

UNIVERSITY OF HEALTH AND ALLIED SCIENCES, HO



INTERNAL AUDIT PROCEDURES MANUAL

This manual was adapted from the Audit Manual for Ministries, Departments and Agencies which was developed by the Internal Audit Agency of Ghana

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Foreword

The University of Health and Allied Sciences (UHAS) recognizes the Internal Audit Directorate (IAD) as a strategic unit to promote governance, assess risk management practices and also help improve controls. UHAS' Statute 3 (1) states that "the University shall be managed and administered in accordance with sound and modern principles and ideas on university management and administration including the principles of academic and financial integrity, confidentiality, accountability, transparency, fairness and equality of opportunity".

As a result, this Internal Audit Procedures Manual has been developed to set out the detailed procedures for carrying out the internal audit function of the University.

All officers and units shall in accordance with the Procedures Manual and decisions of the Council, undergo internal audit processes in strict adherence to the requirements stated in this manual.

Professor John Owusu Gyapong
Vice Chancellor

1 INTRODUCTION

Section 16 (1) of the Internal Audit Agency Act 2003 (Act 658) makes it mandatory for all public institutions to set up Internal Audit Units (IAUs). Section 83 of the Public Financial Management Act, 2016 (Act 921) also mentions that every public entity shall have an internal audit unit. Section 32 (1) of the University of Health and Allied Sciences Act, 2011 (Act 828) also reiterates the need for UHAS to establish an internal audit unit which shall constitute a part of the University. The responsibilities of the IAD have been set out in the Internal Audit Agency Act, Public Financial Management Act and the Statutes of the University. This Internal Audit Procedures Manual has therefore, been developed in conformity with the relevant Acts and Regulations, UHAS Statutes and requirements of the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA).

1.1 Objectives

This Manual is written as a reference document to provide guidance on the key phases and activities applied in internal audit work in UHAS.

The objectives of this Manual include the following:

- i. To document in detail the internal audit policies and procedures of the University of Health and Allied Sciences.
- ii. To serve as a useful guide for the internal audit staff, detailing their responsibilities, approach and authority to conduct effective internal audits in UHAS and communicate audit results to management and related parties.
- iii. To provide a consistent basis for the delivery of internal audit activities in UHAS.
- iv. To serve as a basis for improving systems and internal control procedures in the University.

1.2 Content of the Manual

This Manual prescribes the structure, policies, procedures, templates, guidelines, and reference documents to be used by the IAD to carry out its responsibilities. The manual also describes the responsibilities of the IAD in communicating audit results, its approach, authority, and strategies to achieve its objectives.

The procedures have been described in narrative language and are supported by specimen operational procedures that have been appropriately referred and serially numbered to facilitate their identification.

1.3 Applicability

This Manual is intended to provide work instructions and guidance primarily to the staff of the IAD. However, certain guidelines detailed herein may be applicable to all the employees of the University.

1.4 Maintenance / Revisions

To keep abreast with changes in business requirements, applicable laws, regulations and internal auditing standards or changes in the University's activities, the Director of Internal Audit will, from time to time, make proposals for changes to management of the University, Audit Committee and Council to amend or add to existing policies and procedures.

1.5 Structure of the Manual

The manual is divided into two sections as follows:

The Main Body: This section outlines all the elements and procedures that may be followed to establish and manage an effective and efficient IAD as well as those that are required to plan, execute and report on internal audit assignments. It explains the purpose and role of the Manual, defines the administrative activities required to manage an effective and efficient IAD, outlines the activities to be pursued to plan, execute, report and follow up on audit assignments as well as explain audit principles, documentation and quality assurance and ethical requirements

Appendices: This section which is attached to the manual explains how to complete the various forms and templates that have to be completed when planning for, conducting and/or reporting on assignments as well as those that should be completed when following up on the status of implementation of the recommendations made in previous assignments. It also contains the various forms that should be completed when planning, conducting and reporting on assignments as well as when following-up on the status of implementation of the recommendations of the audit. Each document has also been assigned a reference number. This refers to the order of filing of the working papers.

2 MISSION, DEFINITION, REPORTING PROTOCOLS AND TYPES OF AUDIT ENGAGEMENTS

2.1 Mission Statement of the IAD

The mission of the IAD is to enhance and protect UHAS' value by providing risk-based and objective assurance, advice and insight in furtherance of the University's mandate. The IAD contributes to the achievement of the objectives of UHAS by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

2.2 Definition of Internal Auditing

The Institute of Internal Auditors (IIA) define internal auditing as:

“An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

2.3 Reporting Lines

All internal audit reports shall be discussed with the appropriate level of management before final reports are submitted to the Vice Chancellor. Management is expected to implement all **agreed** audit recommendations within a reasonable time frame. Each audit shall be followed up to assess the extent to which recommendations have been implemented. The Audit Committee of the University shall be furnished with all audit reports in addition to the status of implementation of the reports. In line with sections 83 (7) of the Public Financial Management Act, 2016 (Act 921) and 16 (3) of the Internal Audit Agency Act, 2003 (Act 658), quarterly internal audit reports shall also be submitted to the Director-General of the Internal Audit Agency.

2.4 Functional and Administrative Reporting

The Director of Internal Audit will report administratively to the Vice Chancellor and Registrar and functionally to the Audit Committee. Regulation 221 of the Public Financial Management Regulations, 2019 (L.I. 2378) define Administrative and functional reporting.

Administrative reporting means the Director of Internal Audit reporting to the Vice Chancellor and Registrar on:

- i. Budgeting and management of the IAD.
- ii. Human resource administration including personnel evaluation and compensation.
- iii. Internal communications and information flow; and
- iv. Administration of internal policies and procedures of the University.

Functional reporting means the Director of Internal Audit reporting to the Audit Committee on:

- i. Internal Audit Charter
- ii. Quarterly Internal Audit Reports
- iii. Internal Audit Risk Assessment and related risk-based Audit Plan
- iv. Internal Audit Resource Plan
- v. Performance of the IAD in relation to its plans and other matters; and
- vi. Inquiries of management and the IAD to determine whether there is an audit scope or resource limitations that impede the ability of the IAD to perform its functions.

2.5 Types of Audit Engagements

The IAD shall offer assurance and consulting services to the University including the following:

2.5.1 Pre-payment vouching of all proposed expenditures

In line with Statute 15 (3b), the IAD will vet all proposed expenditures to ensure compliance with laid-down internal control systems and other statutory requirements.

2.5.2 Post Auditing

Our post audits will cover financial, compliance, operational, risk assessment, forensic / investigative, performance and information technology audits.

2.5.3 On-Demand / Requested Audits

The Directorate will undertake requested audits. The Vice Chancellor should be notified about any such requests made to the IAD.

2.5.4 Consulting services

The IAD is consulted by senior management, Deans, Directors and other staff of the University on a broad range of issues.

3 ROLES AND RESPONSIBILITIES OF THE IAD

3.1 Mandate of the IAD

The mandate of the IAD is defined in the Internal Audit Charter.

3.2 Scope of the IAD

The scope of the IAD's work is to determine whether the risk management, control and governance processes as designed and presented by management of UHAS is adequate and functioning in a manner to verify that:

- i. Risks are appropriately identified and managed.
- ii. Interaction with the various governance groups occur as needed.
- iii. Financial, managerial and operating information is accurate, reliable and timely.
- iv. Accounting procedures are effective.
- v. Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- vi. Resources are acquired economically, used efficiently and adequately protected.
- vii. Projects, programmes, plans and objectives are achieved.
- viii. Quality and continuous improvement are fostered in the University and are recognized and addressed appropriately.
- ix. Opportunities for improving management and control and the University's image may be identified during audits and communicated to the appropriate level of management.
- x. Significant legislative, regulatory and administrative issues impacting UHAS are recognized and addressed appropriately.

3.3 Accountability

The IAD shall be accountable to the University in the following areas:

- i. Provide an annual assessment on the adequacy and effectiveness of the processes for controlling the activities of the University and managing its risks in the areas set forth under scope of the IAD's annual audit plan.

- ii. Report significant issues related to the processes for controlling the activities of the University including potential improvements to those processes and provide information concerning such issues through resolution.
- iii. Periodically provide information on the status and results of the annual audit plan and the sufficiency of the IAD's resources.
- iv. Co-ordinate with and provide oversight of the other control and monitoring functions (risk management, compliance, security, ethics, environmental, external audit).

3.4 Responsibility

The primary objective of the IAD is to provide an appropriate level of oversight on organizational activities to facilitate the achievement of goals of the University. In order to carry out this responsibility, the IAD shall perform the following:

- i. Develop a three-year strategic plan and present it to management and the Audit Committee for review and approval.
- ii. Develop an annual risk-based audit plan (based on the three-year strategic plan in 3.1.3 (i) above) in consultation with management and submit the plan to the Audit Committee for review and approval.
- iii. Implement the annual plan, including as appropriate, any special tasks or projects requested by management of the University and the Audit Committee.
- iv. Maintain professional audit staff with sufficient knowledge, skills, experience and professional qualifications to meet the requirements of the internal audit function in the University.
- v. Professionals of the IAD should be up-to-date with relevant Standards, leading guidance and a process to identify developments relevant to their work.
- vi. Develop and maintain a process to identify and adequately respond to emerging risks relating to the University, continuous improvement and integrity in carrying out their activities.
- vii. Develop and maintain a process to issue effective communication (timely, relevant, reliable, objective, concise, etc.) to management and

- other relevant stakeholders summarizing the results of audit activities;
and
- viii. Investigate significant fraudulent activities brought to the notice of the IAD and other stakeholders.

3.5 Authority

- i. The IAD has the authority to audit all parts of UHAS and shall have complete access to any of the records, physical properties, and personnel relevant to the performance of an audit. Documents and information given to auditors will be handled as prudently as they would be by those employees normally accountable for them.
- ii. The IAD will have no direct responsibility or authority for any of the activities or operations it reviews. It should not develop and install procedures, prepare records, or engage in activities that would normally be reviewed by auditors.
- iii. The IAD will have full and free access to Audit Committee members.
- iv. Allocate resources, set audit frequencies, select auditable subjects, determine scope of audit work and apply the techniques required to accomplish audit objectives.
- v. Obtain the necessary assistance from personnel in the University in the course of performing their official functions.

3.6 Code of Ethics and Conduct of Internal Audit staff

The IAD adopts the code of Ethics and Standards of the Internal Audit Agency (which is in line with the IIA's Standards).

In all of its activities, the IAD shall adhere to the Standards for the Professional Practice of Internal Auditing and Code of Ethics of IIA. The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing.

A Code of Ethics is necessary and appropriate for the profession of internal auditing, founded on the trust placed in its objective assurance about risk management, control and governance. The IIA's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

- i. Principles that are relevant to the profession and practice of internal auditing.
- ii. Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics, embodied in the IIA's Professional Practices Framework and other relevant pronouncements provide guidance to internal auditors.

3.6.1 Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. Breaches of the Code of Ethics will be evaluated and administered in accordance with the relevant laws and regulations as well as the University's Statutes.

3.6.1.1 Principles

Internal Auditors are expected to apply and uphold the following principles:

i. Integrity

The integrity of internal auditors establishes trust and thus provide the basis for reliance on their judgment.

ii. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

iii. Confidentiality

Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

iv. Competency

Internal Auditors apply the knowledge, skills and experience needed in the performance of internal auditing activities.

3.6.1.2 Rules of Conduct

Integrity

Internal Auditors shall:

- a. Perform their work with honesty, diligence and responsibility.
- b. Not knowingly be a party to any illegal activities or engage in acts that discredit the work of Internal Auditing or UHAS.
- c. Make disclosures required by law and the standards and procedures as established under section 3 (1) of the Internal Audit Agency Act.
- d. Respect and contribute to the legitimate and ethical objectives of UHAS.

Objectivity

Internal Auditors shall:

- a. Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the University.
- b. Not accept anything that may impair or be presumed to impair their professional judgment.

- c. Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Confidentiality

Internal Auditors shall:

- a. Respect the value and ownership of information they receive and shall not disclose information without authority unless there is a legal or professional obligation to do so.
- b. Be prudent in the use and protection of information acquired in the course of their duties.
- c. Not use information for any personal gain or in any manner that would be contrary to the Internal Audit Agency Act, 2003 (Act 658) or detrimental to the legitimate and ethical objectives of the University.

Competency

Internal Auditors shall:

- a. Exhibit the highest level of professionalism in the gathering, evaluation and communication of information when auditing and shall act only in areas for which they have the necessary knowledge, skills, experience and competence.
- b. Perform internal auditing in accordance with Generally Accepted Principles of Internal Auditing and the Internal Audit Standards and guidelines as set by the Internal Audit Agency.
- c. In the performance of their work make a balanced assessment of all issues of relevance to the work and should not be influenced by their personal interest or the interests of other persons.
- d. Continually improve their proficiency and the effectiveness and quality of their services.

3.6.1.3 Non-Adherence

Any internal auditor who acts in breach of any of the requirements of confidentiality, integrity, objectivity and competence shall be subject to such action as the Governing Council of UHAS shall determine.

3.6.1.4 Protecting the Rights of the Internal Auditor

Where members of management of the University request an Internal Audit staff to undertake an act that will result in a breach of any ethical requirement under duress, the internal auditor should:

- i. Refuse to undertake the responsibility that is requested.
- ii. Report the actions of the member or management personnel to the University Council.

3.6.1.5 Reporting of fraud and misuse

As required under Regulation 222 of the Public Financial Management Regulations, 2019 (L.I. 2378), the Director of Internal Audit is required to report any suspected case of fraud to the Vice Chancellor who shall within ten days:

- i. Initiate investigations into the suspected case; or
- ii. If the suspected case is alleged to include the commission of an offence, refer the case to the Attorney-General for further action.

Where the Vice Chancellor fails to initiate an investigation or refer the suspected case to the Attorney-General within ten days, the Director of Internal Audit shall report the fact to the Audit Committee, University Council, Minister of Finance, the Director-General of Internal Audit Agency and the Auditor-General.

4. AUDIT COMMITTEE

4.1. Introduction

Section 86 of the Public Financial Management Act, 2016 (Act 921) requires all public institutions to set up Audit Committees to perform specific functions under Act 921.

The Audit Committee is a high level corporate governance committee with the majority of members from outside UHAS.

4.2. Composition of the UHAS Audit Committee

The UHAS Audit Committee is made up of five members. Three out of the five members are nominated by the Internal Audit Agency and the Institute of Chartered Accountants (Ghana) with the remaining two members nominated by the University.

4.3. Chairperson of the Audit Committee

The Chairperson of the Audit Committee is elected from among the external members.

4.4. Tenure of the External members

The external members of the Committee shall serve for not more than two terms of two years each.

4.5. The Roles and Responsibilities of the Audit Committee

4.5.1 Mandatory roles and responsibilities

The Audit Committee shall ensure that the Vice Chancellor:

4.5.1.1 Pursues the implementation of recommendation (s) contained in:

- i. Internal audit reports
- ii. Parliament's decision on the Auditor-General's report
- iii. Auditor-General's Management Letter

- iv. The report of any internal monitoring unit in the University particularly in relation to financial matters raised

4.5.1.2 Prepares an annual statement showing the status of implementation of recommendations contained in:

- i. Internal audit reports
- ii. Parliament's decision on the Auditor-General's report
- iii. Auditor-General's Management letter
- iv. The report on financial matters raised in an internal monitoring unit
- v. Any other related directive from Parliament

4.5.1.3 An annual statement required under the above shall:

- i. Indicate the remedial action taken or proposed to be taken to avoid or minimise the recurrence of an undesirable feature in the accounts and operations in the University.
- ii. Indicate the period for the completion of the remedial action; and
- iii. Be endorsed by the Minister of Education and forwarded to the Minister of Finance, Parliament, Office of the President and the Auditor-General within six months after the end of each financial year.

4.5.1.4 Advisory roles and responsibilities

- i. Providing advice on sound, transparent and reliable financial management practices.
- ii. Ensuring that the risk management processes in the University is comprehensive and effective.
- iii. Helping to achieve organisation-wide strong and effective internal controls in the University.

- iv. Reviewing corporate policies relating to compliance with laws, regulations, ethics, conflicts of interest, investigation of misconduct and fraud.
- v. Reviewing current and pending corporate-governance-related litigation or regulatory proceedings to which the University is a party.
- vi. Ensuring that internal auditors have access to the Audit Committee and encouraging communication beyond scheduled committee meetings.
- vii. Reviewing internal audit plans, internal audit charters and risk assessment reports.
- viii. Ensuring the development, approval and update of the Code of Conduct.
- ix. Follow up on significant issues, investigations and disciplinary actions.
- x. Collaboration with the Internal Audit Agency to initiate investigation into matters involving fraud or misuse of public funds.
- xi. Reviewing audit reports for assurance on efficiency, effectiveness and economy in the administration of programmes and operations in the University.

4.6. Authority

The Audit Committee shall, in the discharge of its duties and responsibilities, be authorised to:

- i. Unrestricted access to management, employees and all relevant records, books, vouchers and other documents relating to the audit reports of the University.
- ii. Obtain professional advice from relevant organisations when necessary.
- iii. Authorise investigations into any matters within its scope of responsibility.

4.7. Meetings

The Committee shall meet at least twice in a year.

5. PERSONNEL AND TRAINING

5.1. Competence

The internal audit of UHAS will be carried out by:

- Director of Internal Audit.
- Staff of the IAD

The Director of Internal Audit is responsible for maintaining a team of staff that collectively possess the necessary knowledge, skills and disciplines for the achievement of the Internal Audit objectives.

In particular, the Director of Internal Audit will:

- ensure that staff possess appropriate qualifications and experience; and
- encourage and facilitate the continuing professional development of staff.

5.2. Staffing

Under normal conditions, Internal Audit work will be performed by staff of the IAD.

5.3. Training and Professional Development

Internal Auditors will be trained to be equipped with the needed technical and behavioural skills to enable them carry out internal audit assignments with professional due care and proficiency. Internal auditors are encouraged to interact with other professional auditors and relevant professional bodies to keep them informed about developments in internal audit standards, procedures and techniques. Each internal auditor is responsible for maintaining an adequate level of technical competence and proficiency in related processes and systems.

5.3.1 Training and professional development plans

Regular training of auditors enables them to acquire the necessary skills required for the internal audit work. The Director of Internal Audit shall prepare annual training and professional development plans. The preparation of such plans should be coordinated with the preparation of the Annual Audit Plans.

An Annual Report on the functioning of the IAD should include a report on the implementation of the training and professional development plans, including the following data:

- training courses attended by staff of the IAD
- audits carried out and methodology applied
- professional qualifications acquired.
- Training on MIS and other software

5.3.2 Continuing education

Each auditor is responsible for continuing his own education in order to maintain his / her proficiency and should:

- possess a body of knowledge necessary for the conduct of internal audits
- pursue a recognized education in order to sustain continuous professional growth in the field of Internal Auditing.

Staff members are encouraged to prepare and sit for the examinations for professional certification.

Some of the certifications to be considered include:

- Certified Internal Auditor (CIA)
- Certified in Risk Management Assurance (CRMA)
- Certified Public Accountant (CPA)
- Certified Information Systems Auditor (CISA)
- Certified Fraud Examiner (CFE).
- Chartered Accountant (ICAG / ACCA / CIMA)

Internal auditors will attend seminars and training workshops as deemed appropriate and in line with the training programme developed by the Director of Internal Audit.

5.3.3 Training Records

Adequate training records will be maintained for each auditor at the HR Directorate and copies kept with the Director of Internal Audit. This should include details of skills requirements for all posts and those held by the auditor as a result of education, training and continuous professional education required by professional bodies. These records are essential for assessing further training needs.

5.3.4 New staff

All new staff members will receive an introductory session to orient them on the following:

- Knowledge of UHAS
- Relevant legislations
- Key Manuals of procedures including the University's Financial Policy, HR Manual and Procedures Manual and the Internal Audit Procedures Manual
- Risk assessment,
- Reporting procedures,
- Filing system,
- ICT systems (Information and Computer Technology).

6. PERFORMANCE ASSESSMENT AND QUALITY ASSURANCE

Periodically assessing performance and addressing opportunities for improvement can help maximize the efficiency and effectiveness of the internal audit function. Measuring performance is a means whereby internal audit is held accountable for its use of resources and service improvements can be demonstrated.

The Director of Internal Audit should establish and maintain a quality assurance programme to evaluate the operations of the IAD.

The University's Audit Committee should review the performance of internal audit each year. Formal performance measures are likely to facilitate this monitoring and review and the Committee should approve the performance indicators used.

6.1. General Auditing Quality Criteria

Quality in audit is achieved when:

- i. The audit results in a positive impact on processes where such opportunity exists.
- ii. There is good communication between auditor and the client.
- iii. The perspective and needs of the audit client are incorporated into all audit processes.
- iv. The audit objectives, scope and procedures are constantly reassessed to ascertain efficient use of audit resources.
- v. Audit objectives are achieved in an efficient and timely manner.
- vi. Audit work is adequately documented.
- vii. Audit clients have an opportunity to review our findings, conclusions and recommendations as we strive for mutual agreement.
- viii. The Internal Auditors' Standards for the Professional Practice of Internal Auditing are met.

6.2 Quality Assurance and Improvement Programme (QA&IP)

The purpose of this programme is to provide reasonable assurance that audit work is performed in accordance with the Internal Audit Charter and applicable policies and

standards. In addition, the QA&IP should provide reasonable assurance that the IAD is being managed in an efficient and effective manner and is perceived by stakeholders to be adding value to and improving the operations of the University,

The Director of Internal Audit is responsible for establishing an internal audit activity whose scope of work includes all the activities in the International Standards for the Professional Practice of Internal Auditing (Standards) and in the Institute of Internal Auditors (IIA) definition of Internal Auditing.

To ensure that this occurs, Standard 1300 requires that the Head of IAU should develop and maintain a Quality Assurance and Improvement Program (QA&IP).

6.2.1 Development, Implementation and Monitoring of QA&IP

The Director of Internal Audit is ultimately responsible for the QA&IP and should develop and maintain a QA&IP that covers all aspects of the internal audit activity and continuously monitor its effectiveness.

The Director of Internal Audit should be accountable for implementing processes that are designed to provide reasonable assurance to management of the University and the Audit Committee that the IAD:

- i. Performs in accordance with its charter.
- ii. Operates in an effective and efficient manner.
- iii. Adds value to the University.

The QA&IP includes the following:

- i. Internal reviews (Made up of Ongoing Reviews and Periodic Reviews).
- ii. External reviews.

6.2.1.1 Internal Reviews

The QA&IP should include both ongoing and periodic internal assessments (the term “internal assessments” is synonymous with the terms “internal review” and “self- assessment” used elsewhere in the Practice Advisories). These ongoing and periodic assessments should cover the entire spectrum of audit and consulting work performed by the internal audit activity and should not be limited to assessing its QA&IP.

Ongoing Assessments

Ongoing assessments are conducted through supervision of the work involving:

- i. Regular, documented review of working papers during the engagements by appropriate and skilled internal audit staff.
- ii. Internal Audit policies and procedures established for each audit engagement to ensure compliance with applicable preliminary reviews (planning), fieldwork and reporting standards
- iii. Feedback from audit clients on individual engagements
- iv. Analysis of performance

Periodic Reviews

Periodic reviews are designed to assess conformance with Internal Audit Charter, the Standards, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of the University and relevant stakeholders. Periodic reviews can be conducted through:

- i. Bi-annual audit client survey.
- ii. Periodic (E.g.: Every two years) reviews for performance in accordance with internal policies and with the Standards.
- iii. Periodic activity and performance reporting to the Vice Chancellor.

6.2.1.2 External Reviews

External assessments should be carried out at least once every five years by a qualified independent reviewer or review team from outside the University. The Director of Internal Audit should ascertain that the reviewer does not have a real or an apparent conflict of interest.

The IAD is to rely on a formal, written report issued which would express an opinion as to the IAD's compliance with the International Standards for the Professional Practice of Internal Auditing and, as appropriate, include recommendations for improvement.

6.2.2 Reporting on the Quality Assessment and Improvement Programme

The results of the assessment of the IAD should be reported to the Vice Chancellor and Audit Committee. The external assessment reports should be accompanied by a written action plan in response to comments and recommendations contained in the report. The Director of Internal Audit should implement appropriate follow-up actions to verify that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

6.2.3 Annual Performance Reporting on the IAD's Activities

Each year the Director of Internal Audit is to present to the Vice Chancellor an "Annual Performance Report on the Internal Audit function in the University".

The Annual Performance Report on the Internal Audit function shall cover the following:

- i. The deficiencies detected in the University's internal control system.
- ii. The implementation of an annual IAD activity plan indicating the number of planned audits and the number of audits executed.
- iii. The cases of audit scope limitation (if any) indicating the causes and potential risks.

- iv. Internal audits performed but which were not scheduled in the annual audit plan or other assignments requested by the Vice Chancellor.
- v. The principal findings and recommendations.
- vi. Indication as to whether all suggested audit recommendations were implemented.
- vii. Review of the status on implementation of audit recommendations and deficiency elimination.
- viii. Unimplemented recommendations which the Director of Internal Audit considers important and their associated risks.
- ix. Sufficiency of human and material resources to carry out the audits which had been planned.
- x. Training and qualifications of IAD personnel.
- xi. Other important information.

The report has to reflect the significance of internal auditing and underline the operational improvement of the University.

Copies of this report are also to be issued to the Audit Committee and the University's Governing Council.

7. MANAGING THE INTERNAL AUDIT DIRECTORATE

The Director of Internal Audit must effectively manage the IAD to ensure it adds value to the University. The IAD adds value to the University and other stakeholders when it provides objective and relevant assurance and contributes to the efficiency and effectiveness of governance, risk management and control processes.

7.1. Assignment of Audit Work

It is the responsibility of the Director of Internal Audit to allocate audit tasks taking into consideration the factors which influence scheduling and assignment of audit work such as:

- i. Degree of risk or exposure to loss.
- ii. Type of audit.
- iii. Nature and complexity of audit.
- iv. Availability of client staff responsible for the auditable area.
- v. Skills and experience of internal audit staff.
- vi. Availability of logistical resources.

7.2. Personnel Management

The Director of Internal Audit should establish a programme for selecting and developing IAD human resources.

The programme should provide for:

- i. Developing written job descriptions for each level of the audit staff.
- ii. Selecting qualified and competent individuals.
- iii. Training and continuing educational opportunities.
- iv. Appraising each auditor's performance at least annually.

- v. Providing counsel to auditors on their performance and professional development on an ongoing basis.

7.3. Audit Quality Control

The Director of Internal Audit will ensure that the internal audit staff in the University conduct audits and reviews according to auditing standards using such audit programmes, techniques and procedures as prescribed.

The operation of the internal audit functions to be carried out will be consistent with:

- i. The Internal Audit Charter.
- ii. The Internal Audit Manual.
- iii. Statement of responsibilities (Job Descriptions).
- iv. Code of Ethics for Internal auditors.
- v. The Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors) and
- vi. National laws and other regulations on internal audit in Ghana.

The Director of Internal Audit shall check for compliance of the completed work with the standards, the conclusions and evidence to the audit findings, as well as supervise to verify that the planned timetable is met and time allocated for the audit assignment is used effectively. Audit control can be delegated to a senior auditor who will be responsible for reviewing the work of other auditors in detail. The work of the senior auditor must be reviewed by the Director of Internal Audit to verify the quality and adequacy of work performed.

8. NATURE OF WORK OF THE IAD

Broadly, the nature of work of the IAD can be categorized into the areas of corporate governance, risk management and internal controls. The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

8.1. Governance

Corporate governance (“CG”) involves a set of relationships between an entity’s management, its board, its shareholders and other stakeholders. CG provides the structure through which the objectives of the entity are set, and the means of attaining those objectives and monitoring performance are determined. The components of the CG structure are governing board, laws & regulations, business practice & ethics, disclosure & transparency, monitoring and communication. The internal auditors have roles to play in each of these components.

8.1.1 The University’s Governing Council and Committees

Internal Auditors:

- i. Assist the Governing Council in its self-assessment against best practices.
- ii. Assess Audit Committee’s effectiveness and compliance with regulators.
- iii. Review Audit Committee Charter with help of a legal counsel.
- iv. Be abreast with the subject of governance and thus suggesting best practices ideas about internal controls and risk management processes to the audit committee members.

8.1.2 Laws and Regulations

Internal Auditors:

- i. Verify that the University has identified, assigned responsibilities and addressed all of the key legal and regulatory requirements;
- ii. Look for opportunities to leverage compliance activities and capabilities to reduce long-term costs and improve performance;

8.1.3 Business Practices and Ethics

Internal Auditors:

- i. Review code of conduct and ethics policies, making sure they are periodically updated and communicated to management and employees.
- ii. Perform a behavioural ethics review to assess the understanding, perception and compliance across organizational levels.
- iii. Help management and audit committee hold people accountable.
- iv. Serve in the ethics oversight role or confer with the organization's ethics officer.
- v. Conduct annual audits and reporting results to the Governing Council.
- vi. Assess linkage of ethics to goal setting and performance evaluation process.

8.1.4 Disclosure and Transparency

Internal Auditors:

- i. Conduct testing of financial disclosures and confer with the Director of Finance.
- ii. Understand concern for disclosure and transparency and align risk assessment with stakeholder expectations.
- iii. Address disclosure and transparency objectives in the annual audit plan.
- iv. Understand the breadth and depth of disclosure and transparency possibilities and where the entity strives to be or should be on the spectrum.

8.1.5 Enterprise Risk Management (ERM)

Internal Auditors:

- i. Are proactive in advocating for participating in an organization's ERM efforts including a commitment to common methodologies and tools.

- ii. Facilitate identification of key risk areas for the organization as well as all key processes.
- iii. Assist in the development of standards and processes flow documentation.
- iv. Assist process owners in understanding, assessing, designing and documenting controls.
- v. Keep records of organizational risk compliance activities and strive to integrate them into a common methodology.
- vi. Evaluate business and process owners on taking responsibility for ERM.

8.1.6 Monitoring

Internal Auditors:

- i. Understand what monitoring activity is taking place in the organization for each of the other component of the governance framework.
- ii. Facilitate the implementation of a common risk monitoring methodology across all corporate governance functions, feeding an integrated reporting system.
- iii. Perform a strategic level corporate governance audit or ensure one is conducted;
- iv. Incorporate tactical level corporate governance aspects into audit plans.

8.1.7 Communication

Internal Auditors:

- i. Participate in ongoing dialogue with the Director of Finance and other senior management staff.
- ii. Maintain steady communication with Audit Committee members and oversight executives.
- iii. Include information about corporate governance in audit reports.

- iv. Assist establishing a corporate governance communications calendar and solicit input on needs and articles across the organization.

When all the components of CG framework operate effectively and are well coordinated, CG will provide a platform to improve business performance and enhance stakeholder value.

In summary, the internal auditors operate in two capacities regarding CG:

- i. First, provide independent and objective assessment on the appropriateness of organizational activities.
- ii. Second, act as catalysts for change, advising or advocating improvements to enhance the organization's structure and practices.

Internal auditor's unique position in an organization allows for a good view of an organization's governance structure and design, while not having direct responsibilities on them.

The IAD also advises the Council and senior management on needed improvements and changes in the structure and design not just whether established processes are operating effectively.

8.2. Risk Management

8.2.1 Definition

Risk is the threat to achieving an objective (ISO 31000).

Risk is a possible threat¹, that an event (complex of events), activity (complex of activities) or inactivity may cause loss of assets or reputation and threaten successful achievement of objectives of an organization.

¹ Risk is not only a negative thing – with the risks there is always a possibility for improvement and that must be remembered.

Risk management is the identification, assessment and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor and control the probability and/or impact of unfortunate events.

8.2.2 Responsibility for Risk Management

It is the duty of management to ensure that risk is adequately managed in the University. Management must set the tone and structures for the management of risks. Every staff has a role to play in the effective management of risk.

8.2.3 IAD's role in Risk Management

The IAD acting in a consulting role can assist the University in identifying, evaluating and implementing risk management methodologies and controls to address risk. The Director of Internal Audit shall obtain an understanding from the Vice Chancellor and the Audit Committee on their expectations of the IAD's role in the risk management process.

8.3 Internal Controls

Internal control is the process designed and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Internal control is designed and implemented to address identified business risks that threaten the achievement of any of these objectives.

8.3.1 Role of the IAD in evaluating internal controls

The IAD will review all business process activities within a specific segment or throughout the entire University. Some of the pieces of information the IAD looks at includes assets, liabilities, expenses, revenues, IT environment, cash flow statements and inventory.

It is the IAD's responsibility to determine if the books are intentionally being tampered with or if mistakes have been made in the recording process.

The IAD will assist the University in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

In the process of evaluating or reviewing the controls in either a specific department or throughout the University, the IAD conducts audits. Some types of audits that could be used to evaluate controls by the auditor include financial audits, operational audits, fraud & financial irregularity audits and information technology (IT) audit.

Internal controls in a computerized environment include both manual procedures and procedures designed into computer programmes. Such control procedures comprise of general IT controls and applications controls.

9. PLANNING INTERNAL AUDIT ACTIVITIES

In order to provide an independent view of risks, the IAD will prepare risk-based audit plans. The audit plan developed by the IAD for the University is structured on three levels:

- Strategic Audit Plan.
- Annual Audit Plan.
- Assignment Plan.

9.1 Strategic Audit Plan

The long term planning or the strategic audit plan of the IAD of the University will identify all the auditable areas proposed to be covered by the IAD during the subsequent years. The plan should also identify the auditable areas that are not covered in this cycle and the reasons for which there will be no audit activities.

Identification and prioritization of auditable areas are to be based on:

- i. An assessment of risk pertaining to the achievement of the University's objectives, considering audit area and the degree of risk.
- ii. The audit cycle process.
- iii. Human resources and competency of IAD.
- iv. Discussions with the Vice Chancellor and other senior management.
- v. Professional judgment of internal auditors.

The strategic audit plan shall be sufficiently comprehensive to ensure a complete and effective review of the University's activities on a cyclical basis and allow flexibility to accommodate special tasks and audits requested by the Audit Committee and the Vice Chancellor. The Strategic Audit Plan should include:

- i. Risk Assessment methodology.

- ii. Frequency with which each area requires a review (based on the risk analysis).
- iii. The audit work for the current fiscal year in a schedule of audit coverage.
- iv. The nature of the reviews.
- v. The resources allocated to the completion of the reviews.

The Strategic Audit Plan shall be prepared and submitted by the Director of Internal Audit to the Audit Committee for review and to the Vice Chancellor for his approval. It can be revised following changes in activities of the University, as well as determined priorities and suggestions from the Audit Committee and the Vice Chancellor. Any revision in the strategic audit plan must be approved by Audit Committee in consultation with the Vice Chancellor.

➔ See Operational Procedure OP 01 (Annex 1) – Strategic Plan

9.2 Annual Audit Plan

9.2.1 Purpose and Content

An annual audit plan which includes objectives, priority, timing and resource requirements will be prepared by the Director of Internal Audit for each year. The Annual Audit Plan is primarily an extract / subset from the Strategic Audit Plan. It forms a basis for ongoing review of the strategic audit plan. The annual audit plan will be prepared by the Director of Internal Audit, reviewed by the Audit Committee and approved by the Vice Chancellor.

The annual audit plan includes:

- i. Objectives/purpose of the audit.
- ii. Types of audits/engagement to be performed during the current year; (Types of audit/engagement include; financial, operational

and compliance audits, loss and fraud investigations, information systems audit.).

- iii. Identification / description of the activity / operation subject to internal audit.
- iv. Identification / description of the audited entity / entities.
- v. Duration of the audit.
- vi. Period of the audit.
- vii. Number of auditors involved in the audit.
- viii. Identification of issues requiring specialist knowledge, as well as the number of specialists with whom external expertise / consultancy contracts are to be signed (if required).
- ix. The number of auditors to perform an audit and the resources needed; and
- x. Other IAD activities, such as training and seminars for auditors, preparation of IAD activity report.

The Director of Internal Audit is responsible for the implementation of the internal audit plan. She/he is also responsible for the establishment of an effective supervision system ensuring the implementation of the annual audit plan.

9.2.2 Request for Internal Audit Services

Management may take the initiative of requesting audit services. To ensure that any audit needs are expressed, a Management Input Memo will be sent to the Vice Chancellor and the Audit Committee to inform them that the IAD is preparing an annual audit plan. The stakeholders to whom the invitation has been made are invited to express their needs for audit services. Any request must be considered and treated by the IAD. The decision to include the

requested services is taken by the Director of Internal Audit in consultation with the Vice Chancellor and the Audit Committee. These decisions will be documented and communicated.

See Operational Procedure OP 02 (Annex 2) – Management Input Memo

9.2.3 Amendment to approved Plans

If at any point in time, the IAD is requested to undertake a special / unplanned assignment or if there is a change in the risk assessment of the University's operations requiring an amendment of the approved annual audit plan, the Director of Internal Audit will revise the audit plan and:

- i. Consult with the Vice Chancellor.
- ii. Submit a revised annual audit plan, along with an explanation for the change, to the Audit Committee for approval in consultation with the Vice Chancellor.

See Operational Procedure OP 03(Annex 3) – Annual Audit Plan

9.2.4 Formal Internal Audit Consulting services

Consulting services are defined as “Advisory and related client activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization’s governance, risk management and control processes without the internal auditor assuming management responsibility”. Consulting engagements may range from formal engagements, defined by written agreements to advisory activities such as participating in standing or temporary management committees or project teams. The Director of Internal Audit will ensure that in carrying out consultancy service, the independence and objectivity of the IAD is not impaired. (Client here refers to the requesting authority).

See Operational Procedure OP34 – Formal Internal Audit Consulting Services

9.2.5 Floating Man Hours

Not more than 15% of each auditors' annual working time should be left undistributed in an annual audit plan to allow for flexibility and ensure the applicable execution of IAD activities (e.g. for possible illnesses, execution of unplanned audit and other approved non-audit work activities).

10. CONDUCTING AND REPORTING ON AN AUDIT ASSIGNMENT

This section of the Procedures Manual explains the procedures for conducting an audit assignment in a selected thrust area from initiation of the audit assignment through to quality review.

10.1 The Audit Process

The audit process for most engagements normally consists of four main stages:

- I. Planning
- II. Fieldwork
- III. Reporting
- IV. Follow-Up

Management's support / cooperation is critical at each stage of the audit process.

The Process Flowchart and Process Map described as Figure 1 and Figure 2 respectively below give a global view of the process.

Process Flowchart

The Process Flowchart walks the auditor through the audit steps and the decisions which need to be made at certain stages of the audit.

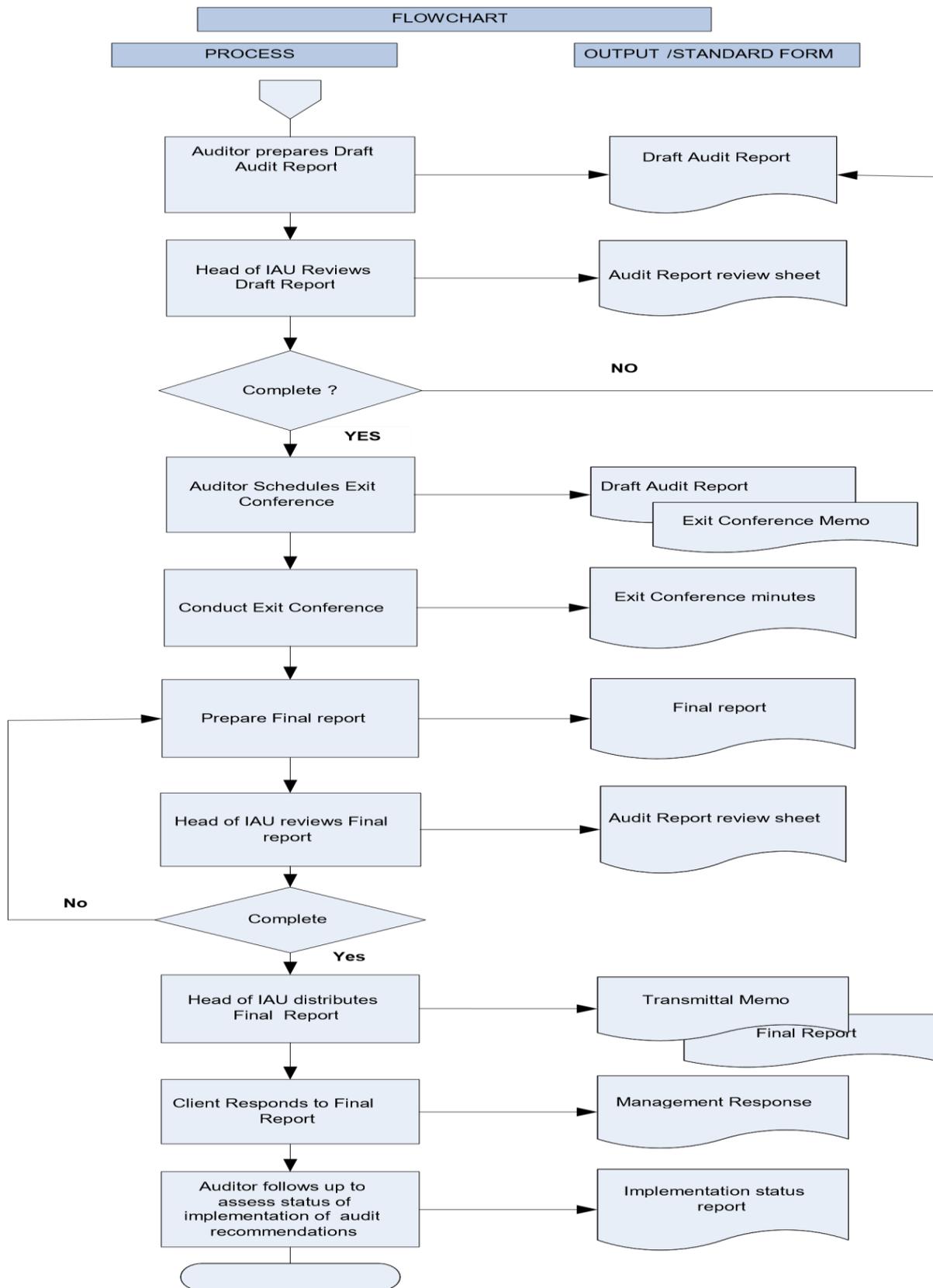


Figure 1 – Process Flowchart

Process Map

The Process Map, maps the audit steps to the relevant operational procedures and annexes;

- I. The left part of the chart indicates each step of the process with a reference to the relating operational procedure.
- II. The right part of the chart indicates the output of the process with a reference to related operational procedure and corresponding document with reference to the working papers indexation.

In the Operational Procedures and in the Annexes attached to this manual are included standard forms and samples. References assigned to the standard forms refer to the filing in of the working papers files.

Usually any planned audit is to be carried out observing the following sequence depicted in the flowcharts. Special audits and investigations may require a different approach which will be defined on a case-by-case basis.

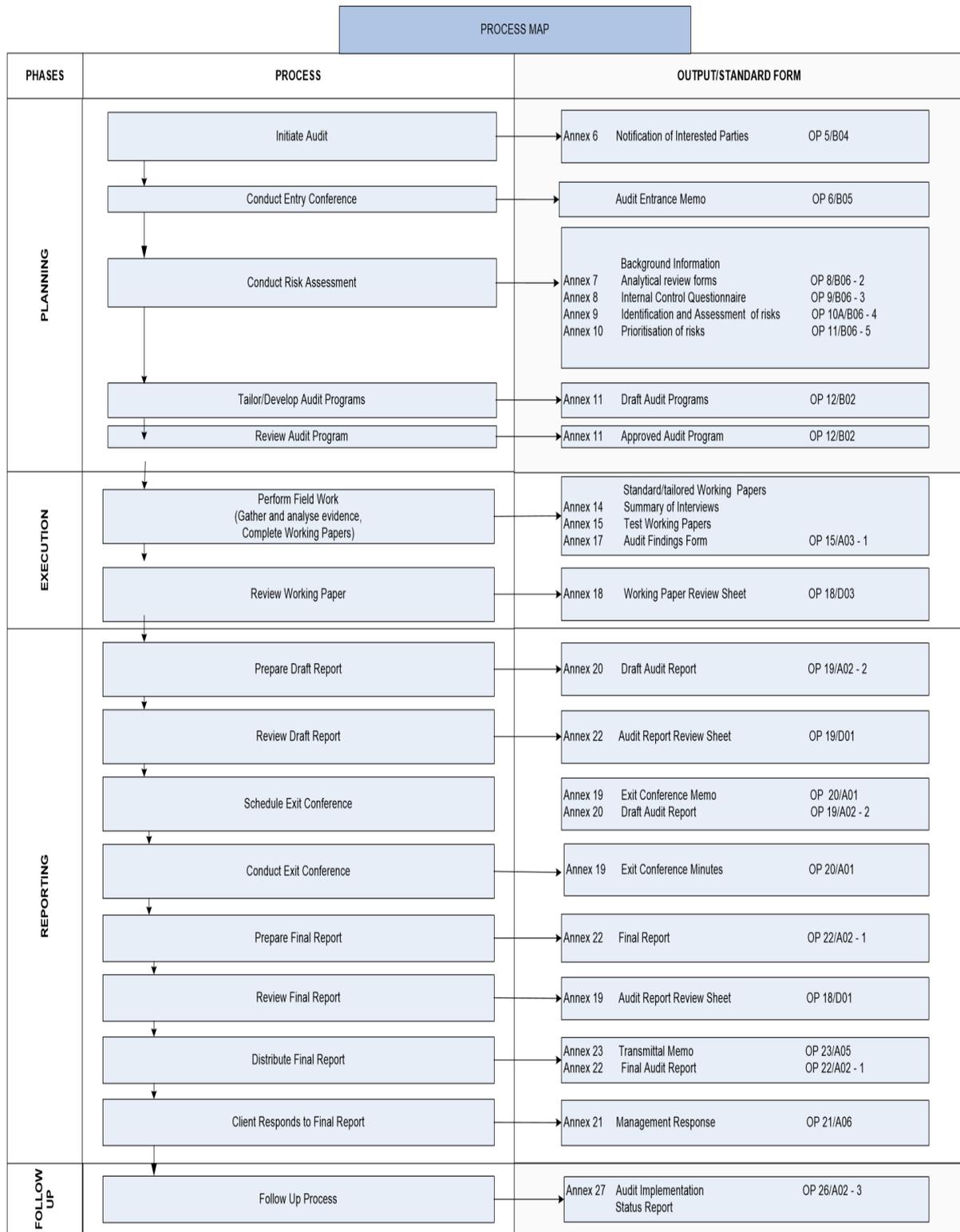


Figure 2 – Process Map

10.1.1 Planning the Audit Engagement

The Director of Internal Audit shall perform adequate planning procedures for every audit prior to the commencement of audit field work. During the planning stage of the audit, the IAD notifies the audit client of the audit, discusses the scope and objectives of the examination in a formal meeting with the client, gathers information on relevant processes, evaluates existing controls and plans the remaining steps of the audit. Documentation of these planning activities is required. The results of the planning process should provide a clear picture of operations and internal control points such as division of duties, reconciliation and review of procedures, etc. and lead to the development of the Audit Programme.

Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocation. In planning the engagement, the Director of Internal Audit shall consider:

- i. The objectives of the activity being reviewed and the means by which the activity controls its performance and achievement of objectives.
- ii. The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact and/or likelihood of risk is kept to an acceptable level.
- iii. The adequacy and effectiveness of the activity's risk management and control systems.
- iv. The opportunities for making significant improvements to the activity's risks management and control systems.

10.1.1.1 Confirmation of Auditor's Independence

Independence of auditor(s) must be established and documented. To document the independence and the qualification of the auditor(s) assigned, an annual Independence and Qualification Statement is issued to each of the staff of the IAD at the beginning of each year. The independence of the auditor is confirmed on a quarterly basis.

Should an actual or perceived impairment of the auditor's independence occur subsequent to signing the independence confirmation, this should immediately be reported to the Director of Internal Audit.

See Operational Procedure OP04 (Annex 04) – Independence Statement of Staff

10.1.1.2 Assignment of Audit Work

Based on the approved annual audit plan, the Director of Internal Audit will assign audit assignments in different thrust areas to the individual auditor(s) so they can begin the planning process of the audit. An Assignment Sheet is issued by the Director of Internal Audit.

Planning Stages

The planning process assists the IAD to identify audit priorities and where to allocate its resources. Planning generally consists of the following activities;

- i. Audit initiation.
- ii. Entry conference.
- iii. Risk assessment.
- iv. Documentation on risk assessment process.
- v. Development/tailoring of audit programmes.

1. Audit Initiation

A letter (Letter to Interested Parties) is sent to any interested parties to inform them that the IAD is initiating an audit in accordance with the approved annual plan. Its purpose is to organize a meeting with the audit client in order to discuss the purpose, objectives and the working arrangements of the audit.

See Operational Procedure OP06 (Annex 06) – Notification of Interested Parties

2. Entry Conference (Initial Meeting)

An Entry conference will be held to gather information about the mission, critical processes, and control procedures of the audit client operations to be used in the planning process. The auditor uses this information to determine an appropriate objective and scope for the audit. During the initial meeting it is important that the staff of the IAD provide the opportunity for client to discuss issues or areas of concern. At this stage it is advisable to provide the audit clients with the explanation or written guidelines to expedite the audit process while minimizing disruptions to day-to-day departmental operations (Audit Client guidelines for Managing an Audit – Annex 12). The auditor should document minutes of the entry conference and file it in the relevant portion of the Current File.

□ See Operational Procedures OP 06 (Annex 06) – Entry Conference Memo

3. Risk Assessment

During this phase, the auditor gathers relevant information about the thrust area to be audited in order to obtain a general overview of operations. The auditor talks with key personnel and reviews reports, files and other sources of information. Internal auditors should use their judgment to decide on which items are needed to gain sufficient confidence that relevant risks are identified for specific audit engagements. The standard procedures for risk assessment include:

- i. Gathering background information.
- ii. Analytical reviews.
- iii. Internal control questionnaires.
- iv. Identification and assessment of key risks.
- v. Prioritization of key risks

Each of the standard procedures under the Risk Assessment Phase is discussed in the paragraphs below:

i. Gathering background information:

The auditor will obtain background information about the activities to be reviewed to determine the impact on the audit engagement. This includes a review of:

- a. The organizational charts of the University
- b. Information on operating and financial controls of the thrust area in order to gain an understanding of the internal controls and effectively determine the areas of focus
- c. Information on interfacing functions (Schools / Institutes / Directorate / Units)
- d. Policy statements, directives, statements of function
- e. Responsibility and delegation of duties
- f. Budget information, operating results and financial data of the activities to be reviewed
- g. Applicable rules, laws and regulations
- h. Authoritative and relevant literature
- i. Previous audit reports and implementation status reports

ii. Analytical Review (Preliminary Analytical Audit Procedures)

The Standards require that analytical audit procedures should be applied as part of risk assessment procedures in planning audit engagements. Analytical audit procedures present the auditor with an effective and efficient means of assessing and evaluating information collected for the engagement. The purpose of preliminary analytical review is to help the internal auditor to identify unusual occurrences and to assist in forming the areas of key risk and matters that should be critical to the University or the auditable area. Preliminary analytical procedures can help direct attention and focus our audit testing.

Usually, the internal auditor would compare financial and non-financial data with expectations such as budgeted figures, obtain explanations from management for any unusual differences and investigate these differences. Unexplained results or relationships from applying analytical audit procedures may be indicative of a significant condition such as potential error, irregularity or illegal act and may therefore require further audit work.

□ **See Operational Procedures 07 (Annex 07) – Analytical Review**

iii. Internal Control Questionnaire (ICQ)

The purpose of the ICQ is to provide the internal auditor with an understanding of the internal controls, financial record keeping and reporting procedures implemented by management.

□ **See Operational Procedures OP 08 (Annex 08) – Internal Control Questionnaire**

iv. Identification and Assessment of Key Risks

The auditor reviews the internal control structure of the University, a process which is usually time consuming. The review of internal controls helps the auditor to evaluate the internal controls structure and determine the areas of highest risk. This assignment forms the basis for designing tests to be performed in the audit fieldwork. A walk-through for each relevant transaction will be helpful in evaluating each process to determine the reliability of the accounting and procedural systems established by the University. (Note: A walkthrough involves picking a single transaction and passing/following it through the various activities/stages of processing to corroborate the narration obtained from the interview that is undertaken to understand the system). The auditor should develop a risk matrix at the end of the risk assessment process. This should assist the auditor in identifying the areas of audit focus.

□ **See Operational Procedures OP 09B (Annex 09B) Identification and Assessment of Key Risks**

v. Prioritization of Key Risks

Based on the information gathered during the risk assessment process, the internal auditor should prepare a tentative list of threats for the audit area and prioritize them according to significance in terms of their possible negative impact on the activities and objectives of the University. The Control Matrix should serve as a guide in prioritizing identified audit risks. This list will serve as the basis for developing/tailoring audit programmes.

□ **See Operational Procedures OP 09C (Annex 09C) Prioritization of Key Risks**

Documentation on the Risk Assessment Process

The preliminary review and internal control review should result in documentation in the form of narratives, flowcharts, internal control evaluations, various questionnaires, documentation copies and other key items. Flowcharts (if used) should be at a fairly detailed level showing the specific processing flows and controls applied.

Development/Tailoring of Audit Programmes

Development or tailoring of existing audit programme guide concludes the preliminary review phase. The Audit Programme outlines the fieldwork necessary to achieve the audit objectives. The purpose of an audit programme guide is to show the procedures to follow during the audit, so that the audit can reach its specific objectives. The audit programme guide is also a record of the superior's approval for the activity to be performed. This provides the basis to manage and control the audit. By following the approved and detailed audit agenda, the deviation of the auditor's activity from the initial plan/programme and study of non-important issues may be prevented.

Audit Programmes

Audit programmes (Annex 35) consist of general procedures used to test transactions and processes. Audit Programmes are based on the use of the following test techniques.

Verification

Verification is the confirmation of things such as: records, statements and documents, compliance with laws and regulations, effectiveness of internal controls. The purpose of verification is to establish the accuracy, reliability or validity of something.

Audit techniques used in verification include:

i. Comparison

Identify similar and/or different characteristics of information from two or more sources. Types of comparison include: comparison of current operations with past or similar operations, with written policies and procedures, with laws or regulations, or with other reasonable criteria. Examples: to compare the documentation of a transaction with the procedure for the transaction.

ii. Examination

To look over something very carefully, such as a document, in order to detect errors or irregularities. Example: examine a document to verify that it has been executed by authorized persons.

iii. Re-computation

To check mathematical computations performed by others.

iv. Confirmation

Obtain information from an independent source (third party, for example, bank statements) for the purpose of verifying information.

v. Reconciliation

This is the process of matching two independent sets of records in order to show mathematically, with the use of supporting documentation, that the difference between the two records is justified. For example, the reconciliation of a bank statement's balance at the

end of the month with the book balance or the reconciliation of the suppliers/Debtors Statement with the book balances.

vi. Vouching

Verify recorded transactions or amounts by examining supporting documents. In vouching, the direction of testing is from the recorded item to supporting documentation. The purpose for vouching is to verify that recorded transactions represent actual transactions.

vii. Tracing

Tracing procedures begin with the original documents and are followed through the processing cycles into summary accounting records. In tracing, the direction of testing is from supporting documentation to the recorded item. The purpose of tracing is to verify that all actual transactions have been recorded.

viii. Observation

Observation is auditors seeing with a purpose, making mental notes and using judgement to measure what they see against standards in their minds.

ix. Inquiry

Auditors perform interviews with the audit client and related parties throughout the audit. Good oral communication skills and listening ability on the part of the auditor to assist in getting accurate and meaningful information from the interviewee are essential. Auditors should use open-ended questions when possible. Depending on the type of information received in an interview, it may need to be confirmed through documentation communication.

x. Analysis

Analysis is the separation of an entity for the purpose of studying the individual parts of data. The elements of the entity can be isolated, identified, quantified, and measured. The quantification may require the auditor to perform detailed calculations and computations. Furthermore, the auditor can document ratios and trends, make comparisons and isolate unusual transactions or conditions.

See Operational Procedure OP10 (Annex 10) – Audit Programme Development

Contents of Audit Programme

Audit programmes include information under the following headings:

i. **Basis**

In developing the audit programme, a supervision of the audit client's operations is carried out in relation to location, authority, personnel and main duties and responsibilities.

ii. **Planning**

The programme planning must be written down before presenting the project. Planning of each audit should consider a risk-based approach to focus on the risky areas of the audit.

iii. **Audit scope**

The audit scope must state the period/area/operation to be covered by the audit.

iv. **Audit objectives**

The objectives must match the general audit scope. Each audit procedure must answer one of the objectives and each objective must be addressed by a procedure.

All the established objectives must be supported by audit tests. Regarding the audit programmes developed by the auditors, the auditors must use their intelligence, ingenuity and imagination to create the audit procedures to test whether the objectives were indeed achieved.

See Generic Audit Programs

10.1.2 Fieldwork

Fieldwork is the process of gathering evidence for measurement and evaluation. Audit evidence is obtained by observing conditions, interviewing

people and examining records. Audit evidence must provide the basis for audit opinions, conclusions and recommendations. The fieldwork stage concludes with a list of significant findings from which the auditor will prepare a draft audit report.

Fieldwork includes the following tasks:

- i. Gaining an understanding of the activity, system or process under review and the prescribed policies and procedures.
- ii. Observing conditions or operations.
- iii. Interviewing people.
- iv. Examining accounting, business and other operational records.
- v. Analyzing data and information.
- vi. Reviewing systems of internal control and identifying internal control points.
- vii. Evaluating and concluding on the adequacy (effectiveness and efficiency) of internal controls.
- viii. Conducting compliance testing.
- ix. Conducting substantive testing.
- x. Documenting audit findings
- xi. Determining if observations and recommendations reported in prior audits have been corrected and/or implemented.
- xii. Preparing Draft Audit report

The field work should begin with an entry conference. The entry conference discusses substantive items which are directly related to audit scope, objectives and timing. Discussions held at the entry conference should be documented using an Entry Conference Memo.

See Operational Procedure OP 06 - Entry Conference Memo

Further to the Entry Conference, a memorandum confirming audit scope and objectives – Annex 10 is sent by the IAD to the Audit client to confirm the mutual understanding of the audit objectives and scope.

See Operational Procedure OP11 (Annex 11) – Confirmation of Audit Scope and Objectives

10.1.2.1 Objectives of the Fieldwork

The purpose of fieldwork is to complete the audit procedures identified in the audit programme. These procedures usually test the major internal controls and the accuracy and propriety of the transaction. Throughout fieldwork, professional judgement should be used to determine whether evidence gathered is sufficient, relevant, competent, and useful to conclude on the established objectives.

As the fieldwork progresses, the auditor discusses any significant findings with the audit client. Hopefully, the audit client can offer insights and work with the auditor to determine the best method of resolving the finding. Usually these communications are oral. However, in more complex situations, memos and/or e-mails are written in order to ensure full understanding by the audit client and the auditor.

10.1.2.2 Documentation of the Fieldwork

All audit work performed should be supported by documented evidence.

Each audit programme should be supported by cross-referenced working papers (schedules, memos, spreadsheets, etc.) on which testing performed and results achieved are documented.

See Operational Procedure OP14 (Annex 14) – Evidence Gathering and Test Working Paper

See Operational Procedure OP16 (Annex 16) – Audit Findings Form

10.1.2.3 Audit Findings Forms

The purpose of the Audit Findings Form is to document audit findings made during the audit.

The Audit Findings Form documents the results of the problem analysis/resolution process.

The form is not a step-by-step recipe for doing the work itself, because problem analysis/resolution is not a linear process. Simply completing the form is not a substitute for critical analysis of the situation. The auditor should be answering such questions as:

1. Did we understand the situation?
2. Does the audit client agree that a problem exist?
3. Do we understand the extent of the problem?
4. Is there a practical solution to the problem?
5. Have others, especially those responsible for executing the solution, been bought into our recommendations?

A working paper should be created whenever an auditor identifies a possible

- i. Opportunity for operational improvement,
- ii. Discrepancy,
- iii. Error,
- iv. Irregularity,
- v. Weakness or
- vi. Deviation from internal control standards, regulations or policies.

➔ See Operational Procedure OP16 (Annex 16) – Audit Findings Form

Since the finding working papers contain the auditor's professional analysis of "problem" situations, they are among the most important working papers created.

Prior audit reports and linked audit finding forms should be reviewed and used to the extent possible to avoid re-creating a finding already developed.

The Audit Finding Form should stand-alone and should document the auditor's analysis (criteria, condition, cause, effect, and corrective action and recommendations) related to the finding. The working paper where the work was performed which resulted in the finding and supporting working paper references should be cross-referenced to the Audit Finding Form.

Documenting the analysis assists the auditor in preparing to discuss the finding with the audit client.

10.1.2.4 Finding of Illegal Acts

An illegal act is a violation of a law and or a regulation. When internal auditors conclude, based on evidence obtained during the conduct of an audit, that an illegal act has occurred or is likely to have occurred, the internal auditor should promptly report relevant information to the Director of Internal Audit.

After reviewing the work of the internal auditors to assure himself/herself that there is sufficient evidence pointing to the fact that illegal act(s) have occurred or likely to have occurred, the Director of Internal Audit, should report the matter to the Vice Chancellor and the Audit Committee. The Director of Internal Audit may recommend whatever investigation is considered necessary in the circumstances. The IAD will not automatically take on the responsibility to investigate cases of suspected fraud. Its responsibility is to report its observations to the appropriate authority,

➔ See Operational Procedure OP 29 (Annex 29) – Suspected Illegal Activities Reporting Form

10.1.2.5 Internal Audit Report

The purpose of the internal audit report is to officially communicate all of the auditor's work to the audit client

The internal audit staff are responsible for writing the reports because of their involvement in the planning, supervision, fieldwork, and review processes.

Each finding in the report must be supported by sufficient evidence and be within the audit's scope and objectives.

Each recommendation must fit the facts of the finding and provide suggestions to mitigate the potential risk as indicated by the facts of the finding.

Each finding must be provable. It is not important what an internal auditor believes, the important thing is that the auditor can justify the finding. Audit findings not supported by adequate documentation, should not be included in the audit report.

10.1.2.6 Working Papers Review

The Director of Internal Audit will ensure that working papers are properly prepared and provide adequate support of the work performed and the audit evidence gathered during the audit. The review should be evidenced on each work paper. Audit working paper review should be carried out throughout the audit to enable the reviewer identify areas of issues on a timely basis and also provide training and direction to the internal auditor.

➔ See Operational Procedure OP17 (Annex 17) – Working Paper Review Sheet

10.1.2.7 Review of Audit Reports

The Director of Internal Audit is responsible for reviewing and approving the draft and final reports as well as any draft reports, prior to issuance.

➔ See Operational Procedure OP21 (Annex 21) – Audit Report Review Sheet

10.1.2.8 Draft Assignment Report Format

When the working paper review leads to a satisfactory conclusion, the draft report is prepared based on the approved working papers.

A general format should be followed to ensure that all major items are covered.

➤ See Operational Procedure OP19 (Annex 19) – Audit Report Format

The Auditor should consider some of the basics that will be incorporated into the report:

- i. What is the topic or subject of the audit?
- ii. What is the main idea (message, conclusion, theme or point of view)?
- iii. What are the supporting points?
- iv. What are the audit scope and objectives?
- v. What corrective action does the Auditor want the reader to take as a result of the report?
- vi. What impression does the Auditor want to make on the reader, or what tone does he/she want to convey?

10.1.2.9 Management Responses to the Draft Report

The Audit client will be given the opportunity to review the draft audit report and prepare a response to the audit findings and recommendations.

➤ See Operating Procedure OP 20 (Annex 20) – Client Responses Letter

10.1.2.10 Exit Conference (Closing Meeting)

The internal auditor should meet with the audit client to discuss the findings, and recommendations. At this meeting, the client comments on the draft audit report and the proposed action plan discussed. Where there are disagreements between the auditor and client, they are discussed and resolved. In the event that there are areas of unresolved issues, the auditor should document the nature and reasons for the disagreements including client's concerns. An Exit Conference Memo should be used to document the minutes of the meeting.

➔ **See Operational Procedure OP 18 (Annex 18) – Audit Exit Conference Memo**

10.1.3. Audit Documentation

The audit staff documents the work performed in working papers. The working papers keep the auditors on track and serve as the connecting link between the audit assignment, the auditor's fieldwork, and the final report.

Working papers contain the records of planning and preliminary reviews, audit procedures, fieldwork, and other documents relating to the audit.

Most importantly, the working papers document the auditor's conclusions and the reasons for reaching those conclusions. They constitute the basis for the preparation of audit reports as well as substantiation base for audit conclusions and recommendations.

Working papers shall be completed and compiled throughout the audit. The IAD will employ an audit methodology that requires the production of working papers which document:

- i. Planning.

- ii. Examination and evaluation of the adequacy and effectiveness of internal controls.
- iii. Audit procedures employed, the information obtained and the conclusions reached.
- iv. Review.
- v. Reporting; and
- vi. Follow-up.

As each audit step in the audit program is satisfied, the auditor should request review of the related working papers. The working papers also provide a basis for evaluating the IAD's quality assurance program and demonstrate their compliance with the standards.

Although the quantity, type and content of working papers will vary between audits, they should be sufficiently extensive to serve to:

- i. Assist auditors in the conduct of their work.
- ii. Provide adequate support for the auditor's opinion.
- iii. Enable the work carried out to be independently reviewed.
- iv. Encourage a methodical approach to the work being undertaken.

Working papers should document the auditor's tests of the system of internal control, as well as the other audit procedures. The working paper purpose should be directly tied to a specific audit procedure(s).

The control strengths and weaknesses will be identified in the working papers. The auditor should give an overall conclusion for each of the Audit Procedures completed.

Access to the IAD working papers for non IAD staff can only be granted by the Director of Internal Audit upon receipt of written permission from the Vice Chancellor.

10.1.3.1 Characteristics of Working Papers

All audit working papers must be assigned a number and a title. Auditors should arrange an audit file and indicate the audit number on it. The audit number should include:

- i. Designation of audit client (identification code to be designed by the IAD).
- ii. Year.
- iii. Sequential Number.

Working papers should be clear and understandable. The auditor should keep in mind that other people will examine and refer to the working papers. Anyone reviewing the working papers, without referring to documents outside of those included in the working papers and without asking questions should be able to tell what the auditors set out to do, what they did, what they found, and what they concluded. Auditors should include in their working papers only what is essential, and they should ensure that each working paper serves a purpose that relates to an audit procedure.

Working papers should indicate:

- i. A Heading (Title) and a reference number (identification of the form).
- ii. The name of the School / Directorate / Unit being audited.
- iii. The thrust area being audited.
- iv. The period covered by the audit.
- v. The date of preparation.
- vi. The date of review.
- vii. The signatures of the auditor(s) and reviewers.

In the case of audit working papers provided by the audit client, there should be an indication on the audit working paper that it was provided by the audit client. A stamp or other means can be used to provide this indication. (Initials such as PBM; [Provided by Management] or PBA [Provided by Audit client] can be used.

10.1.3.2 Cross-Referencing

Working papers should be prepared using an appropriate cross-referencing system. The best way of numbering audit working papers is to file them serially in each section and cross reference them. A Cross-reference from the Audit Agenda to the Audit Programs and the primary working paper provides a reference to where the work was performed.

For example: A figure of 2,431 appears on a working paper number G2. This relates to an item tested in a particular section of the audit file. The supporting documentation for this figure is found in G 9. The cross referencing would show as follows; (Note: This is only for illustrative purposes)

On G2 the reference would be:

ITEMS SELECTED FOR TESTING				
ITEM	DATE	DESCRIPTION	VALUE	WP REF
		Purchases	2,431	G9

On G9 the referencing would be:

DETAILS OF PURCHASES	
Purchase 2	11,000
Purchase 2	1,000
Purchase 3	<u>431</u>
Total	2,431 (G2) ====> (Referenced to G2)

Cross-referencing should not be restricted to tying figures together. It should also be applied to all related information useful in separate working papers such as source of information, composition of summary totals, documents or narratives.

10.1.3.3 Retention Policy

All working papers are to be retained by the IAD subject to the retention requirements below:

- i. Audit working papers are maintained until the end of the fiscal year in which all recommendations are implemented.
- ii. At the end of the fiscal year in which all recommendations are implemented, the audit working papers will be moved to an archive file for the fiscal year in which the audit was conducted
- iii. Completed investigative audit working papers will be moved to the archive file if a lawsuit or potential lawsuit is no longer active. Otherwise the working papers will be retained in the production file until the lawsuit is no longer pending, and then moved to the archive file.
- iv. Retention of audit working papers should comply with The Public Records and Archives Administrative Act, 1997, (Act 535) which requires that Public records in the National Archives and any other archival repository designated by the Director, shall be available for public inspection after the expiration of a period of thirty years from their creation unless a longer or shorter period is prescribed by regulations made under this Act.

10.1.3.4 Audit Files

Audit working papers can be generated and kept in either electronic or paper format.

After each audit, Internal Auditors should prepare audit files with descriptions of all audit related working papers.

The files will consist of Current Audit Files and Permanent Audit Files.

Current Audit Files

Current audit files contain working papers related to the particular audit. These working papers are the records maintained by the auditor of the work planned and carried out. It includes the procedures followed, the tests performed together with the information obtained and the conclusions formed. Working papers should be prepared at the time the work is carried out. Such papers are the property of the University. The Director of Internal Audit should ensure their safe custody and confidentiality.

The purpose of the current file is therefore to provide a record of the audit work performed and to enable any person reviewing the audit to be satisfied that an adequate audit work has been performed.

Permanent Audit Files

The purpose of a permanent audit file is to provide auditors with a source of information of permanent nature about the entity being audited. This provides the auditors with greater understanding of the entity’s operations.

The permanent file should be updated after each assignment and will thus provide the auditor with the most up – to- date information available.

(See below for detailed contents of current and permanent files).

Structure of Audit Files

FILES SECTIONS / Working Paper Descriptions	Working Paper Reference
<u>CURRENT AUDIT FILES</u>	

Section A - Report Section	
- Exit Conference Memo/Exit Conference Minutes	A01
- Reports	A02
Final report	A02 – 1
- Draft report	A02 – 2
- Audit recommendation status report	A02 – 3
- Audit Finding Forms	A03 – 1
- Summary of Audit Findings	A03 – 2
- Suspected Illegal Activities Reporting Form (Where Applicable)	A04
- Transmittal Letter	A05
- Management Responses Letter	A06
Section B - Planning Section	
- Assignment Sheet	B01
- Audit Program for Planning	B02
- Management Input Memo	B03
- Notification of Interested Parties	B04
- Entry Conference Memo/Minutes of Entry Conference	B05
- Risk Assessment	B06
- Background Information	B06 – 1
- Analytical Review	B06 – 2
- Internal Control Questionnaire	B06 – 3
- Identification and Assessment Internal Controls	B06 – 4
Over Key Risks	B06 – 5
- Prioritization of Key Risks	B06 – 6
- Risk Alert Form	

FILES SECTIONS / Working Paper Descriptions	Working Paper Reference
- Memorandum Confirming Audit Scopes and Objectives	B07
Section C – Correspondence	
- Administrative correspondence relating to the audit	C01, C02 etc.
Section D – Internal Review Section	
- Audit Report Review Sheet	D01
- Audit staff responses to report review	D02
- Working Paper Review Sheets	D03
- Audit staff responses to working paper reviews	D04
- Audit Performance Evaluation Form	D05
- Weekly Time Sheets	
Section E – Financial Documents Section	
- Financial Statements	E01
- Trial Balance	E02
- Bank Statements and Bank Reconciliation Letters	E03
- List of Debtors	E04
- List of Creditors	E05
- Others	E07
Section F –Field Work	
- Audit Program	F01
- The working paper used during the fields work should be indexed on letters (E, F, G....). A letter should be used for each major section. Each major	F G Etc.

section of the audit file should correspond to an audit objective in the Audit Program. There is no standard plan or indexing scheme. The only requirement is that it should be simple and easy to follow.	
- Summaries of interviews (Should be filed under the relevant section of the field work)	
<u>PERMANENT FILES</u>	
Section PF – A : Audit plans and IAU activities	
- Strategic plans	PF A01
- Annual Plans	PF A02
- Review of activities of the IAU	PF A03
- Internal Audit Reports	PF A03 – 1
- Annual Report on the functioning of the internal audit system	PF A03 – 2
- Self-assessment Check-list	PF A03
- Notification Of Interested Parties	– 3 PF A03 – 4
Section PF – B : Environment	
- Applicable rules, laws and regulations	PF B01
- Material on the MDA - division of duties and responsibilities, number of employees, job descriptions, organization chart, nature and location of accounting records	PF B02
- Financial Information	PF B03
FILES SECTIONS / Working Paper Descriptions	Working Paper Reference
- Internal Policies & Operating Procedures Manuals	PF B04

- Narratives with key personnel on operations and transaction flows supported by applicable documentation	PF B05
- Documentation on the Internal Control System. (Including control points, such as the system of approvals, authorizations, segregation of duties, supervision, reconciliation, reports, etc.)	PF B06
Section PF – C : Audit reports	
- Copy of previous years audit final reports	PF C01
Section PF – D : Audit Manual	
- Revisions to the Internal Audit Manual	PF D01

10.1.3.5 Management of Audit Documentations

To ensure the proper management and traceability of documents produced and issued in the IAD, the following principles will be met:

- i. Documents shall be assigned an identification code (See § 10.7. - Files structure, Identification and traceability).
- ii. Each working paper shall be uniquely traceable to the audit programme and agenda.
- iii. Each document shall identify the total number of pages/sheets and, on each page, the issue number of the Document. Each page shall be uniquely numbered and show the Document identification and reference.
- iv. When a document is distributed it shall have a defined distribution number. All recipients of Controlled copies of Documents shall receive subsequent amendments and shall ensure that previous versions are suitably identified to show that they have been superseded.
- v. The Internal Audit Charter and procedures manual shall have an Amendment Record to identify changes from the previous issue.
- vi. Comply with any pre-defined audit Document formats.

Internal auditor(s) are to follow these principles in their day-to-day activities while the Head of Internal Audit carries an overall responsibility for document management and control and is to ensure that:

- i. Audit documentation requirements are identified, planned and scheduled.
- ii. All IAD Documents are produced, issued and controlled in accordance with these principles.
- iii. Registers of all documents subject to the controls are maintained and distributed, as appropriate.
- iv. Copies of all documents are retained in secure and traceable files.
- v. The requirements for archiving of audit documents are defined and implemented.

10.1.4 Assignment Report

The auditor will prepare a formal draft report, taking into account any revisions resulting from the exit conference. When the changes have been reviewed by the Director of Internal Audit, the final report is then issued. The audit report should be approved by the Director of Internal Audit.

➡ See Operational Procedure OP 19 (Annex 19) – Audit Report Format

10.1.4.1 Preparation of the Final report

The Director of Internal Audit will ensure a review of the draft audit report prior to the issuance of the final report.

Audit reports will be clear, accurate, complete, concise, objective, constructive, and timely.

They will include coverage of:

- i. Audit objectives.

- ii. Scope of the audit.
- iii. Description of the audit methods employed.
- iv. Conclusions on all key issues identified and/or evaluation of the internal control system and operations.
- v. Audit findings and recommendations.
- vi. Management's responses to the audit findings and recommendations.
- vii. Actions agreed upon or otherwise.
- viii. Limitations on the distribution and use of audit reports.

➔ See Operational Procedure OP 19 (Annex 19) – Audit Report Format

10.1.4.2 Conclusions and Audit Opinion

Results of the audit may include conclusions and opinions. Conclusions and opinions are the internal auditor's evaluations of the effects of the observations and recommendations on the activities reviewed. Engagement conclusions and opinions, if included in the engagement report, should be clearly identified as such. Conclusions may encompass the entire scope of the audit engagement or specific aspects. They may cover, but not limited to:

- i. Whether operating or programme objectives and goals conform to those of the University.
- ii. Whether the University's objectives and goals are being met; and
- iii. Whether the activity under review is functioning as intended.

An opinion may include an overall assessment of controls or area under review or may be limited to specific controls or aspects of the audit engagement.

10.1.4.3 Distribution of the Final Report

The approval of the Director of Internal Audit is required for release of the final audit report. The IAD prints and issues out reports to the Vice Chancellor and Registrar.

10.1.4.4 Client's Response

Management's responses can be included or attached to the final audit report.

➔ **See Operational Procedure OP20 (Annex 20) – Management Responses Letter**

10.2 Audit Performance Evaluation

As part of Internal Audit's self-evaluation program, an audit performance evaluation form is sent by the Director of Internal Audit to the audit client. This gives the audit client the opportunity to comment on Internal Audit's performance so that auditors can improve upon their procedures and approach in their subsequent audits based on the suggestions of the audit client.

➔ **See Operational Procedure OP24 (Annex 24) – Audit Performance Evaluation**

10.3 Monitoring the Implementation of Recommendations

The IAD will put in place measures and processes to monitor the adequacy, effectiveness and timeliness of the actions taken by the University in implementing **previous reported audit finding.**

10.3.1 Follow-Up Process

The objective of the follow-up process is to determine whether the audit recommendations have been adequately addressed by Management. Follow-up by internal auditors is defined as a process by which they determine the adequacy, effectiveness, and timeliness of actions taken by management to

address recommendations made on reported audit findings. Internal auditors should ascertain that actions have been taken on audit findings to remedy the underlying conditions.

The same standards for audit evidence are to be applied to follow-up work as those used for documenting original audit work. When follow-up is performed, the auditor will usually find one of the following situations:

- i. The concern has been adequately addressed by implementing the original corrective action.
- ii. The concern has been adequately addressed by implementing an alternate corrective action.
- iii. The concern no longer exists because of changes in the processes.
- iv. The corrective action has been initiated but is not complete.
- v. The concern has not been addressed.

The auditor should determine which of these conditions apply.

10.3.2 Follow-Up Report: Audit Recommendation Status Report

The review will conclude with a follow-up report which lists the actions taken by management to resolve the original report findings. The auditor's recommendation regarding the status (i.e., "Implemented", "Partly Implemented", "Implementation Withdrawn", and "Not Implemented") should be documented in the Audit Recommendation Follow-up Report.

Follow-up results should be communicated by the auditor to the audit client. If the concerns have not been adequately addressed, they should be included in the follow-up report. Where continuous exposure of the University to the identified risk is considered significant, the Director of Internal Audit will consider bringing this to the attention of the Audit Committee. Follow-up and discussions with the audit client will continue until the corrective action is resolved.

➔ See Operational Procedure OP26 (Annex 26) – Audit Recommendation Follow-Up

10.4 Administrative Procedures

Administration procedures are the procedures that are not related to planning and testing (such as filling in forms, writing reports and others).

10.4.1 Auditor Timekeeping

The IAD should record time spent on audits to assist in reporting audit coverage of risks, planning of future audits and projects, and evaluating audit staff. Internal Auditors are required to prepare a weekly time-sheet form and submit it to the Director of Internal Audit on a weekly basis.

➔ See Operational Procedure OP23 (Annex 23) – Weekly Time Sheets

10.4.2 Retaining Working Papers

Working papers will be retained in accordance with the '*The Public Records and Archives*

Administrative Act, 1997, (Act 535) and Limitations Decree, 1972 (NRCD 54)'. Audit working papers will be purged once a year under the supervision of the Director of Internal Audit. The exception to this policy is when we are required to retain working papers longer by law or by agreement.

10.4.3 Circulating Audit Reports

The Director of Internal Audit will prepare and send audit reports on all audit assignments undertaken to the Vice Chancellor. Copies of the report will also be sent to the Audit Committee and Director-General of the Internal Audit Agency.

10.5 General Principles

The following are guidelines to be followed by Internal Auditors when performing audits.

10.5.1 Human Relations Principles in Auditing

A basic concept of human behaviour is that "every individual is different" with different values, goals, ambitions and standards. The auditor can develop sound relationships and perform better audits if this concept is put to work. The following suggestions will be considered:

- i. Approach each person contacted during the audit with genuine acceptance of the person as an individual. Adjust the approach to each individual's operating environment and background. Has he/she been audited before? Is he/she familiar with our program and objective? Does he/she have special problems that the auditor should be aware of?
- ii. Maintain contact with client and keep them informed of developments.
- iii. Demonstrate that questions can be raised and suggestions made that will benefit management.
- iv. Remember that management's time is limited and therefore only items of a material nature should be brought to their attention.
- v. Return files and records promptly and in neat condition.
- vi. Use good feedback in your interview/discussion with the audit client. Restate to the audit client what you think the audit client said to you. Give the audit client the opportunity to confirm it or further clarify the matter.

10.5.2 Other Principles

Keep the overall audit objectives in mind during the audit. Handle only enough detail to adequately cover these objectives. Use good judgment in determining priorities and the amount of time to be given to various phases of the audit.

10.5.2.1 Time Management

Keep the time schedule realistic enough so that the job can be done. When the time is limited, do what can be done and postpone the remainder. Be considerate of the audit client's timeframes and work schedule.

10.5.2.2 Obtaining Information

Methods for obtaining information about the activity, system of control or process under review include:

- i. Interviewing appropriate personnel of the University.
- ii. Reviewing Laws and regulations.
- iii. Reviewing procedure manuals, policies.
- iv. Reviewing job descriptions.
- v. Reviewing or preparing flowcharts.
- vi. Tracing one or more transactions through related documents (also known as transaction walkthroughs).
- vii. Completing internal control questionnaires.
- viii. Observing operations.
- ix. Reviewing information obtained from other sources such as media, internet, etc.

10.5.2.3 Nature of Audit Testing

Audit testing is broadly divided into two areas:

- i. Compliance testing; and
- ii. Substantive testing; (Made up of Test of Details and Analytical Reviews)

Compliance testing

Compliance testing is the testing of an operation or task against predetermined criteria to measure its compliance. Compliance tests are concerned with:

- iii. Were the necessary procedures performed?
- iv. How were they performed?

- v. Who performed them?
- vi. Were the procedures performed consistently?

A factor affecting the confidence of an auditor derived from compliance testing and substantive testing is the confidence in the system of internal control. If there is a comprehensive system of internal control and monitoring, it may be possible to reduce compliance testing and substantive testing. The auditor will assess the risk assessment performed by management and where the auditor is satisfied that areas of risk have been correctly identified the audit will increase the sampling in these areas (both compliance and substantive testing).

Some aspects of internal control require procedures that are not necessarily required for the execution of transactions. This class of procedures includes the approval or checking of documents as evidencing the transactions. Tests of such procedures require inspection of the related documents to obtain evidence in the form of signatures, initials, certification stamp and the like to indicate whether and by whom they are performed and to permit an evaluation of the propriety of their performance.

Other aspects of internal control require a segregation of duties so that certain procedures are performed independently, like accounting and payments. The performance of these duties is largely self-evident from the operation of the department or the existence of its essential records; consequently, tests of compliance with such procedures are primarily to determine whether persons having no incompatible functions perform them.

Substantive Testing

Substantive audit evidence is the term used to describe the evidence obtained from performing substantive procedures that include tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures.

Substantive testing is a procedure to gather evidence of the extent of misstatements in account balances and in particular, how the value of misstatements detected compares to the value of planning materiality for the account balance. In other words, auditors gather evidence of the extent to which each material account balance is materially complete, valid and accurate.

The objective of substantive testing is to determine the conformity of individual transactions or activities with the relevant rules or regulations. Because substantive tests are used to review particular types of transaction, audit programmes will need to be developed to meet each eventuality using the criteria set out below. Each substantive test audit programme should be designed to check that the following criteria are met. Each criterion is illustrated by a possible substantive test. Note that the examples are not intended to be definitive or complete.

Types of Substantive Tests

Substantive tests include tests of details and substantive analytical reviews:

i. Test of Details

Tests of details include procedures such as:

- a) Confirmation e.g., confirming account balances with third parties.
- b) Physical examination e.g., examining fixed assets or inventory
- c) Cut-off testing e.g., testing shipping and goods received cut-off
- d) Reconciliation e.g., reconciling a subsidiary account to the general ledger
- e) Observation e.g., touring facilities or observing inventory count teams

- f) Inquiry e.g., asking audit client to explain the bases for their judgements
- g) Examination e.g., examining contracts and agreements
- h) Re-computation e.g., re-computing the clients depreciation expense
- i) Tracing e.g., tracing test counts from the physical inventory observation to the inventory listing
- j) Vouching e.g., agreeing account details to supporting documentation such as invoices or cancelled cheques
- k) Casting/recalculation e.g., verifying the mathematical accuracy of a report

1. Analytical Procedures

Analytical review is an important part of substantive testing, and appropriate techniques should be used wherever relevant. Analytical Procedures includes:

- a) Trend analysis - the analysis of changes in an account over time.
- b) Ratio analysis - the comparison, across time or to a benchmark, of relationships between accounts and between an account and non-financial data.
- c) Reasonableness testing - the analysis of accounts, or changes in accounts between accounting periods, that involves the development of a model to form an expectation based on financial data, non-financial data, or both.
- d) Regression analysis - the use of statistical models to quantify our expectation, with measurable risk and precision levels.

- e) Scanning - the identification of anomalous individual items within account balances or other data through the scanning or analysis of entries in transaction listings, subsidiary ledgers, general ledger control accounts, adjusting entries, suspense accounts, reconciliations, and other detailed reports. **Examples of Substantive Test**

i. Legality and regularity of the activity

Check that the activity actually carried out conforms to the relevant legal base. For example, the tests could examine whether a particular activity undertaken conforms to the detailed requirements of the regulations in respect of the amount or percentage rate of financing.

ii. Completeness of financial and other records

Check that financial and other information systems record all relevant details. For example, a substantive test could check whether all staff contracts are held centrally by the HR Officer and whether these records are complete and in conformity with the requirements of the HR. Analytical procedures may be used in connection with these tests – especially ratios and predictive tests.

iii. Validity of the operation

Check that operations recorded within financial and other systems actually took place. For example, a substantive test could check that payments of loans to clients recorded in financial systems actually took place through examining loan agreements signed by the clients and the vouchers on which clients signed for receipt of the payment. Analytical procedures may be used – especially ratios and trend analysis.

iv. Measurement of the activity

Check that amounts of transactions are calculated on the correct basis. For example, a substantive test may check that the correct exchange rate was

used in converting an operation from foreign currency to national currency. Relevant analytical procedures include predictive tests and trend analysis.

v. Valuation

Check that assets and other items are recorded at the correct value in financial records. For example, a substantive test may check that the purchase of an asset is recorded at the correct value in the accounting system by checking the original invoice or sale note.

vi. Existence

Check that assets and other items actually exist. For example, a substantive test may check that an asset recorded in the financial records actually exists. These substantive tests involve the physical verification of existence - actually seeing the asset.

vii. Ownership

Check that assets recorded are actually owned or properly leased by the University. For example, a substantive test may involve checking that the University has a valid lease, or is the legal owner, of premises used.

viii. Quality of inputs and outputs

Check that inputs and outputs are of an appropriate quality. For example, for inputs, we could check that all staff providing training are suitably qualified. For outputs, we could check that those trained were able to carry out their duties effectively.

10.5.2.4 Extent of Testing

The extent of substantive testing is based upon the results of the Internal Control Evaluation. Compliance tests are used to determine effectiveness of prescribed controls in order that they may be relied upon to determine the nature, extent and timing of substantive testing. No audit benefit is derived

from applying compliance tests to ineffective internal controls or when costs of compliance testing exceed the benefits.

The extent of compliance tests will vary directly with the reliance placed on internal controls, while the extent of substantive tests will vary inversely with the reliance placed on internal controls.

In case of very serious internal control weaknesses, it may be impractical to devise adequate substantive tests, thus requiring the auditor to issue an adverse report on the operations of the department being audited.

10.5.2.5 Effectiveness of Systems of Control

The evaluation of internal control is accomplished through compliance and substantive testing.

The purposes for compliance and substantive testing differ and will be achieved during the fieldwork.

- i. **Compliance Testing:** To provide reasonable assurance that the internal control procedures are being consistently applied as prescribed by policies, procedures, rules and regulations and sound business practice.
- ii. **Substantive Testing:** To obtain evidence of the validity and propriety of accounting treatment of transactions and balances, or to obtain evidence of errors and irregularities thereon.

Compliance tests are used to help determine the extent of substantive testing to be performed. Such tests are necessary if the prescribed procedures are to be relied upon in determining the nature, time or extent of substantive tests of particular classes of transactions or balances. The auditor may decide not to rely on the prescribed procedures because he/she concludes:

- i. The procedures are not satisfactory for that purpose.
- ii. The audit effort required to test compliance with the procedures to justify reliance on them in making substantive tests would exceed the reduction in effort that could be achieved by such reliance.

In evaluating internal controls, various methods of sampling are used to form an opinion on the population tested. The auditor uses sampling to gather information from a limited selection of the entire population for analysis of possible problems, causes and effects, and the materiality of results.

10.5.2.6 Efficiency of Systems of Control

The evaluation of efficiency of the controls is the judgment of the auditor on the cost/benefit of implementing, improving or deleting a control. Evaluations should be supported where possible by mathematical information on the cost of the control and the benefit derived or potential loss avoided.

10.5.2.7 Sampling Techniques

It is often impractical to perform tests of details on 100% of the items making up an account. In these instances, in order to evaluate audit evidence about some characteristic of the items being audited the internal auditor selects items based on a sampling method to assist him/her in forming a conclusion concerning the population. The determination of the appropriate selection method depends on the test objectives, including the assertions being tested, and the characteristics of the account or population to be tested. When compliance and substantive tests involve inspection procedures, sampling is likely to be the most cost-effective means.

Sampling involves making decisions about the following:

- i. Selection of items – which ones and how they are selected
- ii. Size of Sample – How many items are selected from the population
- iii. Precision of the sample – how much it may vary as a result of error
- iv. Reality of sample statistic - how much it may vary as a result of error

Determining whether or not a test of an account balance or class of transactions should include audit sampling depends on the objective to be achieved by the procedure. If the objective of testing the recorded amount of

several items included in an inventory balance is to project the results of the test to the entire inventory balance, the auditor should use audit sampling. On the other hand, if the objective were to test for misstatement in only those few items without evaluating the characteristics of the inventory as a whole, the procedure would not involve sampling.

Once a decision has been made to use audit sampling, the auditor must choose between statistical and non-statistical (judgment sampling). Judgment sampling is sampling without particular regard to the parameters of a statistical sample. Once again, this decision should be based on the objectives of the procedure and audit sample to be taken. A procedure calling for an audit sample with the objective of making a judgment on the whole population would require a statistical sample rather than a judgment sample. Another factor to consider would be the cost effectiveness of using statistical rather than judgment sampling. Statistical sampling would not be feasible when sampling a relatively small population. Ultimately, the auditor should rely on sound audit judgment in determining which method to use.

Sampling methods

There are four commonly used sampling methods:

Statistical sampling methods:

- i. Random Sampling Methods
- ii. Systematic Sampling

Non-Statistical sampling methods;

- iii. Haphazard Sampling
- iv. Judgmental Sampling

Random Selection

Items selected are drawn at random from the entire population so that each item has an equal chance of selection. Random sampling works best when each of the items in the population bears some sort of serial number. A table

of random numbers or a random number computer program should be used to select the items for testing.

Systematic (Interval) Selection

From the sampling frame, a starting point is chosen at random, and thereafter at regular intervals

For example, suppose you want to sample 8 items from a list of 120 items. $120/8=15$, so every 15th item is chosen after a random starting point between 1 and 15. If the random starting point is 11, then the items selected are 11, 26, 41, 56, 71, 86, 101, and 116.

If there were 125 items, $125/8=15.625$, so should you take every 15th item or every 16th item? If you take every 16th item, $8*16=128$ so there is a risk that the last item chosen does not exist. To overcome this, the random starting point should be between 1 and 10. On the other hand if you take every 15th item, $8*15=120$ so the last five items will never be selected. The random starting point should now be between 1 and 20 to ensure that every item has some chance of being selected

i. Haphazard Sampling

Samples are selected without following a structured technique, however avoiding any conscious bias or predictability. However, analysis of a haphazard sample should not be relied upon to form a conclusion on the population

ii. Judgmental Sampling

Under this method, bias is placed on the sample (E.g., all sampling units over a certain value, all for a specific type of exception, all negatives, all new user, etc.) Judgment sample selection is based on the auditor's sound and seasoned judgment. Three basic issues determine which items are selected:

- Value of items. (E.g. A sufficient number of extensively worked or older accounts should be included to provide adequate audit coverage).

- Relative risk. (E.g.; Items prone to error due to their nature or age should be given special attention).
- Representativeness - Besides value and risk considerations, the auditor should be satisfied that the sample provides breadth and coverage over all types of items in the population.

It should be noted that judgmental sampling is not statistically based and results should not be extrapolated over the population as sample is unlikely to be representative of the population.

10.5.2.8 Sampling and Computer Assisted Audit Techniques

In addition to standard testing procedures, internal audit teams consider the use of statistical sampling or computer-assisted audit techniques (CAATs) in the performance of internal audit procedures. It should be noted that in many instances, statistical sampling is not required to provide observations about the effectiveness of the client's internal controls. When applied with appropriate professional care and rationale, judgmental sampling techniques are acceptable, although there may be instances in which statistical sampling is more appropriate or required. In the case where a statistical sampling approach is required, CAATs may assist in increasing our coverage and statistical confidence level in a cost-effective manner.

Use of CAATs and related software-based reporting is strongly encouraged where applicable and practical. The use of software tools such as IDEA can significantly increase IAD's coverage for a given level of effort, and help focus their efforts on areas where they are more likely to find results. When performing testing through or around an information system, it is suggested that the Director of Internal Audit be consulted to evaluate whether CAATs provide a cost-effective method of testing in a given situation.

The Director of Internal Auditor may consult others with relevant knowledge.

11. GENERAL SECURITY ISSUES

11.1. Information Security

The following security policy guidelines together with other security measures on information established by the management of the University should be complied with by the IAD. The Director of Internal Audit is responsible for ensuring compliance.

- **Confidentiality:** All information reviewed in the course of an audit and information that auditors have access to should be considered confidential.
- **Working Papers:** Upon completion of the audit, working papers should be maintained in locked file cabinets within the IAD. Access to audit files will be granted to individuals representing outside audit interests by the Director of Internal Audit. However, files should not leave the IAD without due process.
- **Data Ownership:** All data (electronic or otherwise) kept should pertain to the University and related professional duties of the auditor. As such, these files are considered the property of the IAD, rather than the property of the individual who created them. All files (paper, electronic, etc.) may need to be accessed from time to time. It is the policy of the IAD that such information will be accessible to those who are entitled to have access.

These guidelines are designed to allow efficient access to information by those who are entitled to use it, yet protect the integrity of the original files.