



Unofficial  
Translated

**Kingdom of Cambodia**  
**Nation Religion King**



**National Committee for Sub-National Democratic Development  
(NCDD)**

# **INTERNAL AUDIT MANUAL**

**2019**

## **Preface**

The Internal Audit has gained so much importance that conducting it has been made mandatory by laws and regulations for the organizations. It is an independent and objective organizational function that adds value to, and improves, the overall effectiveness and efficiency of an organization operations.

The internal audit function is independent from line management. It helps an organization to accomplish its objectives by providing a review and assessment of risk management, control and governance processes.

This Internal Audit Manual contains a comprehensive framework and structure for internal audit including internal audit techniques, methods and procedures for internal audit in NCDD. It also includes the roles and responsibilities of the management relating to internal audit in the organization.

The framework and structure described in the manual are based on international standards and the best practices best suited to the organization. NCDD hopes the IP3 Implementers and relevant stakeholders would find this manual useful and practical.

This Internal Audit Manual will be updated continuously on the basis of the feedback received from the NCDD staff, IP3 implementers and relevant stakeholders.

Phnom Penh Capital, 26 June 2019

Deputy Prime Minister, Minister of Interior and  
Chairman of NCDD

**Samdech Krolahom Sar Kheng**

# Table of Contents

<b>Preface</b>	<b>i</b>
<b>Chapter 1</b>	<b>1</b>
<b>Introduction</b>	<b>1</b>
1.1. Background	1
1.2. Roles and Responsibilities of the Internal Audit Group	1
1.3. Purpose of Internal Audit	1
1.4. Authority of Internal Audit Group	2
1.5. Responsibility of Internal Audit Group	3
1.6. Organizational Structure of Internal Audit Group	4
1.7. Structure of the Manual	4
<b>Chapter 2</b>	<b>5</b>
<b>Risk-Based Audit Strategy and Annual Internal Audit Plan</b>	<b>5</b>
2.1. Background	5
2.2. Definition of Risk	5
2.3. Risk-Based Audit Strategy	5
2.4. Risk Register	6
2.5. Audit Risk	6
2.6. Risk-Based Planning	6
2.7. Risk Assessment Procedure	7
2.8. Considerable Points	7
2.9. Risk Based Annual Internal Audit Plan	8
2.10. Procedures of Capturing Inputs and Information for Risk Assessment	8
2.11. Assessment of Broad Risk by Internal Auditors	10
2.12. Consolidated List of Auditable Issues with Ranking	11
2.13. Risk Points of Auditable Issues/Areas	11
2.14. Factors to Account Risk Associated with Auditable Issues/Areas	12
2.15. Estimation of Audit Resource/Working Days Available	12
2.16. Final List of Auditable Issues/Areas	13
2.17. Annual Audit Plan Preparation and Approval	13
2.18. Amendment of Annual Audit Plan	13
2.19. Process of Risk Assessment and Annual Plan Preparation	13
<b>Chapter 3</b>	<b>15</b>
<b>Risk Assessment Framework and Internal Audit Plan</b>	<b>15</b>
3.1. Background	15
3.2. Risk and Objectives of Assessing Risk	15
3.3. Risk Assessment Framework	16
3.4. Selecting Auditable Area	16
3.5. Understanding the Business	16

3.6. Review Relevant Information Captured while Preparing Annual Audit Plan .....	19
3.7. Analysis of Key Processes .....	19
3.8. Assessment of Inherent Risk .....	20
3.9. Assessment of Internal Control .....	22
3.10. Ranking Residual Risk .....	23
3.11. Internal Audit Plan .....	23
3.12. Risk Assessment Framework and Audit Plan Preparation .....	27
<b>Chapter 4 .....</b>	<b>28</b>
<b>Audit Execution.....</b>	<b>28</b>
4.1. Background .....	28
4.2. Audit Team Formation .....	28
4.3. Understanding of Audit Plan.....	28
4.4. Entry Conference.....	28
4.6. Analysis and Evaluation.....	31
4.7. Supervision.....	33
4.8. Working Papers .....	34
<b>Chapter 5 .....</b>	<b>35</b>
<b>Reporting .....</b>	<b>35</b>
5.1. Background .....	35
5.2. Contents of Audit Report .....	35
5.3. Quality of Audit Report.....	36
5.4. Drafting Audit Report .....	36
5.5. Exit Conference.....	38
5.6. Report Finalization .....	38
5.7. Review and Issue of Audit Report .....	39
<b>Chapter 6 .....</b>	<b>40</b>
<b>Follow-Up of Audit Reports.....</b>	<b>40</b>
6.1. Background .....	40
6.2. Follow-Up System.....	40
6.3. Objectives of Follow-Up.....	40
6.4. Comments on the Audit Findings.....	40
6.5. Review of the Comments .....	41
6.6. Communication of the Review Decision .....	41
6.7. Database/Records of Follow-Up .....	41
6.8. Follow-Up of Recorded Recommendations .....	42
6.9. Disposal of Recorded Recommendations .....	42
6.10. Reports of Follow-Up Status .....	43
<b>Chapter 7 .....</b>	<b>44</b>
<b>Documentation .....</b>	<b>44</b>
7.1. Background .....	44
7.2. Objectives of Documentation.....	44

7.3. Confidentiality.....	45
7.4. Audit Files and Contents .....	45
7.5. Indexing and Cross Referencing .....	46
7.6. Disposal of Files, Records and Reports .....	46
<b>Chapter 8 .....</b>	<b>47</b>
<b>Annual Report .....</b>	<b>47</b>
8.1. Background .....	47
8.2. Executive Summary .....	47
8.3. Full Text of Annual Report .....	47
<b>Chapter 9 .....</b>	<b>48</b>
<b>Annex .....</b>	<b>48</b>
9.1. Background .....	48
9.2. Forms.....	48

# Chapter 1

## Introduction

### 1.1. Background

Article 2 of Prakas, dated 15 December 2011 on the Establishment and Functioning of the NCDD Secretariat determines NCDDS Structure including the internal audit group. In particular the Article 25 has assigned roles and responsibilities of the Internal Audit Group. That forms a base for setting up and operating the internal audit group in NCDDS.

This chapter sets forth the purpose, authority, responsibility and structure of the internal audit activity with reference to the Articles of Prakas and international internal auditing standards.

### 1.2. Roles and Responsibilities of the Internal Audit Group

Prakas dated 15 December, 2011 (No.165 Brk/NCDD) has following provisions in article 25 about internal audit for NCDD Secretariat. The Internal Audit Group shall be under the direct supervision of the Head of the NCDDS and shall have the following roles and responsibilities:

- Conduct internal auditing tasks for all program and project implementing agencies at national and subnational levels under the management of the NCDDS in order to ascertain the reliability and completeness of financial records, accounting, financial reporting and compliance with approved procedures and transactions;
- Prepare internal audit reports providing evidence-based and reasonable recommendations to the Head of the NCDDS for appropriate measures to be taken;
- Ensure that all findings and recommendations are communicated to concerned parties immediately for discussion and remediation as necessary;
- Follow up on all agreed measures taken in response to recommendations to ensure that they are implemented properly;
- Maintain confidentiality regarding all issues arising and ensure that communications take place only with the responsible officials concerned and the Head of the NCDD Secretariat;
- Review and identify any weaknesses or unclarity in the NCDD operational procedures and provide appropriate recommendations for improvement after discussion with the relevant officials or authorities;
- Conduct investigations and other enquiries as directed by the Head of the NCDD Secretariat;
- Cooperate with and facilitate the work of independent review missions, external audits and other government inspection units;
- Other tasks as requested by the Head of the NCDDS.

### 1.3. Purpose of Internal Audit

The Internal Audit Group is to provide independent, objective, assurance services to add value and improve the operations of NCDD. It helps the NCDD accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit activity is guided by a value driven philosophy of partnering with other NCDDS units, ministries/ institutions, SNAs, development partners, CSOs and other relevant stakeholders to continuously improve the operations of the NCDD plans and projects under NCDD management.

The Internal Audit Group of NCDDS is to determine whether the NCDD projects and activities under NCDD management, have designed and represented adequate risk management, control, and governance process, and functioning in a manner to ensure:

- Risks affecting achievement of objectives at NCDD, and within the project management and operational areas are appropriately identified and managed.
- Significant legislative or regulatory issues impacting the operation of NCDD are recognized and addressed appropriately.
- Proper communication system and interaction with all stakeholders including, beneficiaries and development partners is in place.
- Significant financial, managerial, and operational information is prepared accurate, reliable, and timely.
- Senior management and developing partners receive all relevant information in timely fashion.
- Staff, advisors and other parties involved in the operation of NCDD comply with policies, standards, procedures, applicable laws, regulations and contracts.
- Resources are acquired economically, used efficiently, and safeguarded.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered for the NCDD Process.

Those points are also considered the ‘scope of work’ of the internal audit group. The purpose of Internal Audit Group is thus to help NCDD in achievement of objectives.

#### **1.4. Authority of Internal Audit Group**

The internal auditor is authorized to enter and remain on the auditee’s premises during working hours, entitled to fully access to documents, reports or properties belongings to NCDD, and may examine, make copies or extract documents from any report. The internal auditor will enjoy free access and support of auditee 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 internal auditor is, therefore have unrestricted and timely access and support for audit purpose. Main points are listed below:

- Have unrestricted access to all NCDD functions, records, manuals and automated systems, properties and personnel.
- Audit or review any function, output, activity, budget and account of the NCDDS, ministries, institutions, SNAs and projects required to submit financial statements to NCDD.
- Have direct access to the head of NCDDS and shall present any matter of material and/ or importance that require attention head of NCDDS.
- Seek concern and suggestions of head of NCDDS, deputies, project coordinators, functional chiefs and staff, and of all stakeholders in the course of preparing risk based annual audit plan and developing individual audit plan/ program.
- Select subjects or area for internal audit, determine scopes of work, allocate resources, set frequencies, and apply the professional techniques required to complete audit.
- Obtain the necessary assistance of personnel of the NCDD and those who are connected with audit related activities from inside or outside of the NCDD.
- Seek specific information through questionnaire, clarification, explanation, discussion, workshop and other appropriate methods.
- Seek information and ask for opinion regarding plans and project activities from beneficiaries.
- Seek comments on audit observation from project coordinator, officials and staff prior to issue audit reports.
- Seek comments from auditee on internal audit report with time frame to implement audit recommendation or reasons for not implementing the same.
- Submit audit report, periodic reports and annual report to the head of NCDDS, deputies, project coordinators, and functional chiefs as and when required.
- Conduct follow-up of implementation of audit observations and report the progress.

- Prepare and submit annual budget required for operation of the implementing group including any need of out-sourcing or co-sourcing for technical services.

To maintain independency and objectivity, the internal auditor is not authorized to:

1. Perform any operational duties for the NCDD.
2. Initiate or approve procurement, contract administration, plan and project implementation and other non-accounting decisions, and accounting transactions which are not related to the internal audit group.
3. Direct the activities of any staff that is not employed or hired for the internal audit group unless one has been assigned for internal audit function.
4. Act the way that could lead to the affecting independency and objectivity of internal audit services.
5. Accept any benefit from auditee organization.
6. Entertain any orders from others that may jeopardise the independency and objectivity.

### **1.5. Responsibility of Internal Audit Group**

The Director of Internal Audit Group and other auditors are responsible for providing independent, objective assurance services to the NCDD. Responsibility of internal audit is to assess adequacy and effectiveness of risk management, controls and governance process and recommend for improvement. Helping in improving operations and in achievement of objectives of NCDD are in central of the responsibility. Main responsibilities of internal audit are presented below:

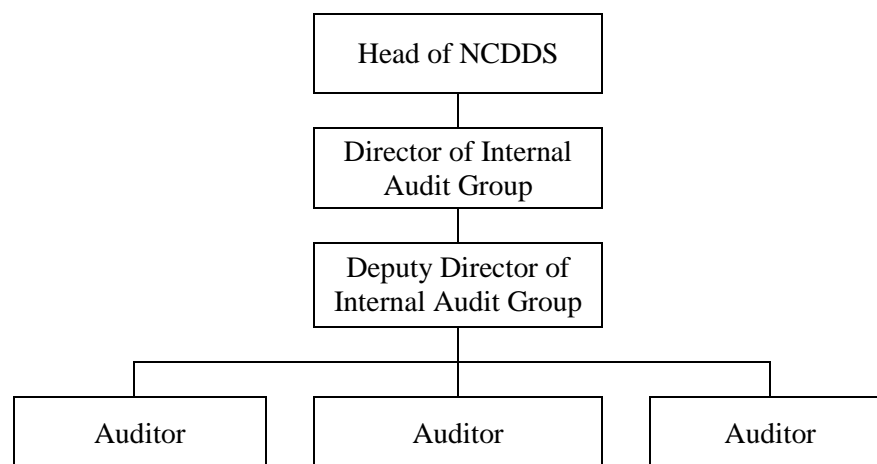
- Develop, update and apply audit procedures which are in line with Prakas and International Standards for the Professional Practices of Internal Auditing promulgated by the Institute of internal auditors and that meet the requirement of NCDD.
- Conduct risk assessment with value to the view of senior management, and officials, and develop a flexible annual plan for internal audit.
- Prepare and submit annual audit plan for approval of head of NCDDS secretariat.
- Implement the approved annual audit plan, include additional audit assignment identified and remove any with justification from annual plan under approval of the head of NCDDS secretariat.
- Prepare risk based audit plan for individual audit assignment with following broad objective and scope as guiding factors.
  - Determine that the internal control system of NCDD project activities under audit is adequate and effective.
  - Determining the systems and procedures of reporting, and integrity of financial, and performance reports,
  - Determine the effectiveness and efficiency of operations and programs.
  - Determine the safeguarding and optimal utilization of assets and other resources.
  - Determine the compliance with laws, regulations, policies, procedures, and contracts.
- Conduct field audit, prepare working papers and evidence supporting audit observations and opinion.
- Submit written and timely audit reports of each audit assignment to the head of NCDDS secretariat, project coordinator and appropriate official.
- Copy each internal audit report to the **National Audit Authority**.
- The conclusion of each engagement has to acknowledge satisfactory performance, evaluation of internal control followed by details audit findings and recommendations for correction or improvement.
- Conduct vigorous follow-up activities to monitor progress of audit observations implementation.
- Assist in the investigation of significant suspected fraudulent activities within the NCDD as requested by senior management.

- Beyond the traditional assurance services to assist management in meeting its objectives, provide other services as requested by senior management such as facilitation, process design, training, and advisory services.
- Conduct quality review of selected audit files to assure internal auditing activities are acceptable and are conducted as per manual and standards.
- Prepare annual report of internal audit activity that put light on the activities planned, performed, result of the audits, implementation of audit reports and areas for improvement with in Internal Audit Group.
- Maintain independency of internal audit functions, which is foundation of functional internal audit group. For the purpose the Internal Audit Group has to be positioned under direct supervision of and report to head of NCDDS.
- Internal auditors are responsible adhere code of ethics: Integrity, Independence, Objectivity and Impartiality, Professional Secrecy and Competence promulgated by the institute of internal auditors.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certification to meet the responsibilities of the charter.

### 1.6. Organizational Structure of Internal Audit Group

The Internal Audit Group is led by a director and assisted by a deputy. The Internal Audit Group is under direct leadership and supervision of the Head of NCDDS. The management structure of the Internal Audit Group is presented below.

**Structure of NCDDS Internal Audit Group**



### 1.7. Structure of the Manual

The Internal Audit Manual is divided into 9 chapters as follows:

- Chapter 1 is an introduction;
- Chapter 2 describes risk-based audit strategy and formulation of annual internal audit plan;
- Chapter 3 describes risk assessment framework and preparing an internal audit plan;
- Chapter 4 describes the execution of the internal audit plan;
- Chapter 5 describes the reporting of the internal audit plan;
- Chapter 6 describes follow-up process of the internal audit reports;
- Chapter 7 describes the documentation of the internal audit;
- Chapter 8 describes the process for preparing the annual internal audit report
- Chapter 9 is the annex including forms used in the manual in the whole process of the internal audit. These forms can be reviewed, revised and updated on a regular basis and as necessary with approval of the NCDDS head.

## Chapter 2

### Risk-Based Audit Strategy and Annual Internal Audit Plan

#### 2.1. Background

Under the risk-based audit approach, auditors have to determine whether compliance with financial regulations and other instructions will be sufficient to adequately mitigate the risks which the organization faces in achieving organizational objectives. Risk analysis enables auditor to evaluate the vulnerability of a particular system or group of systems. It is largely based on experience and subjective judgement of auditors but various techniques can be used to make the analysis and evaluation more systematic, and in part, more objective. While providing assurance services and other internal audit related functions, auditors cannot verify each and every aspects and transactions of the organization for simple reason of effective deployment of audit resources. Resources are by nature always limited, which equally true in case of internal audit group. Efficient and effective use of internal audit resources is possible if the Internal Audit Group focuses on using its resources, especially available working days of auditors, in a way that optimises the achievement of responsibilities set forth in the legal framework on the establishment of Internal Audit Group.

NCDD has varieties of auditable areas and there may be good number of audit assignments. All areas cannot be audited each year because of cost effectiveness, and efficient use of audit resources. Risk based audit strategy addresses the issue of effective deployment of audit resources and thus forms ground for value adding services to the organization.

#### 2.2. Definition of Risk

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

**2.2.1. Risk:** The possibility of an event occurring that will have an impact on achievements of objectives is risk. Risk is measured in terms of impact and likelihood.

**2.2.2. Risk management:** A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organization objectives is risk management.

**2.2.3. Risk appetite level:** The level of risk that an organization willing to accept is risk appetite level.

**2.2.4. Residual risk:** The risks remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities to respond to a risk is residual risk.

#### 2.3. Risk-Based Audit Strategy

Risk-based audit strategy is the strategy of internal audit group. It focuses and deploys audit resources for audit of high risk areas. Risk-based audit strategy is an approach, process, and methodology, and also the attitude of selecting audits based on the impact and likelihood of adverse events or risk. One way of considering risk-based audit is, to audit those areas which are significant in achievement of organisational objectives. Therefore, strategy that drive the internal audit activity in conducting audit of those areas that has important role in achievement of NCDD objectives is risk based auditing strategy.

Auditing all transactions is neither cost effective nor considered a value adding activity of internal audit. Identification of audit universe, selection of auditable areas based on risk analysis and available resources, prepare risk based annual audit plan, develop audit plan/ program for individual audit and conduct audit examination on sampling basis is risk based audit practice .

The risk-based audit approach helps auditor to evaluate the level of risk associated with particular area of audit, i.e. specific accounts and transactions. This audit approach avoids both over auditing

and under auditing, and thus will lead to cost effectiveness without compromising the quality of audit. Compared to the substantive testing and system based auditing, the risk based auditing takes account of substantive test of risks and includes inherent risk, control risk, detection risk, sampling risk and other analytical procedures.

The essence of risk based audit strategy is therefore customer-focused, starting with the objectives of the activity being audited, then moving on to the threats or risks in achievement of those objectives, and then finally to the procedures and processes to mitigate the risks. The risk based audit strategy will minimize the possibility of audit objectives not being met. The essentials of risk-based auditing are widening the coverage, tackling some of the non-traditional areas, and focusing to help management achieve their objectives.

## **2.4. Risk Register**

Normally organisation identifies key risks related to the aspects of program and project management and operation and prepares risk register. In this situation the internal audit has to verify the process management has adopted to identify risk. If process of risk identification is adequate and effective, internal audit group can validate the risk register as main source for developing annual audit plan. The internal audit group is required to follow the complete process of assessing risk while preparing annual plan and individual audit plan/ program.

## **2.5. Audit Risk**

Objective of risk-based audit strategy, developing risk-based annual internal audit plan and preparing risk based individual audit plan as per risk assessment framework is to provide reasonable assurance to the senior management of NCDD. While discharging this responsibility, the auditor should take into account that internal audit activity is also not a risk free activity. Risk of auditor issuing an unqualified audit opinion when the financial statements are materially misstated, a situation of providing false assurance, and issuing qualified audit opinion while financial statements present true and fair view are audit risks. The same concept of audit risks related to the issuing wrong opinion on financial statements can be used in case of system evaluation, integrity of performance reporting and other matters under audit.

There are three components of audit risks namely inherent risk, control risk and detection risk. Inherent risk is related to environmental factors that would lead to a material error before considering the function of internal control. Such risk is generally related to entity's legal arrangement, policy framework and, financial and operational arrangement. Control risk is the risk that a misstatement could occur, that could be material individually or when aggregated with other misstatement, and which will not be detected or prevented on a timely basis by the entity's internal control. Control risk is assessed against the possibility of preventing material error or detecting it in time of using internal controls. Detection risk emerges where the audit procedures fail to detect a material error not picked up by the internal controls. The result of all these three types of risk represents audit risk. The formula for evaluating audit risk is given below:

$$\text{Audit Risk} = \text{Inherent Risk} * \text{Control Risk} * \text{Detection Risk}$$

## **2.6. Risk-Based Planning**

While developing risk based annual audit plan, auditors should take into account following provisions which are as per the standards promulgated by the institute of internal auditors.

**2.6.1. Priority of Internal Audit Activity:** The Director of internal audit group must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization goals.

**2.6.2. Responsibility:** The Director of internal audit group is responsible for developing a risk-based plan. The Director of internal audit group takes into account the organization risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the Director of Internal Audit Group uses his/her own judgment of risks after consultation with senior management and board.

**2.6.3. Inputs of senior management:** The internal audit activity plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

**2.6.4. Expectations of senior management:** The Director of Internal Audit Group must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

**2.6.5. Communication of Plan:** The Director of Internal Audit Group must communicate the internal audit activity plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The Director of Internal Audit Group must also communicate the impact of resource limitations.

## **2.7. Risk Assessment Procedure**

Considering the fact that the impact of risk could have adverse effect on the achievement of NCDD objectives and responsibility of the Internal Audit Group to help the NCDD in achieving its objectives, there is need that risk should be assessed. Risk is anything that could hinder achievement of the NCDD objectives, and assessment has to base on likelihood and impact of occurring risky events. In other words adverse events that could erode the value created and /or prevent from adding value towards successful implementation of activities within the NCDD has to be identified and measured their impact while assessing the risk. Director of the Internal Audit Group is responsible for leading risk assessment process and prepare risk based annual internal audit plan.

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

**2.7.1. Discussion with client:** Auditors must discuss with the client management about its objectives and expectations, and its plans for achieving those goals.

**2.7.2. Analytical Procedures:** Analytical procedures help auditor in identifying unusual transactions and assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks.

**2.7.3. Observation and Inspection:** Observation and inspection procedures provide information about the audited entity and its environment. The procedures can cover a broad area of an entity including operations, documents and reports prepared by management and also of the entity's premises and plant facilities.

## **2.8. Considerable Points**

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

**2.8.1. Fraud:** Whether the risk is a risk of fraud.

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

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

**2.8.4. Related party transactions:** Whether the risk involves significant transactions with related parties.

**2.8.5. Unusual transactions:** Whether the risk involves significant transactions that are abnormal and unusual.

## **2.9. Risk Based Annual Internal Audit Plan**

The Internal Audit Group cannot operate in ad-hoc manner. Proper planning to ensure that risk associated with the achievement of NCDD objectives are covered by internal audit is essential. Benefit of planned move and activities have been recognised by the professional practices of internal auditing. Annual internal audit plan is a vigorous process that includes consulting senior management, project and operational managers, functional officials, beneficiaries and other stakeholders to get their view on the risky areas that warrant audit. It further examines previous audit reports, information relating to the program and project management and/or operation, new development within the organization, and look for all possible sources that could provide information about risk. Professional judgement and serious involvement of internal audit team is prerequisite in collecting and using information collected in ranking level of inherent and residual risk.

The Internal Audit Group then has to develop its annual plan considering risk and available internal audit resources. Standard procedure for assessing risk and preparing annual internal audit plan could help that the process allows minimal space for personal belief while assessing risk. It will strengthen objectivity in risk assessment process and further set procedure that provides a reasonable assurance regarding results of risk assessment and comprehensiveness of annual internal audit plan.

Annual internal audit plan is at minimal consist client profile, that is information about NCDD and main projects and /or operations under NCDD, list of auditable plans and projects, activities and/ or issues, deployment of internal audit resources, calendar of operation, and provision of revision as and when needed. The plan has to be prepared and approved by December. Approval of head of NCDDS is a must that further strengthens authority of internal audit activity.

## **2.10. Procedures of Capturing Inputs and Information for Risk Assessment**

**2.10.1 Defining audit universe:** Internal Audit Group first of all has to prepare list of the total audit universe under its responsibility. Comprehensive list of projects and organisational units including cost centres and non-cost centres within the NCDD is starting point of defining audit universe. This list incorporates all organs and distinct activities under NCDD, irrespective of the risk associated with their operation and/or management. Following reference is useful as it could provide comprehensive list of audit universe along with persons to be contacted for risk assessment.

- NCDD plans
- Projects under NCDD
- Distinct units or functions of the NCDD
- Business or organizational processes
- Regulatory or statutory requirements
- Experience of internal auditors, previous audit reports and other information.

**Form 1** is standard format for listing audit universe that further elaborate on preparing comprehensive list of auditable area or audit universe.

**2.10.2 Inputs of senior management:** Internal Audit Group has to provide assurance services to the senior management. Regular meetings are fruitful in gaining understanding about their concerns and capturing information related to the risk associated with program and project management and/ or operational area. In due process of developing risk based annual audit plan

Director of Internal Audit Group should request senior management of NCDDS and NCDD to provide their inputs as a source of selecting areas of projects and activities to be audited in coming year.

**Form 2** is standard format and further elaborates procedure for getting inputs from senior management. This request has to submit by 15<sup>th</sup> of November to head and all deputies of the NCDDS and relevant NCDD management.

**2.10.3 Capturing inputs of line management:** Risk assessment process and risk based annual audit plan preparation cannot be complete and fruitful if Internal Audit Group fails to captures inputs from project management. Heads of NCDDS Divisions, project managers, or those who are leading project, office or unit are target group for this purpose. They can provide information regarding areas in which they are facing problems or consider need of independent audit/review of other area. The Internal Audit Group has to submit request and support them in providing inputs.

**Form 3** is standard format and further elaborates procedures for getting inputs from project management which includes NCDDS Division heads, project and/or operational managers. The input providers will rank auditable issues/areas as per their understanding of requirement of audit and that serves a base to assess risk associated with auditable areas. This request has to submit by 15<sup>th</sup> of November.

**2.10.4 Capturing inputs of officials, beneficiaries and other stakeholders:** Channelling concerns of officials involved in project management and or operational areas, beneficiaries and also of those who are not directly involved in project implementations in risk assessment process is crucial for risk based auditing strategy. The Internal auditor may apply varieties of tools for capturing inputs as per the person and /or group being considered for inputs and nature of information desired from the process. Some of them are discussed below:

- **Workshop:** a tool for capturing inputs through group discussion

The Internal Audit Group can apply work shop approach for gaining understanding about the concerns of those who are involved in NCDD as employees, advisors or in other capacity. Workshop can be organized for one type of group for example finance officers or procurement officers. Workshop can also be organised in which persons from different field can participate, for example finance officer, procurement officer, project implementation officers, human resource officers, and so on. It is important to organize and facilitate work shop efficiently so as to identify auditable areas and issues risk associated with. It is responsibility of internal audit group to request in well advance with objectives of workshop and outline of the workshop to all participants. All logistic, note taking and facilitation arrangements have to be made in well advance.

After a short break, summarised inputs of workshop needs to be presented to the group and recorded in format, **Form 4**.

- **Discussion and meeting:** with individual and/or team

The Internal Audit Group can visit offices of the relevant officials or stakeholders who are important part of project implementation and/ of operational aspects of NCDD. It is important that internal audit group prepares outlines or points for discussion and informs the person or team in advance with whom the discussion and/or meetings are going to be organised. The role in this type of meeting is played by ears not by mouth of the auditors. Listening is strategy of the meeting, but for keeping the meeting on the agenda and for getting clarification and conformation, internal auditor should be playing active role.

After a short break, summarised inputs needs to be presented to the group and recorded in format, **Form 4**.

- **Questionnaire:** to collect opinions of stakeholders

Questionnaire is widely used tool for gathering information that can bring benefit to internal audit in annual planning. This type of technique is more appropriate for the subject matter which does not involve very factual information but general opinions and perceptions of stakeholders. First of all Internal audit group has to prepare a set of questionnaire. While preparing questionnaire, it is necessary to make sure that the response can be completed within 30 minutes, and answer should be in “Yes or No” or ranking 1 to 3.

There should be arrangement for keeping secret the identity of responder. Tabulation and analysis of the responses can provide a fresh opinion of the stake holders, provided selection of responder represents the population and questionnaire are focused. Internal audit group has to complete tabulation and analysis the result and then record the risks with ranks. The **Form 4** has to use for recording inputs and ranking of risk.

- **Public meeting:** an important procedure for capturing inputs

Auditors in public sector are increasingly applying the community meeting for getting first-hand information, concern, demand and suggestions from ordinary people. Target group of the projects, recipient of social land concession for example are real beneficiaries, can provide useful information that could help internal auditor to identify and assess risks associated with managing project and defining project activities and other issues important for efficient and effective implementation of the project. Internal audit activity would be greatly benefited if the selection of people for public meeting is representative including women. It is paramount to have proper focus on group/ community for public meetings for success of the process. Civil society and organized community could also be targeted group for the meeting.

The Internal Audit Group has to prepare out lines or points on which discussion will be focused. However, participants should have opportunity to share their views on other matters as well, provided those are related to the NCDD. There should be proper ‘note taking’ action during the meeting and after a short break, summarised inputs needs to be presented to the group and recorded in format **Form 4**.

## **2.11. Assessment of Broad Risk by Internal Auditors**

The Internal Audit Group in its endeavour of assessing broad risk that form base for risk based internal audit planning has to focus on all areas of risk and needs to follow standard procedure.

**2.11.1 Considerable points while assessing risks:** The nature of work of internal audit is wide in the sense it must evaluate and contribute to the improvement of governance, risk management, and control process using a systematic and disciplined approach. Considering that while assessing risk and developing annual internal audit plan is essential. The Internal Audit Group should consider and assess risk regarding following 11 points which are related to the governance, risk management and control:

1. Ethics and values within the NCDD
2. NCDD and Projects performance management and accountability
3. Communicating risk and control information to appropriate areas of the NCDD and Projects.
4. Projects objectives support and are aligned with the NCDD objectives

5. Significant risks are identified and assessed by NCDD
6. Relevant risk information is captured and communicated in a timely manner across NCDD
7. Reliability and integrity of financial and operational information
8. Effectiveness and efficiency of operations and programs
9. Safeguarding of assets
10. Compliance with laws, regulations, policies, procedures, and contracts
11. Potential for the occurrence of fraud and how the NCDD and projects manage fraud risk

**2.11.2 Risk assessment sheet:** The Internal Audit Group has to prepare risk assessment sheet for each of the above mentioned 11 points. This process of assessing risk will not include new auditable areas and take into account those auditable areas already identified and are under risk assessment procedure. **Form 1** is list of offices and projects and areas for assessment of risk. Internal Auditors have to use their knowledge, experience, feedback from previous audit reports and most importantly professional judgement while ranking each auditable area. Internal auditor should be familiar with objectives of the NCDD, projects and operational units and efforts in place to achieve the objectives. Review of the documents related to the NCDD and projects and, understanding the business process are most effective way for auditors to become familiar and do a reasonably fair assessment of risk associated with project and 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:

- Mandate of the NCDD
- Legal provisions relating operation of NCDD
- Organizational structure of NCDD and projects
- Objectives of individual projects and operational units
- Agreement with Development partners
- Technical manual being used by NCDD and projects
- Procurement procedure in NCDD and projects
- Human resource management including outsourcing and co-sourcing
- Financial management of NCDD and projects

**Form 5** is the format for recording the rank assessed by internal audit group.

## **2.12. Consolidated List of Auditable Issues with Ranking**

Next step of the risk assessment process is to consolidate all information and inputs collected and assessment made by the audit team. The **Form 5** is prepared as comprehensive list of various projects/ operations and issues auditable. Internal audit group must use the same list of auditable areas and allocate ranking for each of the auditable area. **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.

## **2.13. Risk Points of Auditable Issues/Areas**

The consolidated list of auditable areas with ranking provides information about all auditable areas and the rank of risk as indicated by senior management, project and or operational management, other stake holders, and assessment of Internal audit group. They are indicative of risk level associated with auditable areas. Internal audit group then have to prepare a point based list of the auditable areas. This will facilitate the risk assessment process as mathematical points are used to assess risk associated with projects and operational management under NCDD.

For the purpose, 5 points will be allotted to the most auditable areas those are under most auditable and having rank 1. Likewise 3 points for those areas which are under important and having rank 2, and 1 point for not important and having rank 3 should be allotted. All identified areas are to be assessed in equal ground and thus requires points to be allocated for each source of inputs in case of

each auditable area. There will be situations in which some of the sources are not used to get inputs. 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 with risk points of each auditable area.

#### **2.14. 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 stake holders. Assessment of Internal audit group 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 auditor to use risk factors for each risk identified and recorded with risk points.

This step is a bit subjective as professional judgement of internal auditors play significant role in the process. Director of Internal Audit Group, deputy Director of Internal Audit Group and auditors have to seat together to discuss and allocate factors that is used to multiply points of each auditable area. As the risk is measured on the basis of “**Likelihood**” of event that threat achievement of objective and “**Impact**” that could have if the event occurs. For the purpose of using factors likelihood can be classified under three categories, most likely, likely and less likely. Factors for impact also have three categories, high, significant and low. Materiality of event occurring is main aspect internal auditor has to consider while assessing impact. Higher the materiality, higher will be the impact of the event under assessment.

Based on the professional judgement of director of Internal Audit Group, deputy director of Internal Audit Group and auditors, each auditable area has to be assessed as per both likelihood and impact. Then factors are assigned to multiply risk points of each auditable area. **So far as 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.** Total of the risk points after applying multiplying factor will give a numerical value suggesting factored risk associated with all auditable areas. **Form 8** provides further information and guidance on how to provide factor for each auditable area and to calculate factored risk points. **Form 8** further will be used for ranking the auditable areas in accordance to the factored risk points.

#### **2.15. Estimation of Audit Resource/Working Days Available**

The Internal Audit Group has to estimate available audit resources. Each audit requires involvement of auditors, deputy Director of Internal Audit Group and Director of Internal Audit Group. Director and deputy Director of Internal Audit Group allocate available working days for all audit assignments and managerial or non- audit work. Number of working days of auditors is critical in the sense number of audit to be under taken is based on the available working days of them. All auditors will be busy in assessing broad risk and preparing risk based annual audit plan during the months of November and December. Then they will be busy with preparation of annual report in January. The auditors have to do follow-up of previous reports and undertake managerial work as well. Therefore, total working days minus leave days and working days for follow-up and managerial works of rest nine months, February to October, will be the available working days for conducting audits.

Based on the numbers of auditors, ratio of working days can be allocated to the each audit. Not necessarily each audit requires same ratio of working days of auditors, however, estimation has to be based on the numbers auditors. **Form 9** is the format for calculation of available working days of each level of auditors.

## **2.16. Final List of Auditable Issues/Areas**

Upon completion of ranking as per total risk points, **Form 8** and estimation of available total working days, **Form 9** internal audit group has to estimate working days required for each audit. The standard format that list 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**. As per the ranking that is based on total factored risk points, audit assignments will be list out and available working days are allocated as estimated for each audit. Balancing working days shows the additional audit assignments that can be undertaken in coming year as there will be no more audits that can be undertaken when there is no working days balance.

If two or more auditable areas of same project or office (Financial Management, Procurement and Contract Administration, Project and/or Operational Management, or other issues) are falling under the final list of auditable issues/areas, all should be covered by one audit assignment. Further the scope of or period to be covered by audit, 1st quarter of year 201.. for example, has to decide while allocating working days. Working days estimated at this stage may need to revise when audit team prepares audit plan/program and that again may not be the actual when audit execution and reporting completes. Director of internal audit group has to monitor working days planned and actual, and make sure that all audit assignments are undertaken unless there is the situation which is beyond the control. If such is the case Director of Internal Audit Group should report and get approval from Head of NCDDS as amendment of annual internal audit plan.

## **2.17. Annual Audit Plan Preparation and Approval**

The Internal Audit Group has to get approval of the Head of NCDDS on audit assignments it is going to take during next year. The annual internal audit plan has to submit in well advance in time so as to have approval by end of December. The auditable areas are to be selected largely based on risk assessment but not exclusively, the plan submitted by internal audit group may need to revise as per direction of Head of NCDDS. This is one of the main reasons that require that the Internal Audit Group should complete and submit draft annual plan for review of Head of NCDDS by 20<sup>th</sup> of December. Annual audit plan consist not only the list of auditable areas but also the, brief client profile, schedule of audit assignments, and other matters that put light on objective, scope and approach of audit. **Form 11** is structure of and also provides information on subject matter and text of risk based annual internal audit plan.

## **2.18. Amendment of Annual Audit Plan**

There are high chances that internal audit group has to take additional audit assignments which are not included in annual plan. Instruction from Head of NCDDS, concerns raised by deputies of NCDDS, request of project or operational managers, interest shown by of development partners, concerns of civil society, issues raised by media, and for other valid reasons there may be need to undertake new audit. The Internal Audit Group has to review the working days available and may have to drop other areas listed in annual internal audit plan to allow new audit to be undertaken. Likewise there may be situation where some of the areas have to drop for other reasons as well. Such changes have to be approved by the Head of NCDDS, therefore, the Internal Audit Group has to prepare a request/ proposal to add new audit or remove any auditable area from the approved annual plan.

## **2.19. Process of Risk Assessment and Annual Plan Preparation**

The whole process of risk assessment and annual planning is a sequential process. Each step provides information and base for next step. The process of broad risk assessment requires the Internal Audit Group prepare 11 standard formats or **Forms**. The Internal Audit Group can allocate 2 months, November and December, for whole process of risk assessment and annual plan preparation. The following summary provides information of the process, forms to be used and timeliness of risk assessment and preparation of risk based annual internal audit plan.

### **Steps of Risk assessment and Annual Internal Audit Plan Preparation**

<b>Steps</b>	<b>Description</b>	<b>Form</b>	<b>Timeline</b>
Step 1	Defining audit universe	1	Nov 7, 15 and 30
Step 2	Capturing inputs of senior management	2	Nov 15 and 30
Step 3	Capturing inputs of project/ operational managers	3	Nov 15 and 30
Step 4	Capturing inputs of beneficiaries and other stakeholders	4	Nov15 and 30
Step 5	Assessment of broad risk by internal audit group	5	Dec 5
Step 6	Consolidated list of auditable issues/ areas with ranking	6	Dec 5
Step 7	Consolidated list of auditable issues/areas with points	7	Dec 10
Step 8	Likelihood and impact based factors to assess broad risk	8	Dec 10
Step 9	Calculation of available working days	9	Dec 15
Step 10	Risk based rank of auditable issues/ areas and working days	10	Dec 15
Step 11	Preparation and approval of annual audit plan	11	Dec 20 and 31

## Chapter 3

### Risk Assessment Framework and Internal Audit Plan

#### 3.1. Background

The Internal Audit Group is responsible for providing reasonable assurance to the NCDD that resources are economically deployed for the purpose intended, and project management and operations are efficient and effective. In providing assurance services, it is paramount that internal audit group identifies those events that can undermine the efforts being put in place by NCDD for achievement of objectives. 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 basis of preparing internal audit plan for individual audit assignment.

#### 3.2. Risk and Objectives of Assessing Risk

**3.2.1. Risk:** Risks are events that threaten the project performance, operational efficiency and essential services provided by the NCDD. In essence, a risk is anything which has the potential to prevent the NCDD from achieving its objectives. Risk has two categories, inherent risk and residual risk.

- Inherent risk is a measure of the auditor's expectation of risk before considering the effectiveness of internal controls.
- Residual risk is the level of risk that remains after taking into account the mitigating effect of related controls.

**3.2.2. Audit risk:** Internal audit activity has risk of issuing false assurance, and wrong reports that undermines performance of management. These risks known as audit risks are the probability or risk that the auditor will arrive at an inaccurate audit conclusion. Such conclusion if reported to the management may result inappropriate inputs for decision making process. Further a false assurance could lead to ineffective control mechanism that will have adverse effect in the project and/or operational management of NCDD. Two types of audit risks are discussed below:

- Audit process failing to detect significant weakness that exists and concluding that there is no significant weakness is first type of audit risk. It will lead to the situation that the auditor issuing unqualified audit opinion whereas financial statement does not present true and fair view. Likewise audit report failing to include the mismanagement, underperformance and non-compliance where as such situation exists provides false assurance to the management of NCDD.
- Auditor concluding that a significant weakness exist when in reality that does not, is second type of audit risk. This will lead to the situation that the auditor issue qualified audit opinion whereas financial statement present true and fair view. Likewise audit report may include observations suggesting mismanagement, underperformance and non-compliance where as such situation does not exist.

**3.2.3. Objective of risk assessment:** In simple term risk assessment is guided by the objective of deploying internal audit resources for audit of risky issues so as to provide reasonable assurance to the management of NCDD and keep the audit risk under acceptable level.

The risk assessed will form a base for developing audit plan/ program that will guide audit execution process. It minimizes the chances of important issues left without audit scrutiny and also situation deploying audit resources for auditing less important issues. The points below are not the inclusive one but good enough for providing idea about reasons behind assessing risk.

- Risk assessment procedure minimizes audit risk as it provides framework for focusing the audit on high risk areas.

- Audit could focus on the high risk areas and thus effectively and efficiently utilize internal audit resources.
- Internal audit group could add value and improve the operations of NCDD.
- It includes the objective of determining the perceptions, assumptions, and judgments that NCDD project and or operational managers regarding risks and control in place to address such risk.
- Preliminary assessment of adequacy and effectiveness of internal control system is another reason of risk assessment.
- Risk assessment aims to develop and document the auditor's risk assessments. In doing so, perspectives of management and auditors assessment are taken in account.

To summarize the points discussed above, main objective of risk assessment at the individual audit engagement level is to identify high risk issues for audit focus so as to maximize the value internal audit could add to the operations of NCDD and same time to minimize audit risk.

### **3.3. Risk Assessment Framework**

The critical and initial exercise of internal audit planning is to assess risk associated with the area under audit. Risk assessment framework provides a set of procedures and sequences of activities for assessment of risk. Assessment of inherent risk, control effectiveness and residual risk are three elements and processes of risk assessment framework. Prior to start risk assessment process auditor has to select auditable area from approved annual internal audit plan and gain understanding about the selected auditable area. The process of gaining understanding about the auditable area, which is known as "Understanding Business" is very critical in audit process. This process enables auditors to collect relevant information, acquire knowledge, and get view of the management on operational and performance related risks. Understanding of the business is the process that provides information for identification of significant matters, assessment of inherent risk, assessment of control effectiveness and finally assessment of residual risk. In this way risk assessment framework progresses on the base of understanding the auditors has gained about the auditable area. There are three main components of risk assessment framework:

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

### **3.4. Selecting Auditable Area**

The Internal Audit Group has to pick up audit assignment from the approved annual internal audit plan. Unless there is approval from Head of NCDD to add new audit, internal audit group cannot undertake any audit which is not included in annual plan. Since the annual internal audit plan incorporates the auditable areas based on broad risk assessment, selecting audit assignment from the annual plan is starting point of undertaking risk based audit assignments.

### **3.5. Understanding the Business**

The chief of the Internal Audit Group should form a team for each audit and inform auditee about the audit going to take place. The team includes auditors and may be experts in some cases. Audit team has to gain understanding and document information related to the business process, objectives, resources, organizational set up, legal provisions, standards and manual, human resources, governance, risk management and control mechanism in place that are related to the area under audit. The process enables auditors to gain deep understanding of the area to be audited. Sufficient documentation of information that could provide inputs relevant to assess risk and to develop audit plan/program is main output of this process.

**3.5.1 Goals, objectives and strategies:** The auditor should understand the goals, objectives and strategy of the area under audit so as to know the level of performance desired, as well as means

and ways of achieving performance level. This further focuses the audit activities to the most significant parts or risky issues of the area under audit. The goals and objectives can be used as a criterion for assessing performance of the project and or operational area. Understanding of goals, objectives and the strategy of auditee enables the auditor also to identify risk.

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

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

**3.5.3 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 internal audit group, audit team should review and become familiar with 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. 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 managements' view about the processes it has put in place for achieving its objectives.

**3.5.4 Accountability lines:** Understanding of accountability line and mechanism is one of the important matters audit team should consider in process of understanding the business. Information on organizational structure, major responsibility centres, their roles and responsibilities, relation to program and activities, and achieving targets and objectives at various levels are sources of gaining understanding about accountability lines.

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

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

- Review 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 than can give an idea about how management trade-off between long and short term objectives.
- Process of performance monitoring and measuring.

**3.5.7 Sources of information:** Understanding the business of area under audit requires that the audit team collect information, review and analysis information, and document the result of review and analysis. There are different sources for auditor to consider while looking for relevant information. Below is the general list of 30 information sources. Audit team has to be pragmatic in the process of gaining understanding and therefore, the sources of information may differ according to the area under audit.

- Previous audit files, master file and current file.
- Relevant legislation, regulations, Prakas, and circulars of NCDD.

- Long term and short term plan such as NP-SNDD and IP3.
- Policies, procedures, manual and standard operating procedures.
- Organizational structure, responsibility centres and cost centres.
- Lines of accountability.
- Project appraisal and /or feasibility study.
- NCDDS periodic and annual reports.
- Aide Memoire and other reports.
- Audit reports issued by National Audit Authority.
- NCDDS and other 'Web sites.
- Annual work plan and budget.
- Staffing table, approved positions and personnel on board.
- Human resources development and training programs.
- Turnover of key staff.
- Enquiry into and consider key factors, if any behind past success or failure.
- Enquiry about any case of corruption noticed by chief of the project/ office.
- Enquiry if there is practice of regular staff meeting and review decisions.
- Enquiry about grievances and suggestions handling process.
- Enquiry into the procedures by which the physical existence of assets is safeguarded and properly utilization is assured.
- Financial management information system and accounting system.
- Participating in orientation/subject matter training course organized that are related to the area of the audit.
- Media coverage and external reports.
- Site visits and observations of program operations.
- Formal reports prepared by central agencies, in-house task forces or outside consultants, which are related to the area of audit.
- Photographs or other visual aids taken or prepared by the auditors or obtained from other sources.
- Management meeting's minutes.
- Meeting with senior management, and project / operational managers.
- Meeting with functional officials and personnel.
- Meeting with other stakeholders including beneficiaries.

**3.5.8 Documentation of understanding:** Internal audit process can be considered performed in professional manner, if the documentation of what has been done, by whom and the result of that is complete. Understanding gained through the process discussed above has to record and verify by deputy director of internal audit group. All the information received and reviewed may not be relevant for further consideration and thus no need to document. Only substance of understanding is recorded in selective way. The aim of recording understanding is to provide a preliminary and general view of the significant matters and risk associated with the area under audit. Further, the information recorded should provide an idea that could help to professional auditor to look at the threats that can hinder achieving objectives of the area under audit. Those legal and provisions of other mandatory procedures including internal control system, which are critical in achieving objectives and have risk of non-compliance are, for example need to be recorded. Likewise understanding that could serve as source of supporting information while assessing risk needs to document.

Understanding gained through each source has to document separately. Above mentioned 30 sources are for reference. Audit team may leave out, if any point is irrelevant in case of particular audit. Audit team should look for other source sources of information for gaining understanding and document the understanding gained. The audit team has to identify other relevant sources and record the information after gaining understanding. **Form 12** is prescribed format for recording the understanding gained. Audit team could use various methods to record information

in concise way with complete and clear information. The ways mostly used to record information and purpose of recording information are pointed out in **Form 12**.

### **3.6. Review Relevant Information Captured while Preparing Annual Audit Plan**

Audit team should review the Information captured, documented and evaluated while developing the annual plan. Review of relevant information documented during annual plan preparation is a readily available source for understanding the business. **Form 12** should be used also for documentation of the relevant information retrieved from the documents of annual audit plan preparation process.

### **3.7. Analysis of Key Processes**

The key processes are the processes that determine the work flow, output of the process units or official responsible for the performance, its linkage with the objective of the process and finally its place and role in the big picture of achieving organizational goals or objectives. Analysis of key process will enable internal audit team not only to gain understandings of process in place but also provide idea about the risk associated with process. Analysis of key process involves identifying and gaining understanding of the key processes of area under audit, the operational risks associated with those processes, and how the auditee mitigates those risks .When auditor understands the characteristics of processes that contain significant operational risks, S/ he will be able to gain better understanding about 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.

Audit team has to identify the key process, whether properly documented by auditee or not, which are critical in achieving objectives of the area under audit. Identified key processes are for analysis in detail, which can be done through desk review, field and process observations, and discussion with process owner and senior management and other stakeholders.

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

- **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 AWPB preparation, budget disbursement, accounting and reporting, need identification and procurement of goods, works and services, recruitment and development of human resources.
- **Inputs:** The inputs to a process represent the elements, materials, resources, or information needed to complete the activities of the process.
- **Activities:** Process in place is collective form of more than one activity. Activities may be in sequential order or not but most have interrelation in achievement of process objective (s).
- **Outputs:** The outputs represent the end result of the process - the product, deliverable, information or resource that is produced.
- **Risks:** Each process consist risks. If not mitigated, that will threaten the attainment of the process objective(s).
- **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.
- **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).
- **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.

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

**3.7.2 Results of key process analysis:** Operational process analysis contributes risk assessment process. This process is typically useful and applied in internal audit process for various valid reasons. Some of the results that can be realized from analysis of key process are listed below.

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

**3.7.3 Documentation of analysis results:** The analysis has to be focused on, and should include the components of key process which are discussed above. The **Form 13** is used to record the analysis completed for each key process.

### 3.8. Assessment of Inherent Risk

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

It is universal truth that nothing is free from risk. No activity, process or action can be expected that has no risk associated with. The risk that is inherently attached with system, process and transactions is inherent risk. Determination of acceptable risk is required because “risk free environment” is not possible. Concept of “risk appetite level” addresses the issue of “no risk free environment”. Management could fix the risk appetite level or the risk it willing to accept related to its functions and activities. If such 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 objective associated with the auditable area. Trade-off between acceptable risk and cost of managing risk are considered while determining the acceptable risk. The fact, nothing is risk free and auditing all risks associated activities/transactions is not cost effective, asks for focusing on issues which are significant, material and risky that worth auditing. It is again fundamental of risk based audit and risk assessment framework.

**3.8.1 Identification of inherent risk:** The understanding of business and key process analysis are audit processes for identifying and recording relevant information that could provide a wide range of risk related inputs for planning individual audit. Audit team has to review the information documented with focus to identification of inherent risk which are critical for achievement of objective(s) regarding the area under audit. Significant matters are those which are critical and may bear risk higher than the acceptable level. As the audit planning process largely based on and limits itself on examination of the listed risks, audit team should make sure that all significant matters and risks are listed. Audit team must consider following points while determining inherent risk associated with significant matters.

- The objectives of the activity being reviewed and the means by which the activity controls its performance.
- 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.
- The adequacy and effectiveness of the activity’s risk management and control processes compared to a relevant control framework.

- The opportunities for making significant improvements to the activity's risk management and control processes.

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

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

- Almost certain
- Likely
- Moderate
- Unlikely
- Rare

Audit team should consider anticipated frequency of the event occurring, working environment, the procedures and skills currently in place, staff commitment, morale and attitude and history of previous events among others while ranking likelihood.

**3.8.4 Impact:** Audit team further rank the impact of potential adverse event that is another element of inherent risk. Five ranks of impact have to consider while ranking the impact of each adverse event:

- Catastrophic: disaster with potential to lead to collapse of the operations
- Major: critical event which with proper management can be endured
- Moderate: significant event which can be managed under normal circumstances
- Minor: event, the consequences of which can be absorbed but management effort is required to minimize the impact
- Insignificant: event, the impact of which can be absorbed through normal activity are five ranks of impact.

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

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

The matrix provides four rankings of inherent risk- High, significant, moderate and low, which are based on ranking of likelihood and impact. For example ranking of inherent risk will be high if likelihood is almost certain and impact is Moderate, Major or Catastrophic. Internal audit team completing comprehensive assessment of inherent risk so as to form base of preparing audit plan that focus on risky issues is critical for implementation of risk based audit strategy. Audit team has to prepare a complete list of assessed inherent risk as **Form 14**.

### 3.9. Assessment of Internal Control

**Controls:** Any action taken by management, board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

**Control process:** The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

The assessed inherent risk does not take account the internal control in place that mitigate the risk by reducing the likelihood, impact of adverse event. Once the inherent risks have been assessed, audit team has to determine internal control system in place to address each risk. Controls are typically categorized as primary controls (preventive), secondary controls (detective) and mitigating controls. Primary controls are preventive in nature and are designed to prevent error or fraud from occurring. Secondary controls are similar to detective controls and are designed to identify or detect when an error or fraud has already occurred. Mitigating controls are controls in other areas that alleviate, or mitigate, the risk.

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

- Integrity and ethical values
- Management's philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices
- Competence of personnel

**3.9.2 Assessing control effectiveness:** While Internal control is responsibility of management, internal auditor has responsibility of assisting controls by evaluating their effectiveness in responding to risks with in the organization's governance, operations and information system regarding the:

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations and programs
- Safeguarding of assets
- Compliance with laws, regulations, policies, procedures and contracts

Internal audit team taking into account the broad picture of control environment could evaluate effectiveness of controls in place by considering primary and secondary controls regarding each inherent risk. If the primary control is adequate and is working effectively, having a secondary control may result in over-control. The audit team in such situation has to assess the control system as "Satisfactory". If the primary control is weak but secondary control is functioning, audit team can conclude as "Some Weaknesses" in control system. In case both primary and secondary controls are not functioning, control system is assessed as "Weak". When control system is weak, the mitigating controls may help to have at least tolerable situation. Assessment of internal control requires a thorough understanding of the business, concept of control environment, and most importantly experience of auditors.

**3.9.3 Ranking of the control effectiveness:** Control effectiveness is assessed in three levels. Audit team while assessing effectiveness of internal control rank that with following reference for each inherent risk listed on **Form 14**.

- Controls are strong and operating properly, providing a reasonable level of assurance that objectives are being achieved. Rank: Satisfactory
- Some control weaknesses/ inefficiencies have been identified. Although these are not considered to present a serious risk exposure, improvements are required to provide reasonable assurance that objectives will be achieved. Rank: Some weakness
- Controls do not meet an acceptable standard, as many weaknesses/ inefficiencies exist. Controls do not provide reasonable assurance that objectives will be achieved. Rank: Weak

### 3.10. Ranking Residual Risk

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

Inherent Risk Rating	Control Effectiveness		
	Satisfactory	Some Weaknesses	Weak
High	Significant	High	High
Significant	Moderate	Significant	High
Moderate	Moderate	Moderate	Significant
Low	Low	Low	Moderate

The matrix provides four ranking of residual risk, High, Significant, Moderate and Low. The rank of residual risk is based on ranking of inherent risk and ranking of control effectiveness. For example, if ranking of inherent risk is high and ranking of control effectiveness is weak or some weakness, ranking of residual risk will be high. Internal audit team upon completing assessment of residual risk will be in position to prepare audit program for each of residual risk ranked as high, significant and moderate. Normally there is no need to conduct audit examination in case of those residual risks which are ranked low. Audit team has to prepare a complete list of assessed residual risk and develop audit program as **Form 15**. The **Form 15** also is prepared based on the information of the **Form 14**. That is, however, only for reference and therefore, not necessarily presents the real case.

### 3.11. Internal Audit Plan

Each audit assignment requires a proper planning that guides the audit execution. The planning process provides a level of confidence to the auditors that they have gained understanding of the area under audit, and also identified and assessed the possible events that could impact negatively in achievement of related objectives. Risk assessment framework, assessment of inherent risk, control effectiveness and residual risk as described above is therefore, a main exercise of the audit planning process. Upon completion of procedures under risk assessment framework, audit team will be in position to develop internal audit plan **Form 16** for auditable area. An internal audit plan should include, audit objectives, scope of the audit, timing of the audit and resource allocations. **Form 15**, which is based on residual risk ranks, and details audit program is integral part of audit planning.

**3.11.1 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. Following points, for example, are relevant to present as introductory information on the office/ area of audit.

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

Purpose of the mentioning introductory information is to provide idea about the office and area under audit. Considering the purpose, audit team should consider other relevant information as well to incorporate in this point.

**3.11.2 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.

Internal auditors must conduct a preliminary assessment of the risk relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

Internal auditor must consider the probability of significant errors, fraud, non-compliance, and other exposures when developing engagement objectives.

The service provided by internal audit should help auditee achieve its objectives. Therefore, while determining the audit objective, audit team should focus on the objective of the area under audit and consider the assessed risks that could hinder achievement of the objective. Audit objective should be established or assessed by the auditor with a view of defining an audit which has the potential to improve NCDD administration. Audit objective should therefore not only consider warning against defective practices but also to identify and promulgate improvement opportunities through good practice. Given the size, complexity and diversity of operations, it is normally impracticable to attempt to assess the all issues of area under audit in any meaningful way. Consequently, audits objective usually directed towards specific issues under auditable area which are risky.

Audit objective is supposed to focus an analysis of economy, efficiency of administrative and project effectiveness under NCDD. Audit team, therefore should consider following points while determining audit objective(s).

- Programme objectives, which should be clear enough to identify the desired outcomes.
- Financial, human, physical and information resource inputs used.
- Processes or activities by which the inputs are converted into outputs.
- Goods, services or other results which constitute the output of the programme.
- Actual impacts or outcomes, both intentional and unintentional.

Audit team has to determine 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 statement are presented fairly”, “ensure project is managed efficiently and effectively”, “operation of ... service is efficient ”, “ ensure safe guarding and utilization of assets is as per policies and procedures ” . After setting the broad objective mentioning additional specific audit objectives that indicate the audits’ focus on risks is fruitful as that will further guide the audit process.

Evaluation of adequacy and effectiveness of internal control system is one common objective of the audit. Where adequacy represents the availability of internal control in place that is adequate and updated to meet the need and effectiveness refers the status of implementation and its effect

in the achievement of objective for the system has been put in place. Audit objective differs based on the area under audit and it is influenced by the assessed risk.

**Some examples of broad audit objectives are below for reference:**

- 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, conformity with 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.

- Procurement and Contract Administration

The main audit objective is to ensure that the procurement of goods and services including public works have been done efficiently, economically, and effectively within the provision of the procurement guidelines contract agreement, and other relevant guidelines.

- Project Management

Audit objective is to ensure that the project management, planning, execution, and monitoring & evaluation system is adequate and applied effectively. Audit also have objective of assessing the project performance against its target, and assess whether there were any aspects of project management which could be undertaken in a more efficient and effective manner.

- Operation

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 objectives of operations.

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

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

The scope of engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

The auditor establishes the audit scope based on information obtained throughout the planning process. The scope of audit should be explicitly stated in the audit plan to document decisions made on resource requirements and the general approach to the audit. Achievement of audit objective is guiding factor in determining audit scope. Once the audit objective(s) have been set out audit team can determine the scope of audit. Nature of the areas under audit determines scope of the audit. It may be limited to some specific activity 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 instance internal audit may need to extent its scope beyond a financial year. Scope of audit beyond a financial year is not in normal case of financial transactions but may be in case of project management and procurement related issues/ areas. If the case is related to the fraudulent activities and corruption internal audit has to expand its scope for longer periods as required. In this way audit scope may be the part of the organization, program, activity or function to be examined; the subject matters of the audit, and the time period of the audit coverage.

**Some examples of audit scope are below for reference:**

- Financial Management

The audit covers the financial transactions and selected documents supporting and validating transactions of the (third and fourth quarter) of the year (201...) Periodic and yearly financial reports and statements submitted to the donors and senior management of NCDD their conformity project accounting requirements of development partner are also included in audit scope.

- Procurement and Contract Administration

The scope of audit includes contract awarding decisions by (.....) during the (year.....) for procurement of goods, services and public works. Need identification, specifications, cost estimation and bid documents, bid invitation, evaluation and award of contract will be under scope of audit. To achieve the audit objective, audit scope will also include contract administration including compliance with contractual provisions, and payments made during the period of..... Those contract awarding decisions and related need identification, specifications, cost estimation and bid documents, bid 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.

- Project Management

Audit scope includes the project performance against its target. As required audit scope include and cover the pre implementation activities, and review documents such as feasibility study and project documents. Audit scope will be extended to field observations and visits to achieve objectives of audit.

- Operation

Scope of audit is (asset management) activities performed by (Logistic) office of NCDD. Assets management system and transactions of (year ....), financial transactions and decisions related to those activities will be under the scope of audit,

**3.11.4 Detail Audit program:** Detail 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.

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

Work program must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to implementation, and any adjustments approved promptly.

Audit program will guide audit execution phase and completion of audit test as per the program that ensure achievement of audit objective of the audit. **Form 15** provides guide for audit team and should be used as standard format of audit program.

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

**3.11.6 Audit resources:** Internal audit plan identifies the resources required to complete audit. Working days of director, deputy director and auditors of the Internal Audit Group have to be estimated. The inputs of expert, 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. The plan also estimates DSA and other expenses of the audit.

### **3.12. Risk Assessment Framework and Audit Plan Preparation**

The whole process of risk assessment framework and audit planning is a sequential process. For each audit there is need of preparing audit plan/ program that should be based on the assessed residual risk. Five steps are to be completed in sequential order and five standard formats or forms are to be prepared. Following summary gives a flow chart of the process and forms to be used in risk assessment and developing internal audit plan.

#### **Steps of Risk Assessment Framework and Internal Audit Plan Preparation**

<b>Steps</b>	<b>Description</b>	<b>Forms</b>
1	Understanding the business and recording of significant information	12
2	Analyzing key process and recording of 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 detailed audit program	15
5	Preparation and approval of internal audit plan	16

## Chapter 4

### Audit Execution

#### 4.1. Background

Audit procedure includes planning, execution and reporting. Execution of audit is second step of audit procedure. Audit execution is nothing more and nothing less than implementation of approved audit plan. Audit team identify and collect relevant information and evidence related to each audit program and examines, analyze and evaluate in this process. In most of the cases there is need of updating audit program to include new issues. This has to be considering normal as inherent nature of plan that requires updating as it progresses implementation. Supervision of audit work is important to make sure that the approved plan has been implemented as it was intended to and concerns of auditee are taken into account.

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve engagement objectives.

#### 4.2. Audit Team Formation

Director of the Internal Audit Group assigns a team to execute audit, in most cases same team that was involved in developing audit plan. While assigning auditors for audit, the director of the Internal Audit Group conforms that there is no conflict of interest. If personal relation and other reasons seems to be creating conflict in personal and professional interest of any auditor, that auditor should not be in the audit team. So far as responsibility of conducting audit of individual audit program is concerned, deputy director of the Internal Audit Group assigns the work among the audit team members. The team will be led by a team leader. In some audits technical expert (s) may be part of audit team so as to have well executed audit in the area of technical issues. The team leader is responsible for overall management of audit process and guide team members in conducting audit as per programs assigned to them.

#### 4.3. Understanding of Audit Plan

In depth understanding of audit plan is starting point of successful audit execution. Audit team should review the audit plan, **Form 16**, and discuss the objectives of audit and scope of audit determined to achieve audit objectives. This will refresh audit team why the audit is going to be undertaken and what will be the scope of audit examination. Detailed audit program, **Form 15** that documents the issues to be audited along with methodology and sample of the transaction to be audited is another document for audit team to discuss. Responsibility of the team leader and each member in audit team regarding 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 thorough discussion for better understanding of what audit team is going to perform during audit execution will set a clear road map for them. Coordination of activities of audit team, works to be completed jointly and role of technical expert, if any, are some other matters that has to reconfirm through discussion. Audit team may consider reviewing documents collected and prepared during planning process and also may consider contacting auditee to clarify if any confusion is there before they kick-off audit execution.

#### 4.4. Entry Conference

The meeting, entry conference, is conducted particularly with the project manager, finance chief and other concerned departmental or unit heads. Its first formal meetings with auditee prior to start audit execution, normally it will run for appropriate time. The meeting is followed by the introduction of each audit team member from auditor side and the senior and middle level managers from the auditee side. The audit team leader explains the overall objective, scope, methodologies, approaches of audit and the planned duration of audit.

Later, the chief of the entity provides a general information of 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 conference. The entry conference therefore covers the following.

- Familiarizing among audit team and official of the auditee.
- Explain audit objectives, scope timing.
- General preview from auditee.
- Logistic arrangement needed for audit.

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

#### 4.5. Identifying Information

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

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

- **Sufficient Information:** Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusion as the auditor. The risk, materiality and sensitivity of the matter to be reported on and the cost of obtaining the evidence will determine how much evidence is sufficient.
- **Reliable Information:** Reliable information is the best attainable information through the use of appropriate engagement techniques. Evidence obtained from a third party, developed under a good internal control, obtained directly through physical examination, verification and inspection, evidence in form of original document, testimonial of independent and knowledgeable person is considered more reliable than the information obtained from audited entity, developed under weak internal control, obtained indirectly, copies of documents, and obtained from a person who is biased and has only partial knowledge.
- **Relevant Information:** Relevant information supports engagement observations and recommendations and is consistent with the objectives of the engagement. To be relevant the evidence should have a logical and sensible relationship to the criteria in order to provide a reasonable basis for the auditor's findings. It should also be relevant to the subject and period of time encompassed by the audit.
- **Useful Information:** Useful information helps the organization meet its goals. Internal audit can help organization improve operations and achieve objectives by offering recommendations. Information that support improvement oriented recommendations is more useful.

The auditor has to identify required information for each of the audit program. The audit program guides auditor about what type of information has to acquire and through what means. Although auditors may have responsibility for particular audit program(s) a practice of discussion and team work will help in determining the information needed.

**4.5.1 Consideration of information required as per 5 Cs:** Audit execution has to complete for each of the audit program. Audit observation either positive or negative is the result of audit

execution. While determining the needed information and ways to obtain, analysis, and evaluation of collected information auditor has to consider five elements of an audit observation. **Criteria, Condition, Cause, Consequence and Corrective Action**, 5Cs are elements of negative audit observation, and Criteria and Condition 2 Cs are elements of positive findings or observation.

- **Criteria:** Criterion is reasonable and attainable standard against which to existing standards of performance is assessed. The criteria would have been identified in the planning stage of the audit. Legal documents, manuals, procedures, and reasonable and good practices are sources of criteria. Since audit reports are based on criteria audit team has to set criteria for each audit program that should have valid source. In case of lacking established and/or legally binding criteria to evaluate, auditor should work with auditee to set criteria with references of good practices.
- **Condition:** The condition refers to what exists. What has been done in past and /or what is currently being done or the current situation is condition. The condition should be compared with the criteria to assess if the condition falls short of the criteria beyond acceptable levels. The comparison between the criteria and the condition will form the basis of audit findings. In this way condition explains what exists against what is supposed to be. If condition is as per criteria audit finding is positive. Any material deviation and or variation between criterion and condition are negative audit observation.
- **Cause:** Audit observation should include the reason(s) why the deviation exists. Cause can be defined as the source or factor for the occurrence of an event that is not meeting criterion. Identifying the cause provides information about internal control weaknesses, poor performances, weak accountability relationship and that initiates measures of improvement.
- **Consequence:** Consequence is impact that project/operation has faced or likely to face due to differences between criterion and condition. The consequence is therefore, result or effect of event or condition falling short of the criteria. Audit observation should explain clear reading on consequence(s).
- **Corrective action:** Internal audit is not only to evaluate but also to recommend for improvement. Each observation therefore requires a recommendation suggesting corrective action. Corrective action should take into account the cause and consequence and prescribe ways to address those so as to guide for action that could support for adequate and effective system.

**4.5.2 Sampling:** Audit sampling is an application of an audit procedure to less than 100% of the 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 the most of the audit programs is performed not by checking all transactions or events and thus selection of sample is required. Auditor may have general idea 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. Following conditions must be met to constitute audit sampling:

- Less than 100% of the population to be examined.
- Sample size and nature is to be representative of population.
- Sample results to be used to assess control risk.

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

- **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 are selected using available sampling software or the application of other Computer Aided Audit Techniques. 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.
- **Non-statistical 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 sample or following the non-statistical sampling technique. Non-statistical sampling is the determination of sample size and items using judgmental reasoning rather than probability concepts. Ordinarily, the sample is selected on a haphazard basis, based entirely on the auditor's judgment without any special reason for including or excluding a given item from the sample. For example, the auditor may select a random sample of items where the monetary unit is above, say 1 million Riels to reach a conclusion on the population examined.

Determination of required information and sample size and technique of sampling should be able to guide audit exercise. Considering the nature of transactions under projects and operation of NCDDS, and available internal audit capacity it is advisable to focus on using non–statistical sampling.

#### 4.6. Analysis and Evaluation

Once audit team determines the required information, sampling technique and sample size, and sources of information it move forward to collect and evaluation of the information/evidences.

Internal Auditor must base conclusions and engagement results on appropriate analysis and evaluation.

**4.6.1 Test Procedures:** Audit test has two broad areas to focus on. Firstly, the adequacy of internal control system, and secondly effectiveness of the system. As per the nature of test required by the audit program, **Form 15**, auditor has to determine adequacy or effectiveness of internal control system. Test of control and substantive test are procedures to be used in determining adequacy and effectiveness of system.

- **Test of control:** Test of control procedure is appropriate if audit program indicates that the adequacy of internal control system in place has to determine. Information required for the procedure can be obtained through evaluation of adequacy of internal control system. Normally, if internal control regarding audit program under audit is inadequate or missing substantive test to determine its effectiveness is not considered as relevant. However, substantive test can help in determining the effect of lapses in internal control system.
- **Substantive test:** If the audit program requires determining the functioning of system in place, a procedure of substantive test has to complete. Normally when internal control system is assessed substantially adequate then it is turn to assess whether the system is functioning as it is supposed to be when there appeared weak control environment and not providing sufficient, relevant and reliable evidences on which to base the opinion. Furthermore, substantive tests are conducted in areas which are not subject to internal control and hence are judgmental in nature. It requires detail test and examination of transactions through documentary evidences numbered chronologically, calculation for

accuracy, justification of budget expenditures, test of transactions supporting evidences, authorization, recording into books of accounts and base of information reported by financial and performance reporting .

**4.6.2 Obtaining/gathering information/ evidences:** Audit procedures move forward using appropriate test procedure for obtaining/gathering information/evidences that could address need of each audit program documented in **Form 15**. While performing this task auditor must follow the results of previous steps such as what information was identified as needed and determined sampling technique and size. Auditor should keep in mind that sufficient, reliable, relevant, and useful information should be the results of this exercise. There are various techniques to be used for obtaining/gathering information/ evidences. **Form 15** provides a general guide for auditor about the source and techniques of obtaining/gathering information/ evidence for each audit program.

Questionnaire is one of the best techniques to get information and evidence for the audit programs which are related to the management issues. Books of accounts, financial reporting, project performance reporting, inventory and assets register, other documentary evidences and even observation and field visit may unable to provide information/ evidence on the managerial issues. Thus, questionnaire is the better option. Audit can request in writing to officials, with standard format in some case, to provide information that is related to the audit program(s) along with reasons and consequences. Questionnaire is to design to get view of officials about inadequacy of system and/or not functioning efficiently and effectively. Audit criteria can help to develop focused questionnaire. Responses of auditee on questionnaire are documentary as well as testimonial evidence, therefore reliable one.

Some sources and commonly used techniques for obtaining/gathering information/ evidences are described below.

- Review policy and legal documents
- Review objectives of entity/process under review
- Review Organizational structure and Accountability mechanism
- Review human resources and expert's service management
- Review grievances handling system
- 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 software's
- Vouching and examination of supporting documents
- Examination of ledger, and subsidiary ledgers
- Examination of 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 needs identification process
- Review procurement plan and annual program
- Review procurement, manual and procurement process
- Examine bid 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 visit and examine works under contracts
- Consult beneficiaries and other stakeholders
- Organize meetings and discussion 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 evidences
- Confirmation of initial observation with officials
- Questionnaire to beneficiaries
- Questionnaire to officials
- Seeking information by written request
- Continues discussion with auditee.

**4.6.3 Audit evidence:** Audit team has to collect evidences not only to support audit reports but also to confirm the team has completed audit execution as per approved plan/program. The evidence not only substantiates what has been reported but also answers why audit report does not include some issue. More focus of auditors should be on collecting, reviewing, analyzing, evaluating of evidences that supports the audit reports and recommendation offered under it, however, audit team same time should not undermine the evidences that supports of not incorporating any issue in audit reports. Therefore, evidence collection, analyses and evaluation is equally important for both positive and negative findings. Audit evidence is classified as physical evidence, documentary evidence, testimonial evidence, and analytical evidence.

- **Physical evidence:** Physical evidence is obtained by direct inspection or observation of people, property or events. Inspection of tangible assets provides reliable audit evidence about their existence, but not necessarily as to their ownership or value. Observation consists of looking at a process or procedure being performed by others, for example, physically counting inventory and making observations.
- **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. It is the most common form of evidence; it may be internal, external or a combination of both.
- **Testimonial evidence:** Testimonial evidence is obtained through inquiries, interviews, or questionnaires. Inquiry and confirmation consists of seeking information from knowledgeable persons inside or outside the organization. Responses to inquiries may provide auditors with information not previously possessed or with corroborative audit evidence. Testimonial evidence may not always be conclusive and should be supported by other forms of information where possible.
- **Analytical evidence:** Analytical procedures produce information in the form of conclusions based on examining data for consistencies, inconsistencies, cause-effect relationships.

## 4.7. Supervision

The deputy director of the Internal Auditor Group is responsible to supervise audit execution. Based on time availability and complexity of audit work the director of the Internal Audit Group may involve in supervision. Objectives of supervision are to make sure that the audit program has been implemented, new audit programs, if any, have been included for audit test. Supervisor has to confirm

that the concerns of auditee are taken into account, and evidences are collected and documented, Supervisor has to focus also to develop capacity of auditors.

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

The extent of supervision required depends on the proficiency and experience of internal auditors and complexity of the engagement. Supervisor has to review the working papers prepared by audit team to assure that the positive or negative observation, for each of the audit program, are well supported by evidences. If audit team identifies additional issues to be audited such has to be developed as audit program. Supervisor reviews and approves the additional audit program during supervision visit. If supervision does not take place during audit execution the approval of additional work program has to be of restorative. It is more fruitful, if the supervision is scheduled in such a way that the deputy director of the Internal Audit Group, supervisor, can lead the exit conference.

#### **4.8. Working Papers**

The internal audit execution has to document all what has been performed by audit team. Separate working paper required to develop for each of the audit program mentioned in **Form 15** and of additional audit program, if any. Audit team also collects available evidence in form of copies of documents, photograph, response to the questionnaire, copies of reports, and other as required to cover the audit work described by audit program. Since audit observation consist 5 Cs, criterion, condition, cause, consequence and corrective action, audit working paper related to each audit program documents those. However, only first two are recorded in case of positive findings. **Form 19** is suggested format for recording what auditor has observed during audit. It also has provision for review by the supervisor. As mentioned above this tool kit has to prepare separately for each of the audit program and therefore, supervisor has to review during audit. If the review identifies need of additional audit task and evidence collection, analysis and evaluation, audit team has to perform accordingly. In case supervision does not take place during audit execution, such review has to complete afterward and findings of the review has to record for future reference.

## Chapter 5

### Reporting

#### 5.1. Background

Report is output of audit process. Each audit assignment must produce results of the audit test as audit report. Communicating results of audit is the main means for the Internal Audit Group in discharging its responsibilities identified by the internal audit charter. According to the annual internal audit plan audit assignments are planned and executed as standalone exercise. The result of such exercises will be communicated as separate audit reports to the auditee and copy to concerned authorities. Communicating audit conclusions and recommendations to the auditee management through a long-form report is main objective of reporting.

Internal Auditors must communicate accurate, objective, clear, concise, constructive, complete and timely audit reports.

#### 5.2. Contents of Audit Report

Internal audit report is mirror of the proficiency of the internal audit group. Reports are main outputs that justify existence of internal audit and are means of providing assurance services. To be complete, a report should contain following.

**5.2.1 Title:** The report should have an appropriate title, audit area, in order to distinguish it from other reports and to give a broad idea about objective and scope of audit.

**5.2.2 Addressee:** Internal audit report should be addressed to project manager, chief of operation of office with copies to Head of NCDDS and **National Audit Authority**.

**5.2.3 Executive summary:** Executive summary has to summarize all contents of reports. Based on the observations, positive and negative an assessment of internal control system in place will be part of executive summary. Executive summary, therefore, should reflect the outcome of audit completed as per **Form 15**, and **Form 16**.

**5.2.4 Auditing manual:** A statement regarding auditor compliance with applicable auditing procedures will provide the users with an assurance that the audit has been carried out in accordance with generally accepted audit practice. The Internal Audit Group plans and conduct audit assignments as per the internal audit manual which follows good practices of internal auditing. A statement that confirms the procedures of the manual have been followed and comply with will provide assurance to the users.

**5.2.5 Introduction:** A description of the auditee and area of audit will give the report user appropriate background information. The description should include organization objectives and targets, overall organization structure of the auditee, financial position, project performance and information that provides general introduction of the auditee/area of audit.

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

**5.2.7 Audit scope:** the boundary of the audit is mentioned as 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. Any limitation to the scope has to mention so that the user should not have any confusion and false assurance.

**5.2.8 Audit observations:** Main output of the audit exercise is presented as audit findings. Results of audit completed as per audit programs documented in **Form 15**, unless there are positive findings, have to include as audit findings in the report. The audit findings should address the economy, efficiency with which resources are acquired and used and the effectiveness with

which objectives are met. Each issue of audit should include the criteria, condition, cause, consequence and corrective action.

### 5.3. Quality of Audit Report

The internal audit report should be based on facts and should include only information which is supported by audit evidence. The accuracy of the report will depend on the reliability of the evidence. Accuracy of the report can be further enhanced by discussing draft reports with appropriate level of management in the audited entity. The report should be readable, easy to understand, straightforward and concise. Terminology used should be familiar to persons whom the report is addressed to and the contents of the report should be free from vagueness and ambiguity.

The purpose of audit report is to ensure corrective action taken by the officials in order to improve performance of the NCDD. The recommendation offered therefore, should be well researched. Timely issue of report is important because if report takes a long time to issue the audit recommendations may no longer be equally useful. The report should be expressed in a respectful, professional and neutral tone. This would enhance the acceptability of the report and it is less likely the auditors will be perceived as biased.

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

**5.3.1 Accurate:** Accurate reports are free from errors and distortions and are faithful to the underlying facts. Accuracy of the report contents create a confidence on the reports and encourage to implement recommendations.

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

**5.3.3 Clear:** Clarity is one of the main characteristics of audit reports. Clear reports are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information.

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

**5.3.5 Constructive:** Role of internal audit is to help an organization achieve its objectives. Internal audit reports should be constructive that help organization and lead to improvement where needed.

**5.3.6 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.

**5.3.7 Timely:** Timely reports are opportune and expedient, depending on the significance of issue, allowing taking appropriate corrective action. The reports should be issued by the date planned and mentioned in audit plan, **Form 16**. Any delay requires justification and approval of Director of Internal audit group.

### 5.4. Drafting Audit Report

Drafting audit report is responsibility of audit team. Standard format of report strengthen the process of assurance that the audit report is prepared with acceptable contents and quality. Consistency in report format helps senior management and auditee to understand the message the audit report aims to communicate. This will further facilitate follow-up procedures and preparation of periodic and annual reports of Internal audit group. **Form 20** is suggested format of draft internal audit report that

is presented to the auditee for discussion. It also contains additional space for management/auditee to provide their comments/view on the drafted matters. **Form 20** is therefore, used in exit conference. The contents of draft internal audit reports along with sequence are to be in following order.

**5.4.1 Executive summary:** First section of the audit report is executive summary that includes brief introduction of the project/operation or office and area of audit, audit objectives and scope, positive findings or performance of auditee, conclusion, overall assessment of internal control system and need of improvement, and list of recommendations are presented under executive summary. Audit team leader and if supervisor is present at the time has to summarize all text of audit report and also the positive findings,” C2” recorded in **Form 19**. A statement that acknowledges the support of the auditee should be included under this part of the audit report.

**5.4.2 About auditee and audit:** Second section of the report provides introductory information of auditee organization, project or area of audit, summary of positive findings under progress 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** have to update and present here.

**5.4.3 Audit observations:** Third section of the report is main body of the report. All observations “5 Cs” recorded in **Form 19** are edited, updated and presented separately as per audit program. Presentation of the audit observation should have some logical order. That may be based on the sequence of operation for example observations related to the planning, budgeting, fund flow, procurement plan and cost estimate, bid evaluation and contract award, contract execution and payments, monitoring and evaluation and financial and performance reporting. Order of the observation may be based on the significance of the matters for example, policy matters, system weaknesses ,unfair or wrong financial and performance reporting, , issues that involve amounts, loss due to mismanagement, and other matters. Audit observation further should provide information of the amount involved and also classification of the observations.

- **Amount involved with observation:** Audit observation may be related to the system deficiencies and non-functioning of the system in place. The deviation of condition from the criterion leads to the situation of audit observation. One type of observation may be of theoretical in nature where the consequences cannot be measured in monetary term. In most cases of non-compliance and overpayments and under realizations, losses due to mismanagement, consequence can be measured in monetary term. To the extent possible audit report has to quantify the consequences in monetary term and include in the observation.
- **Classification of observations:** Audit observations are of different nature. Based on the causes and consequences auditor has to classify audit observations. Inadequacy of system, Non-compliance, Loss, Recoverable amount, and Miscellaneous are five ways of classifying audit observations. Reporting of audit observations with classification, either monetary amount involved or not, is more informative for senior management and also for effective follow-up procedure. Table below provides general idea for classifying audit observations.

S. no.	Classification	Description
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 project management and/or operations. Internal audit may observe the situation where establishment of new system or improvement in system in place is needed. Such observations are classified as “Inadequacy of System”.

S. no.	Classification	Description
2	Non-compliance	Audit observations related to the transactions, procedures and decisions which do not comply with legal provisions, manuals, standard procedure and other system is place, contract, and other established criterion are classified under this category.
3	Loss	Any loss to the organization observed by audit falls under this category. If it is not possible to fix responsibility for recovery but organization suffers loss, observation of such nature is classified under “Loss”. Loss if can be recovered from person or organization will be classified under “recoverable”
4	Recoverable	Any amount of overpaid, under realized, is classified under this category. Any loss to the auditee organization caused by illegal activity and non-compliance to contracts and agreed procedures of person and other organization are also classified as “Recoverable” if responsibility of payment by person or organization can be established.
5	Miscellaneous	Observations which are not falling under any of four categories are classified as Miscellaneous.

### 5.5. Exit Conference

Discussion on draft audit report has to organize with auditee. The exit conference is carried out mainly to validate the accuracy and completeness of information included in the draft report. This is last resort for audit team and auditee to share and discuss matters related to the audit results before audit report is issued. Audit team has to prepare two copies of **Form 21** to record the exit conference, one for auditee and one for audit file.

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

Audit team may hear fresh information and views from senior management as it is not always possible to share all observations with senior management during audit execution progresses. There may be new evidence for auditor to assess and evaluate. A positive attitude during this exercise will increases the likelihood of acceptance of reported matters by the auditee.

### 5.6. Report Finalization

Audit team should take account the comments of auditee and other information received during exit conference. The team must update the information under part-two of the report, about the auditee and audit. More effort is required to revise part-three of the report that is audit observation. There may be need of revising all 5 Cs, criterion, condition, cause, consequence, and corrective action of observations. A positive attitude of auditor in hearing the view(s) of management and consider problems auditee faced should be reflected during revisions. Dropping of some observations, which are insignificant for the reporting would be a good strategy if senior management request to do so and commits improvement in future.

Report finalization process has to be led by deputy director of internal audit group. The process requires review the all working papers and outcome of exit conference to make sure that the reported matters are substantiated by evidence. Internal audit reports are to be issued in standard format. Such practice facilitate that the essential components are not left out and also consistency can be

maintained if standard format is used for reporting. **Form 22** is suggested format of internal audit report, which is almost same **Form 20** used in exit conference.

### **5.7. Review and Issue of Audit Report**

Director of the Internal Audit Group issues the audit report. The director has ultimate responsibility of ensuring that the report has all contents in standard format and has qualitative aspects, accurate, objective, clear, concise, constructive, complete and going to be issued in timely manner. Review of working papers to ensure that the reported matters are substantiated by evidence is required in this process as well. Audit observation' positive and negative, based and well-crafted executive summary that provides overall assessment on adequacy and effectiveness of internal control, consideration of improvement taking place and performance of auditee should be another concern of Director of Internal audit group while finalizing report. Internal audit report is prepared as per **Form 22**. The covering letter for issuing audit report contains some standard message and standard format is required for the purpose. **Form 23** is suggested format for covering letter.

## Chapter 6

### Follow-Up of Audit Reports

#### 6.1. Background

Internal audit reports offers recommendations for improvement of internal controls, risk management and governance process of NCDD. Some of the recommendations are related to the particular transactions and need to take recovery and regularization action. Summarized results of the follow-up and recommendations outstanding to implement should be incorporated in annual report of the group.

#### 6.2. Follow-Up System

The Internal Audit Group should adopt proper, prompt and adequate follow-up system on the implementation of audit findings.

The director of the Internal Audit Group must establish and maintain a system to monitor the disposition of results communicated to management.

The director of the Internal Audit Group must establish a follow-up process to monitor and ensure that management actions have been affectively implemented or that senior management has accepted the risk of not taking action.

#### 6.3. Objectives of Follow-Up

Follow-up is an important and final stage of internal audit process - planning, execution, reporting and follow-up. It is the obligation of the Internal Audit Group to carry out follow-up of the actions taken on the conclusions and recommendations of the audit. Following are the main objectives of developing and maintaining follow-up mechanism.

- Verify and report senior management on the progress of audited in taking corrective action as recommended by audit.
- Remind the auditee to initiate corrective actions and demonstrate improvements.
- Ensure unacceptable risks for the health of the organization are not left unattained.
- Realization of value that internal audit could add in the improvement of internal controls, risk management and governance process of NCDD.
- Make sure that actions are taken against those who are responsible for mismanagement and are not following the legal and other provisions.
- Insure that overpayments and/or under realizations are recovered.
- Get feedback for self-assessment of the opinion, conclusion and recommendation of the audit.

#### 6.4. Comments on the Audit Findings

Observations of individual internal audit report include criteria, condition, cause of deviation from criteria, consequences, and corrective action or recommendations (5 Cs).

Comments on audit report should be raised during the exit conference. In case auditee does not fully agree with the report and asks for review and consideration, the Internal Audit Group will allow this for 7 working days. The comments should be complete with corrective action plan and reasons if auditee disagrees with the recommendations. The recommendations are not delivered as legally valid and enforceable judgment. The auditee, therefore, is responsible to judge and agree or disagree with the audit recommendations. Auditee is required to submit copy of the response to all who have received the audit reports.

## 6.5. Review of the Comments

The auditor conducts the process of reviewing comments and verify documents and other evidence submitted. The deputy director of Internal Audit Group reviews and submits the recommendations, comments, and view of the Internal Audit Group for final review and approval of Director of Internal Audit Group. The opinion submitted and decision made should clearly state whether Internal Audit Group is going to keep recommendation open for follow-up process or closed.

If actions are already completed or substantially completed decision of close-up of the recommendation for follow-up process will be taken. A thorough examination is required if auditee disagree on what was recommended. There may be opportunity for auditor to learn lesson in case comments from auditee results for closing-up of recommendations because they cannot stand.

Internal audit group should use a standard format for decision making and recording the process that has been undertaken under review, verification, and examination of comments and evidence. **Form 24** is suggested format for the purpose. The auditor conducts the process of review and examination of the comments and evidence submitted by the auditee. Result of the review of individual recommendation may be any of the following.

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

Copy of the **Form 24** should keep in the current audit file.

## 6.6. Communication of the Review Decision

The Internal Audit Group should communicate the result of review as the decision takes place. All who received copy of audit reports should receive copy of this communication as well. The communication letter should be signed by director of the Internal Audit Group or by deputy director of the Internal Audit Group on his/her absence. A practice of completing review and taking decisions within 1 week from the date of request received is considerable for reputation and accountability of internal audit group. If comments are not available within deadline, 7 working days from the issue of audit reports, the Internal Audit Group should decide “Keep recommendation open as auditee did not comment on whole of the report/ recommendations.” and communicate the same. The communication should include recommendation, comments, and decisions. **Form 25** is suggested format to be attached with communication letter. The **Form 25** contains the decision made and recorded in **Form 24** therefore, can be certified by the deputy director of internal audit group.

## 6.7. Database/Records of Follow-Up

The Internal Audit Group has to maintain database/records of follow-up and update annually. All recommendations remain open as per the decision made, **Form 25**, have to record in database/records of follow-up. The initial entry of recommendations in the database/ records of follow-up includes those recommendation on which comments of the auditee has already been considered. The Internal

Audit Group through its letter should inform auditee that they have to maintain database of the recommendations they have to act upon and update annually.

Auditee needs to submit request along with evidence that they have implemented the recommendations. Copy of the request should be submitted to all those who received copy of internal audit report. The Internal Audit Group then carry out the review, examination and all needed to confirm that the auditee has acted upon the recommendation and the recommendation can be closed for follow-up purpose. **Form 26** is suggested format for recording and decision making on follow-up. The Internal Audit Group has to communicate result of follow-up, closed or still open with copy to all those who received copy of internal audit report. **Form 25** is suggested format should attach with communication letter.

Database/records of follow-up have to update as per the decisions of closing of the recommendations. **Form 26** is suggested format to record and update the follow-up. **Form 26** has to be in binding shape and required certified by deputy director of the Internal Audit Group. Each year the Internal Audit Group has to prepare new data base that contains recommendations carried forward for follow-up. The same format **Form 26** has to use for the purpose. For recording recommendations of current year new set of binding-book has to use.

### 6.8. Follow-Up of Recorded Recommendations

Once the decision on auditees response has been taken, information is disseminated as per **Form 25** and recommendations are recorded in **Form 26**, the follow-up process enters in to second phase. Auditee has to submit request along with evidences to close up the recommendations for follow up as implementation of recommendation is completed or recommendations are no more relevant to implement. The Internal Audit Group after completion of review, verification, and examination of comments and evidence decides either to close or keep the recommendation open for follow-up. Auditor verifies, examine the documents and other evidences submitted by auditee and confirm that substantiate the request of the auditee. It is very critical process of audit as it may have to face challenges on what has been recommended. Further, in some cases, it is quite subjective to judge if recommendation is implemented substantially.

To determine whether auditee has acted upon the recommendations and instituted procedures that will overcome the weaknesses identified require almost as much effort as did the original audit. Internal audit group may have to rely heavily on comments of auditee but should supplement by sample based specific-checks.

Audit team should maintain objectivity and do not hold over ownership and attachment with the recommendation. Consideration of auditee's efforts to implement recommendations and commitment for improvement and non-occurrence of same situation in future is another positive attitude of auditor that is required while concluding if the recommendation is substantially implemented. Important point is to improve operation's effectiveness and efficiency therefore, if there are no sign of intentionally wrong doing and commitments are there for improvement a decision of closing recommendations for follow-up would be the best decision.

Internal audit group should use the **Form 25** for decision making and **Form 26** to disseminate results of follow-up. The copy of communication should be furnished to all who has received audit reports.

### 6.9. Disposal of Recorded Recommendations

The Internal Audit Group complete a reassessment of the recommendations carried forwarded from more than three years. Purpose of such reassessment is to see if keeping those recommendations open for follow-up worth. If the department consider closing of any recommendation will be appropriate same should be reported for approval of Head of NCDD. The proposal of closing recommendation should have justified and substantiated and also should have proposed for action against the personnel and/or organization not taking action to implement the recommendations. Based on the decision database of follow-up **Form 26** will be updated. Internal audit group will use standard format **Form 27** to submit proposal for disposal of recommendations.

### **6.10. Reports of Follow-Up Status**

The Internal Audit Group should prepare monthly reports of follow up showing numbers of recommendations carried forward from last month, additional numbers of recommendations included during the month, numbers of recommendations closed during the month and balance carry forwarded for next month. The report should be of summarized form but include other relevant information such as amount involved with recommendations and name of auditee responsible for implementation of recommendations. **Form 28** is suggested format of monthly follow-up report. The monthly report should be submitted to the Head of NCDDDS with in first week of the month. The Internal Audit Group should seek for the opportunities to disseminate the report in senior management meetings and other gatherings to share issues among auditees and expedite follow-up process.

A segment of annual report should be of follow-up. The annual report should include the recommendations carried forwarded from previous year with age analysis. Report should high light the significant recommendations implemented and not implemented.

## Chapter 7

### Documentation

#### 7.1. Background

Internal Audit process starts from planning and ends when audit report is issued. This internal audit manual has suggested various steps and sequential work-flow of audit planning, execution and reporting process. Standard formats as Toolkits and matrix are part of the audit manual. Proper documentation of each work completed, Toolkits developed and working paper and evidences collected and developed is essential for professional internal audit practice.

Internal auditor must document relevant information to support the conclusion and engagements results.

The director of the Internal Audit Group must control to the engagement records and develop retention requirements for engagement records, regardless of the medium in which each record is stored.

#### 7.2. Objectives of Documentation

Audit team has to collect and develop various documents from the different sources. In general objective of documentation is to make sure that all documents required by the audit process are available and could be retrieve as and when needed. Documentation provides evidence to support the auditor report, supports in the auditors in planning, conducting and supervising the audit, and also and provides evidence that prove how audit was conducted.

**7.2.1 Conformation of process followed:** Documentation system provides a basis of conforming that the audit process recommended by the audit manual are followed and all documents are prepared. Forms and standard formats prescribed by the audit manual are to be developed and kept in the audit file. Documentation system makes possible conforming that all required documents are developed.

**7.2.2 Evidence of process outputs:** Internal audit process has to base its intermittent outputs, which are forms related to the planning and execution process, and audit report, on evidences. Documents collected and other evidences will support the audit reports and other intermittent outputs. Therefore, second objective of documentation is to substantiate that the internal auditor not only followed the process but also acquired sufficient and relevant evidence to support the outputs.

**7.2.3 Facilitate review:** Proper documentation facilitates the review process. The process takes place during audit process. The review process can be efficiently completed, if documents are placed in proper order with indexing and cross- referencing. If another auditor, supervisor or reviewer can locate the working papers and evidence, and link them with the reports without help of the one who has prepared reports, the documentation can be considered as well and proper.

**7.2.4 Future reference:** Internal audit process is of continues nature. Previous audit files are one of the useful sources of information. Proper documentation could facilitate auditor to get relevant information with reasonable efforts.

**7.2.5 Follow-up process:** Recommendations offered by internal audit reports are for auditee to implement. Internal audit group is responsible for follow-up of audit report implementation. Audit file with proper documentation is must for the process of follow-up.

### 7.3. Confidentiality

Internal auditors enjoy free access to the documents, systems, persons and physical items of the auditee for the purpose of audit. Whatever information auditors receive and all results of the analysis audit team completed are only for purpose of audit. Confidentiality is one of the codes of ethics for internal auditors. Proper documentation system is one of the means to comply with code of ethics.

The internal auditor should safeguard the information he received while carrying out his duties. There should not be any unauthorized disclosure of information unless there is a legal or professional requirement to do so.

**7.3.1 Using information:** Internal auditor should be prudent in the use and protection of information acquired in the course of their duties. Shall not use any of the information obtained during the audit for any personal gain or in any manner that would be contrary to the law and procedure in place. Protection of documents is responsibility of auditors that requires proper documentation system.

**7.3.2 Custody:** All auditors are responsible for keeping audit files, documents and other evidence safe and making sure unauthorized access is prohibited. When the audit is in progress the team leader of the audit is responsible for making arrangement for custody of audit file. Once audit report is issued the file should be handed over to the central filing system of internal audit group. Deputy director of Internal audit group shall be responsible for updating list of files, proper custody, make available to director of internal audit group and others as and when needed, safeguarding of files, and overall management of filing system for audit and non-audit files. Director of Internal audit group should oversight the process in place for custody of files.

### 7.4. Audit Files and Contents

Internal audit group has to maintain numbers of files and should have filing system in place. This has to develop as per good practices and specially as per filing system of NCDD. This point deals on the three types of audit files, Annual plan file, Master file and individual audit assignment file.

**7.4.1 Annual Internal audit plan file:** Each year internal audit group completes the process of broad risk assessment and develops annual internal audit plan. This is done to follow the risk based audit strategy of internal audit group. The Internal Audit Group completes 11 major steps and develop 11 forms during the process. The documents supporting the information and conclusion recorded are to be placed to the annual audit planning file in proper sequence with indexing. **Form 29** is suggested format for annual plan file that provides information about contents of the file and sequence as well so it also serves purpose of file index.

**7.4.2 Master file:** The Internal Audit Group of NCDDS should have Master file of each of the project, operational unit and entity that can be distinguished on the basis of role, responsibility, accountability line and cost centre. Main criterion for identifying an entity as separate one is whether that can be considered as an entity for audit purpose. Master file contains information which is relevant for more than one audit. Information of permanent nature, though requires updates in yearly basis, are generally collected, developed and kept in the Master file. Internal audit group also has to prepare 'Client profile' update as and when significant change takes place but at least once a year in January. The contents/documents of master file are listed in **Form 30**. This will serve the purpose of file index as well.

**7.4.3 Audit File:** Each audit assignment is standalone exercise and thus all documents collected, developed and evidences in other form such as soft copies are to be managed separately. Audit process starts with planning of the audit, progresses to audit execution and ends with reporting of audit results. Filing and documentation further continues to the follow-up process. All forms developed, documents collected and developed, and information/evidence in electronic form is to be documented and kept in proper order. Individual audit file keeps receiving documents as

follow-up process progresses. **Form 31** is standard format that index and provides information on what documents are kept in what order.

## **7.5. Indexing and Cross Referencing**

Taking reference from the objective of documentation, it is paramount that the documents are to be kept in such a way that they can be traced with reasonable efforts. Normally documents are kept in chronological order and each document bears index number. In audit process auditor not only collects the documents but also develops new documents based on analysis of collected documents and other evidences. Therefore, there is linkage between documents of audit files. It is necessary to have a reference that facilitates identifying the documents which are interrelated. Cross referencing facilitates this process. For example, auditor has prepared three forms of form 12 and those entire uses one document, organizational structure, as base of those forms. A cross reference indicating index number of organizational structure has to mention in index of those forms.

## **7.6. Disposal of Files, Records and Reports**

Internal audit group prepare, update and keep various audit and non-audit files and reports. Annual plan, audit files, progress reports, follow-up database and report, annual report and other files of administrative documents and correspondences are some of them. Those cannot be kept forever, thus requires a process of regular disposal.

**7.6.1 Procedure of disposal:** Director of the Internal Audit Group should establish procedures for disposal of files, records and reports as irrelevant documents cannot be kept forever. While developing procedure s/he should consider legal provisions, NCDD policy and procedure and following points.

- **Broad risk assessment and annual plan:** Keep broad risk assessment and annual plan files of last five years means dispose after 5 years.
- **Master File:** Internal audit group updates all master files at least once a year, in January. If any project is completed or operation is closed, master file of that entity should update and keep that for 5 years before disposal.
- **Individual audit files:** Unless all recommendations are closed for follow-up, no single file can be disposed. It is appropriate to keep individual audit file for one more year after completion of follow-up.
- **Follow-up database:** This database is updated each year in January that is indeed preparing new consolidated binding of all recommendations from previous years which are open for follow-up. New separate binding is prepared for recommendation related to each year. Both consolidated and yearly data base are suggested to keep for 5 years.
- **Monthly reports:** Monthly reports can be disposed after two years.
- **Annual reports:** Internal Audit Group has to keep annual reports related file of last five years means can dispose after 5 years.

**7.6.2 Disposal Decision:** Director of the Internal Audit Group should take disposal decision. The decision should be supported by detail information of the files disposed. A complete list of audit and non-audit files, database and other records with location and custody has to prepare as annex of disposal decisions. Such decision is to be taken during the month of January. Decisions regarding disposal should be kept for five years.

## Chapter 8

### Annual Report

#### 8.1. Background

The Internal Audit Group has to submit its annual report to the head of NCDD in January. The report includes the activities performed in previous year. Achievement against approved plan, results of audits undertaken, and major findings of the audits. Status of follow-up, efforts toward audit capacity development and other issues are other topics to be included in the annual report.

**Report Structure:** The annual report to be informative and clear and same time it should be constructive and concise. Using standard format for reporting purpose will serve as guiding tool for internal audit group. Below is structure of annual report and brief about contains.

#### 8.2. Executive Summary

Executive summary of the annual report has to be prepared that provides brief information about the activities of internal audit and also the results of the audit exercise. The director of the Internal Audit Group is responsible for drafting executive summary of annual report. Executive summary should be nothing less or more than summarized presentation of full text of annual report. It is not appropriate to put in executive summary if such issue is not included in annual report. **Form 32** is suggested format, which also provides the information likely to be incorporated in executive summary.

#### 8.3. Full Text of Annual Report

This report discusses all aspects of activities conducted by the Internal Audit Group, results of audit, compliance with auditing standards and manual and also required initiations for professional internal audit services to NCDD.

This report also is of a summarized nature; therefore all information with details is not part of annual report. The deputy director of the Internal Audit Group captures significant information from audit files, annual audit plan and follow-up database, human resources status and other reliable sources while drafting annual report. It is paramount that any matter included in annual report should have enough evidence that can substantiate the fact and support the analysis included in the annual report. Separate working paper file that consist evidences of matters reported along with sources of information has to develop in course of drafting annual report. **Form 33** is suggested format for annual report, which also provides general idea about the presentable matters and ways to draft the report.

It is important to note that this report presents the detail analysis of internal audit complying with internal audit manual. This will form a base for making internal audit activity accountable and create environment that the audit services are provided in line with internal audit charter and international standards.

## Chapter 9

### Annex

#### **9.1. Background**

This annex contains forms, referred to in the main text of this internal audit manual, which form an integral part of the manual.

#### **9.2. Forms**

There are in total 33 forms used in this manual as listed below. The forms will be reviewed, revised and updated regularly and as necessary with approval of NCDDS Head.



## Forms

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 1: Auditable Projects**

No.	Name of Projects	Person to be contacted	Contact number and Email
1			
2			
3			
4			
5			

Approved by and date  
Director of Internal audit group

Recommended by and date  
Deputy Director of Internal Audit Group

Submitted by and date  
Auditor

**Notes:**

- This list has to prepare irrespective of risk that is the list is not based on risk but a comprehensive one.
- It is important that audit universe has been identified and listed down prior to the issuing of requests, organizing workshops, meetings with officials, public meetings and issuing questionnaire for inputs.

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 2: Request for Inputs from Senior Management**

Request to:

No.	Name of Projects	Please rank 1,2 or 3 for each area of audit			Other issues you consider as must auditable
		Financial management	Procurement and contract administration	Project and /or operational management	
1					
2					
3					
4					
5					

- You are respectfully requested for your inputs by providing rank that warrants internal audit in the year. Please, rank - 1 for must auditable, 2 for important and 3 for not important.
- Information from the senior management is guiding input for Internal Audit Group in preparing annual internal audit plan for the year.

Director of the Internal Audit Group

**Notes:**

- **Financial management:** Budgeting, Receiving proceeds, processing payments, recording the transactions, reporting to the senior management and donors, safeguarding of documents and other activities related to the financial management.
- **Procurement and Contract administration:** Need identification of goods, works and services; preparation of specification, cost estimate, and bid documents; bid invitation, bid 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 afterward services period, and other issues related to the procurement and contract administration.
- **Project and/or operational management:** Identification of project and/or activities under 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:** - 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 audit.

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 3: Request to Capture Inputs from Line Management**

**Name of Project:**

Table below is listing the potential areas of ..... project for internal audit. Your input as rank about the audit warrant will be useful to prepare risk based annual audit plan for year.....You are respectfully requested for your inputs by providing rank that warrants internal audit in year ... (Rank - 1 for must auditable, 2 for important and 3 for not important).

No.	Auditable area	Rank
1	Financial management:	
2	Procurement and Contract administration:	
3	Project and/ or operational management:	
4	Other issues:	

Sincerely,

Director of the Internal Audit Group

**National Committee for Sub National Democratic Development**  
**Internal Audit Group**

**Form 4: Request for Inputs from Officials, Beneficiaries and Other Stakeholders**

**Organized at ..... on ..... (date)**

S. No.	Name of Project	Rank 1,2 or 3 for each area of audit			Other issues you consider as must auditable
		Financial management	Procurement and contract administration	Project and /or operational management	
1					
2					
3					
4					
5					

Approved by and date  
Director of Internal Audit Group

Recommended by and date  
Deputy Director of Internal Audit Group

Submitted by and date  
Auditor

**Notes:**

- Internal Audit Group has to complete this exercise by end of November and retain all documents related to the input capturing exercise taken place.
- There is need of preparing separate **Form 4** for each workshop, discussion and meeting, questionnaire and public meeting.
- Internal audit group should record information such as date, participants, venue, and facilitator of the workshops and public meetings.

**National Committee for Sub National Democratic Development Secretariat**  
**Internal Audit Group**

**Form 5: Internal Auditor Assessment of Broad Risk Associated with Auditable Area**

S. No.	Name of 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

Approved by and date  
 Director of Internal audit group

Recommended by and date  
 Deputy Director of Internal Audit Group

Submitted by and date  
 Auditor

**Notes:**

- Chief of Internal audit group is responsible to lead this process of assessing risk associated in the light of 11 points for each auditable area listed and updated in **Form 1**.
- Audit managers and auditors are to be actively involved in the process because benefit can be there through institutional memories and discussion.
- The 11 points are related to the broad risk. Risk related to, governance process, risk management and internal control of NCDD are subject matters and thus very crucial in risk assessment process.
- Adequacy and effectiveness of governance process, risk management and internal control is critical for success and achievement of NCDD objectives. Thus internal auditors putting serious efforts for the process is very critical.

**National Committee for Sub-National Democratic Development Secretariat**  
**Internal Audit Group**

**Form 6: Consolidated List of Auditable Areas with Ranking of Audit Needed**

S.no.	Name of Project	Auditable Area	Ranks from Various sources of inputs ( 1,2 or 3)									
			Head of NCDDS	Deputy Head of NCDDS	Deputy Head of NCDDS	Deputy Head of NCDDS	Project/ Operational manager	Public meeting	Workshop	Discussion & Meeting	Question naire	Rank of 11 points
1												
2												
3												
4												
5												

Approved by and date  
Director of Internal Audit Group

Recommended by and date  
Deputy Director of Internal Audit Group

Submitted by and date  
Auditor

**Notes:**

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

**National Committee for Sub National Democratic Development Secretariat**  
**Internal audit group**

**Form 7: Consolidated List of Auditable Areas with Risk Points**

S.no.	Name of Project	Auditable Area	Points based on ranking from various sources of inputs ( Rank 1= 5, Rank 2= 3 Rank 3=1 )										Total
			Head of NCDDS	Deputy Head of NCDDS	Deputy Head of NCDDS	Deputy Head of NCDDS	Project/ Operational manager	Public meeting	Work shop	Discussion & Meeting	Questionnaire	11 points	
1													
2													
3													
4													
5													

Approved by and date  
Director of Internal Audit Group

Recommended by and date  
Deputy Director of Internal Audit Group

Submitted by and date  
Auditor

**Note:**

- Information of **Form 6**, List of auditable area and rank showing need of internal audit, is basis of this process.

## National Committee for Sub-National Democratic Development Secretariat

### Internal Audit Group

#### Form 8: Factoring the Risk Points of Auditable Areas

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

\* 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

Approved by and date  
Director of Internal audit group

Recommended by and date  
Deputy Director of Internal Audit Group

Submitted by and date  
Auditor

#### **Notes:**

- Auditable areas and total risk points prior to using 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.
- Total risk points and total impact points have to calculate by multiplying total points by factors.
- Total risk points are summation of risk points and impact points.
- Based on total risk points auditable issues/ area are ranked for priority of audit.

**National Committee for Sub-National Democratic Development Secretariat**  
**Internal Audit Group**

**Consolidated Risk Points of all Areas**

S.no. (1)	Name of Project (2)	Risk Points			
		Financial Management (3)	Procurement and Contract Administration (4)	Project Management (5)	Total (6=3+4+5)
1					
2					
3					
4					
5					

Approved by and date  
Director of Internal audit group

Recommended by and date  
Deputy Director of Internal Audit Group

Submitted by and date  
Auditor

**Notes:**

1. Consolidated risk points are calculated to rank on the basis of all auditable areas, Financial Management, Procurement and Contract Administration, and Project Management.
2. For first one or two years, this approach is fruitful for internal audit group to gain better understanding of all auditable areas (Financial Management, Procurement and Contract Administration, and Project Management).
3. This approach allows to cover all auditable areas on the basis of total risk associated with offices/projects/activities.

**National Committee for Sub National Democratic Development Secretariat**  
**Internal Audit Group**

**Form 9: Calculation of Working Days Available for Internal Audit**

S. no. (1)	Position (2)	Number of staff ( 3)	Working days (4)	Leave days (5)	Working days available (6=4-5)	Working days for follow-up and managerial work ( 7)	Working days available for Audit (8= 6-7)	Total available Working days (9=3x8)
1	Director	1	200	15	185	45	140	140
2	Deputy director	1	200	15	185	45	140	140
3	Auditor	2	200	15	185	20	165	330

Approved by and date  
Director of Internal Audit Group

Recommended by and date  
Deputy Director of Internal Audit Group

Submitted by and date  
Auditor

**National Committee for Sub-National Democratic Development Secretariat**  
**Internal Audit Group**

**Form 10: Risk Based Rank of Auditable Issues and Working Days Allocation**

Rank (1)	Projects (2)	Auditable Area (3)	Scope of Audit (Period) (4)	Available working days		Working days for the audit		Balance working days	
				Deputy (5)	Auditor (6)	Deputy (7)	Auditor (8)	Deputy (9=5-7)	Auditor (10= 6-8)
1									
2									
3									
4									
5									

Approved by and date  
Director of Internal Audit Group

Recommended by and date  
Deputy Director of Internal Audit Group

Submitted by and date  
Auditor

**National Committee for Sub-National Democratic Development Secretariat**  
**Internal Audit Group**

**Form 11: Risk Based Annual Internal Audit Plan of the Year (20...)**

**1. Background**

**1.1. Purpose of the annual internal audit plan**

This Annual internal audit plan has been prepared to guide internal audit activity of internal audit group in year (20...). Approval of this plan by Head of NCDD, further strengthen the purpose, authority and responsibility of Internal audit group as mentioned in the Internal audit charter.

**1.2. Risk assessment and preparation of annual internal audit plan**

Process of internal audit manual has been followed to assess risk associated with auditable areas of various projects and operational areas under NCDD while preparing 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 channelled inputs of NCDD Head, project and operational managers, concern officials and other stakeholders and beneficiaries. Internal audit group further refined the inputs and Information by using risk factors related to auditable areas.

**1.3. Essence of the plan**

Risk assessment process identified (...) potential audits. Based on the available audit resources, working days of audit team (...) audits are proposed to undertake in year (20...). Out of that (...) are related to the projects under NCDD and (...) are related to the operational activities of NCDD. Based on the areas (...) are related to the Financial management, (...) are to Procurement and contract administration and (...) are related to the project and operational management, likewise (5) are other issues identified through risk assessment process.

**2. Client Profile**

**2.1. Overview**

“National Committee for Sub-National Democratic Development” with an abbreviation “NCDD” was established by Royal decree Number NS/RKT/1208/1429 dated on 31 December 2008. NCDD is an inter-ministerial mechanism for supporting democratic development through decentralization and deconcentration in Cambodia. NCDD is executing arm of NCDD.

**2.2. Objective**

NCDD was established to coordinate and lead implementation of the Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans, Law of Administrative Management of Communes/ Sangkat and the implementation of policy and de concentration reforms.

### 2.3. IP3

The NCDD has developed the National Program for Sub-National Democratic Development 2010-2019 (NP-SNDD). IP3 is the implementation plan of the national program. IP3-III covers a period from It identified the ways and procedures of reform for democratic development with details on project management and financial management for the purpose.

### 2.4. Budget of the NCDD Annual Workplan and Budget Year.....

Following table provides brief information on budget allocated for projects and operational areas:

Sources	SNA transfer	Core Reforms				TOTAL
		Basket	Earmarked	In-Kind	TOTAL	
1. Government						
2. Loans						
3. DP Grants						
Total						

### 2.5. Projects under NCDD identified as audit universe

S.no.	Projects/ Activities	Estimated Budget
1		
2		
3		
4		
5		
	TOTAL	

### **3. Purpose, Authority and Responsibility of Internal Audit Group**

#### **3.1. Purpose**

The Internal Audit Group is to provide independent, objective, assurance services to add value and improve the operations of NCDD. It helps the NCDD accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Internal Audit Group 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 NCDD.

#### **3.2. Authority**

The internal auditor is authorized to enter and remain on the auditee's premises during working hours, entitled to fully access to documents, reports or properties belonging to NCDD, and may examine, make copies or extract documents from any report. Internal auditor of internal audit group will enjoy free access and support of auditee 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 internal auditor is, therefore having unrestricted and timely access and support for audit purpose.

#### **3.3. Responsibility**

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

### **4. Objectives of Audit**

The internal audit has 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 NCDD, projects and activities under NCDD through evaluation and offer recommendation for improvement is in centre of internal audit objective. Internal audit activity with focus on following has objective to help NCDD achieve its objectives.

#### **4.1. Governance related**

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

#### **4.2. Risk management related**

- Organizational objectives support and align with the organization mission;
- Significant risks are identified and assessed;

- Appropriate risk responses are selected that align risks with the organization's risk appetite; and
- 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:

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

#### 4.4. Fraud related:

The Internal audit group has 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 Internal Audit Group is responsible to cover all activities under NCDD and provide audit/assurance services. To best utilization of limited internal audit resources and focus on the areas of high risks, audit scope has been determined based on the risk assessed that is in line with risk based audit strategy. Based on the assessed risk and available the internal audit resources are allocated for....audits. With.... staffs the Internal Audit Group can audit only....months transactions from....to..... of ministries and standalone projects, and can audit only... out of 25 Capital and provinces.

S. no	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 plan for audit of those areas, the Internal Audit Group will have defined the objective of each audit. Nature of the areas under audit and objective will determines scope of each audit. It may be limited to some specific activity 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 instance internal audit may need to extend 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 to the fraudulent activities and corruption, internal audit has to expand its scope for longer periods as required. In this way audit scope may be the part of the organisation, programme, activity or function to be examined, the subject matters of the audit, and the time period of the audit coverage.

## 6. Methodology of Audit Execution

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

Identify, analyze, evaluate and document sufficient information to achieve objective of individual audit plan/program will be in the central of audit execution process. Physical observation, interviewing, questionnaire, documents review, and data analysis will be main techniques used in audit execution process.

## 7. Estimated Cost

Cost of the audit includes the salary and benefit of auditors, logistic and administrative cost of the Internal Audit Group and also it is appropriate to consider the cost of auditee organization that is associated with audit process. Table below presents estimated audit cost, USD .....in form of salary and benefit, logistic and administrative expenditure and DSA for audit visit.

S.no.	Description of cost	Cost estimation			
		Unit (year/month/day)	Quantity	Rate	Total
1					
2					
3					
4					
5					
	<b>Total:</b>				.....

## 8. Outsourcing/ Co-Sourcing of Experts

Internal audit group lacks the expertise in the technical areas. There is need for outsourcing/ co-sourcing expert's services for following audits. This will cost USD ..... Out sourcing / co-sourcing of experts will not only support to achievement of audit objectives of individual audit but also

enhance capacity of internal audit group in the related field. Internal audit group also plan to involve experts working with in the NCDDS for specific inputs and involvement of the audit.

S.no.	Project	Issues/ areas	Types of experts required	Required Cost estimation			
				Unit (month/year)	Quantity (month/year)	Rate	Cost
1							
2							
3							
<b>Total:</b>							

## 9. Risk assessment and Annual audit planning.

Risk assessment and preparation of risk based annual audit plan is one main annual activity of internal audit group. The process for preparation of annual audit plan of year ..... will run for two months, November and December. This will be a comprehensive consulting, evaluation exercise that will channel concerns of senior management, project and operational managers, other officials, development partners, beneficiaries, and other stake holders in form of risk. Internal audit group will process all inputs received, review its own records and use professional judgement to assess the risk and finalize list of auditable areas that can be audited as per available internal audit resources/ working days.

## 10. Preparation of Annual Report

Internal audit group will prepare annual report that indicates the implementation of this annual audit plan and audit results. Report will include overall assessment of effectiveness and of internal control, governance and risk management with in NCDD and projects/ operations, highlight the critical audit findings. The report will also incorporate information on status of audit reports implementation, follow-up, lesson learned, steps for enhancing efficiency and effectiveness of Internal audit group and other relevant information for the use of senior management of NCDDS. The annual report will be finalized and submitted by end of January in the following year.

## 11. Approval Request

The Internal Audit Group must submit annual internal audit plan to the Head of NCDDS for review and approval.

## 12. Approval of Annual Internal Audit Plan

Head of NCDDS reviews and approves the annual audit plan for the Internal Audit Group of NCDDS to implement.

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 12: Understanding of Business**

Project:

Audit area:

Source of Understanding: Organizational structure of project

**Notes:**

- This form has to prepare for each sources of information identified by 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 record the text is commonly used method of recording understanding.
  - Organizational structure
  - Business process
  - Work flow
  - 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 to be on risky issues. Those issues audit team consider worth further consideration in risk assessment process should be documented.
- More than one source of information may indicate common risk.

Reviewed by and date.  
Director of Internal Audit Group

Forwarded by and date.  
Deputy Director of Internal Audit Group

Prepared by and date.  
Auditor

**National Committee for Sub-National Democratic Development**

**Internal Audit Group**

**Form 13: Analysis of Key Processes**

Project:

Audit area:

Key process: Financial Management

S. no.	Components of Key Process	Results of Analysis
1		
2		
3		
4		
5		
6		
7		
8		
9		

Approved by and date  
Director of the Internal Audit Group

Forwarded by and date  
Deputy Director of the Internal Audit Group

Prepared by and date  
Auditor

**Notes:**

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

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 14: Inherent Risk Description and Ranks**

Project:  
Audit area:

S. no.	Risk Description	Likelihood	Impact	Inherent Risk Rank
<b>Objective, Structure and Human resources management</b>				
1				
2				
3				
4				
5				
6				
7				

Approved by and date  
**Director of Internal Audit Group**

Forwarded by and date  
Deputy Director of Internal Audit Group

Prepared by and date  
Auditor

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 15: Residual Risk Ranks and Audit Program**

Project:  
Audit area:

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

Approved by and date  
Director of Internal Audit Group

Reviewed by and date  
Deputy Director of Internal Audit Group

Prepared by and date  
Auditor

**Notes:**

- Audit team may identify new issues to be audited during audit execution. They have to prepare additional audit program in this format and get approval in time and examine new issues.
- If more than one auditor is assigned for one audit, deputy director of internal audit group has to assign audit work to them.

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 16: Internal Audit Plan**

Project:  
Audit area:

**1. Introduction:**

**2. Audit Objectives:**

**3. Audit Scope:**

**4. Detail audit program:**

Form 14, which is integral part of this plan, provides details of audit execution.

**5. Timing of the audit:**

This audit is scheduled to start on (....., ..... 20...). All tests, verifications, and field observation will be completed by (.... of ..... ) and preliminary report will be issued by ( .... of the .....).

**6. Audit resources**

(Mr. Ms. ....) will lead this audit. Auditors (Ms....) and (Mr.....) will be in audit team. As there are some technical aspects involved in this audit, expert of the area ( Mr. Ms. ....) will be supporting for execution of this audit and preparing audit report as well on technical aspects.

**6.1. Working days:** Working days of audit manager and auditors were estimated during preparation of annual internal audit plan. The estimation of working days to execute this audit plan/ program along with previous estimate, for example, is tabled below:

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

**6.2. DSA, transportation and other logistic cost:** This audit requires field visit and overnight stay. Estimated DSA, transportation and other logistic cost, for example, is tabled below

S.no.	Description	Amount
1		
2		
3		
4		
5		

Approved by and date  
Director of Internal Audit Group

Reviewed by and date  
Deputy Director of Internal Audit Group

Prepared by and date  
Auditor

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 17: Entry Conference**

**1. General Information:**

S.no.	Description	Information
1		
2		
3		

**2. Participants of Entry Conference**

S.no.	Name	Position	Organization	Email	Phone	Signature
1						
2						
3						

**3. Information shared by Audit Team Leader**

S.no.	Topics	Matters shared and discussed.
1		
2		
3		

**4. Information Shared by Chief of the Auditee**

S.no.	Topics	Matters shared and discussed.
1		
2		
3		

## 5. Logistic Arrangement.

The logistic arrangement for audit such as: work place, Internet connection, filed visit, physical verification.

## 6. Coordinator(s) Assigned

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

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

Approved by and date  
Director of Internal Audit Group

Reviewed by and date  
Deputy Director of Internal Audit Group

Prepared by and date  
Auditor

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 18: Audit Criterion**

<b>S. no.</b>	<b>Audit program</b>	<b>Audit criterion</b>
<b>1</b>		
<b>2</b>		
<b>3</b>		

Approved by and date  
Director of Internal Audit Group

Reviewed by and date  
Deputy Director of Internal Audit Group

Prepared by and date  
Auditor

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 19: Audit Execution-Working Paper**

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

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 20: Draft Internal Audit Report for Exit Conference**

Name and Address of Project:

Area of Audit:

**Part-One: Executive Summary**

Brief introduction of the project/ operation or office and area of audit, audit objectives and scope, positive findings or performance of auditee, conclusion, and overall assessment of internal control system and need of improvement are presented under this part. This part also acknowledges the support of the auditee in due course audit. Further recommendations are to be tabled.

S.no	Recommendations

**Part-Two: Auditee and Audit**

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**)

### Part-Three: Audit Observations

This section presents findings of audits. All observations “5 Cs” recorded in **Form 19** are edited, updated and presented separately in a logical order/ sequence. Table below provides a format for reporting individual audit observation.

Heading	Description
Serial number and heading of observation	
Amount involved with observation	
Classification of observation	
Criterion	
Condition	
Cause	
Consequence	
Corrective action (recommendation)	
Comments of management / auditee	

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 21: Exit Conference**

1. General Information:

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

2. Participants of Exit Conference:

<b>S.no.</b>	<b>Name</b>	<b>Position</b>	<b>Organization</b>	<b>Email</b>	<b>Phone</b>	<b>Signature</b>
1						
2						
3						
4						
5						

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

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 22: Internal Audit Report**

Name and Address of Project:

Area of Audit:

Audit report number: .... (Sequential number of reports issued in the year) of year .....

**Part-One: Executive Summary**

Brief introduction of the project/ operation or office and area of audit, audit objectives and scope, positive findings or performance of auditee, conclusion, and overall assessment of internal control system and need of improvement are presented under this part. This part also acknowledges the support of the auditee in due course audit. Further recommendations are to be tabled.

S.no.	Recommendations

**Part- Two: Auditee and Audit**

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**)

### Part- Three: Audit Observations

This section presents findings of audits. All observations “5 Cs” recorded in **Form 19** needs updated and presented separately in a logical order/ sequence. Table below provides a format for reporting individual audit observation.

Heading	Description
Serial number and heading of observation	
Amount involved with observation	
Classification of observation	
Criterion	
Condition	
Cause	
Consequence	
Corrective action (Recommendation)	

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 23: Memo Issuing Internal Audit Report**

Date:

To .....  
Title of Chief of the Project  
..... Project  
.....( Address)

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

The findings of the audit were discussed with you/ and or your official on (date .....). Comments and evidences received during the exit conference and all evidences are 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 project management of ..... project.

I, hereby, request your response on report by 7 working days along with your plan for implementation of recommendations. If you have different opinion and/ or decide to take risk of not implementing recommendation(s) please state the same with reason(s). We will evaluate the response and let you know the recommendations, implementation of which will be monitored by the Internal Audit Group of NCDDS.

Director  
NCDDS Internal Audit Group

**CC:**

- Head of NCDDS
- National Audit Authority

**National Committee for Sub National Democratic Development**  
**Internal Audit Group**

**Form 24: Review, Verification and Examination of Comments and Evidences**

Project:  
Audit area:  
Date of audit Report:  
Audit report No:  
Date of response (comments)

<b>S.no.</b>	<b>Recommendations and number</b>	<b>Comments/ response and evidences submitted by auditee</b>	<b>Results of review</b>	<b>Decision of Director of the Internal Audit Group</b>
1				
2				
3				

Approved by and date  
Director of Internal Audit Group

Reviewed by and date  
Deputy Director of Internal Audit Group

Submitted by and date  
Auditor

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 25: Decision based on Review, Verification and Examination of Comments and Evidences**

Project:  
Audit area:  
Date of audit Report:  
Audit report No:  
Date of response (comments)

S.no.	Recommendations and number	Comments/ Response and Evidences submitted	Decision ( open/ close)

Signed by and date  
Deputy Director of the Internal Audit Group

Signed by and date  
Auditor

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 26: Database/ Record of the Follow-up of Previous Year/ Current Year-----**

<b>S.no.</b>	<b>Recommendation No.</b>	<b>Recommendation</b>	<b>Amount</b>	<b>Classification (Inadequacy of system, Non-compliance, Loss, Recoverable or Miscellaneous)</b>	<b>Decision date of closing recommendation</b>

Certified by  
Deputy Director of the Internal Audit Group

Updated by  
Auditor

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 27: Proposal and Decision of Disposal of Recommendations**

S. No.	Recommendations	Audit report number and date	Name of the Office/ Auditee responsible for implementation of recommendations	Reasons for disposal	Actions Proposed	Decision of Head of NCDDS
1						
2						
3						
4						
5						

Approved by and date  
Head of NCDDS

Reviewed by and date  
Director of the Internal Audit Group

Submitted by and date  
Deputy Director of the Internal Audit Group

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 28: Follow-up Report of the Month of.....**

**Part one: Summary of follow-up Status**

S. No.	Name of the Office/ Auditee responsible for implementation of recommendations	Numbers of recommendations and amount									
		Carried forwarded from previous month		Additional of this month		Total		Recommendations closed during this month		Carried forwarded for next month	
		Recommen dations	Amount	Recommen dations	Amount	Recommen dations	Amount	Recommen dations	Amount	Recommen dations	Amount

**Note:** The recommendations closed during this month includes ..numbers of recommendations and amount ..... based on decision to disposal of recommendations.

**Part two: Amount involved as per classification:**

S. 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,					
4	Recoverable					
5	Miscellaneous					

**Some of the critical audit recommendations implemented and due to implement are briefly summarized below.**

- 1.
- 2.

Certified by  
 Director of the Internal Audit Group

Verified by and date  
 Deputy Director of the Internal Audit Group

Prepared by and date  
 Auditor

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 29: Annual Internal Audit Plan File**

S. no.	Documents/ Information	Number of pages	Cross Reference		
1.	Audit Universe: Auditable Offices/ projects (Form 1)				
2.	Documents related to the Form 1				
3.	Request to Senior management for their inputs for annual internal audit planning (Form 2)				
4.	Documents related to the Form 2.				
5.	Request to capture inputs of project and or operational managers (Form 3)				
6.	Documents related to the Form 3				
7.	Inputs of officials, beneficiaries and other stakeholders (Form 4).				
8.	Documents related to the Form 4				
9.	Internal Auditors' assessment of Broad risk associated with Auditable area (Form 5)				
10.	Documents related to the Form 5				
11.	Consolidated list of Auditable areas with ranking of Audit needed (Form 6)				
12.	Documents related to the Form 6				
13.	Consolidated list of Auditable areas with Risk points (Form 7)				
14.	Documents related to the Form 7				
15.	Factoring the Risk points of Auditable areas (Form 8)				
16.	Documents related to the Form 8				
17.	Calculation of working days available for Internal audit (Form 9)				
18.	Documents related to the Form 9				
19.	Risk based rank of Auditable issues and Working days allocation (Form 10)				
20.	Documents related to the Form 10				
21.	Documents which are related to more than one Forms				
22.	Risk based Annual internal audit plan for the year....., (Form 11)				
23.	Documents related to the Form 11				
24.	Soft copies (electronic version of information) Name and location.				
25.	Soft copies (information saved in computer) Computer and file path.				

# National Committee for Sub-National Democratic Development

## Internal Audit Group

### Form 30: Master File

**Name of Office/ Project:**

S. no.	Documents/ Information	Number of pages
1.	Policy ( IP-3)	
2.	Laws/Rules - legal framework	
3.	Manuals	
4.	Project Documents	
5.	Project Memorandum/Appraisal	
6.	Resource Management (Agreement of Loan/Grant)	
7.	Mid-term and other evaluation	
8.	Target and Achievement	
9.	Organisational Structure of the Project/ operation.	
10.	Details of closely related entity and programme.	
11.	Major Audit Findings of Previous years, which were incorporated into the Annual Report	
12.	Cuttings of Matters of Public Concern Published in Magazines/Newspapers	
13.	Other Relevant Documents and Statements , useful for more than one Fiscal Year- Contracts	
14.	Soft copies (electronic version of information) Name and location.	
15.	Soft copies (information saved in computer) Computer and file path.	
16.		
17.		
18.		
19.		
20.	Updated Client Profile	

# National Committee for Sub-National Democratic Development

## Internal Audit Group

### Form 31: Audit File

Name of the Project:

Area of Audit....

Report number and date...

Report number and date:..					
S. no.	Documents	Number of pages	Cross reference		
Planning stage					
1	Engagement Letter				
2	Documents collected under step 1: Understanding of the business process.( name of the document)				
3	Documents collected under step 1: Understanding of the business process.( name of the document)				
4	Separate document prepared-at least 30 as <b>Form 12</b> ( <b>Form 12</b> : name of the sources of information)				
5	Separate document prepared-at least 30 as <b>Form 12</b> ( <b>Form 12</b> : name of the sources of information)				
6	Documents collected under step 2: Analysis of key Business Process.( name of the document)				
7	Documents collected under step 2: Analysis of key Business Process.( name of the document)				
8	Separate Analysis of key Business Process completed ( <b>Form 13</b> : name of key process)				
9	Separate Analysis of key Business Process completed ( <b>Form 13</b> : name of key process)				
10	Documents collected / developed under step 3: Inherent risk assessment ( name of the document)				
11	Documents collected / developed under step 3: Inherent risk assessment ( name of the document)				
12	Inherent risk assessment Matrix				
13	Inherent risk description and rank: <b>Form 14</b>				
14	Documents collected under step 4: Assessment of Internal control and assessment of Residual risk ( name of the document)				
15	Documents collected under step 4: Assessment of Internal control and assessment of Residual risk ( name of the document)				
16	Internal control and Residual risk assessment Matrix.				
17	Residual risk ranks and audit program <b>Form 15</b>				
18	Documents collected under step 5 : Preparation and approval of internal audit plan ( name of the document)				
19	Documents collected under step 5 : Preparation and approval of internal audit plan ( name of the document)				
20	Internal audit Plan <b>Form 16</b>				
Audit execution stage					
21	Entry Conference <b>Form 17</b>				
22	Documents collected during audit execution which are related to more than one audit program( name of document)				
23	Documents collected during audit execution which are related to more than one audit program( name of document)				
24	Documents collected / developed related to the specific audit program. ( name of document and Audit program Number)				
25	Audit execution working paper <b>Form 19</b>				

S. no.	Documents	Number of pages	Cross reference		
26	Documents collected / developed related to the specific audit program. ( name of document and Audit program Number)				
27	Audit observation related to the specific audit program <b>Form 19</b>				
<b>Reporting stage</b>					
28	Draft of internal audit report for Exit conference <b>Form 10</b>				
29	Exit Conference <b>Form 21</b>				
30	Documents received during exit conference.				
31	Documents developed after exit conference.				
32	Draft Internal audit Report <b>Form 22</b>				
33	Memo issuing Internal audit report Toolkit <b>Form 23</b> and audit report <b>Form 22</b>				
<b>Follow - up stage</b>					
34	Comments and evidences submitted by auditee.				
35	Documents developed during Review, verification and examination of Comments and evidences.				
36	Review, verification and examination of Comments and evidences <b>Form 24</b>				
37	Decision based on Review, verification and examination of comments and evidences <b>Form 25</b> and communication letter.				
38	Follow –up request and evidences submitted by auditee on recommendations open for follow-up.				
39	Review, verification and examination of Comments and evidences <b>Form 24</b>				
40	Decision based on Review, verification and examination of comments and evidences <b>Form 25</b> and communication letter.				
41	Follow –up request and evidences submitted by auditee on recommendations open for follow-up.				
42	Review, verification and examination of Comments and evidences <b>Form 24</b>				
43	Decision based on Review, verification and examination of comments and evidences. <b>Form 25</b> and communication letter.				
<b>Soft copies of information- Related to all stages</b>					
44	Soft copies (electronic version of information) Name and location.				
45	Soft copies (information saved in computer) Computer and file path.				

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 32: Executive Summary of Annual Report .....**

His Excellency,  
Head of NCDD Secretary,

I am pleased to submit annual report of the Internal Audit Group. This report covers the activities of the department during the year (.....).

During the year (.....) the Internal Audit Group completed (....) audits. Out of that (....) were as per approved annual internal audit plan and (...) were identified later on. Annual internal audit plan had included (....) audits. Out of that (....) audits were not undertaken for different reasons.

Audit observed inadequacy of internal control system and also internal control system in place is not effective as it supposed to be. Thus efforts are required to strengthen internal control system for economic, efficient and effective project management and operations under NCDD.

Projects and operational entities accepted (....) recommendations out of Out of (....) recommendations offered by the audit. Out of (....) unaccepted recommendations (....) recommendations are kept open for follow-up as evidences and comments from projects and operational entities couldn't substantiate that the implementation of those recommendations is not in benefit of NCDD. In this way (....) recommendations are entered into the data base of follow-up. Out of those recommendations (....) recommendations have monetary values of riel (.....).

Most of the recommendations are classified under non- compliance as (....) of (....) are related to the non-compliance with legal and other procedures in place. (....) Recommendations are classified under inadequacy of system and therefore recommended for developing internal control and related system. There are (....) cases that caused loss of Riel (.....) to the NCDD and those recommendations are classified under loss. Audit has observed overpayments and under receipt of amount real (.....) and....recommendations are offered for recovery of that amount. Remaining of (....) recommendations are classified under miscellaneous.

Follow-up of audit recommendations is satisfactory as out of (.....) recommendations of this year (.....) recommendations are closed. Out of (....) recommendations (....) are closed as management has taken actions as recommended. Another (....) recommendations are closed for follow-up because request and evidence submitted by auditee substantiate that the there is no more relevancy of implementation. Remaining (....) recommendations are carried forwarded for follow-up in coming year. Out of (....) recommendations carried forwarded from previous year (....) are closed, as (....) are implemented and (....) are found irrelevant to implement. The follow-up data base has total of (....) recommendations open for follow up.

Implementations of recommendations have enhanced internal control system and also boost the culture of compliance with legal and other procedure in place. Direct contribution in monetary term is real (.....) as real (.....) has been recovered as per recommendations and real (.....) recovered during the audit period.

Internal audit group has developed some audit tools and formats based on the audit manual. Because of complex nature of procurement process internal auditors required tools and trainings on audit of procurement and contract administration. Internal audit group has approved position of (9) auditors, however, only (6) are on board. Appointment of auditors as per approved position will expand audit coverage. In which the Internal Audit Group faced lack of technical knowhow specially in auditing of infrastructure projects. Hiring experts for short term or polled from NCDD work force on need basis will be fruitful.

Some significance audit observation, implemented and yet to implement presented briefly:

- aa
- bb
- cc

The Internal Audit Group has completed review of its functioning as independent and objectively and professional development activities taking place and also compliance with internal audit manual. Brief of the review is presented bellow:

- Independency
- Objectivity
- Proficiency
- Annual plan preparation
- Audit plan/ program preparation
- Audit execution
- Reporting
- Follow-up

The Internal Audit Group is grateful to His Excellency, senior management, for unfettered support in maintaining independency in providing audit services. I would like to thank project managers and all officials for their support in audit process and efforts in implementing audit recommendations.

I would like to reaffirm that the internal audit group is committed to discharge its responsibility as per internal audit charter. The Internal audit group will be taking seriously all directions from His Excellency and comments and suggestions from concerned officials of NCDD.

Please accept my best regards.

Director  
Internal Audit Group of NCDD

**National Committee for Sub-National Democratic Development**  
**Internal Audit Group**

**Form 33: Annual Report of the Internal Audit Group, Year .....**

1. Back ground:

The Internal Audit Group of the National Committee for Sub-National Democratic Development Secretariat (NCDDS) is an independent body that reports to NCDDS Head. Internal audit charter has established this department as internal audit service provider for the NCDD. Providing assurance services through risk based audits is in center of the department's responsibility. This annual report incorporates achievement against approved plan, results of audits undertaken and major findings of the audits. Status of follow-up, efforts toward audit capacity development and other issues are other topics included in report.

2. Implementation of Annual internal audit plan

The Internal Audit Group developed annual internal audit plan and get approval of Head of NCDDS. Senior management of NCDDS, project managers, operational heads, officials, beneficiaries and other stake holders were consulted in the process of preparing annual internal audit plan. Concerns and inputs of them were captured, analyzed and transformed as basic input for developing risk based annual internal audit plan, as per risk based audit strategy of the Internal Audit Group.

During the year (.....) the Internal Audit Group completed (...) audits. Out of that (...) were as per approved annual internal audit plan and (...) were identified later on. Annual internal audit plan had included (...) audits. Out of that (...) audits were not undertaken for different reasons. Tables below provide details of the annual plan implementation.

2.1. Audits conducted as per annual plan

<b>S.no.</b>	<b>Projects Audited</b>	<b>Area of Audit</b>
1		
2		
3		

2.2. Additional Audits conducted

<b>S.no.</b>	<b>Projects Audited</b>	<b>Area of Audit</b>
1		
2		
3		

### 2.3. Audits not undertaken

S. no.	Projects	Area of Audit	Reason
1			
2			
3			

### 3. Audit Results.

Offices and Projects accepted (....) recommendations out of Out of (....) recommendations offered by the audit. Out of (....) unaccepted recommendations (....) recommendations are kept open for follow-up as evidences and comments from projects and operational entities couldn't substantiate that the implementation of those recommendations is not in benefit of NCDDS. In this way (....) recommendations are entered into the data base of follow-up. Out of those recommendations (....) recommendations have monetary values of riel (.....). Details information is tabled below.

#### 3.1. Recommendations offered, accepted, and kept open for follow-up.

S. no.	Projects Audited	Area of Audit	Recommendations offered	Recommendations accepted	Recommendations Kept open for follow-up
1					
2					
3					
4					
Total:					

#### 3.2. Recommendations with monetary value.

S. no.	Projects Audited	Area of Audit	Recommendations Kept open for follow-up	Monetary value involved.
1				
2				
3				
4				
5				
Total:			....	.....

### 3.3. Classification of Recommendations

S. no.	Projects Audited	Area of Audit	Recommendations as per classification				
			Inadequacy of system	Non-compliance	Loss	Recoverable	Miscellaneous
1							
2							
3							
4							
5							
Total: ( ....)			....	....	....	....	....

### 3.4. Classification of recommendations with monetary values involved.

S. no.	Projects Audited	Area of Audit	Monetary value as per classification				
			Inadequacy of system	Non-compliance	Loss	Recoverable	Miscellaneous
1							
2							
3							
4							
5							
Total: (.....)			.....	.....	.....	.....	.....

## 4. Follow up of the recommendations.

Follow-up of audit recommendations is satisfactory as out of (....) recommendations of this year (....) recommendations are closed. Out of (....) recommendations (....) are closed as management has taken actions as recommended. Another (....) recommendations are closed for follow-up because request and evidence submitted by auditee substantiate that there is no more relevancy of implementation. Remaining (....) recommendations are carried forward for follow-up in coming year. Out of (....) recommendations carried forward from previous year (....) are closed, as (....) are implemented and (....) are found irrelevant to implement. The follow-up data base has total of (....) recommendations open for follow up.

4.1. Numbers of recommendations carried forwarded from previous years, offered this year, implemented and closed, and carried forwarded for next year.

S. no.	Projects audited	Area of Audit	Numbers of recommendations						
			Previous years	This years	Total	Implemented	Closed	Total	Carried forwarded
1									
2									
3									
	Total:	....	....	....	....	....	....	....	

#### 4.2. Age analysis of recommendations open for follow up.

S. no.	Projects audited	Area of Audit	Numbers of recommendations			
			One year	Two years	Three years	More than three years
1						
2						
3						

4.3. Significant outstanding issues: There may be significant issues outstanding from previous or open for follow-up. Some issues are discussed under this point as significant outstanding issues based on amount involved, system improvement matters, age analysis and other reasons.

#### 5. Improvement Internal control system

(This point deals about the changes taken place because of audit. Significant improvement in internal control system and procedures resulted from implementation of audit recommendations are discussed here. Internal audit group should draft concise and to the point report as per the nature of improvement)

#### 6. Recovery.

Audit observation those are related to the overpayment and under realization will result recovery of money from the staff, contractor and other parties. Annual report, under this point, present the amount recovered during the audit process and follow-up.

#### 7. Significant issues.

Out of numbers of reports issued and recommendation issued in current year some are significant because of the amount involved, opportunities of system improvement and other reasons. Internal audit group should highlight some of those issues under this point.

## 8. Quality assurance.

Internal audit is a systematic and discipline approach that has set procedures for planning, executing and reporting of audit observations. Internal audit manual has set procedures for conducting risk based internal audit. A practical approach to evaluate whether Internal audit group comply with performance standards is to compare performance of internal audit group with internal audit manual in place.

8.1. Risk based strategy and annual Plan: Table the status of procedure followed while developing annual internal audit plan of the department.

**Table describing status of procedure followed while preparing annual plan**

S.no	Procedure	Comply Partially comply Non- compliance	Reasons of Partially comply and Non-compliance	Plan for compliance
1	Defining audit Universe, <b>Form 1</b>			
2	Capturing inputs of senior management, <b>Form 2</b>			
3	Capturing inputs of project/ operational managers, <b>Form 3</b>			
4	Capturing inputs of beneficiaries and other stake holders, <b>Form 4</b>			
5	Assessment of broad risk by Internal audit group, <b>Form 5</b>			
6	Consolidated list of auditable issues/ areas with Ranking, <b>Form 6</b>			
7	Consolidated list of auditable issues/ areas with Points, <b>Form 7</b>			
8	Likelihood and Impact based factors to assess broad risk, <b>Form 8</b>			
9	Calculation of available working days, <b>Form 9</b>			
10	Risk based rank of auditable issues/ areas and working days, <b>Form 10</b>			
11	Preparation and approval of Annual audit plan, <b>Form 11</b>			

8.2. Risk assessment Framework and audit plan/ program preparation: Table the status of procedure followed while preparing internal audit plan/ Program.

**Table describing status of procedure followed while preparing internal audit plan/ program.**

S.no.	Projects audited	Area of Audit	Compliance, Partially compliance, non-compliance with procedures suggested by internal audit manual				
			Form 12	Form 13	Form 14	Form 15	Form 16
1							
2							
3							

8.3. Analysis the status of compliance, partially compliance and non- compliance with procedures of internal audit and future plan to comply with the same.

S. no.	Procedures	Audit completed	Fully complied	Partially complied	Non-complied	Reasons of partially compliance and non-compliance	Plan for compliance
1	Understanding the business and recording of significant information <b>Form 12</b>						
2	Analyzing key process and recording of significant information <b>Form 13</b>						
3	Determination of likelihood and impact, and assessment and preparation of Inherent risk ranks <b>Form 14</b>						
4	Assessing internal controls, Ranking residual risk and developing detailed audit program <b>Form 15</b>						
5	Preparation and approval of internal audit plan <b>Form 16</b>						

8.4. Audit execution: Table the status of procedure followed while conducting audit.

S. no.	Projects audited	Area of Audit	Entry conference- (conducted/ not conducted)	Draft report has prepared as per format and content ( comply, partially comply or non- compliance)	2 Cs or 5 Cs are separately stated (comply, partially comply or non-compliance)
1					
2					
3					
4					
5					

8.5. Analysis the status of compliance, partially compliance and non- compliance with procedures of internal audit execution and future plan to comply with the same.

S. no.	Procedures	Total audit undertaken	Fully complied	Partially complied	Non-complied	Reasons of partially compliance and non-compliance	Plan for compliance
1	Entry conference						
2	Draft report prepared as per format and content						
3	2 Cs or 5 Cs are separately stated						

8.6. Reporting: Table the status of procedure followed while preparing audit reports.

S. no.	Projects audited	Area of Audit	Exit conference- (conducted/ not conducted)	Draft report has prepared as per format and content including 5 Cs and ( comply, partially comply or non- compliance)	Evidence and working papers supporting reported issues (comply, partially comply or non- compliance)
1					
2					
3					

8.7. Analysis the status of compliance, partially compliance and non-compliance with procedures of internal audit reporting and future plan to comply with the same.

S. no.	Procedures	Audit completed	Fully complied	Partially complied	Non-complied	Reasons of partially compliance and non-compliance	Plan for compliance
1	Exit conference						
2	Draft report has prepared as per format and content including 5 Cs						
3	Evidence and working papers supporting reported issues						

8.8. Procedure followed while following -up audit reports.

S. no.	Projects audited	Area of Audit	Comments received within 7 working days	Decision taken within 7 working days from date of comments received	Updated follow-up data base from the date of decision (number of days)
1					
2					
3					

8.9. Analysis the status of compliance, partially compliance and non- compliance with procedures of internal audit reporting and future plan to comply with the same.

S. no.	Procedures	Total audit undertaken	Fully complied	Partially complied	Non-complied	Reasons of partially compliance and non- compliance	Plan for compliance
1	Comments received within 7 working days						
2	Decision taken within 7 working days from date of comments received						
3	Updated follow-up data base from the date of decision (during 3 working days)						

#### 9. Other issues

Matters which are not falling under points discussed above but important for professional functioning of the department are discussed here. Resource constraints, support from the senior management of NCDD, cooperation from the audited entity is some of the issues Director of internal audit group may consider appropriate to present.

