OAG-
PUNTLAND

Training Workshop on “Skills Enhancement and Stakeholder Relationship Improvement”

To
Puntland MDAs Internal Audit Units

CONDUCTED BY:
OFFICE OF THE AUDITOR GENERAL

BASHIR M. WARSAME
AUDIT SPECIALIST

OAG-PUNTLAND

TRAINING PROGRAM

Session	Topic	Details
8:00–8:30 AM	Participants Arrival and registration and opening remarks	• Arrival of participants • Signing attendance list • Welcoming remarks by the AG
8:30–9:00 AM	Basic concepts of Internal Audit	• Definitions • IA Code of Ethics • IA Scope and Objectives • IA Authority and Responsibility
9:00–10:00 AM	Internal Audit Vs External Audit	• Distinction between IA and EA • Potential Corporation between IA and SAI • Benefits and Risks of Corporation
10:00-10:30 AM	Tea Break	

OAG-PUNTLAND

TRAINING PROGRAM

Session	Topic	Details
10:30–11:00 AM	Internal Audit Assignments	• Value for Money Audit • Information System Audit • Best Value Audit • Financial Audit • Operational Audit
11:00–12:00 AM	Audit Stages and Main Tasks	• Audit Planning • Delegation, Supervision and Staffing • Evaluation of Internal Controls • Internal Control Components • Evidence Gathering • Use of Working Papers • Quality Review • Management Support • Audit Report • Sample of ICQs
12:00-12:30 PM	Question and Reactions	
Lunch and Prayers time		

OAG-PUNTLAND

INTERNAL AUDIT

DEFINITION

Internal auditing is “an independent, appraisal activity within an organization for the review of accounting, financial and other operations on the basis as a basis of service to the organization. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls”

Institute of Internal Auditors

OAG-PUNTLAND

- The above definition of internal audit call for internal audit, to be an independent function within an organization placing greater emphasis on **its objectivity.** Thus internal auditing primarily provides **an independent objective opinion** to the Head of the Government Department/ Office.

- The findings of an independent focused internal audit function also brings to the fore its **findings and recommendations** which act as a tool to officers in a department to take suitable corrective action and help in plugging the loopholes which would otherwise go undetected for a considerable period of time.

- The definition stresses on two aspects of internal audit—**assurance** and **consultancy**. It is important that in fulfilling both these roles, internal audit remains independent of the operations.

OAG-PUNTLAND

- The golden principles that state the Code of Ethics for Internal Auditors in Government are Integrity, Objectivity, Competency, Confidentiality and Independence.

Integrity

Integrity is expected in aspects of the internal audit work. The principles of honesty and fairness are to be observed. The basic point that is raised here is that his report should bring with it an air of trust, reliance and fairness.

OAG-PUNTLAND

Objectivity

Professional competency and assessment of facts with utmost care is a pre requisite for a good internal auditor. An internal auditor should refrain from making reckless and irresponsible statements or resorting to expressions without proper evidence.

OAG-PUNTLAND

Competency

An internal auditor is expected to apply appropriate skill and knowledge combined adequately with experience. An internal auditor should refrain from undertaking works that are outside his scope or beyond the scope of his skill and competence. Performance of the audit and preparation of the report require due professional care by persons possessing adequate training, experience and competence in auditing.

OAG-PUNTLAND

Confidentiality

The internal auditor should safeguard all information received by him/her as most of them may be of confidential nature. There shall be no spill out of possessed information unless there is a statutory, legal and professional requirement to do so

OAG-
PUNTLAND

Independence

We need to carefully note here that the word "independent" is important, even though it gets neutralised by the fact that it is within an organisation. Independence stands for an internal auditor being able to report on material facts and figures, uninfluenced by any favor or frown.

OAG-
PUNTLAND

Internal Audit Objectives and Scope

Objectives

The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities.

The Internal Audit furnishes management with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed.

The audit objective includes promoting effective control to the organization at reasonable cost

OAG-PUNTLAND

Internal Audit Objectives and Scope

Scope

- Internal auditors should determine whether the existing system of controls is in harmony with the structure of the organzation.
- Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information
- Internal auditors should reveiw that the organization is in compliant with the established policies, plans, procedures, laws, and regulations with significant impact on the operations of the organization.
- Internal auditors should review that that organization's assets are reasonably and adequately protected against loss and that they are properly managed and accounted for

OAG-PUNTLAND

Internal Audit Responsibility and Authority

1. The purpose, authority and responsibility of the internal auditing department need to be defined in a formal written document duly approved by management or the board. The document should spell out in clear terms, the intended purposes of the internal auditing department, scope of its work, and a declaration that auditors have no authority/responsibility for the activities they audit

2. Auditors must take reasonable professional care in specifying evidence required, in gathering and evaluating that evidence, and in reporting findings. This requires auditors to be alert for instances that could indicate errors, fraud, improper or illegal expenditure, unauthorized operation, waste and inefficiency.

Internal Audit Responsibility and Authority

- In determining which audit tests and procedures achieve reasonable professional care, the internal auditor should consider the following items:

1. The requirements to meet audit objectives
2. The relative materiality of matters to be investigated
3. The effectiveness of systems of accounting and administrative internal control
4. The estimates of costs of implementing audit test plans in relation to likely benefits to be derived

OAG-
PUNTLAND

Distinction between internal and external audit

- Although many of the techniques internal and external auditors use may be similar, the basis and reasoning of their work is different. Following are major differences;

##	Internal audit Unit	Supreme Audit Institution
Powers derive from:	Ministry Operational Documents	Constitutional and Legal power
Reports to:	Reports to the management or those charged with governance. Reports are private.	Reports to external bodies such as the Parliament, The President, Attorney General. Audit reports should be available to the public.
Must be independent of	Line management in Ministries	Executive arm of the government
International standards exist	Yes (IIA)	Yes INTOSAI
Standards govern work	Yes if IA is mandated to follow standards.	Yes if SAI law requires SAI to follow standards

OAG-PUNTLAND

Distinction between internal and external audit

##	Internal audit Unit	Supreme Audit Institution
Provides Opinion on Financial Statements	No	Yes
Examines Financial transactions	Yes	Yes
Provides annual report to Parliament	No	Yes
Scope of examination	All areas of the Ministry's work	Financial Statements Policy implementation
Coverage	Cyclical in accordance with IA strategy	Annual audit opinion on Financial Statements Cyclical Performance Audit
Approach	Systems reviews Compliance with regulations Performance audit	Financial Audit | Regularity Audit Performance Audit

OAG-PUNTLAND

Distinction between internal and external audit

##	Internal audit Unit	Supreme Audit Institution
Purpose of any review of internal controls	To provide assurance to management on the effectiveness of controls.	To determine whether controls are operating effectively to reduce direct testing by SAI
Role in relation to fraud and corruption	May identify areas of possible fraud and corruption from audit work. May also carry out audits in areas of high risk of Fraud and corruption	May identify areas of possible fraud and corruption from other audit work. Inspection may be planned to examine areas of high risk of fraud and corruption (Depending on the legal status of the SAI)

OAG-PUNTLAND

Potential Cooperation Framework between IA and SAI

- The **UK NAO** and **INTOSAI** have promoted the **4Cs** as a basis for cooperation between internal and supreme audit and these could be used as a framework for promoting cooperation between ant other SAI and IA such as Puntland case. The 4Cs are:

Commitment

Co-operation is likely to be most successful where all parties take an active role in promoting co-operation and are willing to undertake changes to help bring it about. In short, commitment is an attitude of mind.

Consultation

Regular consultations between the two institutions would provide the basis for identifying opportunities for beneficial cooperation and the mechanisms for helping to bring it about. Consultation will provide clarification of ambiguous issues and will ease their work.

OAG-PUNTLAND

Potential Cooperation Framework between IA and SAI

Communication

Communication is a two way process. Regular and open communication between the two institutions is essential to the success of co-operation. Communication that is open and transparent will build trust between IA and SAI when conducting audits and inspections.

Confidence

All parties should have confidence when dealing with each other. Whenever SAI is using the findings and reports of the IA it needs to be confident that the standard of work undertaken is appropriate and acceptable.

OAG-PUNTLAND

Potential Areas of Cooperation between IA and SAI

There are several options for cooperation between IA and SAI. The depth of cooperation may vary and below is an indicative list of ways of cooperation:

- Communication of audit planning/audit strategy (e.g. joint planning sessions);
- Regular meetings between SAI auditors and IA auditors;
- Arrangements for sharing of information (including consultation procedures);
- Communication of the results of audits/inspections to each other;
- Organizing common training programs and courses;
- Developing common audit methodologies;

OAG-PUNTLAND

Potential Areas of Cooperation between IA and SAI

- Sharing training materials, methodologies and audit work programs;
- Granting access to audit documentation;
- Secondment or lending of staff (e.g. training on the job);
- Use of certain aspects of each other's work to determine the nature, timing and extent of audit procedures to be performed;
- Collaborating on certain audit procedures, such as collecting audit evidence or testing data.

OAG-PUNTLAND

Benefits of Cooperation between IA and SAI

A range of benefits may be obtained from co-operation. These may include:

- An exchange of ideas and knowledge;
- Strengthening their mutual ability to promote good governance and accountability practices, and enhancing management understanding of the importance of internal control;
- More effective audit and inspections based on a clearer understanding of respective audit roles and requirements
- Minimizing disruption to the audited entity;

OAG-
PUNTLAND

Benefits of Cooperation between IA and SAI

- A more informed dialogue on the risks facing the organisation leading to more effective focusing of audit and inspection effort and to more useful advice to management
- Better coordinated audit and inspection activity based on joint planning and communication of needs that maximizes audit coverage based on risk assessments and identified significant risks;
- A better understanding by all parties of the results arising from each other's work which may inform respective future work plans and programmes
- Increased scope for use of each others work.

OAG-PUNTLAND

Risks of Cooperation between IA and SAI

Cooperation is not risk free. Inherent in the coordination and cooperation process are certain risks, which should be managed. For example:

- Possible compromise of confidentiality, independence, and objectivity;
- Possible conflicts of interest across the parties;
- Dilution of responsibilities;
- Use of different professional standards or lack of standards relating to the work undertaken;
- Misinterpretation of conclusions when using each other’s work;
- Possible difference of conclusions or opinions on the subject matter;
- The possibility that potential findings of the another organisation may be prematurely communicated to an external party

OAG-PUNTLAND

Internal Audit Assignments

Value for Money Audit

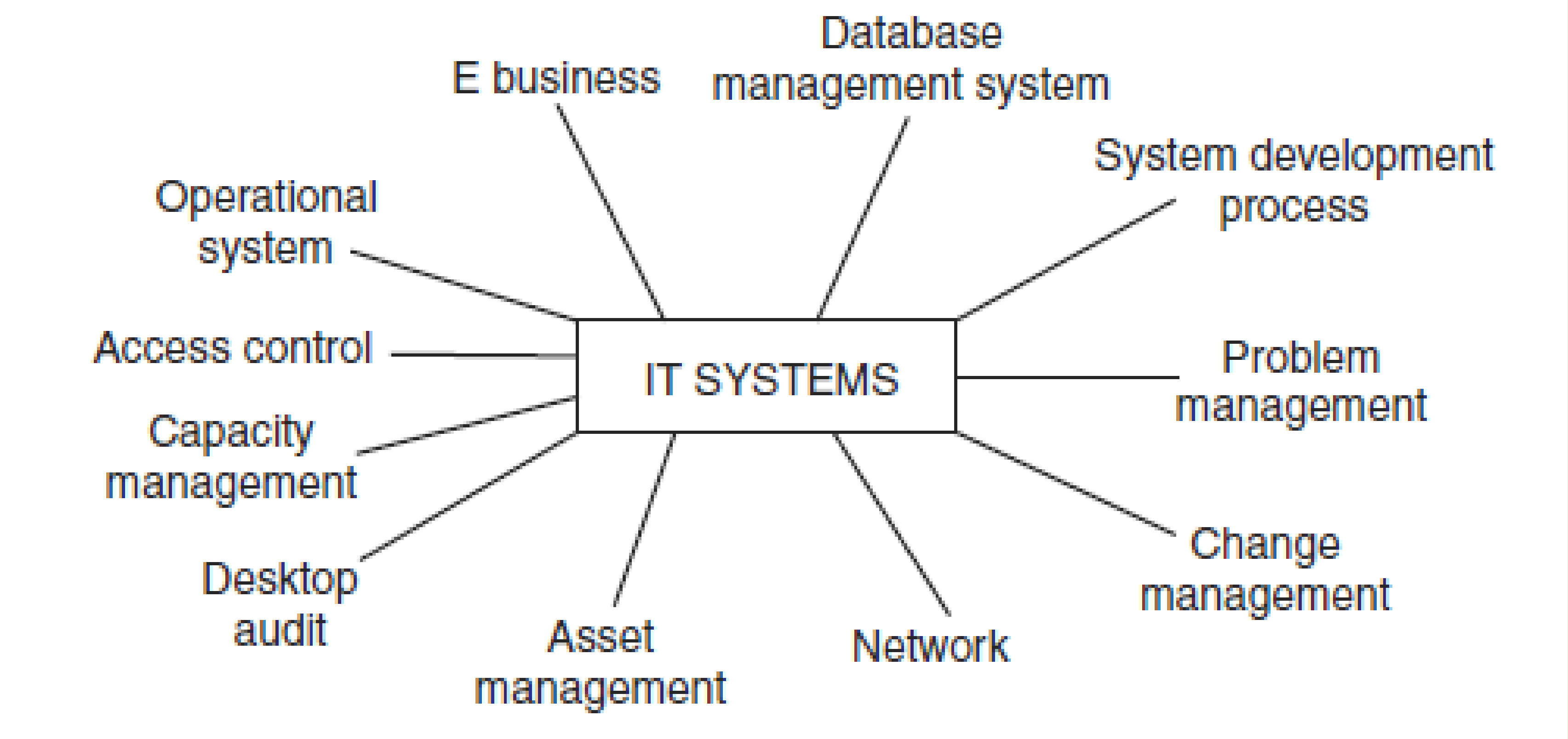
Value for money (VFM) audits examine the economy, efficiency and effectiveness of activities andprocesses. These are known as the three Es of VFM audits.

- ✓ **Economy**: Attaining the appropriate quantity and quality of physical, human and financial resources (**inputs**) at lowest cost.
- ✓ **Efficiency**: An efficient operation produces the maximum output for any given set of resource inputs
- ✓ **Effectiveness**: This is concerned with how well an activity is achieving its policy objectives or other intended effects.

OAG-PUNTLAND

Internal Audit Assignments

Information technology audits



OAG-PUNTLAND

Internal Audit Assignments

Best value audits

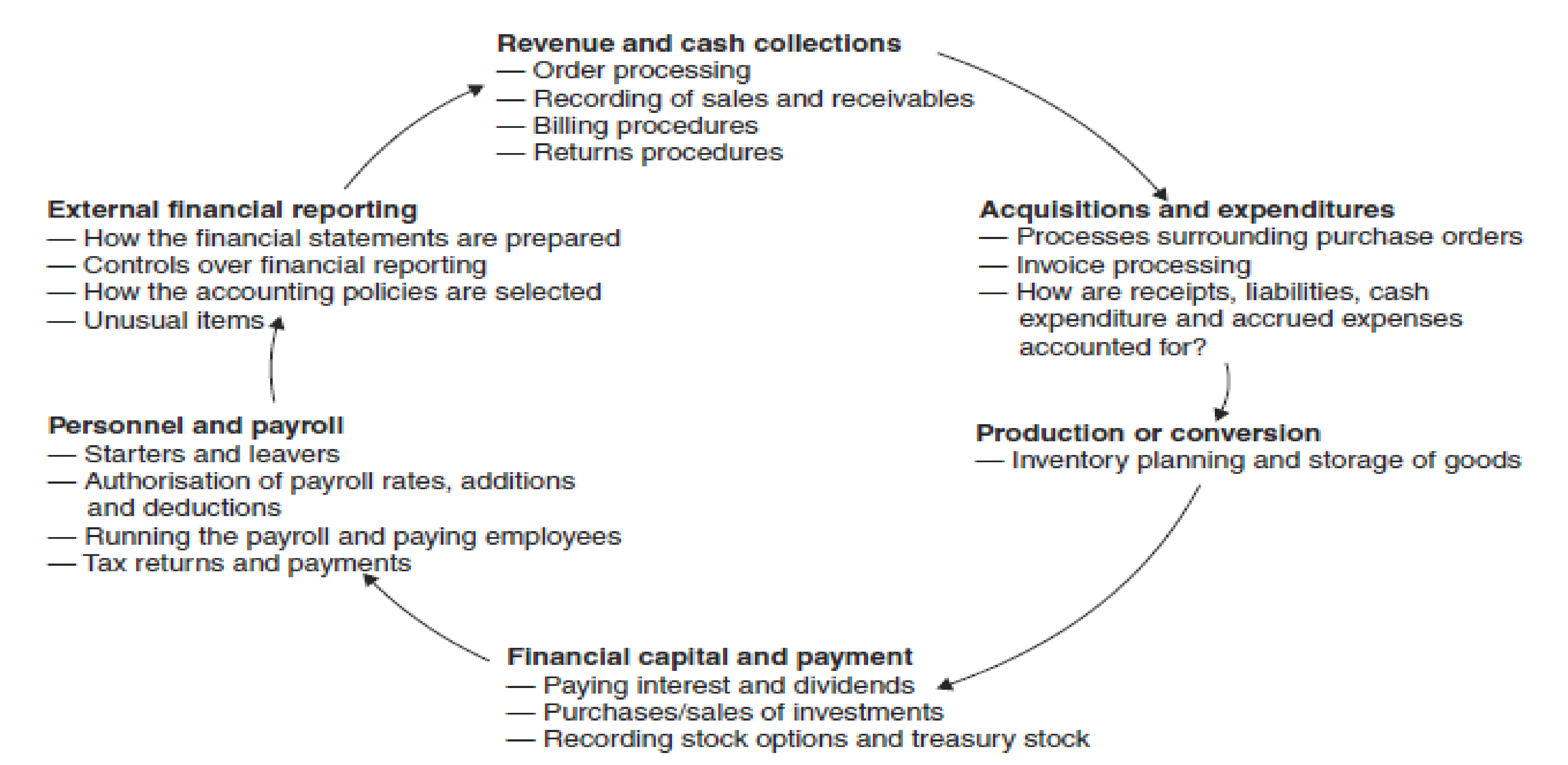
As part of best value, authorities are required to strive for continuous improvement by implementing the '4 Cs':

- **Challenge**. How and why is a service provided?
- **Compare**. Make comparisons with other similar organizations or even the private sector.
- **Consult**. Talk to local services users and the wider community in setting performance targets.
- **Compete**. Embrace fair competition as a means of securing efficient and effective services.

OAG-
PUNTLAND

Internal Audit Assignments

Financial audits



OAG-PUNTLAND

Internal Audit Assignments

Operational audits

Operational audits are audits of the operational processes of the organisation. They are also known as management or efficiency audits. Their prime objective is the monitoring of management's performance, ensuring that organization’s policy is adhered to.

There are two aspects of an operational assignment:

- **Ensure policies are adequate by reading them and observing them in operation**
- **Ensure policies work effectively by discussing with members of departments and by testing them**

OAG-PUNTLAND

Audit Planning

- Adequate planning is necessary for every audit. All material areas bearing on the reliability of the accounts and records must be covered.

- The audit working papers provide the documentary evidence of audit planning in the form of an audit plan, setting out the objectives and scope of the audit and the techniques and resources to be used by the auditor.

- The planning process must include the development of an in-depth, well-conceived, overall strategic plan that clearly defines the desired future state of the internal audit function.

OAG-PUNTLAND

Audit Planning

- The following need to be considered while preparing the audit plan:

- The nature, size and operation of the office, entity or business
- previous audit paras and observations
- availability and competence of audit staff
- audit methodology most suited to the operations to be audited
- the format and general content of the report to be prepared.

OAG-PUNTLAND

Delegation, Supervision and Staffing

- Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed.
- The amount of supervision required corresponds to the experience and skill of the auditor. The supervisory role includes:
- providing instructions in creation and approving or recommending approval of the audit programme;
- ensuring that the approved audit program is completed, unless deviations are both justified and authorised;
- determining that the working papers adequately support the audit findings, conclusions and reports;
- making sure that audit reports are accurate, objective, clear, concise, constructive and timely; and
- determining that audit objectives are being met.

OAG-PUNTLAND

Delegation, Supervision and Staffing

- **Building up a balanced pool of resources** is critical to an effective internal audit function. The competencies of internal audit staff must take into account the skills and knowledge base laid down by the profession. This includes personal qualities, standards of education, sound judgement, innovation and operational and auditing/evaluation experience.

- The skill requirements for internal audit **should be aligned to the nature of the organisation's business**, its risk profile and the associated needs of management. The changing role and focus of internal audit activity means there must be a broader range of competencies than required for traditional internal auditing.

OAG-PUNTLAND

Evaluation and Internal Control

- Internal auditors must systematically evaluate **the nature of the operation and system of internal control** in the section being audited, to assess the reliance that can be placed on controls. The assessment determines the nature, extent and timing of the audit procedures.

- Internal controls of an organisation comprise the plan of organisation and methods adopted to **safeguard assets**, **comply with laws and regulations**, ensure the **completeness and correctness of accounting data**, promote **efficiency and encourage adherence to management policies**.

Evaluation and Internal Control

- The characteristics of a satisfactory system of internal control include: •
- **proper segregation of functional responsibilities;**
- a system of **authorisation, recording and procedures adequate** to provide accounting control over assets, liabilities, revenues and expenses;
- sound practices **in performance of duties and functions** by each of the organisational departments; and
- documented procedures to ensure **that persons are aware of all manual and computer requirements**, and have capabilities commensurate with responsibilities.

- It is important that a review of an internal control system be directed primarily toward the controls that have an important bearing on the reliability of that system, i.e., key controls, to ensure efficient use of resources.

OAG-PUNTLAND

Internal Control Components

1	Control Environment	This is the framework within which controls operate. The control environment is very much determined by the management of a business.
2	The entity's risk assessment process	This is the process of Identifying entity's risks relevant to financial reporting objectives and estimating the significance and likelihood of the risk to decide on actions to address those risks.
3	The Information System	The information system relevant to financial reporting is a component of internal control that includes the financial reporting system
4	Control Activities	activities designed to prevent or to detect and correct errors. Examples include activities relating to authorisation, performance reviews, information processing, physical controls and segregation of duties.
5	Monitoring of Controls	A process to assess the effectiveness of internal control performance over time.It includes assessing the design and operation of controls on a timely basis

OAG-PUNTLAND

Evidence Gathering

- An auditor must obtain all of the evidence considered necessary for the expression of an informed opinion.
- The evidence required will vary and professional judgment is required to determine the amount and nature of the evidence required.
- **The auditor should consider:**
- the nature of the item under examination;
- the materiality of possible errors or irregularities;
- the degree of risk involved, which is largely dependent on the adequacy of internal control; and
- the susceptibility of the given item to conversion, manipulation or misstatement.

OAG-
PUNTLAND

Use of Working papers

- The standard for working papers and all documentation relating to an audit is very important as the purpose for the working papers can include any one or all of the following:
- They assist directly in the performance of the audit;
- They provide a historical record of the audit work;
- They contain the basis for the auditor's opinion;
- They provide information for the auditor's report;
- They aid the review and evaluation of the audit work;
- They support legal action against departmental officers or members of the public.

Quality Reviews

- Review of the work of auditors is necessary to ensure the maintenance of professional standards. Such reviews cover the following areas:
  - Preparation, review, and approval of field plan;
  - Ensuring direction, supervision, and review of work at all levels is adequate;
  - Ensuring working papers comply with the standards prescribed;
  - Ensuring significant issues are properly documented, pursued to finality and reported appropriately;
  - Resolving differences of professional judgment among staff involved in audits;
  - On-the-job training of audit staff to assist their development of appropriate skills and competence;
  - Overall review of audits to ensure that the quality of each audit meets professional standards.

OAG-PUNTLAND

Quality Reviews

- Where the results of an evaluation are not satisfactory, the reviewer will discuss appropriate corrective action with the auditor. That action is to be recorded on paper and referred back to the auditor.

- The review process can involve peer reviews by audit staff. These reviews have the dual effect of improving the standard of work performed and enabling auditors to learn from their peers

OAG-PUNTLAND

Management support

- It is generally accepted that, to be effective, the internal audit function must have the full support of the organisation's senior management.
- The support of line management is also critical.
- The attitude of management towards internal audit can have a significant influence on the behaviour of an organisation’s staff - similarly the attitude of management towards internal audit can either strengthen or hamper its role.

OAG-
PUNTLAND

Management support

- **the following conclusions can be drawn for officials in the government departments on internal audit:**

- Internal audit is to be considered as an independent and objective appraisal service within a government office or department;
- This internal audit activity will result in providing an independent and objective opinion to the head of the government office concerned on control failures, risk management, harmony of activities and expenditure in tune with the department’s objectives as well as governance related issues;
- The findings and recommendations from the internal audit would greatly benefit the officials in various departments to devise their action plans.

OAG-PUNTLAND

Minimum Content of Internal Audit Reports

- The internal auditors' report may take any form, as there are no formal reporting requirements for these reports as there are for the external auditor's report. The Internal Audit Report will at least have the following minimum contents:

IA Report Minimum Content	
Purpose	The objective of the audit engagement should be clearly stated. This makes the report easier to read and helps the reader to interpret it. Findings should be linked back to this objective.
Scope	The scope defines what specifically is audited. It identifies which activities are audited and also highlights any activities that are excluded from the audit.
Results	This should include: • Observations • Conclusions • Recommendations • Action plans

OAG-PUNTLAND

Optional Content of Internal Audit Reports

- In addition, the final internal audit report may include the following, optional, sections.

IA Report Optional Content	
Background information	This could include such information as details of the organisation and the activities reviewed, and the outcome of previous audits of the same areas.
Summaries	An executive summary may be included to present the main findings of the report for those who do not have time to read the entire report.
Accomplishments	Improvements in relation to the past audit of the area may be acknowledged

OAG-
PUNTLAND

Attributes of Internal Audit Reports

- High-quality internal audit reports will have the following attributes.

IA Report Attributes	
Accurate	The report should be free from error.
Objective	It should be fair, impartial and unbiased. It should be based on facts.
Clear	The report should be logical, easily understood and free from jargon.
Concise	It should be to the point and free from unnecessary detail.
Complete	No information essential to the intended audience should be omitted.
Timely	The report should convey a sense of urgency.

OAG-PUNTLAND

A sample of Generic Internal Control Questionnaire

- **Policies and Procedures**
- 1. Does your entity have an up-to-date operational policy and procedure manual?
- 2. Are written policies and procedures maintained for all departmental functions?
- 3. Are these policies and procedures reviewed and updated annually?
- 4. Does your entity have an organisational chart that clearly defines lines of authority and responsibility?
- 5. Are current job descriptions on file for each employee in the entity?

OAG-
PUNTLAND

A sample of Generic Internal Control Questionnaire

- **Cash Receipts**
- 1. Are all monies received made payable to the relevant office?
- 2. Are the receipts restrictively endorsed immediately upon receipt?
- 3. Are cash receipts kept in secure storage until deposited?
- 4. Are deposits made daily to the cashier's office?
- 5. Are cash receipts deposited intact with no expenditures made from collections?
- 6. Is cash that has been received and deposited reconciled monthly?
- 7. Are cash receipts recorded and used only for the purpose for which they were received?
- 8. Are cash handling responsibilities rotated among two or more employees when possible?

OAG-
PUNTLAND

A sample of Generic Internal Control Questionnaire

- **Payroll**
- 1. Are all staff time records reviewed and authorised by the administrator?
- 2. Are copies of timekeeping screens printed and retained on file for agreement to labor reports?
- 3. Are overtime hours reported verified for reasonableness and proper approval?
- 4. Are staff distribution and vacation/sick accrual reports reviewed at each pay period by the administrator for reasonableness?
- 5. Are actual benefit derived by the staff time spent on the work site ?

OAG-
PUNTLAND

A sample of Generic Internal Control Questionnaire

- **Fraud Indicators**
- 1. Is the work of all staff members double-checked on a random, unannounced basis
- 2. Are duties segregated in all cash handling functions?
- 3. Are unusual trends or discrepancies in department accounts identified and reconciled monthly?
- 4. Are missing numbers in sequences of numerically controlled documents identified and investigated immediately?

OAG-PUNTLAND