Internal Audit Manual: Ministries and Government Units

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1.5.1 Manual distribution form

Distributed By: _____

Date of Distribution: _____

Reason for Distribution (check one):

- ❖ First Time Distribution
- ❖ Distribution Following Amendment

To the concerned Internal Audit Unit,

The sign off of this form by the General Manager/Internal Audit Manager in the concerned Government Unit represent his agreement to ensure implementation of cited policies and methodologies included in this Manual.

To acknowledge that the Internal Audit Unit in the concerned Government Unit has reviewed and understood all of the material in the Manual or any related modification, please sign and date this form and return it to the State Audit Institution within 10 working days of receipt of this Manual.

I acknowledge that I have read all of the materials included in this Manual.

Signature _____ (Please print name) _____

Date:

Definitions of Authority Levels of the Internal Audit Unit in the Ministries and Governmental Units:

The below terms/definitions used in this manual refers to the different authority levels within the Internal Audit Unit:

Level	Authority	Position/job Title
Higher Authority Level	Final approval	Head of the Government Unit or designated person/ Higher Level Authority
Level 1 Authority	Approve and Issue	General Manager/Assistant General Manager/ Internal Audit Department Manager/Deputy of the Internal Audit Department Manager
Level 2 Authority	Review, Guide and Recommend	Section Head
Level 3 Authority	Prepare and Perform/Execute	Auditors/ Staff/Employees

2. Manual Maintenance

The Internal Audit Units should retain this manual and related modifications and other necessary information. Moreover, the Internal Audit Units should perform continuous training sessions on the implementation of this manual and related modification in order to enhance the understanding of internal auditors of the internal audit methodology and its implementation.

2.1 General Rules

The internal audit methodology includes content of a dynamic nature that should be reviewed and updated periodically to reflect any significant internal or external changes. The State Audit Institution will be the ultimate responsible for updating the Manual in line with the changes in the regulations, laws, and other relevant international standards.

In case of manual update or modification, the State Audit Institution shall circulate and distribute the updated manual to the Internal Audit Units in the various Government Units.

2.2 Authorities

The Internal Audit Unit in the concerned Government Unit may review this manual and provide proposals to amend the methodologies contained in the manual according to the laws and internal policies and regulations of the Government Unit or any external changes, and raise such proposals to the State Audit Institution for consideration and to take the necessary action.

2.3 Conditions for Amendments

Conditions leading to a change– or various changes– will result either from changes in the unit's internal policies and procedures or from changes to external laws and regulations. Changes in the laws and regulations may necessitate changes or modifications on the followed standards and methodologies.

2.3.1 External Conditions

External conditions are represented by changes in laws and regulations that are mostly external in nature. In case laws and regulations are amended, in whole or in part, the State Audit Institution should review audit methodology and standards included in this manual and assess whether changes should be made to comply with the new laws or regulations.

Furthermore, the Internal Audit Unit in the concerned Government Unit may review this manual and provide proposals for amendment in line with the applicable laws and regulations, such proposals should be raised to the State Audit Institution for consideration and resolution. Changes in the international internal audit standards and methodologies may also necessitate the update of this manual in order to align it with the relevant international standards.

2.3.2 Internal Conditions:

Any factor from the following internal organizational conditions could lead to a change, in whole or in part, to the followed internal audit methodology:

- Changes in the functions and activities of the Internal Audit Department due to changes in its functional or organizational structure
- Changes in internal business processes
- Changes in delegation of authority matrices
- Changes in job descriptions of the internal audit team in the concerned Government Unit
- Changes in the internal financial resources or changes related to the Internal Audit Team.

2.4 Timing

The timing and frequency of reviewing internal audit standards is either periodic or cyclical in nature or non-cyclical conditions-based as detailed below:

- **Periodic Cyclical Changes:** To be able to enforce a 'culture of change', the change management process should be periodic in nature. To elaborate, any system reflecting a business process that is based on a methodology or a standard is not perfect in nature; thus, it requires revision over a period of time regardless of any internal or external conditions instigating a change. Therefore, the internal audit methodology and standards should be periodically reviewed, at least once every two to three years.
- **Non-Cyclical Conditions-Based Changes**: The timing of these changes is directly linked to the necessity and urgency of implementing the change. Urgent changes include those resulting from a new requirement by law or a change in international auditing, accounting standards or other professional standards of international standard-setting bodies and professional organizations.
- **The timing of changes**, if urgent in nature, should be linked to the requirement of the law or a professional standard in setting a particular deadline to meet.
- **Appropriate deadline**: professional judgment should be exercised when setting deadline or timing of the change considering the date of issuance of a particular law, regulation, or standard.
- **Standards and Considerations**: The internal audit process is directly related to standards, practices and methodologies followed by the Internal Audit Unit in the concerned Government Unit. Thus, consequences of developments or changes in the international standards should be taken into consideration when making changes to the manual

2.5 Procedures of Updating or Modifying the Manual

In this case of updating or modifying the manual, the following procedures may be followed:

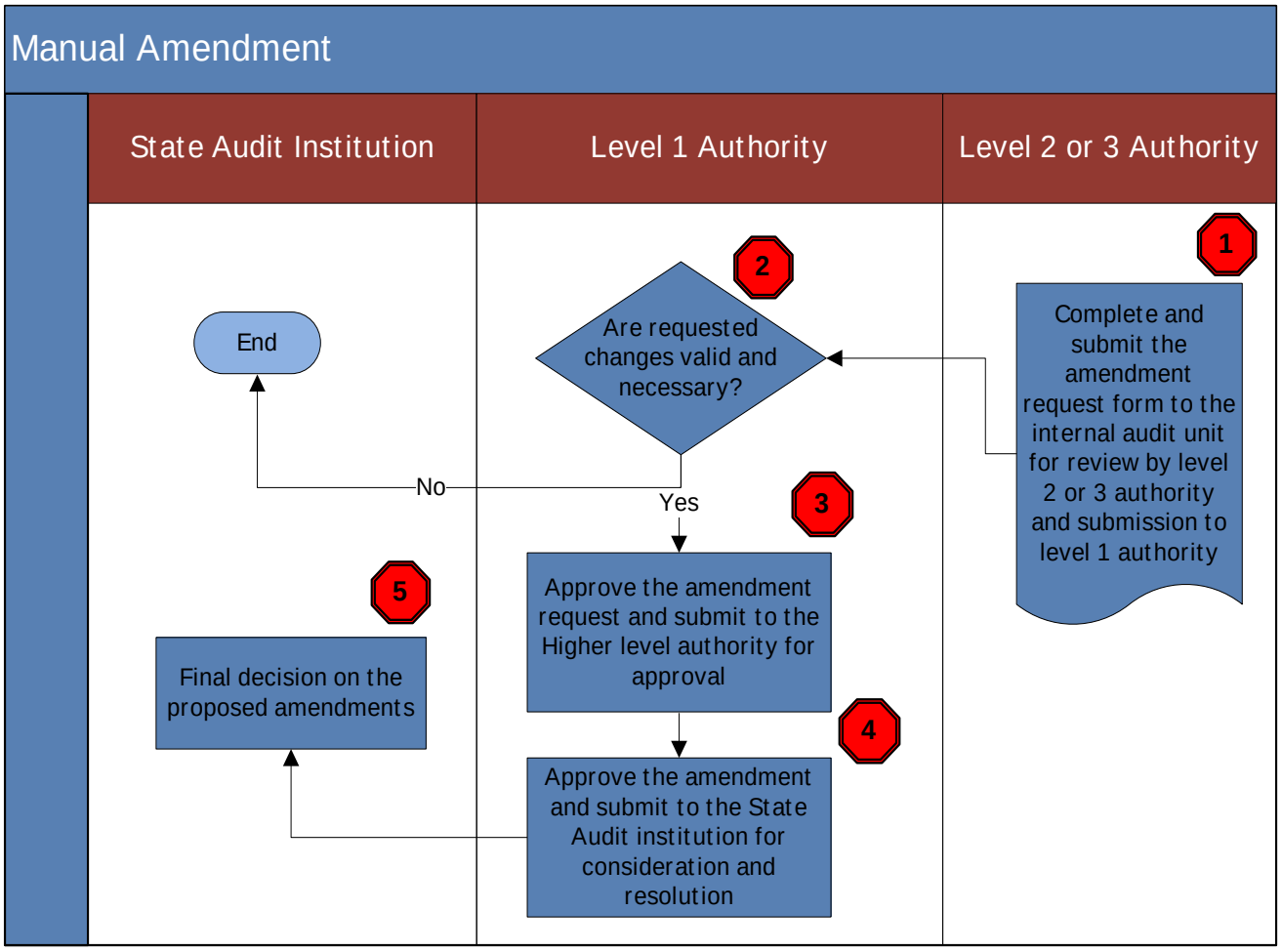
1. Review the manual and proposed modifications by the concerned Government Unit as mentioned in **section 2.3 above**. In this case, the following steps shall be considered:

   - The requesting auditor at any authority level has to fill out the Request for Amendment Form **(Request for Amendment Form 2.5.1)**.
   - Level 2 authority within the Internal Audit Unit reviews the request.
   - If the request is feasible, level 2 authority within the Internal Audit Unit forwards the request to level 1 authority.
   - Level 1 authority reviews the request.
   - Level 1 authority within the Internal Audit Unit should considers the following implications as a result of a possible change to the contents of the manual:
     - Review human resource capabilities and discuss changes in personnel requirements;
     - Review management information systems and discuss potential changes in IT requirements;
     - Evaluate legal, regulatory, and accounting issues, and solicit comments from appropriate professionals if and whenever needed;
     - Evaluate cross manuals required changes as a result of a change in the internal audit manual.
   - If the Internal Audit Unit agree on part of the requested change or requested amendment, the form should be returned to the head of the concerned unit who shall coordinate with level 1 authority to revise the request for amendment form.
   - The revised request for amendment form should be submitted to level 1 authority for review and approval.
   - If the changes are approved, then the request is forwarded to the higher level authority for final approval.
   - Higher level authority in the concerned Government Unit shall raise the proposed changes in writing to the State Audit Institution for consideration and resolution.

- If such changes are not approved, the State Audit Institution refers back for further deliberation or for termination if the request is not considered appropriate for consideration.

2. Modification of the manual by the State Audit Institution. In these circumstances the following steps shall be considered:
   - Issuance of amendments and forwarding the changes to the responsible employee to reflect the changes in the relevant sections or chapters of the manual.
   - Changes are then printed and added to the relevant manual sections along with any required forms or other related materials.
   - All changes along with the related forms are distributed to the concerned Government Units or concerned employees using the **(Manual Distribution Form 1.5.1)**
     - After distribution of the new sections, the responsible personnel update the **Manual Maintenance Form 2.5.2** included in this section of the manual.
     - Coordination shall take place with the concerned units to conduct a training session on the new changes.
     - State Audit Institution shall be responsible for monitoring the implementation of the change and compliance.

The following diagram briefly illustrates the procedures of manual amendment:



2.5.1 Request for Amendment Form

Section/s Reference: _____

Manual Section: _____

Section Name:

Description of proposed amendments:

_____

_____

_____

_____

Proposed amendments:

_____

_____

_____

_____

Proposed by: (e.g. Level 3) _____ Date:

Reviewed by: (e.g. Level 2) _____ Date:

Approval by: (Level 1) _____ Date:

Final Approval by: _____ Date:
(Higher Authority level)

Note: After filling out this form, the completed form is submitted to the State Audit Institution along with an official letter requesting the manual amendment.

2.5.2 Manual Maintenance Form

No.	Date of Amendment	Section to be Amended	Responsible Internal Auditor
1	26 March 2014	Preface 6.1 XXX	XXX
2			
3			
4			
5			
17			

3. Confidentiality Policy

3.1 Confidentiality

The use of this Manual and its contents is bound by the laws of the Government Unit and their applicable confidentiality policy in practice.

3.2 Rights

All rights are reserved as per local laws, rules and regulations pertaining to this publication.

No part of this Manual may be reproduced, stored in any system or form, or transmitted in any form by any means – electronic, mechanical, photocopied, recorded, or otherwise – without the prior written consent of the concerned Government Unit.

3.3 Legal Recourse

Violation of the above ‘Rights’ clause subjects an individual or an entity to applicable legal proceedings as per the laws of the Sultanate of Oman.

4. The Internal Audit Charter

4.1 Overview

The Internal Audit Charter documents the roles and responsibilities, authorities, purpose, and scope of work of the Internal Audit Unit. The Internal Audit Charter seeks to allow Internal Audit Unit in the Government Unit to carry out its duties independently and objectively.

4.2 Objectives of Internal Audit

The mission of Internal Audit is to provide independent and objective assurance and consulting services to assist the Government Unit in achieving its objectives. It aims to generate a positive impact on the efficiency and effectiveness of operations. Internal audit processes help verify the effectiveness of the risk management process and the internal control by presenting recommendations for the improvement of the internal control systems.

4.3 Audit Scope

The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the Government Unit's business procedures, governance, risk management processes, internal control structure, and quality of performance as it relates to achieving strategic goals and objectives and identify improvement opportunities of the internal control systems in the concerned Government Unit and present these opportunities to the concerned management.

Internal Audit provides reasonable assurance on the effectiveness of the internal controls in achieving the following:

- Assets of the Government Unit are safeguarded from significant losses, including those caused by fraud, waste, inefficiency and commercially unsound practices.
- Relevant laws, rules and regulations are complied with.
- Employee actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Operations are conducted effectively, efficiently and economically in accordance with the policies and procedures of the Government Unit.
- Significant financial, managerial and operating information is accurate, reliable and timely.
- Management information systems are reliable and secure.
- Systems under development are consistent with Government Unit's business needs and that monitored and appropriate internal controls are built in.
- Significant business risks are appropriately identified, controlled, managed and responded to in a timely and efficient manner.
- Significant legislative or regulatory issues impacting the Government Unit are recognized and addressed appropriately.

4.4 Authority

The Internal Audit Team -within the different levels of authority- in the respective Governmental Units should be given the necessary authorities in accordance with the existing laws. As a minimum, these authorities should include:

- Unrestricted access to all functions, systems, records, property and personnel.
- Full and free access to all levels of authority including Higher level authority
- Allocate resources, set frequencies, select subjects, determine scope of work and apply the techniques required to accomplish audit objectives.

- Obtain the necessary assistance of employees of the Government Unit in performing their duties, as well as other specialized services from within or outside the Government Unit.

All employees of the Government Unit should assist the internal audit team in fulfilling their audit obligations. During the audit review, the internal audit team should handle documents in the same prudent and confidential manner that is exercised by the employees in charge of the documents.

The Internal Audit Team should not be authorized to:

- Perform any operational duties for the Government Unit.
- Initiate or approve accounting transactions unrelated to the Internal Audit Unit.
- Direct the activities of any of Government Unit's employees not employed by Internal Audit Unit, except in the case where an employee has been assigned to work with the auditors or is assisting the internal auditors.

4.5 Independence

In all matters relating to audit work, all levels of authority within the Internal Audit Unit should be free from personal and external impairments to independence and organizationally independent and maintain the appearance and attitude of independence. The credibility of the auditor may be impaired by the existence of circumstances which may be reasonably perceived to influence independence.

Independence will be established by adhering to the following criteria:

- The Internal Audit Unit should be organizationally located outside staff or line management functions.
- Internal Auditors should be sufficiently removed from political pressures to ensure they can conduct audits objectively and report their findings, opinions, and conclusions objectively, without fear of repercussion.
- Internal auditors should avoid personal transactions or situations in which their personal interest will conflict, or appear to conflict with the interest of the Government Unit or Internal Audit Unit. All situations involving a conflict of interest should be disclosed in an annual conflict of interest statement.
- In-House Internal Auditors shall complete and sign annually a Conflict of Interest Statement, which attests to their independence or describes areas where their independence may be impaired. **Please refer to the form number 1 (sample annual independence statement) in the appendices section.**

4.6 Values

In carrying out their mission, internal auditors within the different levels of authority share certain principles and values. They are committed to:

- Providing quality professional service to the Government Unit.
- Maintaining their independence and objectivity.
- Conducting themselves with the highest degree of fairness and integrity, and complying with the Code of Ethics established by the Institute of Internal Auditors (IIA).
- Demonstrating a high level of personal productivity and timeliness.
- Achieving continuous professional improvement through the pursuit of professional qualification and academic certifications in the profession.
- Performing sufficient audit work to provide reasonable assurance and achieve audit objectives.

4.7 Responsibilities

Level 1 authority, while carrying out his duties, shall be accountable to the higher level authority to:

- Review or examine the procedures and internal regulations and internal controls

However, and to maintain internal audit independence and objectivity, internal auditors should not assume any risk management responsibilities or perform any risk management related tasks that may impact the independence of the internal auditor.

4.9 Internal Audit Skills and Resources

The Internal Audit Unit should maintain a balance of the professional skills and competences required for the execution of the audit. All levels of authority within the Internal Audit Unit should exhibit strong communication and interpersonal skills to be able to work in s and to think conceptually. Professional proficiency is the responsibility of level 1 authority. The ministry 1 authority should also ensure that each auditor within level 3 and 2 authority assigned to each internal audit has the skills required to conduct the audit properly.

Models for resourcing internal audit activity

There are various models for resourcing the internal audit activity. These include:

1. In-house:
Internal audit services are provided exclusively or predominantly by in-house auditors of the Government Unit. The internal audit activity is managed in-house by the Internal Audit Unit of the Government Unit.

2. Co-sourced:
Internal audit services are provided by a combination of in-house auditors and service providers contracted to carry out specific tasks. The General Manager/Internal Audit Manager in the concerned Government Unit will be responsible to direct and supervise the internal audit activity.

3. Outsourced with in-house management:
Internal audit services are provided by service providers contracted to the organization for this purpose. The General Manager/Internal Audit Manager in the concerned Government Unit will be responsible to direct and supervise the internal audit activity.

Delegation of Authority procedures

- In the case of authority delegation, Internal Auditors within the different levels of authority should formally document the delegation procedures as shown in the sample authority delegation form **(No. 2 in the appendices section)** to effectively achieve the desired objectives from the delegation.

- The delegated authorities or activities to similar or lower authority level, should be clearly defined and fully detailed as well as the duration of delegation and should be approved by the higher authority level .

- The purpose of the authority delegation is to account for business continuity and effective performance of tasks in the case of emergency or planned leave of the concerned employee through delegating authorities and activities assigned to him to another level of authority that is able to carry out the delegated activities efficiently and effectively and in a timely manner.

- Delegation of authority does not include a waiver of the responsibility, but it is an administrative process through which some authorities or tasks are delegated from authority level to another in the event of leave or in emergency situations in order to ensure business continuity.

- Authority delegation shall be terminated upon achieving its purpose or cancellation or expiry of its duration.

Confidentiality

The Internal Auditor should maintain the confidentiality of information and documents obtained through carrying out the internal audit, and should not disclose such information to any third party, whether orally or in writing, except in the cases that necessitate the disclosure of information in response to a legal request by the relevant statutory or regulatory authorities, such as the State Audit Institution in the event of the discovery of financial irregularities or detection of

corruption or fraudulent actions. Certain information and documents can also be disclosed in some cases as required, such as the case of outsourcing or contracting external consultants in order to perform certain activities in favour of the Government Unit, in such a case, the concerned Government Unit should consider certain measures and controls in accordance with its internal policies and procedures, so as to ensure the confidentiality of information that is delivered to the consultants and to ensure their use in specific purposes only. This can be achieved if the information is delivered to the external consultants under non-disclosure agreement (NDA) signed by the Consultants.

4.10 Development of Internal Audit Staff Performance

This process aims to assist the development of the internal audit team with in the different authority levels and thereby enhance the performance of the Internal Audit Unit. Extending the knowledge and skills of internal auditors should be one of the Internal Audit Unit key commitments. Internal Audit Unit should be dedicated to the pursuit of learning, so that it can continually develop the learning and career opportunities available to all levels of authority within the Internal Audit Unit. Development of knowledge, skills and attitudes enhances the performance of employees in their current tasks and prepares them for the emerging roles to which they will need to adapt.

Guidelines for developing internal auditors from different levels of authority within the Internal Audit Unit could be as follows:

- Level 1 authority bears the primary responsibility for implementing career development policy by ensuring that Levels 2/3 authority are provided with the opportunity to undertake appropriate training and development activities.
- Level 1 authority should analyse the development needs of the department and levels of authority within the department and develop and implement plans to meet these needs.
- Level 1 authority should determine the budget required for providing training and continuous professional learning and to support levels 2/3 authority within the Internal Audit Unit in obtaining the required professional certificates.

4.11 Staff Evaluation

Performance evaluations will be conducted upon the completion of each audit and will be conducted for each member of the Internal Audit Unit. The evaluation process should consider the auditor's performance on each assignment, such as time spent on the audit against time budgeted (promised completion date), technical development, senior review notes, communication skills, etc. For weaknesses noted, a plan of action for corrections should be drafted by the supervisor of internal audit and agreed on by the auditor. Auditor performance should be evaluated upon completion of each audit assignment and the result of the evaluations shall be maintained for reference in the annual evaluation process.

4.12 Minimum Academic and Professional Qualifications to be obtained

The international standards and leading practices related to internal auditing require an internal auditor to have the appropriate academic and professional qualifications, which enable him to carry out their internal audit activities effectively and in accordance with the internal auditing standards and generally accepted practices. This is to ensure that the maximum benefit is achieved and that the needs and expectations of the parties related to internal audit are met.

Academic Qualifications: An Internal Auditor should be a holder of at least a college degree (Bachelor/Diploma) from a recognized university in the Sultanate of Oman. The degree should be for majors that are appropriate for the occupation. This includes, but is not limited to, the following:

- Financial and administrative areas, such as: Business Administration, Accounting, Banking and Finance, and Economy

- Computer Science and Information Technology areas, such as: Management Information Systems and Software Engineering
- Engineering Fields, such as: Civil/Oil Engineering, quantity Surveyor and Architecture
- Health related areas, such as: Pharmacy, Laboratory and Medical Equipment
- Other areas as needed.

Professional Certificates: It is preferable for an Internal Auditor to hold at least one professional qualification. This includes, but is not limited to, one of the following.

- Certified Internal Auditor (CIA) which is the essential professional certificate for the internal audit function, and it is preferred that all internal auditors obtain it
- Certified Information Systems Auditor (CISA) which is the essential certificate for the Information Systems Audit function. It is of use for by internal auditors who audit information and electronic systems
- Fraud related certificate, such as Certified Fraud Examiners (CFE)
- Public accounting certificates, such as public accountant, management accountant, and chartered accountant (CPA,CMA,ACCA,CA)
- Certificates related to Project Management, such as Project Management Professional (PMP)
- Other certificates as needed.

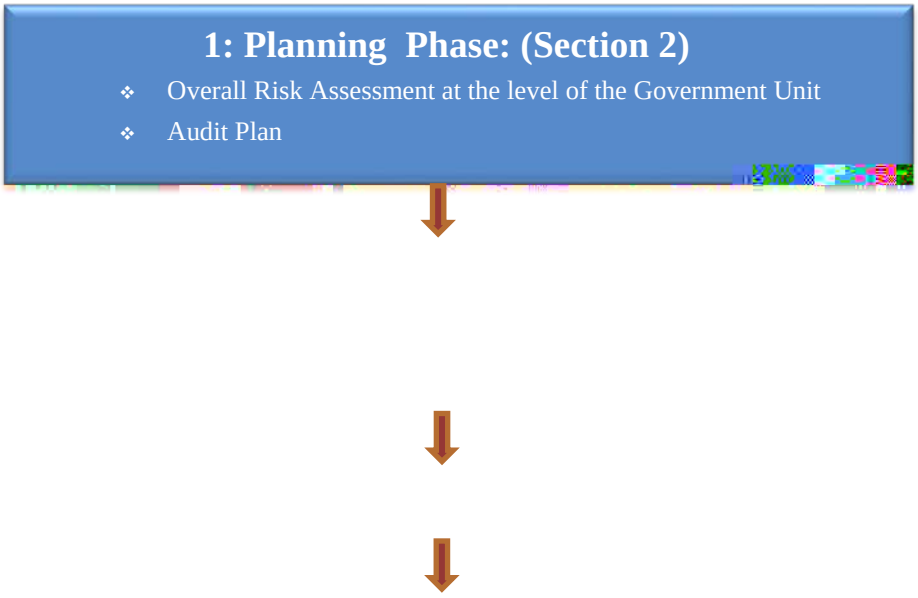
Chapter 2
Internal Audit Methodology

1. General Internal Audit Phases
2. Planning Phase
3. Execution Phase
4. Reporting Phase
5. Follow up Phase

1. General Internal Audit Phases

Overview of Internal Audit Phases:

The manual is divided into the following four (4) phases:



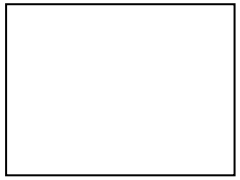
First phase: The first step in the internal audit process is to plan and perform an overall unit wide-Risk Assessment at the Government Unit level. This is considered the most essential step in the internal audit process. A comprehensive risk assessment is a key driver in the development of an effective audit plan and may cover one year (short term) or more than one year (long term). The risk assessment process involves conducting a high-level overview of typical and selected strategic business risks and defining the priorities of the internal audit. The results of the risk assessment are used to prepare the audit plan.

Second phase: This phase involves executing the audit plan developed in the planning and unit wide risk assessment phase. Throughout this phase, risks are assessed and the audit program is developed and executed at activities and processes level, the functions that will be audited are identified, and the audit findings is determined.

Third phase: In this phase, a report on the internal audit process is drafted and forwarded to stakeholders for their consideration. Throughout each stage of the audit, the emphasis should be on producing a final report that is balanced and has a value-adding impact. Report-writing should be viewed as a continuous process that involves formulating, testing and revising conclusions about the audit topic. Issues to consider while conducting the audit activity include the impact and value of the audit, the likely improvements and cost savings resulting from the audit, and the methods through which audit conclusions are communicated.

Fourth phase: This phase involves following up with the audited unit after the audit report has been issued. Monitoring and follow-up activities should involve identifying and documenting the impact of the audit and the progress the unit has made towards implementing audit recommendations.

More details regarding the key activities within each phase are described **in sections 2 – 5 of this Manual**.



Current risk assessment by the management

Final assessment of the risks

Map significant risks to objectives, operations, and locations

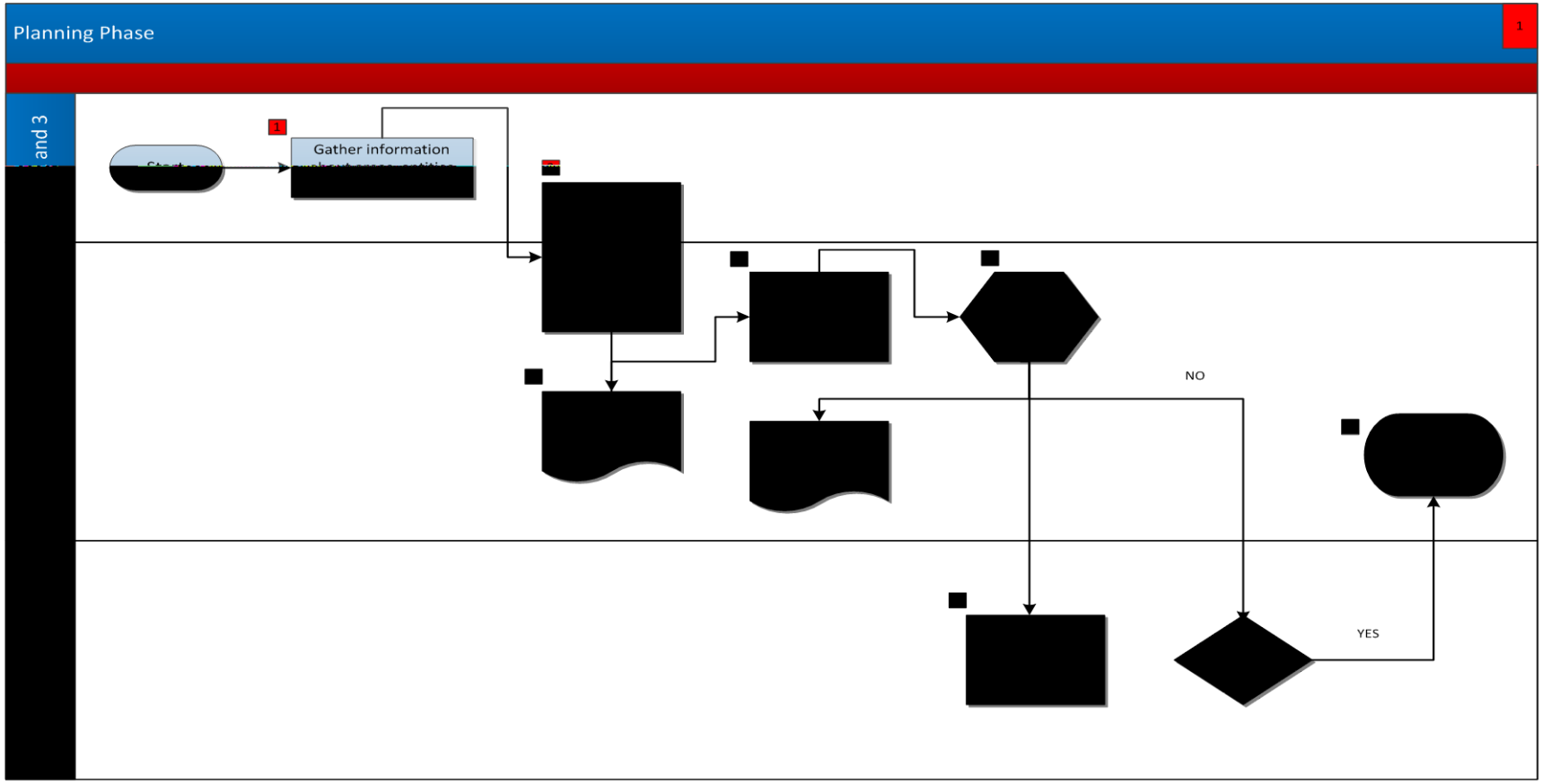
Prepare the audit plan

2. Planning Phase

The overall objective of the planning phase is to obtain general understanding of processes and activities including the control environment of the concerned Government Unit, in order to facilitate the process of identifying and evaluating the key risks associated with the processes and activities of the Government Unit. The overall risk assessment is the first step in the internal audit cycle and is considered as the most important phase which should be done on a regular basis provided that the main outcome of the overall risk assessment phase is the development of the strategic (3 years) and annual internal audit plans.

The overall risk assessment phase includes the identification and evaluation of the key strategic, financial, and operational and compliance business risks and identifying internal audit priorities and development of the internal audit plan based on the results of the risk evaluation process.

The below diagram illustrate the main steps of the planning phase:



2.1 Introduction

According to the standards of the Institute of Internal Auditors, a member of the Internal Audit Unit should properly plan the audit to facilitate the efficient and effective execution of the audit process on a timely basis.

The following steps are the key steps in the planning process,

- Obtain general understanding and gather information about the activities and processes of the division/department/section subject to the audit and any related regulations and laws, in order to conduct a comprehensive risk assessment and determine the internal audit priorities. Examples of key information and documents to be gathered are: strategic plans, operational plans, laws and regulations, policies and procedures, organizational chart, financial and management reports ...etc.
- Review the results of the preliminary analysis of the gathered information. This will allow the auditors to determine the procedures that will be followed and the nature and extent of the questions to be raised at a later stage.
- Highlight the specific issues expected/anticipated during the planning of risk assessment.
- Identify and prioritize audit processes and develop the audit plan.
- Prepare the budget and timeframe for the internal audit activities.
- Identify resource requirements and assign internal audit team to carry out the internal audit assignments.

The planning process is divided into the following parts:

1. Comprehensive risk assessment at the level of Government Unit.
2. Preparing a short-term or long-term audit plan.

2.2 Overall Inherent Risk Assessment Stage at the Government Unit Level

Throughout the inherent risk assessment stage, the auditor identifies and evaluates the unit's risks and assesses quality of the controls over those risks. Through risk-based auditing, internal auditors use the results of the risk assessments to identify the areas which carry the highest risks and set the priorities of the audit work.

While identifying and evaluating risks and setting internal audit priorities, internal auditors may leverage or use any other risk assessments performed by either a risk management function or other parts of the business within the Government Unit.

Identifying the areas to cover in the audit plan should be a key factor for the success of the internal audit, the objective of identifying audit areas is to select the processes and topics to be audited on a priority basis.

The final output of the risk assessment is the audit universe which includes a prioritized list of topics, issues and processes that will be audited in the future prioritized based on the results of risk assessment.

2.2.1 Procedure of selecting audit universe

In order to conduct a proper risk assessment and identify audit areas, the following steps should be followed,

- **Define the hierarchy of the internal audit universe:**

  Internal Audit Unit should define the hierarchy of auditable areas within the Government Unit to be included in the audit universe considering the higher level of the hierarchy(e.g. top management level) and the lower level of hierarchy (e.g. Executive management level, department, section, or operation.)

- **Determine the risk factors:**

  It may be useful to rank the issues/topics based on the following risk factors:

- **Financial materiality**: This criterion is defined as the impact that an omission or misstatement could have on economic decisions. The greater the materiality, the greater the probability for a topic to be ranked as high.

  Financial materiality is based on several factors, including budgetary figures, income statements, spending figures, expected return on investment, overall solvency and financial condition, significant under-spending or over-spending, value of assets and liabilities.

- **Risks faced by management/Governance Risks**: In order to assess the risks that management faces, the auditors should assess the probability of poor efficiency and effectiveness of operations and insufficiency or improper allocation of resources.

Governance risks that may be faced by management include, but are not limited to, the following:

- Absence of comprehensive and clear strategy outlining the strategic initiatives and objectives of the Government Unit
- Inability to achieve objectives due to the absence of adequate executive and operational plans that is aligned to the overall strategic plans
- Lack of adequate internal controls systems including policies and procedures
- Absence of proper performance management measures
- Lack of resources due to ineffective work load analysis and inadequate organisational structure
- Absence of proper measures to ensure compliance with laws and regulations
- Poor budgeting or budget monitoring and reporting processes
- Absence of clear statement of functions, job descriptions and succession plans
- Financial and management reporting requirements within the different organizational levels may not be properly identified, reviewed and approved.
- Absence of adequate and approved delegation of financial and operational authorities

- **Importance**: This factor is based on the magnitude of a subject and its impact on the concerned division/department/section under audit. The level of importance of the process subject to internal audit can be determined based on the nature and complexity of that process and the expected impact resulting from poor performance on the other related processes or activities.
- **Impact on external environment**: This factor is similar to the importance factor; however it focuses more on the potential impact of the subject under audit on the external environment. It is more related to the public, social and economic aspects and environmental activity and its importance for the government and individuals.

The following are examples of external factors which may be impacted by the subject under audit:

- Public interest
- Public complaints and problems
- Legislative concerns
- Public satisfaction and environmental risks
- Negative remarks by the Council of Ministers or the media
- Number of interested parties and national and social factors that surround the subject.

- **Previous Audits**: internal and external previous audits related to topics or items that will be audited, such as regulatory reports and internal audit reports.

As a general rule, the risk can be regarded as low if the activity has been regularly reviewed over the past two years. In the case where a regularly reviewed activity requires legislative review, then the rating can be increased. Financial impact can also affect the rating and importance of activity or process covered by the audit universe.

For areas/activities that are regarded as high-risk, the frequency of the audits would be greater than that of low-risk areas. In other words, a low-risk area may be audited once every two years, whereas a high-risk area may be audited every year depending on the availability of resources.

- **Obtaining data for selected risk factors:**
  - The timing should be clearly defined when gathering information (e.g. the number and type of source data)
  - Collect data from public sources of budget information, strategic plans, performance reports, and self-assessment audit reports, internal and external studies, newspaper reports and audit reports.
  - Obtain input from the management employees (division/department/section head) and other relevant parties.
  - Obtain input on legislative concerns by holding interviews, conducting a survey, or requesting someone in the legislature to select the recorded risks.
  - Conduct an initial survey to collect information on the subject or item that will be audited.
  - Gather information from other sources such as documents, reports (e.g. administrative reports), references of the members of the internal audit, issues that were identified during the audit process, the views of committees and relevant stakeholders, proposals from divisions/departments/sections, media reports, budgets and financial forecasts ... etc.
  - Retain the information that has been collected in the annual plan as part of the permanent files to serve as a reference while planning for the year ahead. It may help a member of the Internal Audit Unit interpret and justify the chosen themes to audit.

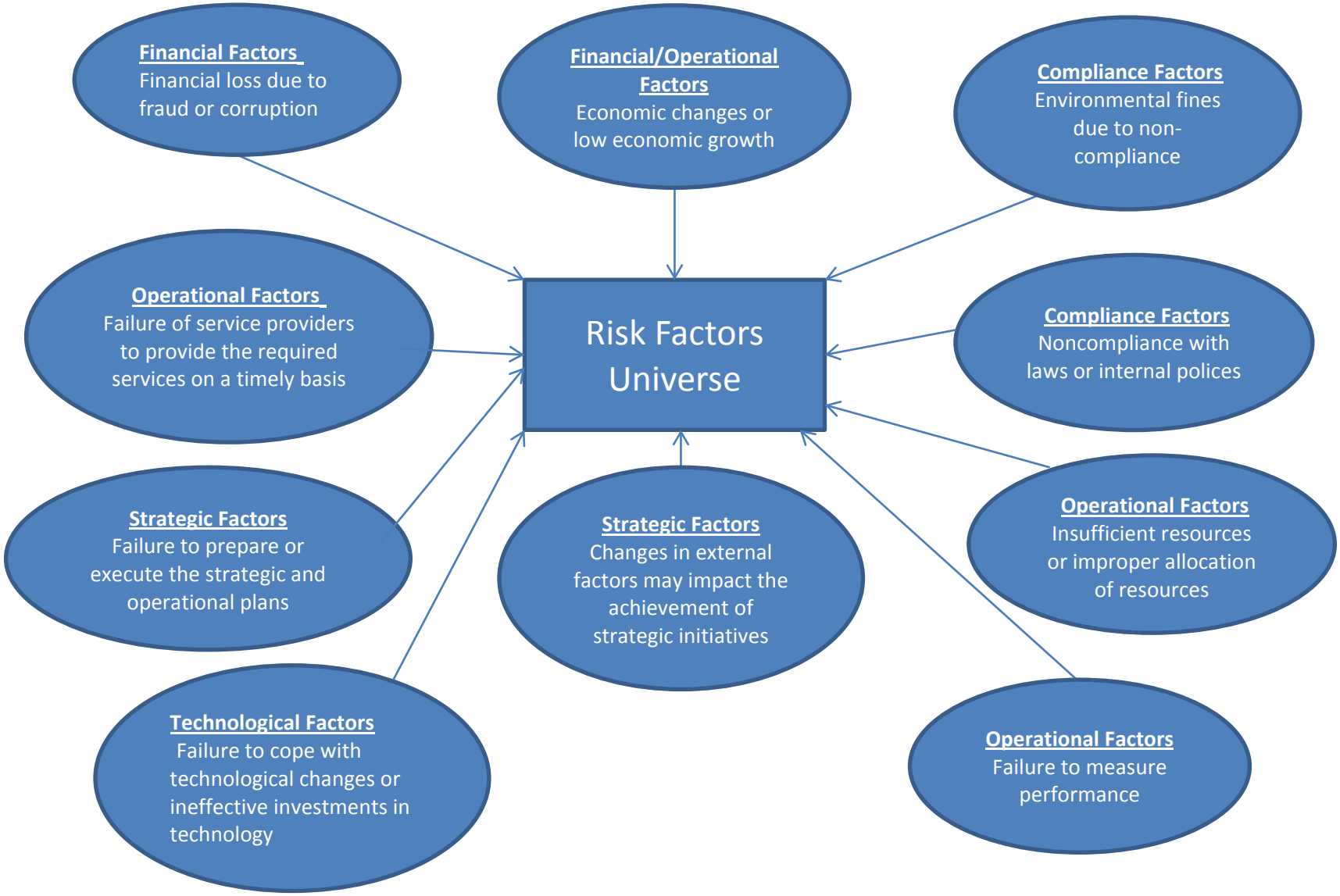
  Please refer to table 1 below (risk evaluation criteria) which should be customized according to the requirements of concerned Government Unit.

The risk areas or activities identified above, should be classified according to the requirements of the concerned Government Unit, For example this classification may include the following:

- Strategic areas: internal or external factors which may impact the strategic direction of the Government Unit or the ability to execute its strategic plans.
- Operational areas: areas related to the operational processes and activities of the Government Unit, such as HR, IT, tendering.....etc.
- Financial areas: areas related to the financial processes and activities of the Government Unit, such as revenues, expenditures, budgets, financial reports.....etc.
- Compliance areas: areas related to compliance with the applicable laws and regulations.

Based on the above classification of risk areas, the risk evaluation criteria is prepared, sample risk evaluation criteria is included in **table 1 below** which should be customized according to the processes and requirements of the concerned Government Unit.

The below diagram is a general example of risk factors universe:



- **Selection of weights for risk factors**
  - Members of the Internal Audit Unit shall assign averages (weights) to each risk factor based on previous estimates and the risk assessment results.
  - Each of the above risk factor should be given a percentage (weight) where the sum of the given weights for the risk factors should be 100%.
- **Classification of risk factors:**
  - The table number 2 below illustrate the evaluation of risk factors (High, Medium, Low), the auditor should use his professional judgement in risk evaluation considering the following:
    - The impact/importance of internal audit is determined based on the level of importance or impact of a risk factor on the processes and operations of the unit subject to the internal audit. (impact of the risk factor)
    - The impact/importance of internal audit is determined based on the probability of occurrence of the risk factor in the unit subject to the internal audit. (probability of the risk factor)

The risk factors may be evaluated by using the following ways:

1. **Numerical Scale**: Each factor is recorded on a numerical scale. Common ranges include 1 to 7, 1 to 5, or 1 to 3. , so that the highest number (7 or 5 or 3) is the highest classification of risk or the highest for potential for a particular impact
2. **Descriptive Scale**: is determined by the description of each of the factor. Such descriptions include the terms “High”, “Medium”, or “Low”. These, can be converted from a descriptive scale to a numerical scale where high = 3, average = 2, and low = 1

- **Calculation of the final risk evaluation results and setting internal audit priorities**

  Areas/Units/Departments categorized as high-risk are the first to be audited. If the required resources are available, departments/sections with medium and low risk areas shall also be prioritized and audited based on the risk evaluation result as detailed in **table number 2 below.**

Table 1: Sample risk factor evaluation criteria:

1- Impact Assessment:

Risk factor	Impact Assessment		
	High	**Medium**	**Low**
Strategic business risks	Failure to achieve or maintain strategic directions.	Failure to achieve or maintain all key strategic initiatives.	Minor changes are made to strategic directions and reference to such changes is made in the monthly reports.
Financial impact	- High probability of occurrence of annual losses worth x x x x t . p . - Average probability of occurrence of annual losses worth x x x x t . p . - Low probability of occurrence of annual losses worth x x x x t . p .	- High probability of occurrence of annual losses worth x x x x t . p . - Average probability of occurrence of annual losses worth x x x x t . p . - Low probability of occurrence of annual losses worth x x x x t . p .	- High probability of occurrence of annual losses worth x x x x t . p . - Average probability of occurrence of annual losses worth x x x x t . p . - Low probability of occurrence of annual losses worth x x x x t . p .
Reputational risks	Significant damage to the reputation of the Ministry/concerned Government Unit as a result of poor quality of the educational curriculum standards	There has been some damage to the reputation of the Government Unit.	Failure to comply with the minimum standards of quality educational curricula.
Regulatory risk and compliance with laws	Legislative authorities to stop doing business with Ministry/concerned Government Unit as a result of non-compliance with laws and regulations specified in this aspect	Legislative authorities to impose Ministry/concerned Government Unit as a result of non-compliance with certain legal requirements.	Non-compliance with certain legal requirements result in additional administrative, judicial or temporary costs.
Operational risks: Risks related to regulatory aspects, personnel fraud and Information Technology.	Failure to achieve or maintain operational goals/ plans due to lack of commitment or absence of a clear system, /staff rotation/ lack of skills/other factors/ use of misleading or wrong administrative information or the use in the decision-making process.	Failure to achieve or maintain all operational goals/plans with presence of a minor defect in the key business /lack of staff rotation/ lack of skills/ use of misleading or administrative information or of no value for reporting purposes.	Minor changes are made to the operational goals/ plans and reference to these changes is made in the monthly reports.
Technological risks	- Weak support for the system / implementation of an inefficient new system. - A high probability of acute interruption of business. - A high probability that the critical administrative information is misleading.	- Weak support for the system / implementation of an inefficient new system. - A moderate probability of an acute interruption of the business, or a high probability of business interruption. - A moderate probability that the critical administrative information is misleading.	- A slight delay in implementation of the new systems or in obtaining the support required for the existing systems. - A low probability of an acute interruption of the business.

2- Probability Assessment

Category	High	Medium	Low
Probability	High probability Regularly Ongoing	- Likely - accidental	- is unlikely

3- Overall Assessment (Impact & Probability)

Impact	High Medium Low	Medium	High	High
		Low	Medium	High
		Low	Low	Medium
		Low	Medium	High
		Probability		

The following table shows how to calculate the final result of the risk assessment and the identification and prioritization of internal audits factors, using a scale of three (3) points:

Risk factors evaluation and rating (EXAMPLE)											
Auditable Issues/ Topics	Risk Factor #1 (Financial impact) Weight (35%)		Risk Factor #2 (Strategic risks) Weight (25%)		Risk Factor #3 (Compliance risks) Weight (20%)		Risk Factor #4 (Operational risks) Weight (10%)		Risk Factor #5 (Technology risks) Weight (10%)		
	Risk Rating	Risk Score	Risk Rating	Risk Score	Risk Rating	Risk Score	Risk Rating	Risk Score	Risk Rating	Risk Score	Total Scores
Division/department/section 1	H	3	L	1	M	2	H	3	M	2	2.2
Division/department/section 2	M	2	M	2	H	3	H	3	M	2	2.3
Division/department/section 3	M	2	H	3	H	3	H	3	H	3	2.6
Division/department/section 4	L	1	H	3	M	2	L	1	M	2	1.8
Division/department/section 5	H	3	M	2	L	1	L	1	L	1	1.9

Example for calculation of result:

2 ×35% + 3×25%+3×20%+3×10%+3×10%= 22.45

High-risk division/department/section will be the first to be audited. If the required resources are available, the medium and low risk divisions/departments/section should be audited. Using the above example, the auditor shall audit division/department/section 3 and then 2, 1, 5, 4. The main output of this process is a report including the internal audit priorities and required resources prepared by the Internal Audit Unit and submitted to the higher level authority within the Government Unit, which will facilitate the review of the results of risk evaluation process and suggested audit plan and the proper allocation of internal audit resources.

The overall risk assessment of the Government Unit should be supported by the following working papers:

- A description of auditable units/processes
- A risk assessment of the performance of the programs and activities
- Summary of the strategic long-term vision of the audit and trends in internal audit regarding the item which will be subject to the audit
- Minutes of key meetings where key decisions were taken by the Government Unit
- Latest audits, recent inquiries proposed by the legislative and executive authorities, and the assessment and internal audit activities carried out by the audited entities.
- List of areas likely to be audited.

3.3 Risk assessment and planning at the level of functions/activities

After obtaining approval for the audit plan, the risks related to each function/activity/auditable area should be identified and assessed considering the audit priorities as stated in the approved audit plan. During this phase, internal auditors may leverage the results of risk assessment previously performed on the function if any.

The identification and assessment of risks is a procedure performed by the Internal Auditors to identify and evaluate the risks in the function/activity/auditable area, and to identify and evaluate the internal controls related to the identified risks in order to focus on highest risk areas and identify internal audit priorities when preparing the audit program.

However, low risk areas should not be neglected. These areas may be included in the audit program to ensure that the all the activities subject to the audit are adequately covered.

The process of identifying and assessing the risks at the division/department/section-level can be summarized by the following:
❖ Opening meeting with the process owners at the division/department/section to be audited to gain a general understanding of the division/department/section processes including risks and challenges; ❖ Understand the main characteristics of the division/department/section being audited through meetings with the concerned employees to understand the strategic and process objectives, organisation chart, policies and procedures, financial reports, key performance indicators, critical success factors...etc. **Please refer to appendix 9 in the appendices section (Sample General Process Understanding)** ❖ Obtain required information and documents and perform walkthroughs to support and validate process understanding. **Please refer to appendix 10 in the appendices section (Sample List of Audit Requirements)** ❖ Document the process understanding of the division/department/section under audit through minutes of meetings and flow charts. **Please refer to appendix 11 in the appendices section (Sample Process Documentation)** ❖ Hold meetings with the concerned employees to confirm the obtained process understanding of the division/department/section processes to be audited.
❖ Based on the above steps, key risks and related internal controls are identified. **Please refer to appendix 12 in the appendices section (Sample Risk and Controls evaluation Criteria)** ❖ In evaluating risks, internal auditors may exercise their professional judgment in accordance to the below risk evaluation criteria. **Please refer to appendix 12 in the appendices section (Sample Risk and Controls evaluation Criteria)** ❖ Meetings should be held with the concerned employees to discuss and agree on the identified risks and risks evaluation. Results of the meetings and agreement between the auditors and the concerned division/department/section on the identified risks and risks evaluation should be documented. ❖ Based on the results of risks evaluation at the division/department/section level, audit program should be developed (Details on audit program are provided in the following sections)

With respect to the above-listed activities, further guidance is as follows:

- Meeting with process owners at the division/department/section to be audited to gain a general understanding of the processes and activities of division/department/section to be audited. This is mostly represented in initial/opening meetings held with the division/department/section to be audited to obtain a general understanding of the division/department/section's activities and challenges.
- Understand the main characteristics of the division/department/section being audited through meetings with the concerned employees to understand the strategic and process objectives, organisation chart, policies and procedures, financial reports, key performance indicators, critical success factors. This can be achieved through the following:

Nature of Procedure	Description of Procedure
Identification of Major Business Processes:	At this stage, the major auditable business processes are identified in what is referred to as a set of processes.
Understand and Map Major Business Processes:	At this stage, all the concerned processes are mapped (in the form of flowcharts or other data-gathering tools) and confirmed with the process owners.
Identify Risks in Each of the Major Business Processes:	Risks and related internal controls are identified based on the meeting with the process owners and analysis of the gathered information and documents.
Assessing or Evaluating Risks in each Major Business Process:	All processes that have been previously identified to be evaluated (based on the professional judgment of the auditor in accordance with the matrix to assess risks contained below) in accordance with the samples of the following **sources of risk** in each operation.

Examples of the risk sources that may help the internal audit team on identifying the risks associated with the processes under review are as follows:

Strategic related sources: ❖ **Policy and strategy** ❖ **Corporate reputation** ❖ **Public expectations** ❖ **Stakeholder relations** ❖ **Industry developments** ❖ **Business continuity** ❖ **Emergency preparedness** ❖ **Technology trends** ❖ **Economic trends** ❖ **Competitive trends** **Government agenda related sources:** ❖ **Citizen focus** ❖ **Values and ethics** ❖ **Accountability** ❖ **Transparency** ❖ **Responsible spending** ❖ **Client satisfaction** ❖ **E-government initiative** ❖ **Improved reporting** ❖ **Fairness and equity** ❖ **Integrated risk management**	**Business-line related sources:** ❖ **Business-line activities** ❖ **Program activities and delivery** ❖ **Client services** ❖ **Service delivery** ❖ **Alliances, partnerships** ❖ **Major projects** **Compliance sources:** ❖ **Funding and appropriations** ❖ **Statutory and regulatory reporting** ❖ **Compliance with laws and regulations** ❖ **Compliance with regulatory requirements** ❖ **Agreements and contractual obligations** ❖ **Workplace health and safety** ❖ **Environmental protection** ❖ **Security, privacy and confidentiality** ❖ **Legal liabilities and litigation**	**Corporate management-related sources:** ❖ **Organization structure and reporting relationships** ❖ **Planning and priority-setting** ❖ **Budgeting and resource allocation** ❖ **Expenditure management** ❖ **Revenue and cost recovery** ❖ **Transfer payments** ❖ **Procurement and contracting** ❖ **Financial management** ❖ **Performance management** ❖ **Project management** ❖ **Change management** ❖ **Inventory management** ❖ **Asset management** ❖ **Human resources** ❖ **Information and knowledge** ❖ **Information technology** ❖ **Communications** ❖ **Risk management**

- After identifying risks at the process level, the internal audit team will have to determine the control and evaluate the design of relevant controls by conducting walkthroughs to evaluate the controls design and to determine if the controls are operating as documented. **Section 3.4 provides a detailed explanation of the process of identifying and evaluating controls.**

To reduce the impact of the identified risks, the following basic elements should be taken into account:

- Control environment
- Risk evaluation
- Control activities
- Information and communication
- Monitoring activities

- Risk evaluation is conducted using two distinct assessments of impact and likelihood; a simple rating scale can be used for this purpose. The rating scale should range from minor to significant impact, and low to high likelihood, using a point generated scale such as the one described in the overall risk assessment above.
- For purposes of the risk evaluation based on the auditor's professional judgement, impact refers to the extent of the consequences or implications if the risk does occur. To assess impact, people need to ask themselves "How much of an impact will the risk have if it does occur?"
  - A minor impact suggests that the risk would not have important implications on the division/department/section.
  - A moderate impact suggests that the risk could have implications for the division/department/section's ability to achieve its objectives.
  - A significant impact suggests that the risk would have major implications on the division/department/section.
- For purposes of the risk evaluation based on the auditors' professional judgement, likelihood refers to the probability that the risk may occur given the current context of the division/department/section. To assess likelihood, people need to ask themselves "How likely is the risk to occur in the future, given what we currently do about it?"
  - A low probability suggests that the risk is unlikely to occur, given its nature and the current risk management practices in place.
  - A medium probability of occurrence suggests that the risk has a moderate probability of occurrence.
  - A high probability of occurrence suggests that the risk is likely to occur, despite current risk management practices in place.

- Below is a sample risk assessment criteria (in reference to the major business process being assessed) which presents the concepts in this regard:

Impact	**Unit/Process level Risk Assessment Criteria**		
High	Risk require consideration	Ongoing monitoring is required	Extensive audit effort is required
Moderate	Risks may be worth accepting and monitor the process but no extensive review	Worthwhile to audit and monitor risk	Audit effort is required
Low	Accept risks	Risk may be worth to be audited and monitored	Worthwhile to audit and monitor risk
	Low	Moderate	High
	Probability		

- Establish an understanding of how the major processes affect the audit focus. This is done in order to assist the audit engagement team with allocating resources to major processes according to the assessment of risk.
  - Based on the above risk assessment exercise, a more elaborate identification of needs is established leading to a change in the resources allocated to the team to conduct the audit. The result will be reflected in the Audit Program of the division/department/section being audited.

- Use the results of the division/department/section level risk assessment and controls **(section 3.4)** at the level of the division/department/section to prepare an audit program. **Please refer to section 3.7** for more details about the preparation of the program.

The Internal Audit Unit should document the risk profile for each audited division/department/section in order to prioritise the risks associated with each audited division/department/section. **Please refer to appendix 4 in the appendices section for more details.**

3.4 Identify and assess the controls related to the identified risks

- The responsibility to establish and manage the internal control system to identify and control business risks and reduce them is the responsibility of the management of the concerned division/department/section. The internal control system should be in place to facilitate the achievement of the Government Unit's objectives and to facilitate the compliance with all relevant laws and regulations.

- The Internal Auditor will identify the controls that are relevant to the identified risks at the function/activity/auditable area level. This is done in order to evaluate the design of the internal controls and assess their effectiveness on the reduction of business risks within specific processes. A member of the Internal Audit team will identify and evaluate the controls in place to assess the effectiveness of the design of these controls to prevent / reduce business risks by conducting a process walkthrough to test one or two items to confirm that the system is likely to be operating as documented by the Internal Audit team.

- When determining the internal controls, it is essential to directly link the identified risks with the related internal controls. It is very likely that several internal controls are linked to one risk. The role of the Internal Audit Unit can be summarized in the assessment and evaluation of the internal control to determine their effectiveness.

- One of the best methods to conduct this exercise is to develop a flow chart for each audited process and related control. The next section addresses the documentation process of various types of internal controls in more detail.

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❖ The test completion date
❖ Members of the internal audit that will carry out the audit program.

Development and Execution of the Audit Program

- Once the team has identified the controls to be tested, controls testing should be performed to check if controls are operating as designed.
- Level 1 authority should appoint a member of the audit team to develop an audit program prior to fieldwork. The audit program will outline the nature, extent, and timing of tests to be performed.
- The objective of developing an audit program is to test the controls to determine if it's operating as designed and document the testing results.
- Another objective of developing an audit program is test internal controls in the most efficient and effective manner which will allow the internal auditors to collect sufficient audit evidence upon which the conclusions of the internal audit are based.

It should be considered that inadequate internal controls shall not be included in the audit program for testing and should be included directly in the internal audit report as audit finding or observation (during the walkthrough process), except for special cases such as fraud or corruption or some special assignments.

An audit program should clearly indicate:

- ***Which controls to test:*** The team should focus on testing controls over significant risks? Furthermore, controls that are deemed to be ineffective do not need to be tested. Controls that are eliminated or deemed ineffective should be directly reported in the Internal Audit Report.
- ***What sample size to use:*** The team should use its professional judgment to determine the right sample size. The more frequently a control is used, the larger the sample size should be. Other relevant factors that can be used include materiality, population size, complexity and system reliability. **Please refer to section 3.8 (Sampling) for details.**
- ***When to test those controls***
- ***What testing procedures to apply***: *The various types of testing procedures which can be carried out can be summarized as follows:*
  - The audit program needs to be reviewed and approved by Level 1 authority prior to execution.
- The review is to ensure that the assignment objectives are covered and to obtain assurance that developed procedures are relevant and aligned with objectives.
  - Level 3 authority will then execute the tests in accordance with the audit program.

An effective audit program should:
❖ Provide objective and independent reviews and evaluations of the division/department/section's activities, internal controls, and management information systems (MIS).
❖ Help maintain or improve the effectiveness of division/department/section's risk management processes, controls, and corporate governance.
❖ Provide reasonable assurance for the accuracy and timeliness with which transactions are recorded and the accuracy and completeness of financial and regulatory reports.

Audit programs are generally associated with:
❖ Independent and objective evaluation and testing of the division/department/section's overall internal control system (i.e. operational and administrative controls beyond those associated with financial statement preparation).
❖ Ensuring that the division/department/section's assets are safeguarded and recorded properly
❖ Determining compliance with laws, regulations, and established government policies and practices.

3.8 Sampling

Selection of sample

The Internal Auditor shall follow a predefined sampling testing approach in case he accepts the risk related to non-discovery of some or all mistakes in the population subject to the audit, as this type of audit does not cover the total population.

The audit program should determine the sampling methodology, the size of sample, the time of sampling, the materiality, the internal audit risks and the internal financial control.

Sample: a part or percentage of the statistical population used to reach specific conclusions/results regarding balances or calculations of the population subject to audit, such as, population of expenditures documents, receivables …etc.

An auditor may choose between a statistical and a non-statistical approach to audit sampling as both methods comply with leading practices. An auditor who applies statistical sampling uses tables or formulas to compute sample size based on judgments about factors such as characteristics of the population and certain assessed risks. An auditor who applies non-statistical sampling uses professional judgment to relate these same factors in determining the appropriate sample size. A sample size is determined as indicated in the table below. It is worth mentioning that the non-statistical sampling is the most commonly used sampling method for internal audit purposes. Samples are divided to:

Non-statistical samples: samples size is subject to the professional judgment of the internal audit member.

Sample Size Table	
Frequency and Population Size	**Sample Size**
Quarterly (4) transactions	2
Monthly (12) transactions	2–4
Semi-monthly (24) transactions	3–8
Weekly (52) transactions	5–9
Daily (250) transactions	15-25

In certain cases (where the size of daily transactions exceeds – for example- 250 transactions) auditors may test a sample size of approximately 10 percent of the population; and such size should be subject to the professional judgment which contains specific engagement risk assessment considerations in addition to the total population size. In other cases, auditors may also select to test the full population (100% of transactions) subject to their professional judgment and specific risk assessment considerations.

Statistical samples: samples that follow the probability laws of statistics for the selection and evaluation of the sample.

Types of common statistical samples

There are a number of statistical sampling types, some of which include:

1. **Simple random sampling**: Samples are selected by giving each element of the population an equal opportunity to be selected.
2. **Systematic sampling:** Sample units from a larger population are selected based on random starting point and a fixed, periodic interval calculated by dividing the population size by the required sample size.

Example:

The size of the population is 40 units and the selected units are 5, so the fixed number is =40/5 = 8, so if the first unit is No.3, it becomes a sample added to number 8 to every single unit to subtract the following unit, like this: 3/11/19/27/35.

3. **Stratified sample**: Sample is selected based on dividing the population into homogeneous subgroups and one sample is selected from each subgroup.

Example:

If the population of the accounts payable vouchers is 1000 vouchers and there are 200 vouchers worth more than 500,000 riyals, the population is divided into levels whereby the first level makes 200 payable vouchers, and the second level consists of 800 payable vouchers. Each level is treated as a separate population and its sample units are withdrawn.

Statistical sampling methods

Statistical sampling methods are divided into three methods:

- **Compliance Sampling Method:**

The aim of the compliance sampling methodology is to ensure that all internal controls within the accounting system, such as acceptance or approval of provided services are incorporated in the related invoices.

During the compliance test, the number of errors in a randomly selected sample is identified and compared to the number of errors introduced in advance. If the actual number of errors is less than the errors identified in advance, then the unit is acceptable. If the opposite occurs, the unit is unacceptable. This method of sampling is useful for detecting auditing errors.

The following factors determine the size of the compliance test:

- The amount of acceptable or allowed errors (tolerable rate of occurrence)
- The acceptable risk when there is confidence in the internal audit controls (reliability).
- The percentage of errors in the population or the expected error (expected rate of occurrence).

The internal auditor wills use the statistical tables to determine the size of the sample depending on the factors identified in the previous stage and to disseminate the results of the audit to the population.

- **Variables Sampling Method:**

Variable sampling is generally used to verify account transactions or monetary balances and to note any discrepancies. This type of sampling is commonly used to evaluate error in amounts or variables and presents it in monetary units.

The value or weight of the monetary unit is used to reach a measurement that can be applied on the population; the use of the resulting sample provides for accuracy and increased level of confidence.

The following factors determine the testing sample size based on the monetary unit :
❖ **Identifying acceptable errors**: often relies on the level relative importance specified in the surveillance program as errors acceptable size.
❖ **Hazard identification permitted to accept a wrong decision**: this risk is intended to be approved by a member of the internal audit department so as to ensure that the size of the errors in the balance does not exceed acceptable errors
❖ **Estimate the proportion of errors in the community**: a member of the Internal Audit team checks the results of previous years to estimate the ratio and selects a small random sample.

The internal auditor wills use the statistical tables to determine the size of the sample depending on the factors identified in the previous stage and to disseminate the results of the audit to the population.

- **Discovery Sampling/Spotting preview technique:** The aim of this type of sampling to detect fraud when using a particular case of one of the units. This method is not really different from the first or second method, where the error assumption rate is zero.

Sampling results reporting

When reporting the results of a sample, the internal auditor is required to identify the following in regard to sample selection:

- The sample size;
- The sample selection methodology, as described above;
- The estimates resulting from the sample; and
- The accuracy and reliability of the period used in the estimations.

3.9 Data and evidence-gathering methods

A list of data gathering methods and techniques that could be adopted by the Internal Audit team is as follows:

- Meetings and interviews – the meetings and interviews conducted could include the following types of questions:
  - Descriptive questions, which ask the person to describe a task/process/system, etc.
  - Normative questions, which attempt to specify the criteria for assessment (i.e. what is vs. what should be).
  - Cause-and-effect questions, which imply the examination of impact, extent, and magnitude of changes and variances.
- Documentation reviews
  - Documentation review is used to gather information about a process, transaction, system that has been documented by the audited division/department/section.
  - It gives a view of the risks and controls involved from the perspective and view of the audited division/department/section.
- Transactions review(recalculation)
  - Transactions review is used in assessing the effectiveness of a system
  - It also provides insights into the controls in place and their effectiveness
- Policies and procedure review
  - A policy and procedure review is similar to the documentation review; however, the policies and procedures can identify the gaps of current practices to set standards.
- Narrative notes
  - Narrative notes provide descriptions as viewed by an independent unit
  - The narrative notes are also used in conjunction with the process maps developed by the auditors
- Process maps
  - The process maps describe a process by providing a graphical representation based on a legend which is agreed upon among all participants.
- Data flow diagrams
  - The data flow diagrams describe the flow of the data within a process based on a legend which is agreed upon among all participants
- System flow diagrams
  - The system flow diagrams describe the flow of information within a system based on a legend which is agreed upon among all participants
- Flowcharts
  - The flowcharts represent a high level overview of the processes/transactions within the process
- Graphs and charts

- Graphs and charts are commonly used to describe the effects of changes in data information over a period of time

- Cause and effect diagrams
  - Cause and effect diagrams represent an analysis of a process, which identifies the cause, as well as the effect of particular process outcomes
- Physical observation
  - Observations are used to help gain an understanding of the audited division/department/section, particularly when service to the public or inspection/enforcement are major activities
  - Physical observation is also used in the examination phase, to verify the existence of physical assets, tangible results, and results of government programs
- Browsing of internet and intranet
  - The internet and intranet are used to collect information that can be used in the analysis or benchmarking of data/information received from the auditee throughout the fieldwork process.
- Questionnaires and checklists
  - Questionnaires and checklists are used to collect concrete or quantitative information from a large number of individuals
  - Checklists are also used to outline the steps that should be followed by individuals for a particular process
- Surveys
  - Surveys are used to collect concrete or quantitative information from a large number of individuals
  - Surveys are also used to identify the general frequency of a given event (when a representative sample of a larger population is surveyed).

3.10 Testing Techniques

Below is a list of automated analytic techniques that the Internal Audit may choose to adopt:

- Analytics and CAATs software (e.g. ACL)
  - Computer assisted audit tools (CAATs) are commonly used as an independent, third party software to analyse large volumes of data and transactions
- Microsoft Excel
  - Excel should be used as the simplest of means for recalculation of transaction walk through
- Microsoft Access
  - Microsoft Access should be used as the means of storing data in a database format for easy queries and analysis
- Network and web scanning software
  - Network and web scanning software should be used as a means of monitoring and scanning local network security and web traffic information.

Below is a list of audit testing techniques that may be adopted by the internal auditor:

- Comparison of data and information from current period with similar data and information from prior periods
- Comparison of data and information from current period with budgets or forecasts (i.e. analytical review) as discussed in previous section.
- Study of relationships between financial data and information and the appropriate non-financial data and information
- Study of relationships among elements
- Benchmarking the data and information with data and information relating to other organizational units
- Benchmarking the data and information with data and information for the industry/sector in which the division/department/section operates

Several expected results may arise from performing a particular audit test as per the agreed audit program. Such immediate audit results may include, at the level of samples, the following possible results:

- Differences that are not expected
- The absence of differences which were expected
- Potential errors
- Potential irregularities or illegal acts
- Other unusual or nonrecurring transactions or events

The results of the above is then sent to Internal Auditor who will exercise professional judgment to explain the results and link the results to the steps in the audit program and forms a conclusion about the adequacy and efficiency of the controls.

3.11 Audit Evidence / Work papers and audit files

Audit Evidence

Auditors should obtain sufficient evidence to provide a convenient and reasonable basis to support the findings and observations resulted from the internal audit.

When evaluating the appropriateness of evidence, auditors should assess whether the obtained evidence is sufficient and appropriate and can be relied upon to support the results of the audit process. In order to determine the appropriateness and adequacy of the evidence, the auditor assess whether such evidence is relevant and valid and reliable to support the results of the audit process, and can be used to convince the audited division/department/section that the audit results are logical and reasonable.

Evidence can be classified in terms of the type and extent of reliability as follows:

- Physical evidence: is obtained by auditors' direct inspection or observation of people, property, or events. Such evidence may be documented in summary memos, photographs, videos, drawings, charts, maps, or physical samples.
- Documentary evidence: is obtained in the form of already existing information such as letters, contracts, accounting records, invoices, spreadsheets, database extracts, electronically stored information, and management information on performance.
- Testimonial evidence: is obtained through inquiries, interviews, focus groups, public forums, or questionnaires.

Auditors frequently use analytical processes including computations, comparisons, separation of information into components, and rational arguments to analyse any evidence gathered to determine whether it is sufficient and appropriate. The strength and weakness of each form of evidence depends on the facts and circumstances associated with the evidence and professional judgment in the context of the audit objective.

Work papers and audit files

The audit work papers document the results of the audit of the steps carried out during the audit. They are based on the audit program requirements and the tests performed. The work papers help achieve the following:

- Provide the principal evidential support for the auditor's report
- Aid in the planning, performance, and review of audits
- Document whether the audit objectives were achieved
- Facilitate third-party reviews
- Provide a basis for evaluating the audited division/department/section's quality assurance program
- Provide support for fraud cases, and lawsuits, and issues with insurance claims

- Assist with the professional development of internal auditors
- Demonstrate the audited division/department/section's compliance with the applicable standards and regulations

The design and content of audit work papers will depend on the nature of the audit. Audit work papers should, however, document the following aspects of the audit process:

- Planning
- Examination and evaluation of the adequacy and effectiveness of the system of internal control
- Auditing procedures performed, the information obtained, and the conclusions reached
- Review process and evidence of review
- Reporting
- Follow-up

Please refer to Appendix 14 in the Appendices section for a sample checklist of the work paper.

Internal audit working papers should be complete and should include support for internal audit conclusions reached. The audit work papers should include, but are not limited to, the following:

- Planning documents and audit programs
- Internal audit questionnaires, flowcharts, checklists, and narratives
- Notes and memoranda resulting from interviews
- Data related to the audited division/department/section, such as organization charts and job descriptions
- Copies of important contracts and agreements
- Information about operating and financial policies
- Results of sampling methodology and samples developed and obtained
- Results of internal audit evaluations
- Letters of confirmation and representation
- Analyses and tests of transactions, processes, and account balances
- Results of analytical review procedures
- The internal audit report and management's responses
- Internal audit correspondence if it documents audit conclusions reached

Audit work papers may be presented in the form of hardcopy documents (e.g. paper), tapes, disks, diskettes, CDs, DVDs, films, or other media. If the audit work papers are in the form of media means - other than hardcopy documents- the Internal Audit Unit should consider maintaining backup copies. Additionally, measures should be taken to ensure that only authorized personnel are provided access to the work papers.

If the internal auditor is reporting on financial information, the audit work papers should document whether the accounting records agree or reconcile with such financial information. Some audit working papers may be categorized as permanent or carry-forward audit files. These files generally contain information that is constantly regarded as important.

Audit working papers standards should include the following agreed-upon concepts:

- **Preparation Techniques** – The standards for preparing working papers and the format of the working papers which will be used in all internal audit phases.
- **Review Process** – The review process involves two layers of review and ensures that work is performed adequately and against the pre-set internal audit objectives and standards. The initials of the reviewers on the working papers should signify that the review process has taken place. The reviewer should document the review notes which may include:
  - level of performance of the assigned internal audit team

- Request for additional work or more details to be added to the reviewed working papers.

- **Ownership, Custody, and Retention** – The ownership of the working papers is within the purview of the Internal Audit Unit. The Internal Audit Unit outlines the custody mechanisms (i.e. mechanism such as filing and retention time) as well as destruction procedures. The Internal Audit Unit may refer to the records management systems (i.e. archiving) applicable in the Sultanate with respect to preserving files and working papers.

4. Reporting

The below diagram illustrate the main steps of the reporting phase:

4.1 Introduction

At the end of any audit assignment, the Internal Audit Unit should provide its opinion in a report, listing findings and observations using appropriate wording. The content of the report should be clear in order to be easily understood and to avoid any ambiguity or confusion. It should only state information which is supported by acceptable and relevant evidence that is independent, objective, fair, and constructive.

The Internal Audit Unit should share written reports with relevant organizational (functional) levels within the concerned Government Unit and follow-up with them to ensure that corrective procedures/activities have been performed to address audit findings. The internal audit report is the main output based on which the concerned Government Unit will evaluate the role of audit processes.

Internal audit report preparation can be facilitated by continuously drafting the audit results and findings throughout the audit process considering the number of reports to be prepared. During the audit process, the internal auditor shall refer to the draft working papers, revise them, and incorporate the findings in the final Internal Audit Report.

4.2 Types of reports issued by the Internal Audit Unit

Reports will be prepared in accordance with the international standards and guidelines issued by the relevant international organizations and the local policies, laws, and regulations in force.

The Internal Audit Unit shall prepare the following reports:

1. Internal Audit Report:

This report contains the results and findings identified by the auditor during the execution of audit. The report should state the results of the audit process, highlighting areas for improvements, financial and/or administrative deficiencies and listing the recommendations for these deficiencies. A copy of the report is then sent to higher level authority for review. Once the internal review is completed, a copy of the report is sent to the audited division/department/section for response on the audit report by the audited division/department/section within the given timeframe.

Audit Observation Rating

Internal auditors should provide rating for each individual finding included in the audit report based on professional judgment and the results of testing and evaluation of the internal controls in accordance with the below stated ratings where is applicable:

Observation Ratings	
High Priority	Issue could result in financial or operational losses within this area in the near term if left unresolved. Corrective action should be started within 30 days and completed within the next quarter.
Moderate Priority	Issue is either recurring in nature or could result in financial or operational losses within this area over the next 12 months if left unresolved. Corrective action should be started within 60 days and completed within the next two quarters.
Low Priority	Issue is unlikely to result in financial or operational losses, but may include opportunities to improve the effectiveness or the efficiency of controls or processes. Corrective action is encouraged but not required.

2. Special Reports:

These reports are submitted by level 1 authority to the higher level of authority in the concerned Government Unit. These reports include information on the important topics that the division/department/section subject to audit has not implemented, in addition to the difficulties that are preventing internal auditors from performing their duties.

3. Annual Report:

This report compiles the results of the audit activities that were carried out during the fiscal year and is presented to the higher level of authority in the concerned Government Unit.

4.3 Characteristics of Internal Audit Report:

- **Reliability:** The internal audit report should be reliable and include the objectives, scope, methodology and sources used, in addition to the observations/findings, conclusions and recommendations that give the reader the opportunity to easily understand the audit objectives and interpret the results correctly. The Report should be complete and accurate, objective, persuasive, clear, and concise.
- **Completeness:** In order for the report to be complete, it should contain all the information and arguments necessary to achieve the objectives of audit. In the context of audit objectives, the report should address the cases of non-compliance and important cases which represent violations of disclosure during the internal audit process.
- **Accuracy:** Reports should be correct and comprehensive and should also state all the results in a way that is true, based on valid and reliable factual evidence. The results and conclusions should be presented in a manner that is consistent with the internal audit scope. The audit findings stated in the report should be supported by audit evidence and supporting documents.
- **Objective:** As mentioned above, the observations and recommendations in the internal audit report should be presented in a fair and impartial manner.
- **Persuasive:** In order to develop a persuasive report, the results of the internal audit should be consistent with the audit objectives and conclusions and recommendations are properly presented. The report should also ensure that findings are supported by factual information and not opinions.
- **Clear:** Reports should be easily understood and should include definition for terms that are considered unfamiliar (i.e. explanations are provided for technical terms and abbreviations). In addition, information and findings should be presented in a logical order in order to facilitate understanding.
- **Concise**: Reports should be brief, and their length should be should not be a factor that is detrimental to the proper delivery and communication of the findings.
- **Comprehensive:** The most comprehensive report gives the reader a better understanding of the basis from which it is extracted. It also builds upon conclusions reached and would increase the credibility and value of the internal audit activity.
- **Value-Adding:** An internal audit reports should add tangible value to stakeholders, achieve the acknowledged objectives and take the user of the report into in to consideration. This means that the format and structure should follow a defined order and that the language is clear and understandable.
- **Transparent and Timely**: The report should provide easily accessible information that can be used by the Government Unit to improve performance. In order for the results of the report to remain relevant, the report should be issued on time (i.e. according to a predefined deadline).
- **Material**: The topics presented in the report should be material in nature and should state information that is relevant to the areas being audited.

  Results should be presented objectively and without bias. Doing so entails the following:

  - Separating between findings and conclusions.
  - Ensuring that facts are interpreted fairly.
  - Providing different perspectives and/or opinions.
  - Including argumentative results and relevant evidence.
  - Including constructive recommendations and positive conclusions

4.4 Main Components of the Audit Report

The main components of an internal audit report which is addressed to the audited division/department/section should include, but is not limited to, the following headings:

- **Internal Audit Objectives** – Objectives defined prior to the audit and agreed upon and communicated to the auditable division/department/section;
- **Description of Audited division/department/section** – Background information on the operations and data relevant to the auditable division/department/section;
- **Summary of Results** – Brief description of the major audit observations;
- **Audit Observation Ratings** – Legend and description of all types of audit observation ratings and report rating;
- **Deficiencies and Observations** - Background information on all types of evaluations and the actual evaluation of the observations listed in the report. Each result should encompass the following sub-headings, at minimum:
    - Background of the audit observation
    - Observation
    - Rating of observation
    - The impact of (or potential consequences and risks associated with) the observation
  - Risks linked to the risk assessment and the potential consequences resulting from not taking any corrective action
    - Audit recommendations
    - Management comments on the observation, including:

    I. The action to be taken
    II. The individual in charge
    III. The expected date of accomplishment

    - Comments of auditors on the audited unit responses (only if necessary)
- **Internal Audit Results - details of the internal audit results**
  - **Results of high importance**: Results of fundamental importance, or results that have an impact on the concerned unit's reputation, financial affairs, or the extent of its compliance. These results require immediate attention by senior staff of the concerned division/department/section. There should be an agreed-upon plan of action to resolve issues and correct them.
  - **Results of medium importance**: Results of medium importance for the audited division/department/sectioned, which require care as soon as possible by the in charge of the audited division/department/section. There should be an agreed-upon program to resolve the issues and correct them as soon as possible.
  - **Results of the low importance**: Results of little or low importance for the audited division/department/section, which require attention by the in charge of the audited division/department/section. There should be an agreed program to solve and correct the issues.
  - **Value-adding Results**: Results which include recommendations for efficiency and effectiveness which should be taken into account by the management.
- **Operational/process maps** – basic process maps which illustrate the operations.

4.5 Preparation of the Draft and Final Report

Below are the basic rules that should be followed when documenting the audit results in draft and final internal audit reports:

- Level 3 authority write the findings and observations first in accordance with the audit program prepared in coordination with the level 2 authority.

- Level 2 authority - during the period of the audit execution - identifies the topics that need to be discussed with division/department/section under audit, and coordinate with level 1 authority to obtain the required information prior to the end of the audit execution period.
- Level 2 authority in the light of the observations identified by level 3 authority and discussions with audited division/department/section, drafts the audit report and submits to level 1 authority.
- Level 1 authority reviews the draft report and request clarifications and further information as required.
- Level 2 authority prepares the report in its final form and submit it to level 1 authority.
- Level 1 authority reviews the draft report and discuss the report with the concerned division/department/section
- The draft of the internal audit observations (draft report) is sent to the concerned division/department/section with a request for responding back to the raised observations within 10 working days in order to issue the final report.
- The Audit Unit responds to any requested clarifications from the audited division/department/section on part or all of the observations raised.
- Upon receipt of the responses from the audited division/department/section, meeting is held with the audited division/department/section and minutes of the meeting is maintained by the Internal Audit Unit.
- Level 1 authority initiates the review of the audited division/department/section's responses and takes either one of the following actions:
  - Prepare a commentary response on the management response received;
  - Confirm the audit observation and request from the audited division/department/section the intended corrective action plan **(refer to the Follow-up section below for details on this step)**
  - Eliminate any audit observations for which management responses were valid and adequate supporting documentation was provided in order to discard the observation.
  - Following the final review of the internal audit report, level 1 authority issues the final report to the higher level authority.

Components of the draft report:

The draft report will include all the contents of the final report, with the exception of corrective actions and management responses. **Appendices 15 and 17 in the appendices section may be used as a reference when preparing and issuing internal audit reports.**

In addition to the above, please refer to the procedures and systems implemented within the Government Unit as required.

4.6 Contents of the final report

The final report should contain all or most of the headings that mentioned in **section 4.4** above, depending on the circumstances and the results of each audit process.

Appendices 15 and 17 in the appendices section may be used as a reference when preparing and issuing internal audit reports.

4.7 Compliance with the internal audit methodology

Internal auditors should ensure compliance with the approved internal audit methodology during the execution of the above mentioned 3 phases of the audit cycle, by completing **appendix 22 (Internal audit checklist) in the appendices section** which requires documentation of the completed audit tasks in a timely manner.

5. Follow-up and Monitoring Phase

5.1 Corrective Actions

- The Internal Audit Unit and the audited division/department/section shall agree on a corrective action plan. **Please refer to Appendices 18 and 19 in the Appendices section for more details.**
- Verify that proper action is taken to resolve reported items. Internal Auditors should follow up on the recommendations in accordance with the action plan and time-frame agreed upon with the audited division/department/section. Enough time should be allocated to the Internal Audit Member to observe whether the issues mentioned in the report were addressed. In some cases, it may be appropriate to follow up immediately after reporting. This could be required in the case where management of the division/department/section has agreed to the immediate implementation of the actions.
- The efficiency and effectiveness of the corrective actions undertaken by the audited division/department/section should be assessed. Any difficulties associated with the follow-up process are documented; and in the case of failure to take corrective action, the observations should be reported to management to take the appropriate action.
- Meeting with the audited division/department/section to discuss the follow-up mechanism and the current situation for each of the issues mentioned in the internal audit report.
- Making sure that corrective action has been taken and assessing the efficiency and the level of progress in the action taken.
- Identifying the need for additional follow-up or closing of the internal audit process.
- Documenting the results of the audit process in working papers.
- Verifying the implementation of the actions plans and checking whether effective measures have been taken to reduce the risks.
- Assess the need for additional tests (e.g. evaluations) based on the professional judgement of the auditor and determine the nature of these tests as appropriate.
    - In the case of any failure to take corrective action, it is necessary to inquire about the reason. However, the associated risks should be mentioned in the internal audit report.
    - Reporting to higher level of authority on any responses/action/corrective action which is not completed.
- Once the corrective action plan is implemented, internal auditors shall be responsible for the verification of the corrective action. This may include the following:
    - Understanding the process after amendments
    - Assessing new possible risks
    - Gathering information
    - Sample selection
    - Controls testing
    - Analytical procedures review
- Upon the confirmation that the agreed corrective actions plans have been effectively implemented by the auditee, the status of the related observations shall be updated in the follow up report as resolved, while preserving all relevant and supporting information in the internal audit files.

Please refer to appendices 20 and 21 in the appendices section for samples of follow up reports.

5.2 Previous Internal Audit Observations

The Internal Audit Unit should follow up on all audit observations in subsequent internal audit periods to ensure that the audited division/department/section has performed corrective action on the issues that were raised. Follow-up procedures are performed during the audit period based on the meetings and discussions that have been held at the issuance of the final report until the completion of the report after the receipt of management responses and review it once again if the internal audit results were amended based on the agreed upon corrective action plan.

Chapter 3
Appendices

Appendices

1. Independence Statement of the Internal Audit Member

[DIVISION/DEPARTMENT/SECTION]

To the best of my knowledge and belief, I have answered the following questions correctly:

	Yes	No
1. Do you have any official, professional, personal, or financial relationships that might cause you to limit the extent of any inquiry, to limit disclosure, or to weaken or modulating the audit findings internal audit findings in any way? 2. Do you have any preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the internal audit? 3. Did you have any previous responsibility for decision making or managing a unit that would affect current operations of any of the division/department/section any program being audited? 4. Did you previously perform any duties for any of the division/department/section involving the approval of invoices, payrolls, claims, or other proposed payments? 5. Are you currently or have you previously maintained the official accounting records of the audited division/department/section? 6. Do you have a financial interest, direct or substantial indirect, in any of the audited division/department/section except for compensation and benefits provided by the audited division/department/section's policy? 7. Do you have a financial interest, direct or substantial indirect, in any related party transaction (vendor, customers, contractors, leases, or other financial transaction, etc.) with the audited division/department/section? 8. I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditors Code of Ethics.		

EXCEPTIONS - (State "none" if there are no exceptions)

2. Delegation of Authority Form

Internal Audit Unit		
Internal Audit Manual		Date:
Subject:	Authority Delegation Form	Unit:

Name of delegating Auditor	
Name of delegated Auditor	
Purpose of delegation	
1. xxxxx	
Tasks to be delegated	
1. xxx 2. xxx 3. xxx	
Signature of the delegating auditor	Signature of the delegated auditor
Signature of Higher level Authority	

3. Risk Assessment Work-plan Template

[DIVISION/DEPARTMENT/SECTION]

Risk Assessment Work-Plan Template FOR YEAR 20XX

Steps					Estimated Days	Deliverable
Risk Assessment						
1 -Plan the Risk Assessment						
		1	Prepare Preliminary Plan			
		2	Identify Project Team, Agree Responsibilities, Finalize Risk Assessment Work plan			
			a)	Identify Project Team		
			b)	Conduct Planning Meeting		
			c)	Document Risk Assessment Plan		
			d)	Update Work plan		
	Total Estimated Days					Updated Work-plan
2 - Understand the concerned unit's Business& Objectives						
		1	Develop and Confirm Our Understanding of the Processes			
			a)	Arrange Meetings with the Process Owners		
			b)	Explore the concerned division/department/section's Business with Process Owners		
			c)	Identify Process Flows, Critical Success Factors and KPIs		Mega Process Documentation
		2	Understand the IT Environment			
	Total Estimated Days					
3 –Align Business Objectives with Processes						
		1	Align Business Objectives with Processes			
		2	Analyse and Agree Most Critical Processes with Management			
		3	Re-visit Risk Assessment Work-plan			
	Total Estimated Days					Resource Allocation Map
Risk Assessment (Cont'd)						

Steps					Estimated Days	Deliverable
4 - Identify Risks and Related High Level Controls						
		1	Develop Process Understanding below mega process level (Analytical Review)			
		2	Identify Business Risks			
		3	Identify High-Level Controls			
		4	Agree Risks and Controls Identified with Management			
	Total Estimated Days					
5 - Assess Risks						
		1	Assess Individual Risks			
			a)	Determine the initial risk assessment		
			b)	Determine the initial evaluation of high level controls		
		2	Assess Overall Risk of Each Process			Risk Assessment Criteria Matrix
		3	Assess Risk across the Organization Structure			
		4	Review and Agree Assessment with Process Management			Risk Profile
	Total Estimated Days					
6 - Report and Agree Risk Assessment						
		1	Discuss and Preliminarily Agree the Risk Assessment with Management			
		2	Finalize and Report Risk Assessment			
			a)	Prepare the presentation and present		
			b)	Higher authority level Approval		
			b)	Make any required changes		
	Total Estimated Days					
	Total Estimated Days - Cumulative Project Cost				-	

4. Risk Profile

[DIVISION/DEPARTMENT/SECTION]

Risk Profile for unit/division/department/section being audited

[Unit/division/department/section] – RISK PROFILE				
Process	Description	Importance of Risk Factor*		Overall Risk Assessment**
		Impact	Probability	
Division/department/section 1				
Division/department/section 2				
Division/department/section 3				
Division/department/section 4				
Division/department/section 5				
Division/department/section 6				
Division/department/section 7				
Division/department/section 8				

*Note: Overall Importance comes from Process-Objective Matrix

**Note: Overall Risk Assessment comes after combining Impact and Likelihood assessments for each risk within each major process

Legend

High Risk

Moderate Risk

Low Risk

5. Internal Audit Plan

[Unit Name]

AUDIT PLAN OF YEAR 20XX

Agenda Audit Plan of 20XX	January	February	March	April	May	June	July	August	September	October	November	December
Audit projects:												
Division/department/section 1												
Division/department/section 2												
Division/department/section 3												
Division/department/section 4												
Division/department/section 5												
Division/department/section 6												
Division/department/section 7												
Division/department/section 8												
Division/department/section 9												

6. Staff Scheduling and Planning Forms

[DIVISION/DEPARTMENT/SECTION]

Staff Schedule and Planning Forms FOR YEAR 20XX

		First quarter												
	Staff Schedule and Planning Forms FOR YEAR 20XX	**Week 1**	**Week 2**	**Week 3**	**Week 4**	**Week 5**	**Week 6**	**Week 7**	**Week 8**	**Week 9**	**Week 10**	**Week 11**	**Week 12**	**Week 13**
Government Unit	**Unit 1**													
	Auditor 1													
	Auditor 2													
	Auditor 3													
	Auditor 4													
	Unit 2													
	Auditor 1													
	Auditor 2													
	Auditor 3													
	Unit 3													
	Auditor 1													
	Auditor 2													
	Auditor 3													
	Auditor 4													
	Unit 4													
	Auditor 1													
	Auditor 2													
	Auditor 3													
	Auditor 4													

7. Internal Audit Scope of Work

[DIVISION/DEPARTMENT/SECTION]

Audit Scope of Work FOR YEAR 20XX

Project Title:
Project Objective:
Project Budget: xxx Hours

Operations Managers/Procedures Executors
Operations Managers
Procedures Executors

Key Risks:

Scope
This Audit will include the following:

- (Mention the division/department/section being audited)
- (Mention the areas or specific activities being audited)
- (Mention the desirable timeline)

This Scope will not include the following:

- (Mention any areas not being audited)
- (Mention any important limitations)

Key Tasks

- Discussing and approving the operations with the management
- Perform analysis

Main Assumptions

- **Documenting the main assumptions which might affect the scope, timeline, and budget of the work. The importance of this documentation increases while executing the tasks due to changes occurring in the main elements, or due to knowledge of additional assumptions.**

Identified main controls

Identifying the members

Delivery materials

The report which includes audit results, recommendations, and Management's action plans.

Key Deadlines

Star	End
Project kick off	
Field work	
Closing Meeting	
Draft Report Submission	
Management's Comments	
Final Report and Comments Submission	

8. Notice of Internal Audit Execution

[DIVISION/DEPARTMENT/SECTION]

Letter notification for audit of xx 20

Date: / / XX 20

(Division/department/section)

Dear,

We would like to inform you that the Government Unit will execute an internal audit task (mention the type **or the nature of the audit task**) during the period from ... to .... Therefore, we kindly request you to instruct the persons in charge at your organization cooperate with the audit team and make available the require information and details so as to facilitate the execution of the audit work.

We also request that you inform your staff to align their work schedule according to the timeline/period determined for the execution of the audit.

Thank you for your cooperation.

Yours sincerely

(Internal Audit Unit)

(Director General /Director, Internal Audit)

9. Business Understanding Document

[DIVISION/DEPARTMENT/SECTION]

Business Understanding Document FOR YEAR 20XX

Project: _____ Prepared By: _____

Date: _____ No. of Working Paper: _____

Purpose:

The purpose of this working paper is to obtain an understanding of the division/department/section's business. It documents: our understanding of the Client's:

- Background of division/department/section
- Objectives and strategies
- Organizational structure
- Market
- Products and services
- Customers
- Strategic, core, and management processes
- Computer Information Systems

Objectives and strategies:	
Objectives	Strategies

Organizational structure :		
Processes		
Services		
Employees		
Business Process Elements		
type of operation	***The Director of the process***	***Task Description***
Strategic processes		
Core Processes		
Resource management Processes		

Computer Information System	
Systems	***Related Processes***

10. Internal Audit Requirements letter

[DIVISION/DEPARTMENT/SECTION]

Audit Requirements FOR YEAR 20XX

Date __, **20XX__**

Mr. (division/department/section)

(Division/department/section)

Dear Mr. **(XXX),**

As part of our internal audit work performed on **(division/department/section)** of the **(Name of the Governmental Unit)**, Please be kind enough to provide us with the following Audit Requirements:

Within a maximum of XXX days

Thank you very much for your cooperation,

(General Manager/Internal Audit Manager)

11. Process Documentation Template

[DIVISION/DEPARTMENT/SECTION]

PROCESS Documentation Template FOR YEAR 20XX

[INSERT UNIT NAME]	
Mega Process	
Major Process	
Sub-Process	
Sub-Process Owner	
Purpose	

Critical Success Factors	**Key Performance Indicators**
Process Begin	**Process End**
Process Narrative:	
Inputs	**Outputs**

Assess Sub-Process Risk Rating*	☐ H	☐ M	☐ L		
Reason for Assessment					

Associated Risk(s)	

12. Risk and Control Evaluation Matrix

Major Process: XXXX							
Risk Factor	Control					Audit Testing	Audit Test Outcome*
	Activity	Classification	Frequency	Type	Evaluation		
Sub-Process: XXXXXX							
Risk Description	Control Description	Preventive/ Detective	Daily/ Monthly/ Quarterly/ Annually	Manual or Auto-mated	Effective/ Ineffective	Yes/ No List procedures	Any exceptions noted?
Sub-Process: XXXXXX							

13. Audit Program

[DIVISION/DEPARTMENT/SECTION]

AUDIT PROGRAM

Description of audit steps/test	Purpose of the test	Sample size	Allocated time for testing	Auditor name	Reviewer name	Start date	End date	Test Result
Test 1								
Test 2								
Test 3								

14. Internal Audit File Checklist

[DIVISION/DEPARTMENT/SECTION]

Audit File Checklist

Prepared by: Date:
Reviewed by: Date:

This checklist is to be completed for all individual internal audits by the internal Audit Staff.

Process	Completed	Reference
Internal Audit Scope		
Process Documentation Forms		
Risk and Control Evaluation Matrix		
Internal Audit Program		
Working Papers		
Supporting Documentation		
Activity and Results Summary Forms		
File Review		
Exit Meeting Minutes		
Report Checklist		
Draft Audit Report		
Final Audit Report with Management Response		
Copy of report filed in Internal Audit Reports File		

15. Draft Internal Audit Report

Internal Audit Unit
Draft Internal Audit Report **for [DIVISION/DEPARTMENT/SECTION]**
Period Ending (Date)

Observation Number XX:

(Observation Rating)

Background

Observation

Risk

Recommendation

Management Comments

16. Final Report Letter

[DIVISION/DEPARTMENT/SECTION]

Final Draft Report Letter FOR YEAR 20XX

Date __, 20XX__

(Division/department/section)

Dear Sirs,

We would like to inform you that the internal audit performed on some areas in the _____ Ministry resulted in a number of observations, which are included in the enclosed report.

We wish to thank you and all the **(Unit name)** personnel for the courtesy extended to us during the audit.

Very truly yours,

(Internal Audit Unit)

(General Manager/Internal Audit Manager)

17. Final Internal Audit Report

[DIVISION/DEPARTMENT/SECTION]
[Report Title]

Fieldwork Conducted during [timeframe]

Issued: [date]

Executive Summary

Internal Auditors performed a review of XXX during [timeframe]. The purpose of the review was to evaluate the adequacy of internal controls over [insert process name]. [Explain the objective of the review.]

1. Background

[Background of the process/control environment and the reasons for selecting the specified area(s) for review. Mention the findings of the risk assessment and other internal audits as well as rational reasons in this regard).

2. Scope

[Document what was reviewed during this internal audit. If any areas / functions / cycles / accounts were specifically out of scope for this review, note that here. Document any additional constraints and limitations in this section, such as example sample sizes, non-substantive testing.]

3. Objectives & Approach

[For the objective of the audit, explain how the internal audit was completed. For example: "To determine the adequacy of controls over XXX in the property management function, we reviewed the controls related to YYY through interviews with management, review of supporting documentation, and testing of the effectiveness of related controls.]

4. Results

See Appendix 16 for Report Rating Definitions and Observation Rating Definitions.

Overall Report Rating – [insert overall rating using definitions in Appendix 16-BB]

The Observations section of this report provides detailed descriptions of each observation and recommendation. The high and moderate priority items are summarized below.

Title of Observation 1

[Give a high level summary (generally one to two short sentences) of the issue and what could go wrong as a result of the issue.

Title of Observation 2

[Give a high level summary (generally one to two short sentences) of the issue and what could go wrong as a result of the issue

Title of Observation 3

[Give a high level summary (generally one to two short sentences) of the issue and what could go wrong as a result of the issue

Observations and Recommendations

Title of Issue 1		**High Priority**
Observation		Business Impact
[High level summary of observation (one to two short sentences) – can often be pulled directly into the Exec. Summary section.] [Explain the details of the observation]		[What can go wrong (i.e. what is the risk – can be strategic, tactical, or both) based on the current operations – the effect on the current operations and why management should care.]
Recommendations		**Management Response**
1	[Recommendation]	[Steps that management has agreed to implement] [Owner to resolve the identified issue, Title – Target completion date]
2	[Recommendation]	[Steps that management has agreed to implement] [Owner to resolve the identified issue, Title – Target completion date]
3	[Recommendation]	[Steps that management has agreed to implement] [Owner to resolve the identified issue, Title – Target completion date]

		Moderate Priority
Observation		Business Impact
[High level summary of observation (one to two short sentences) – can often be pulled directly into the Exec. Summary section.] [Explain the details of the observation]		[What can go wrong (i.e. what is the risk – can be strategic, tactical, or both) based on the current operations – the effect on the current operations and why management should care.]
Recommendations		**Management Response**
1	[Recommendation]	[Steps that management has agreed to implement] [Owner to resolve the identified issue, Title – Target completion date] [Steps that management has agreed to implement] [Owner to resolve the identified issue, Title – Target completion date] [Steps that management has agreed to implement] [Owner to resolve the identified issue, Title – Target completion date]

		Moderate Priority
Observation		Business Impact
[High level summary of observation (one to two short sentences) – can often be pulled directly into the Exec. Summary section.] [Explain the details of the observation]		[What can go wrong (i.e. what is the risk – can be strategic, tactical, or both) based on the current operations – the effect on the current operations and why management should care.]
Recommendations		Management Response
1	[Recommendation]	[Steps that management has agreed to implement] [Owner to resolve the identified issue, Title – Target completion date]
2	[Recommendation]	[Steps that management has agreed to implement] [Owner to resolve the identified issue, Title – Target completion date]

18. Corrective Action Plan Letter

[DIVISION/DEPARTMENT/SECTION]

Action Plan Letter FOR YEAR 20XX

Date __, 20XX__

(Division/department/section)

Dear Mr. **(XXX),**

Based on the comments and notes related to the audit project performed by our members of internal audit department, as well as the responses we got from your side, we would like to present the 'Correction Action Plan' which includes:

- Detailed procedures to be followed and which are agreed upon
- Agreed upon implementation dates
- People responsible for ensuring the implementation of the procedures, and resolving unsolved issues, in the agreed timeline.

Very truly yours,

(Internal Audit Unit)

(General Manager/Internal Audit Manager)

19. Corrective Action Plan

[DIVISION/DEPARTMENT/SECTION]
Internal Audit Unit
Corrective Action Plan
Period Ending **(Date)**

Observation Number XX:

(Observation Rating)

Background

Observation

Agreed Upon Action

Responsible Person

Expected Implementation Date

20. Follow up Report Letter

[DIVISION/DEPARTMENT/SECTION]

Follow Up Report Letter FOR YEAR 20XX

Date __, 20XX__

(Division/department/section)

Dear Mr. **(XXX)**,

Please find enclosed our Follow-up Report revealing the observations and conclusions of the follow-up we conducted regarding the implementation of the earlier presented Action Plan Report.

This follow-up report will include two main sections as follows:

1. Resolved Observations: This section describes observations that were resolved due to the implementation of recommendations made in the Action Plan.
2. Unresolved Observations: This section describes all outstanding and unresolved observations due to management's failure in implementing the agreed-upon recommendations of the Action Plan.

If you have any queries please don't hesitate to contact us

Very truly yours,

(Internal Audit Unit)

(General Manager/Internal Audit Manager)

21. Follow up Report

[DIVISION/DEPARTMENT/SECTION]
Internal Audit Unit
Follow-up Report
Period Ending **(Date)**

Section I: Resolved Observations

Observation Number XX:

(Observation Rating)

Observation

Agreed Upon Action

Action Taken:

Section II: Unresolved Observations

Observation Number XX:

(Observation Rating)

Observation

Agreed Upon Action

Reasons for Non-Implementation:

Comment by audited division/department/section:

22. Internal Audit Completion Checklist

[DIVISION/DEPARTMENT/SECTION]

Internal Audit Completion Checklist

Audit Process	Prepared by
Date	WP No.

The Internal Audit Completion Memorandum should be signed in the appropriate spaces progressively while conducting the review and, where applicable, by the relevant specialists, prior the project report being released.

ACTIVITIES	Initials & Date		Comments (If N/A, document why)
	Internal Audit Supervisor	Head of Internal Audit Unit	
PLANNING AND EXECUTION			
1. Project instruction sheet issued & approved.			
2. Project notification memorandum sent out two weeks in advance.			
3. Industry and functional specialists identified and scheduled			
4. Opening conference held			
5. Project scope memorandum agreed, signed off and issued			
6. Non-IAS staff briefed on IAS process			
7. Project planning meeting			
8. Process understanding complete			
9. Risk & control assessment complete			
10. Program developed and approved			
11. Additional fieldwork complete as per program			
12. Residual risk confirmed with management			
13. Working papers reviewed for completeness and accuracy			
14. Review queries cleared			
REPORTING			
15. All report points supported in the working papers			
16. All report points discussed with management			
17. Draft report and file reviewed for consistency of process and deliverables			

18. Draft report reviewed for consistency with the requirements of the engagement letter			
19. Draft report issued to the process owner and process management			
20. Report finalized and distributed			
21. Deliverable(s) used standard language as required			
22. Signed transmittal letter issued with final report			
23. Final signed deliverable retained in the working papers			
OTHER ADMINISTRATION			
24. Final review of working papers and project deliverables for completeness			
25. Working papers filed as necessary			
26. Electronic files backed up, drafts and non-vital documentation destroyed			
27. Exit conference held and followed up as necessary			
28. Feedback received and acted upon			
29. Close out letter issued			
30. Client profiles updated			
31. Future audit observations listing updated			
32. WIP reports reconciled to project budget			
33. Performance assessments been conducted as necessary			
34. Internal Financials closed			
35. Knowledge sharing opportunities acted upon (process and content)			
36. Satisfaction survey issued			
37. Survey response received and acted upon			
38. Debrief held			