management of the organization.
2. To ensure that the payroll, general provident fund and pension function are properly controlled and operated efficiently.
3. To ensure Payroll calculations including deductions, general provident fund and pension calculations are correctly performed.
4. To ensure that employees on the payroll are valid and that leavers do not remain on the payroll.

Tests	Yes	No	Comments
Personnel Management and Payroll: 1. Whether the rules regarding recruitment mentioned in the service rules and other government orders are properly followed 2. Whether there is any training policy for the organization 3. Whether staff members are selected for training on merit and by priorities for the area 4. Whether people trained in new procedures posted to the relevant desk after training 5. Whether the validity of the employees listed on the payroll is confirmed periodically 6. Whether attendance supervised by a higher authority 7. Whether an independent official checked the payroll and authorized it 8. Whether all leave records viewed to ensure correct payment 9. Whether gross pay checked for authorized rate as per government rules and checked to audit register 10. Whether all deductions have been correctly calculated 11. Whether the arithmetic calculations have been checked 12. Whether the gross and net pay are correctly calculated 13. Whether cash wages have been signed by the employee			

Tests	Yes	No	Comments
when received 14. Whether a check has been done to ensure the payroll has been properly classified for pay, allowances and deductions 15. Whether appropriate procedures are in place to return uncollected wages 16. Whether access to computer-based systems is password controlled and passwords are updated regularly 17. Whether periodical reconciliation is carried out between bank and payroll **General Provident Fund:** 1. Whether the closing balance from the previous year has been correctly brought forward 2. Whether the arithmetic calculations in the ledger and broadsheet are correct 3. Whether in case of the new ledger has been opened, the balance from the old ledger has been properly transferred to the new ledger 4. Whether advance has been sanctioned as per government rules 5. Whether repayment on advance has been made as per government rules 6. Whether the interest has been correctly calculated 7. Whether the closing balance has been correctly calculated 8. Whether the final payment has been properly authorized 9. Whether the final payment amount in the ledger agrees with the amount withdrawn 10. Whether in case of final payment the subscriber account has been closed properly **Pension:** 1. Whether service records are examined as per			

Tests	Yes	No	Comments
government rules 2. Whether the leave record is verified as per government rules 3. Whether the expected last pay certificate is examined as per government rules 4. Whether all recoveries have been calculated and recovered 5. Whether due utility bills have been recovered 6. Whether no demand certificate from the accounts office and other concerned offices is received 7. Whether gratuity and monthly pension are calculated correctly 8. Whether pension case is settled on time			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Programme on Procurement

Auditee: _____

Year Ended: _____

Objectives: To ensure that the procurement followed PPA,2006 and PPR,2025

Tests	Yes	No	Comment
1. Whether the procurement processing and approval procedure have been followed properly as per PPA,2006 and PPR,2025			
2. Whether the appropriate process of cost estimation and technical specification/ToR was followed and approved by the competent authority			
3. Whether the schedule of rates has been taken into consideration for the preparation of the cost estimate			
4. Whether the procurement method followed PPA,2006 and PPR,2025			
5. Whether Official Cost Estimate (OCE) & ToR/Technical Specification Committee, Technical Opening Committee (TOC) / Proposal Opening Committee (POC) (if needed), TEC/PEC, Receiving Committee and other relevant committee have been prepared as per PPA,2006 and PPR,2025			
6. Whether relevant rules of PPA,2006 and PPR,2025 were followed on appropriate tender/proposal method			
7. Whether the tender/proposal evaluation committee evaluated as per assigned criteria of the tenders/proposal and PPA,2006 and PPR, 2025			
8. Whether pre-qualification documents have been prepared as per PPA,2006 and PPR,2025			
9. Whether the tender/proposal was prepared as per organizational requirement by following the PPA,2006 and PPR,2025			
10. Whether advertisement/EoI circulated as per proper procedure and manner as required in PPA,2006 and PPR,2025			
11. Whether tender price has been compared with market price / estimate for reasonableness			
12. Whether variation order or extra work order has been made as per PPA,2006 and PPR,2025			
13. Whether in the case where the lowest tender has not been accepted the reasons for that have been recorded			
14. Whether retention money has been deducted as required in PPA,2006 and PPR,2025			

Tests	Yes	No	Comment
15. Whether security deposit has been taken as required in PPA-2006 and PPR,2025 16. Whether performance guarantee has been taken as required in PPA,2006 and PPR, 2025 17. Whether liquidated damage has been recovered as per PPA, 2006 and PPR, 2025 18. Whether records of procurement have been kept as per PPA, 2006 and PPR, 2025 19. Whether post-procurement review has been made as per PPA, 2006 and PPR, 2025 20. Whether the code of ethics has been complied with as per PPA, 2006 and PPR, 2025			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Program on Procurement of Goods and Related Services (Contd.)

Auditee: _____

Year Ended:_____

Audit objectives:

1. To determine the procedure followed for procurement
2. To determine the transparency in the tender and evaluation process
3. To determine the economy and efficiency in procuring goods and services

Tests	Yes	No	Comments
1. Whether the entity has an approved procurement plan. 2. Whether the performance of procurements reviewed with the plan. 3. Whether expenditures have been incurred as per Public Procurement Act,2006 and Public Procurement rules, 2025. 4. Whether expenditures have been incurred as per the Delegation of Financial Powers issued by the Finance Division. 5. Whether VAT and income tax have been deducted from bills as per govt. rules and regulations. 6. Whether arithmetic checks had been made for all invoices. 7. Whether all expenditures have been approved and are arithmetically correct. 8. Whether goods and services items have been received as per the specification of tender. 9. Whether management reviews expenditures to detect incomplete or inaccurate recording and accounting.			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Program on Procurement of Consulting Services

Auditee: _____

Year Ended:_____

Audit objectives:

1. To determine the procedure followed for procurement
2. To determine the transparency in the tender and evaluation process
3. To determine the economy and efficiency in procuring goods and services

Tests	Yes	No	Comments
1. Whether the entity has an approved procurement plan 2. Whether the appropriate process of cost estimation and ToR was prepared and approved by the competent authority 3. Whether the procurement method followed PPA,2006 and PPR,2025 4. Whether the advertisement/REoI was published as per PPA & PPR 5. Whether the short listing was prepared and approved as per PPA & PPR 6. Whether the proposal (technical and financial) was prepared and issued to approved consultants by following PPA & PPR 7. Whether sufficient time was allowed to submit the proposal as per PPA & PPR 8. Whether the Proposal Evaluation Committee (PEC) evaluated the proposal/CV (Technical) as per assigned criteria of proposal and PPA & PPR 9. Whether the PEC has negotiated with competent consultant with ensuring the best interest of organization and approved by the authority as per DoFP of Finance Division 10. Whether services progress has been monitored and reported as per the Terms of Reference (ToR) 11. Whether VAT and income tax have been deducted from bills as per govt. rules and regulations. 12. Whether arithmetic checks have been made for all invoices. 13. Whether all expenditures have been approved and are arithmetically correct. 14. Whether management reviews expenditures to detect incomplete or inaccurate recording and accounting.			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Programme on Procurement of Capital Expenditure

Auditee:_____

Year Ended:_____

Audit objectives:

1. To determine whether the capital expenditure is incurred following the Government rules and regulations.

Tests	Yes	No	Comments
1. Whether a need analysis has been carried out to determine the appropriateness of the proposed expenditure. 2. Whether the entity has a procurement plan. 3. Whether expenditures have been incurred as per Public Procurement Act, 2006 and Public Procurement Rules, 2008. 4. Whether expenditures have been incurred as per the Delegation of Financial Powers issued by the Finance Division. 5. Whether all expenditures have been approved. 6. Whether arithmetic checks have been made for all invoices. 7. Whether capital items have been received as per the specification of tender. 8. Whether equipment and machinery have been installed and working properly. 9. Whether VAT and income tax have been deducted from bills as per rules and regulations. 10. Whether management reviews expenditures to detect incomplete or inaccurate recording and accounting.			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Programme for Civil Works

Auditee:_____

Year Ended: _____

Audit objectives: To determine whether the civil works expenditures are incurred following the Government rules & regulations.

1. The main risk areas are:
    i. Awarding contract to parties' incapable of performing the job;
    ii. Lack of proper supervision and monitoring;
    iii. Use of sub-standard materials;
    iv. Poor work quality and non-compliance with specification;
    v. Non-competitive rates;
    vi. Non-completion of work according to design;
    vii. Payment for unauthorized work;
    viii. Changing scope of work during execution;
    ix. VAT and income tax are not recovered from suppliers;
    x. Inadequate documentation;
    xi. Miscoding the transaction or expenditure may not have incurred from budget provision;
    xii. Mismatching the transaction figure of the account's office and executive office;
    xiii. Reconciliation may not be done among the accounts, executive office and bank.

2. Documents required:
    i. Budget provision;
    ii. Estimate of works;
    iii. Administrative sanction;
    iv. Technical sanction;
    v. Tender documents;
    vi. Design and Drawings of the works;
    vii. Copy of the advertisement;
    viii. Comparative Statement;
    ix. Schedule of rates;
    x. Measurement Book;
    xi. Expenditure sanction;
    xii. VAT and IT register;
    xiii. Work completion report.

Tests	Yes	No	Comments
1 Whether an estimate has been prepared for every work.			
2 Whether the estimates were prepared in a piecemeal manner.			
3 Whether the estimates are approved by a competent authority.			
4 Whether the rates are reasonable with the schedule of rates.			

Tests	Yes	No	Comments
5 Whether expenditures on works have been incurred as per Public Procurement Act,2006 and Public Procurement Rules, 2008.			
6 Whether expenditures on works have been incurred as per the Delegation of Financial Powers issued by the Finance Division.			
7 Whether the materials have been calculated as per design and drawings of the works and related rules.			
8 Confirm that there is an audit trail, i.e., follow the work beginning from the issue of notice to final payment for a sample of work.			
9 Whether there are any non-tender items in the bills and it was duly approved.			
10 Whether the contractor has been penalized for unwarranted delays in the completion of the work.			
11 Whether in the case where the lowest tender has not been accepted the reasons have been recorded.			
12 Whether VAT and income tax have been deducted from bills as per rules and regulations.			
13 Whether a certificate of satisfactory completion of work has been furnished by the competent authority and ensure that there are no unusual delays in obtaining a certificate.			
14 Whether all key decisions have been adequately documented and reasons for the decision have been given.			
15 Whether justification has been documented for changes in design, scope and specification during the execution stage.			
16 Whether the transactions are accurately recorded.			
17 Whether the reconciliation has been made between the bank, accounts and executive office.			
18 Whether the expenditure incurred exceeded the budget provision.			

Findings:

Prepared by _____ Date_____

Reviewed by_____ Date_____

Audit Programme for Development Partner's Funds

Auditee: _____
Year Ended: _____

Objectives:

1. To determine that donor funds have been accounted for by laid down accounting and procedural requirements.

2. To ensure that donor funds have been spent with due regard to economy, efficiency and effectiveness.

Records Required at Audit:

The following records are to be requested at the start of the audit:

i. Lists of development partner's funds received;
ii. Memorandum of Understanding;
iii. Copies of Agreement with development partners**;**
iv. Development partner's Accounting Guidelines;
v. Bank Statements;
vi. Order sanctioning the grants;
vii. Financial statements;
viii. Cash Book for development partner's funds;
ix. Progress reports submitted to the development partners**;**
x. Stock Register for donated materials.

Tests	Yes	No	Comments
1. Whether accounting of debit and credit entries of all funds received and expenditures incurred during the year have been made. 2. Whether correct accounting of debit and credit entries of all funds received and expenditures incurred during the year have been made. 3. Whether complete and accurate financial statements are prepared and submitted either on a monthly or quarterly basis by the agreement entered into with the development partner.			

4. Whether Financial Statements have been prepared for each month for each fund/aid of the development partner. 5. Whether the development partner's funds are spent with due regard to economy, efficiency, and effectiveness and by any laid down requirements.			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Program on Assets Management

Auditee:_____

Year Ended: _____

Objectives: To determine the effectiveness of the existing assets Management system

Tests	Yes	No	Comments
1. Whether there is adequate physical security over: a. Cash b. Valuable documents (e.g., cheques & deeds) c. Inventory d. Movable and vulnerable fixed Assets			
2. Whether an assets register is established.			
3. Whether classification and controlled numbering of assets are maintained.			
4. Whether or not the approval process and authorization limitations are specified.			
5. Whether or not purchase orders and the asset registry entry are matched up with invoices.			
6. Whether authorization checks, such as signatory verification, are in place.			
7. Whether procedures for disposal are clearly stated and followed.			
8. Whether or not reports on sequential disposal and scrapping are created and reviewed.			
9. Whether any physical measures, such as controlled access and security passes, are in place.			
10. Whether an approach to the lifecycle of assets is utilized.			
11. Whether asset lives are stated in periods.			
12. Whether maintenance records are maintained for each asset.			
13. Whether appropriate utilization information is maintained and reviewed regularly.			
14. Whether checks and reconciliations to the financial ledger are carried out periodically.			
15. Whether or not physical inspections and asset reconciliation are performed.			
16. Whether physically verifying and balancing physical assets is done independently.			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Programme on Stocks and Stores

Auditee:_____

Year Ended:_____

Objectives:

1. To determine whether stocks and stores are physically secured and properly recorded in accounts or not.
2. To determine the use and control of procured goods.

Tests	Yes	No	Comments
1. Whether or not comprehensive stock lists are created.			
2. Whether numbering and referencing of items exist.			
3. Are all useful goods issued subject to official orders.			
4. Are verbal orders permitted.			
5. Whether goods received notes are retained.			
6. Whether goods received notes and invoices are checked to stock registers.			
7. Whether matching of stock requisition to issue notes is performed.			
8. Whether all items are checked physically at least once every year.			
9. Whether all write-offs have been properly authorized.			
10. Whether disposal and scrapings are authorized in advance by a senior officer.			
11. Whether authorization limits have been set.			
12. Whether access is restricted and security passes are maintained.			
13. High-value items are stored securely.			
14. Whether an air conditioner where appropriate is in place.			
15. Whether fire detection/extinguisher equipment where appropriate is in place.			
16. Whether regular stock-taking is undertaken to reconcile stock.			

17. Whether adequate separation of duties is in place in respect of accounting, valuation, and issuing of stock. 18. Whether or not there is an independent annual stock take.			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Programme on Accounting System Review

Auditee:_____

Year Ended: _____

Objectives:

1. To ensure that accounts are complete and accurate.
2. To review the financial reporting system are timely and accurate.

Source of information:

i. Monthly accounts
ii. Budget documents
iii. Bank statement
iv. Annual accounts

Tests	Yes	No	Comments
1. Whether expenditures have been incurred as per budget allocation 2. Whether all the expenditures incurred during the year have been recorded and accounted for 3. Whether all the expenditures incurred during the year have been classified as per budget and accounts system 4. Whether a comparison between the account's offices and the DDO has been made, and whether corrective actions have been taken 5. Whether accounts are accurate and complete 6. Whether monthly accounts are being sent to the ministry /division and related offices			

Finding

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Programme on Project Management

Auditee: _____

Year Ended: _____

Objectives: Whether project management has been done effectively.

Tests	Yes	No	Comments
1. Whether a new project has been formulated and prepared as per the approved format and guidelines issued by the Planning Ministry.			
2. Whether procedures are in place to determine whether the project drew and used the money by the Annual Development Programme (ADP).			
3. Whether expenditures have been made as per the delegation of financial power issued by the Finance Division.			
4. Whether fund release and fund distribution have been done timely.			
5. Whether the progress of the financial and physical targets of projects as per target is verified.			
6. Whether there is a regular review of technical assistance /development projects.			
7. Whether reports/returns have been prepared as per guidelines.			
8. Whether there are procedures to evaluate whether completed initiatives met their goals.			
9. Whether projects have been completed within cost and time.			
10. Whether the project meets all of the approval processes as laid down in guidelines issued by M\O Planning.			
11. Whether post-implementation reviews are carried out.			
12. Whether funds have been obtained as per Annual Development Program (ADP).			
13. Whether meetings with all stakeholders take place regularly.			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Program on Budget Preparation

Auditee: _____

Year Ended: _____

Objectives: Whether budget preparation has been made effectively.

Tests	Yes	No	Comments
1. Whether policy and planning documents are linked with the medium-term budget framework (MTBF). 2. Whether Key Performance indicators (KPI) of MTBF are reviewed in line with policy and planning documents. 3. Whether the budget has been prepared as per circulars/guidelines issued by the Finance Division. 4. Whether the budget has been prepared considering priorities. 5. Whether there are arrangements for proper budget planning and preparation. 6. Whether the budget has been prepared properly following a standard and approved process. 7. Whether there is a difference between revised budget and actual expenditure and reasons for that. 8. Whether there is a difference between the original budget and the revised budget and the reasons for that.			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Audit Program for Cash/Bank System

Auditee: _____

Year Ended: _____

Objectives: Whether the Cash/bank system works effectively.

Tests	Yes	No	Comments
1. Whether all receipts and payments are being promptly banked and accurately recorded. 2. Whether the cash book is being updated and signed regularly. 3. Whether cash book has been reconciled with bank statement. 4. Whether cash is being held securely to prevent misuse, loss or theft.			

Findings:

Prepared by _____Date_____

Reviewed by_____ Date_____

Appendix 9: Glossary

Term	Definition
Accountability	The obligation for a person or organization to account for its activities, accept responsibility for them and to disclose the results in a transparent manner.
Assurance	*A process intended to give confidence. External and Internal Auditors are regarded as providers of assurance services.*
Audit Committee	An Audit Committee will provide oversight on the operations of the internal functions.
Audit Entity	*Comprises a legal entity, organization, project, accounting unit, department, local government unit such as a City Corporation, Pourashaba, District Council etc., and those are subject of an audit activity.*
Audit Objectives	Developed by the internal auditors and define intended audit accomplishments.
Audit Procedures	*The tasks internal auditors undertake for collecting, analyzing, interpreting, and documenting information during an audit. Audit procedures are the means to attain audit objectives.*
Audit Program	It is a document which lists the audit procedures to be followed during an audit. The audit program also states the objectives and scope of the audit.
Audit Report	*It is a signed, written document which presents the purpose, scope, and results of the audit. Results of the audit include findings, recommendations, and conclusions.*
Audit Scope	It refers to the activities covered by an internal audit. It includes audit objectives, nature, and extent of auditing procedures, time period audited and related activities not audited in order to mark the boundaries of an audit. It can include organization and/or geographic boundaries.
Audit Working Papers	*The record of 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.*
Best Practice	A management term used to describe the effectiveness or quality of an activity or process. It is used as an example for other organizations looking to improve a process or activity.
OCAG	*Office of the Comptroller and Auditor General. The OCAG is the supreme audit institution of the Government of Bangladesh.*
Code of Ethics	A code of conduct is a set of rules outlining the responsibilities of or proper practices for an individual, party, or organization. This Manual uses the Code of Ethics issued by the IIA.
Compliance	*Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, and other requirements.*
Control	Any action taken by the ministry/department and any 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 system of internal control.*
Control Processes	The policies, procedures, and activities that are part of a control framework,

Term	Definition
	designed to ensure that risks are contained within the risk tolerances established by the risk management process.
Due professional Care	It 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.
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 activities.*
External Auditors	This refers to those audit professionals who perform independent annual audits of ministries and departments. They used to give the independent view of an organization's annual financial statement.
Flow Chart	*A flow chart is a graphical or symbolic representation of a process. Each step in the process is represented by a different symbol and contains a short description of the process step.*
Follow-up	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 include relevant findings made by OCAG and others.
Fraud	*The term fraud is commonly used to describe a wide variety of dishonest behaviors such as deception, bribery, corruption, forgery, false representation, collusion, and concealment of material fact. It is usually used to describe the act of depriving a person or organization of something by deceit, which may involve the misuse of funds or other resources or the supply of false information.*
Governance	A term with a broad application. It includes how an organization is managed, its corporate and other structures, its culture, its policies and strategies, and the way it deals with its various stakeholders.
Head of Internal Audit	*Top position within the Internal Audit Cell of individual ministry/department is responsible for the internal audit activities. The Head of the internal audit is personally responsible for overall activities till the finalization and issue of the audit report.*
IIA Standards	The Institute of Internal Auditors is the peak body for internal auditors throughout the world. The IIA issues the International Standards for Internal Audit. These gain authority in the Government by being adopted as the standards for the Government of Bangladesh.
Independence	*It allows internal auditors to carry out their work freely and objectively. This concept requires that internal auditors be independent of the activities they audit.*
Internal Auditor	An individual within the organization's internal auditing department is assigned the responsibility of doing the internal audit.
Internal Control	*Internal control is the whole system of control, financial or otherwise established in order to provide reasonable assurance of efficient and effective public services, reliable financial information and reporting and compliance with applicable laws and regulations.*
INTOSAI	International Organization of Supreme Audit Institutions.
ISSAIs	*International Standards of Supreme Audit Institutions.*

Term	Definition
Key Audit Findings	The key audit findings are those in the judgement of the Head of the internal auditing, which 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.
PAO	Principal Accounting Officer. A term used in the Internal Control Manual of the Government of Bangladesh to describe one of the functions of the Secretary of a Ministry/Division.
Quality Assurance	*Assessing the extent to which the IAU/DIA complies with the IIA International Standards for Internal Auditing and the Code of Ethics. It also includes assessing compliance with local policies, and procedures and assessing skills in applying internal audit methodologies.*
Recommendations	Those actions the internal auditors believe are necessary to correct existing conditions and address the root cause to improve operations and mitigate the risks.
Risk	*The possibility of an event occurring will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.*
Risk Assessment	Is the process by which the internal auditors gain an understanding of the risks that exist in the organization and how they are being managed. It includes classifying the risks using the risk management characteristics of frequency and impact.
Risk management	*Comprises the activities and actions taken to ensure that an organization is conscious of the risks it faces, makes informed decisions in managing these risks, and identifies and harnesses potential opportunities.*
Supervision	Is a continuing process, beginning with planning and ending with the conclusion of the audit assignment.
Risk-based audit	*An audit methodology is designed to check on the adequacy of internal controls in both financial and non-financial systems to mitigate risks to the acceptable limit.*
Transparency	Providing enough information in such a way that the decision makers can anticipate the adverse effects of potential decisions.

* * *

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6. Office of the Controller General of Accounts (CGA);
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10. The Institute of Cost and Management Accountants (ICMAB), Bangladesh;
11. Financial Reporting Council, Bangladesh (FRC);
12. Bangladesh Economic Association (BEA);
13. IIA Global Standards and Guidance;
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Program Implementation Team:

Kabirul Ezdani Khan Addl. Secretary, Budget and Expenditure Management, Finance Division	Head of PIT
Md. Mofidur Rahman Addl. Secretary, Expenditure Management, Finance Division	Member
Mohammad Azad Sallal Joint Secretary, Expenditure Management Wing, Finance Division	Member
Mohammad Showkat Ullah Deputy Secretary, Expenditure Management Wing, Finance Division	Member
Chowdhury Ashraful Karim Deputy Secretary, Expenditure Management Wing, Finance Division	Member

Coordination:

Md. Rafiqul Islam, Joint Secretary,
Program Executive and Coordinator (PEC), SPFMS, Finance Division

National Program Director:

Nazma Mobarek, Additional Secretary, Budget-1 Wing, Finance Division
Strengthening Public Financial Management Program to Enable Service Delivery (SPFMS)

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Program Implementation Team:

Homayra begum Additional Secretary, Internal Audit Wing, Finance Division	PIT Head
Mohammad Azad Sallal Additional Secretary, Expenditure Management Wing, Finance Division	Member
Mohammad Rezaul Hoque Joint Secretary, Internal Audit-1 Branch, Internal Audit Wing, Finance Division	Member
Mohammad Showkat Ullah Deputy Secretary, Expenditure Management Wing, Finance Division	Member
Ripon Kumar Saha Senior Assistant Secretary, Internal Audit-1 section, Internal Audit Wing, Finance Division	Member

Executive & Coordination:

Md. Rafiqul Islam (Additional Secretary)
Program Executive and Coordinator (PEC), SPFMS, Finance Division

National Program Director:

Dr. Ziaul Abedin, Additional Secretary, Budget-1, Finance Division
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