

FONTANA GROUP OF COMPANIES

INTERNAL AUDIT MANUAL

Acknowledgement

The contents of this Manual follow closely the pronouncements and standards of the Institute of Internal Auditors (IIA) which are available from the website.

FONTANA GROUP OF COMPANIES (FGC)

INTERNAL AUDIT MANUAL

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I. INTRODUCTION

Purpose and Scope Expected Users of the Manual Organization of the Manual

A. PURPOSE AND SCOPE

This Internal Audit Manual is designed to provide management with added assurance, independent from line management, on risk management, control, and governance processes, to establish that internal audit function operates in accordance with professional internal auditing standards.

B. EXPECTED USERS OF THE MANUAL

Users of this Manual are assumed to possess at least basic knowledge and understanding of management frameworks and controls and to be capable of exercising sound professional judgment expected to draw upon the information provided to form their own judgments on the most suitable approaches to fulfilling the specific responsibilities that they have been assigned in the context of continuously striving for the most effective internal audit activity possible.

C. ORGANIZATION OF THE MANUAL

This Manual is divided into seven sections:

	Section	Description
I	INTRODUCTION	Describes the purpose and scope, expected users of the Manual, and organization of the Manual.
II	THE ROLE AND CONTEXT OF INTERNAL AUDIT AT FONTANA GROUP OF COMPANIES (FGC)	Identifies the organizational structure, assigns generic responsibilities for the fulfillment of the tasks necessary to an effective internal audit activity, identifies

		the competencies required to fulfill those tasks, and establishes resourcing strategies to ensure that those competencies are available.
III	MANAGING THE INTERNAL AUDIT FUNCTION AT FGC	Identifies the organizational structure of the Internal Audit Department, assigns generic responsibilities for the fulfillment of the tasks necessary to an effective internal audit activity, identifies the competencies required to fulfill those tasks, and establishes resourcing strategies to ensure that those competencies are available.
IV	STRATEGIC, RISK-BASED AUDIT PLANNING AND REPORTING AT FGC	Outlines the processes that are followed to identify the most appropriate internal audit engagements to be undertaken and to report upon the results of those engagements.
V	CONDUCTING INTERNAL AUDIT ENGAGEMENTS AT FGC	Describes the steps that are normally to be followed in planning, conducting and reporting upon an individual internal auditing engagement.
VI	APPLYING INTERNAL AUDIT TOOLS AND TECHNIQUES	Provides brief descriptions of the most commonly used tools and techniques and of the circumstances under which each is most appropriate.
VII	QUALITY ASSURANCE AND IMPROVEMENT	Summarizes expectations and activities for quality assurance during the performance of individual internal auditing engagements and at periodic intervals with respect to the overall internal audit activity. Appendices provide guidance in accomplishing the internal audit activities.

II. THE ROLE AND CONTEXT OF INTERNAL AUDIT AT FGC

Mandatory Guidance Mission of Internal Audit Definition of Internal Auditing The Internal Audit Charter Core Principles for the Professional Practice of Internal Auditing International Standards for the Professional Practice of Internal Auditing
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A. MANDATORY GUIDANCE

The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditors (IIA). A trustworthy, global, guidance-setting body, the IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as mandatory guidance and recommended guidance. Conformance with the principles set forth in mandatory guidance is required and essential for the professional practice of internal auditing. Mandatory guidance is developed following an established due diligence process, which includes a period of public exposure for stakeholder input. The mandatory elements of the IPPF are:

- Definition of Internal Auditing
- Core Principles for the Professional Practice of Internal Auditing
- *International Standards for the Professional Practice of Internal Auditing*
- Code of Ethics

For purposes of this Manual for the Fontana Group of Companies, the International Standards for the Professional Practice of Internal Auditing are briefly summarized in Section F of this chapter on page 10.

B. MISSION OF INTERNAL AUDIT

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organization. Its place in the New International Professional Practices Framework (IPPF) is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission, which is:

“To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.”

C. DEFINITION OF INTERNAL AUDITING

The mission of internal audit brings forth the definition of internal auditing as defined by the Institute of Internal Auditing.

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

D. THE INTERNAL AUDIT CHARTER

The Internal Audit Charter defines the roles and responsibilities and addresses the objectivity and independence of the internal audit function and its authority to access departmental records and employees, defines the role, mandate, composition, and accountability of the Internal Audit Department (IAD). It should be agreed upon by the audit committee and the internal audit director. Some important directives of the internal audit charter are:

1. This requires the audit committee and the internal audit director to share the same vision in regard to the internal auditors’ scope of work, including how their attention and focus will be divided among assurance and consulting; operational, financial, and compliance auditing; and issues related to risk management, internal control, and ethics.
2. This also requires agreement as to the internal auditors’ role, as described in the IIA’s official definition of internal auditing; as well as ensuring the internal auditors have the authority to access all company employees and to examine all company records and physical assets.
3. To provide effective internal audit oversight requires the audit committee to have an in-depth understanding of the business, the associated risks, and the internal control environment.
4. The audit committee also must be diligent in reinforcing the importance of internal audit independence, as well as the internal audit director’s accountability to senior management and the audit committee.

5. Once the vision is aligned and the internal audit charter is in place, the audit committee periodically should assess the organizational structure to ensure the internal audit activity has the resources and skill sets necessary to effectively and efficiently accomplish its goals.

To promote proficiency, internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills and other competencies to perform its responsibilities. The overriding role of the internal audit director is to be on top of the entire internal audit activity effectively ensuring that it adds value to the organization. The internal audit director should also ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

A sample Internal Audit Charter is shown in **Appendix A**.

E. CORE PRINCIPLES FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving the internal audit mission.

In adhering to the Core Principles, the internal auditor:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence or is independent
- Aligns with the strategies, objectives, and risks of the organization
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organization improvement

F. INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (*STANDARDS*)

Standards are principle-focused and provide a framework for performing and promoting internal auditing. The **Standards** are mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the statements.
- Glossary terms.

It is necessary to consider both the statements and their interpretations to understand and apply the **Standards** correctly. The **Standards** employ terms that have been given specific meanings as noted in the glossary that is part of the *Standards*.

The International Internal Audit Standards Board (IIASB) recently released the revision to the **Standards**, effective January 1, 2013, following consideration and approval by the International Professional Practice Framework Oversight Council (IPPFOC).

Significant **Standards** that contribute to value added in internal audit work are:

On **Assurance** services: “an objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence requirements.”

On **Risk Management**: “the internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management control systems.”

On **Control**: “the internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.”

On **Governance**: “the internal audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization

- Ensuring effective organizational performance management and accountability
- Effectively communicating risk and control information to appropriate areas of the organization
- Effectively coordinating the activities of and communicating information among the board (of directors), external and internal auditors and management.”

The relevant internal auditing standards governing the conduct of internal audit engagements are summarized as:

Proficiency and Due Professional Care - Engagements should be performed with proficiency and due professional care.

Due Professional Care – Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

The internal auditor should exercise due professional care by considering the:

1. Extent of work needed to achieve the engagement's objectives.
2. Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
3. Adequacy and effectiveness of risk management, control, and governance processes.
4. Probability of significant errors, irregularities, or noncompliance.
5. Cost of assurance in relation to potential benefits.

Engagement Planning - Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations.

Planning Considerations - In planning the engagement, internal auditors should consider:

1. The objectives of the activity being reviewed and the means by which the activity controls its performance.
2. The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.

3. The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model.
4. The opportunities for making significant improvements to the activity's risk management and control systems.

Engagement Objectives – Objectives should be established for each engagement.

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

Engagement Scope - The established scope should be sufficient to satisfy the objectives of the engagement.

Engagement Work Program – Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.

Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to its implementation, and any adjustments approved promptly.

Performing the Engagement – Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.

Analysis and Evaluation – Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

Recording Information – Internal auditors should record relevant information to support the conclusions and engagement results.

Communicating Results – Internal auditors should communicate the engagement results.

Quality of Communications - Communications should be accurate, objective, clear, concise, constructive, complete, and timely.

Communication of results of internal auditing engagements shall be communicated in written reports.

Reports on internal auditing engagements are to be presented to, and reviewed by, the audit committee with minimum delay; completed reports are those that have been reviewed by the audit committee and approved by management.

III. MANAGING THE INTERNAL AUDIT FUNCTION AT FGC

Organizational Framework of the Internal Audit Department
Role of the Audit Committee
Specific Roles and Responsibilities
Training and Development
Annual Audit Code of Ethics Confirmation

A. ORGANIZATIONAL FRAMEWORK OF THE INTERNAL AUDIT DEPARTMENT

The Internal Audit Department of FGC will be headed by the internal audit director who will report to the Chief Executive Officer (CEO). The Internal Audit Department will have an internal audit manager and at least two internal auditors. From time to time, the number of internal auditors may be increased depending on the need.

Specific positions or individuals may be assigned additional responsibilities related to the management of the internal audit activity and may be requested to assume generic responsibilities. For example, an internal auditor may be assigned to a particularly urgent or sensitive engagement, outside of the usual assurance activity.

B. ROLE OF THE AUDIT COMMITTEE

Over the years, the role of the audit committee has become increasingly demanding that leading companies have had to include it in their organization setup. The audit committee, in concert with executive management, plays a critical role in empowering and elevating the image of the internal audit activity. While the audit committee must possess a level of financial literacy and independence, one of its important roles is to provide internal audit oversight with an understanding of internal audit value, processes and procedures, strengths and weaknesses.

By continuously communicating the value of the audit committee throughout the organization, top management can and should promote the importance of the internal audit activity. They can position the function as fully empowered to provide a critical check for management, to be a knowledgeable provider of assurance and a revered consultant,

and to add value to the organization's governance, risk management, and internal control processes.

1. Composition of the Audit Committee

The Audit Committee shall be composed of at least three (3) members of the Board of Directors who shall preferably have accounting and finance backgrounds, at least one (1) of whom shall be an independent director and another with audit experience. The chair of the Audit Committee shall be an independent director. The Audit Committee shall meet at least two (2) times a year.

The Audit Committee Terms of Reference is discussed in **Appendix B**.

2. 10-Point Oversight Checklist

To provide adequate oversight of internal auditing, an audit committee should ensure the following:

1. The audit committee engages in an open, transparent relationship with the internal audit director.
2. The audit committee reviews and approves the internal audit charter annually.
3. As a result of discussions with the internal audit director, the audit committee has a clear understanding of the strengths and weaknesses of the organization's internal control and risk management systems.
4. The internal audit activity is sufficiently resourced with competent, objective internal audit professionals to carry out the internal audit plan, which has been reviewed and approved by the audit committee.
5. The internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.
6. The audit committee addresses with the internal audit director all issues related to internal audit independence and objectivity.

7. The internal audit activity is quality oriented, and has in place a Quality Assurance and Improvement Program.
8. The audit committee regularly communicates with the chief audit executive about the performance and improvement of the internal audit director and the internal audit activity.
9. Internal audit reports are actionable, and audit recommendations and/or other improvements are satisfactorily implemented by management.
10. The audit committee meets periodically with the internal audit director without the presence of management.

Chart 1 on the Internal Audit Organization Framework shows the Audit Committee's reporting relationship with the Board of Directors. The internal audit director reports directly to the CEO, and has the internal audit manager with the internal auditors within his/her jurisdiction.

INTERNAL AUDIT ORGANIZATION FRAMEWORK

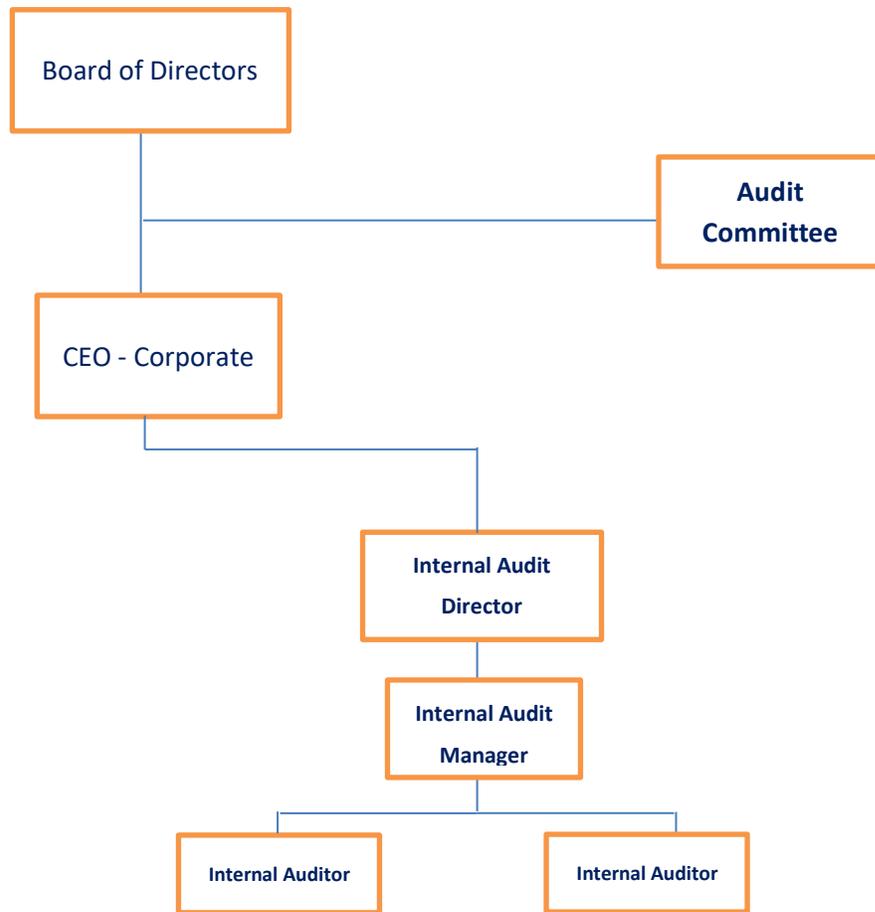


Chart 1 - Internal Audit Organization Framework

C. SPECIFIC ROLES AND RESPONSIBILITIES

3. Internal Audit Director

The internal audit director is responsible for:

- establishing appropriate policies and procedures to guide the internal audit function
- establishing risk-based audit plans to set out the priorities of the internal audit function
- coordinating internal audit plans and activities with other internal and external providers of assurance activities
- communicating the internal audit plan and the related resource requirements
- ensuring that internal audit resources are appropriate (that is, professional qualifications and skills), sufficient and effectively deployed to achieve the approved plan
- ensuring the timely completion of and reporting on individual internal audit engagements in accordance with professional standards
- supporting and conducting horizontal or functional audits requested by other departments
- reporting periodically to the CEO on whether management's action plans have been implemented and whether the actions taken have been effective in maintaining a quality assurance and improvement program that covers all aspects of the internal audit function
- reporting annually to the Audit Committee on the internal audit function's conformance with professional internal auditing standards
- providing annually a holistic opinion to top management and the Audit Committee on the effectiveness and adequacy of risk management, control, and governance processes

4. Internal Audit Manager

The internal audit manager is responsible for:

- planning and implementing each audit engagement and for ensuring the effective and efficient conduct and reporting of each engagement

- the preparation and approval of the planning document and for the identification and presentation of key audit findings. The internal audit manager will often prepare but, at a minimum, will approve audit programs.
- all phases of the audit, including the preparation of the work plan, the finalization and presentation of audit findings, including debriefings and reports.

5. Internal Auditors

Internal auditors are assigned to:

- complete their respective portions of the audit program under the guidance of the team leader
- complete all work according to professional standards
- communicate any critical or potentially significant findings to the internal audit manager on a timely basis.

Auditors may on occasion be invited to work alongside contracted auditors or audit teams as a means to further their professional development or contribute expertise to a particular engagement.

D. TRAINING AND DEVELOPMENT

As professionals, internal auditors must demonstrate proficiency in terms of the key knowledge, skills and abilities required to effectively conduct internal audit assurance engagements. In addition, they must stay abreast of recent developments in their profession.

To ensure that they collectively possess the required skills and abilities to provide superior service, an annual training and development plan is prepared to support their professional development. For continuing professional development, internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development programs.

Training is provided, either formally or on-the-job, when a need or opportunity is identified to acquire additional skills or knowledge that can be applied directly to the

conduct of internal audit engagements or to the performance of supporting activities, examples of which are: risk assessment and audit planning. On the other hand, development opportunities are provided to meet the interests of employees, such as, acquisition of additional skills or knowledge towards promotion, and to meet the future needs of the organization, such as, acquisition of knowledge of a new auditing tool or technique.

E. ANNUAL AUDIT CODE OF ETHICS CONFIRMATION

As a means of formally attesting to their objectivity and independence in the performance of their duties, all internal auditors are required to annually sign an Audit Code of Ethics Confirmation that ratifies their pledge to respect the Code of Ethics of FGC.

The purpose of the Audit Code of Ethics Confirmation is to promote an ethical culture, not only in the profession as championed by the Institute of Internal Auditors (IIA), but also with and among companies that have internal auditing functions. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.

The Audit Code of Ethics Confirmation is a reiteration of the 1) principles in the code of ethics and 2) rules of conduct as shown in the following sections:

1. Principles in the Code of Ethics

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

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

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

Integrity

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

Objectivity

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

Confidentiality

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

Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

2. Rules of Conduct

The rules of conduct that describe behavior norms are:

On **integrity** - Internal auditors:

- Shall perform their work with honesty, diligence, and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- Shall respect and contribute to the legitimate and ethical objectives of the organization.

On **objectivity** - Internal auditors:

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

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

On **confidentiality** - Internal auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

On **competency** - Internal auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- Shall perform internal audit services in accordance with the ***International Standards for the Professional Practice of Internal Auditing***.
- Shall continually improve their proficiency and the effectiveness and quality of their services.

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IV. STRATEGIC, RISK-BASED AUDIT PLANNING AND REPORTING AT FGC

<p>The Risk-Based Audit Planning Process The Risk-Based Audit Planning Methodology The Internal Audit Annual Report</p>

A. THE RISK-BASED AUDIT PLANNING PROCESS

1. Planning

The internal audit director should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should be considered in this process.

The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system.

The internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

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

2. Control

The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

3. Reporting to the Board and Senior Management

The internal audit director should report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the board and senior management.

4. Policy on Internal Audit

The Policy on Internal Audit is to be maintained to, among others, guide the annual internal audit activity. It should state that annual internal audit plans have to "...summarize an annual assessment of the overall materiality and risks associated with the departmental risk management strategy and practices, management control frameworks and practices, and financial and performance information, and identify and schedule planned audit engagements or other services to be provided by the internal audit function during the period of the plan."

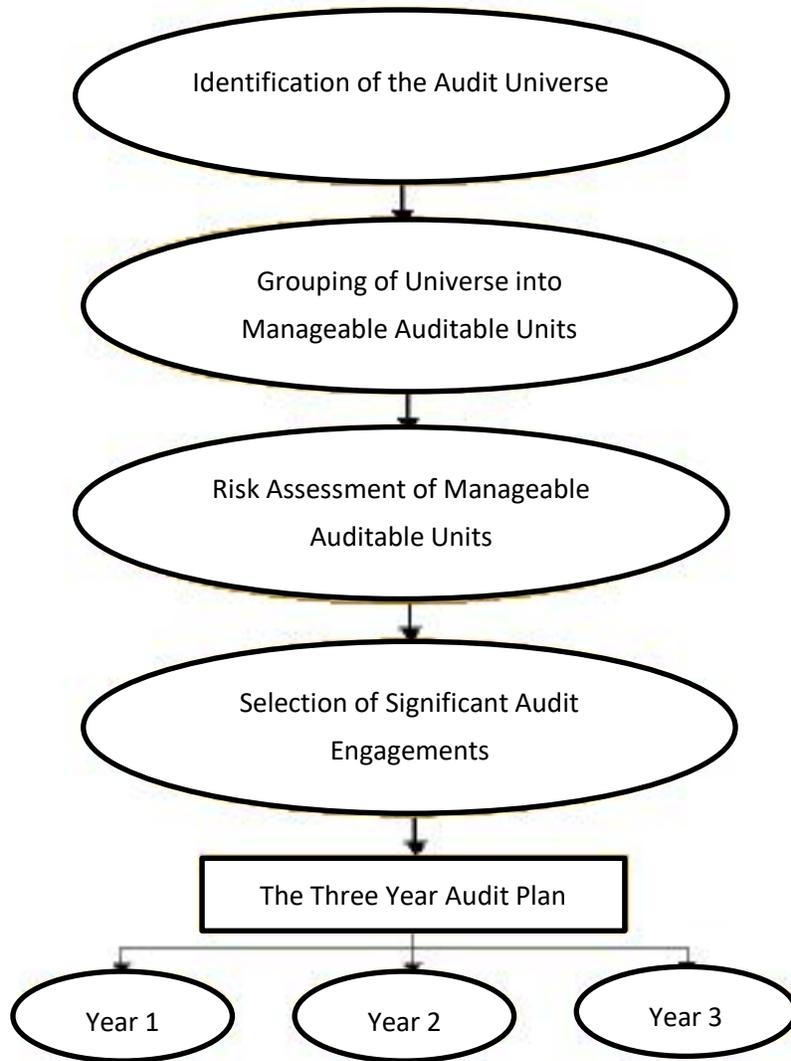
To be consistent with the Policy on Internal Audit, FGC should conduct an annual risk-based planning process to determine the internal audit priorities for the upcoming year and, notionally, for an additional two years.

The following sections describe the steps in the planning process and identify some of the key factors that must be taken into consideration in developing effective plans.

B. THE RISK-BASED AUDIT PLANNING METHODOLOGY

The annual planning process in the Internal Audit Department employs a collaborative and consultative risk-based approach relying heavily on the internal audit group's professional judgment and experience to identify areas of greatest audit priority.

Strategic, risk-based plans are designed to ensure that audit resources are allocated to areas that will help achieve strategic outcomes and reduce the possibility that the department will be exposed to significant risks. The model below illustrates the principal components of the Internal Audit Department risk-based audit planning methodology.



1. Identification of the Audit Universe

All mandates, authorities, programs, corporate functions, organizational units, systems, assets, resources and processes of FGC are identified that are within the potential scope of internal audit.

2. Grouping of Universe into Manageable Auditable Units

All the potential universe entities and elements are grouped into units that would likely produce meaningful findings for senior departmental management and that would be of such size and scope that an audit engagement could be practically conducted within a reasonable timeframe or cycle of coverage.

3. Risk Assessment of Manageable Auditable Units

Each auditable unit is assessed, using a scale of 1 to 5 where 1 is low and 5 is high, in terms of risk related to its significance to achievement of FGC objectives, its complexity in terms of ensuring that intended outcomes are achieved, and its sensitivity in terms of the public or the intended beneficiaries.

4. Selection of Significant Audit Engagements

Audit projects are proposed that would be most appropriate to address the highest risk areas of the manageable audit units on a priority basis.

5. The Three Year Audit Plan

The annual plan outlines a prioritized list of proposed engagements including the initial objectives and scope for each engagement, an estimate of required resources and an identification of the most suitable timing for specific engagements.

Appendix E provides the Annual Audit Plan Preparation Checklist for the desired qualities of the Annual Audit Plan. **Appendix F** provides a Template for an Auditable Unit Profile.

C. INTERNAL AUDIT ANNUAL REPORT

To fulfill the requirements the annual report describes the audit activities planned and undertaken for the fiscal year, identifies major findings of interest to senior management, and offers a holistic opinion on controls, governance and risk management

The outline of the internal audit annual report and a brief description of each section is found in **Appendix O** – Checklist for Reviewing Audit Reports.

V. CONDUCTING INTERNAL AUDIT ENGAGEMENTS

Overview
Initiating the Engagement
The Planning Phase
Determining Audit Objectives, Scope, Criteria and Approaches
Assessing Internal Control
Conducting the Engagement
Reporting the Engagement

A. OVERVIEW

While different internal audit organizations may identify a number of steps using a variety of terminology, the internal auditing process is essentially comprised of three main phases, namely:

- Planning
- Conduct and
- Reporting.

At the most fundamental level, the internal audit manager must establish what is going to be audited (planning), ensure that the approved plan is implemented (conduct), and communicate the results achieved (reporting).

Once the engagement has been identified in the Risk-based Audit Plan, it must be effectively planned in order to determine the specific objectives, scope, audit criteria, and methodology.

At the outset of the planning phase, the audit engagement is usually defined in very broad terms. Since it is neither practical nor cost-effective to audit everything, the internal audit manager must identify the risks associated with the audit entity, formulate meaningful objectives and establish an appropriate scope. In so doing, the internal audit manager can ensure that audit resources and effort are devoted to a relatively few key

areas that can have a significant impact on the performance and results of the program or activity being audited.

At the end of the planning phase, the internal audit manager will be able to clearly articulate what will be audited, why it will be audited, and how it will be audited.

B. INITIATING THE ENGAGEMENT

1. Notifying the Auditee

Before any work formally commences on an audit, the Internal Audit Department informs the auditee in writing with terms of reference attached. The auditee is normally the most senior manager directly responsible or accountable for the program, activity, organization or initiative. In some cases, there may be a shared accountability or an intersection of line and functional authority. In these cases, more than one auditee will be identified and informed of the audit.

2. On the communication

The initial communication with the auditee is normally drafted by the internal audit manager and issued by the internal audit director. In the event of highly sensitive audit engagements the internal audit director may be called upon to issue the announcement.

The communication specifies information known at the outset of the engagement such as the initial objectives and scope, any specific considerations or concerns, and the names of the auditors assigned to the audit. The communication could request the scheduling of an opening meeting and the identification of a primary contact to facilitate the coordination of the audit work.

3. Holding an Opening Meeting

During an opening meeting, the internal audit manager should clarify with the auditee the known details of the program, activity or organization to be audited, such as, mandate, resources, structure, and should explain the auditee's responsibilities in the process. The internal audit manager can request copies of documents deemed to be important to acquiring a good understanding of the auditee's activities.

If the auditee has any suggestions for the audit objectives or scope, or has raised any concerns that the audit might address, these can be discussed at this time.

C. THE PLANNING PHASE

The planning phase normally consists of three distinct, but often overlapping, activities. These are 1) gaining an understanding of the nature of the program, activity, organization or initiative being audited, 2) determining and assessing risks, and 3) determining the most appropriate audit objectives, scope and criteria to be employed.

1. Understanding the Nature of the Audit

The internal audit manager needs to develop a sound understanding of the program, activity, organization or initiative being audited, including its management practices, business processes, policies and procedures, and external and internal environments.

Specifically, to be compliant with the Policy on Internal Audit, the internal audit manager needs to be focused on all important aspects of risk management, control, and governance processes for the program, activity, organization or initiative being audited.

Some of the key documents and information that the internal audit manager can use to gain a good understanding include:

- a. Acts and related legislation or regulations
- b. Policy, procedures and standards manuals and directives
- c. Results of previous audits or evaluations
- d. Organization charts
- e. Job descriptions and delegation instruments
- f. Listings of key personnel
- g. Process and system maps or flowcharts
- h. Operational and financial data and reports
- i. Planning and performance reports
- j. Management meeting reports or minutes
- k. Management control frameworks, e.g. results-based management and accountability frameworks risk-based audit frameworks
- l. Risk assessments
- m. Management studies or reports

In addition to reviewing documentation and analyzing financial and non-financial performance information, the internal audit manager may also want to consider visiting sites and observing operations, interviewing management, field staff, representatives or subject matter experts, and reviewing any available internal controls documentation.

To consolidate and confirm the understanding acquired, the internal audit manager should prepare a summary of the program, activity, organization or initiative in the form of an auditable unit or auditee profile. Such a profile should be reviewed with the auditee in order to confirm the internal audit manager understands of the auditee's business.

2. Determining and Assessing Risks

The risk assessment process provides a structured means of evaluating information and applying professional judgment as to the most important areas for audit examination.

A detailed risk assessment is undertaken during the planning phase of the engagement to confirm that the lines of enquiry and the initial objectives have indeed focused on the most important risks associated with the program or activity being audited.

The objective statements for the audit, as outlined in the Risk-based Audit Plan, may need to be amended if the more detailed risk assessment reveals additional risks or assigns higher or lower risk scores to those risks already identified.

The steps involved in performing a detailed risk assessment are:

- a. Identify the risks associated with the achievement of the auditee's objectives and expected results
- b. Assess the relative significance of the risks in terms of the likelihood of each risk occurring and the impact should it occur
- c. Determine on a preliminary basis whether management's assertions on controls are likely to prevent or mitigate the occurrence of the risks of greatest concern and
- d. Plan to focus audit objectives and scope on testing the existence or adequacy and effectiveness of key controls over areas of greatest risk.

The internal audit manager may complete the risk assessment alone or with the participation of auditee representatives.

Whether the risk assessment is developed alone by the internal audit manager or with the participation of the auditee, the internal audit manager will want to ensure that the auditee understands the significance of the completed product as the internal audit manager employs it in developing the audit plan.

The internal audit manager must be sensitive to situations where management may have undertaken a risk assessment and made decisions with which the internal audit manager may not be comfortable.

Since management can choose to accept, transfer, eliminate, reduce or mitigate risks, the internal audit manager may encounter situations where the auditee does not view a given risk with the same degree of concern that the internal audit manager might.

For example, if the auditee has chosen to accept the risks associated with not developing and implementing a recipient audit plan, the internal audit manager may need to express, and be prepared to defend, an opinion that that course of action is inappropriate. In other situations, the internal audit manager may need to proceed with testing to demonstrate that a chosen course of action to address a risk may be insufficient or unnecessary. In the event that serious disagreements arise with the auditee, the internal audit manager may need to seek assistance from the internal audit director in pursuing discussions with the auditee and their more senior management.

Appendix G provides a Template for Documenting Engagement Risk Assessment.

3. Determining Audit Objectives, Scope and Criteria

Discussed early on is the need to gain an understanding of the audit entity, the nature of the program, activity, unit or initiative being audited; determining and assessing risks, and determining the most appropriate audit objectives, scope and criteria to be employed. Understandably, there are instances of overlapping depending on the nature of the audit engagement, in particular the specific unit or initiative to be audited.

The following section is a detailed description of determining audit objectives, scope, criteria and approaches in conducting internal audit. **Appendix H** provides a Checklist for Reviewing Audit Objectives and Criteria Statements.

D. DETERMINING AUDIT OBJECTIVES, SCOPE, CRITERIA AND APPROACHES

As mentioned in the planning phase, the three distinct activities in audit of understanding the nature of the audit entity and program, the risks and the audit objectives are often overlapping.

1. Audit Objectives

Once an understanding of the program or activity has been acquired and the assessment of risks has been completed, including any limited testing of controls, the internal audit manager recommends the specific objectives and scope for the audit.

The audit objective is often thought of as the question(s) that the audit seeks to answer. Objectives should be carefully considered and clearly stated in such a way that a conclusion with respect to each is possible.

Objectives may be focused on key generic internal auditing outcomes, such as, assurance on risk management, on controls, or on governance, or may be focused on specific high-risk issues or concerns identified during the planning phase.

2. Scope

The scope statement clearly describes the areas, processes, activities, or systems that will be the subject of the audit and to which the conclusions will apply. If there are numerical or geographic limitations to the scope of the audit, these should be specified, for example: "Tests will be conducted on a random sample of 20 transaction files at each of five representative regional offices."

The audit scope should describe any areas, processes, activities or systems which might normally be associated with the program or activity, but which are excluded.

The scope will also describe the time period covered by the audit, for example, the period or fiscal year during which files or transactions to be examined were originally prepared.

3. Audit Criteria

Audit criteria are reasonable and attainable standards of performance and control against which compliance, the adequacy of systems and practices, and the economy,

efficiency and cost effectiveness of operations can be evaluated and assessed. Audit criteria provide a basis for developing audit observations and formulating conclusions.

Criteria suitable for audit purposes must be appropriate to the nature of the audit. The failure to identify and obtain acceptance by the auditee of criteria suitable to the audit may result in inappropriate, or highly contested, conclusions being drawn by the internal auditor.

Good audit criteria statements should be relevant, reliable, neutral, and complete.

In identifying relevant and reliable criteria, management can usually rely upon acts and regulations, policy, guidelines or standards, and recognized experts. In the absence of such criteria, the internal audit manager can draw upon a wide variety of potential sources for audit criteria, such as, professional associations' standards, generally recognized industry norms, accepted good practice, generic management control frameworks, and the auditee's own standards.

The internal audit manager must review and discuss the proposed audit criteria with the auditee, particularly when there are no generally accepted criteria, to obtain an acknowledgement that the criteria are suitable for the audit. If agreement on the audit criteria cannot be reached, this should be reflected in the planning documentation, with an explanation as to why the internal audit manager believes the criteria remain appropriate.

4. Approach

Once the audit objectives, scope and criteria have been clearly established, the internal audit manager needs to design an approach to carrying out the audit that will provide the most meaningful result in the most cost-effective manner.

The purpose of articulating the audit approach is to ensure that sufficient, appropriate audit evidence is collected to enable the drawing of a conclusion with respect to each of the audit objectives.

Using professional judgment, the internal audit manager develops the approach and methodology based on the nature and extent of evidence needed to reach a conclusion with a high degree of assurance and the most appropriate and cost-effective mix of audit tests and procedures to gather that evidence.

An effective approach will normally incorporate a variety of auditing tools and techniques. Different tools and techniques have various strengths and weaknesses. For example, one may require a high degree of technical skill while another a high degree of interpersonal skill; one may be expensive but reliable, another inexpensive but less reliable.

5. Preparing Planning Stage Output Documents

At the end of the planning phase, the internal audit manager will prepare a Preliminary Survey Report or Terms of Reference to document the results.

The purpose of the document is to demonstrate and communicate the following decisions:

- a. Significant audit issues and the reasons for pursuing them further (e.g. the results of the risk assessment)
- b. Audit objectives
- c. Audit scope, i.e. the areas, activities, systems, or processes to be examined, together with the rationale for not pursuing any related ones
- d. Audit criteria against which assessments will be made
- e. Approach or methodology that will be used for the engagement
- f. The process for communicating audit findings
- g. The projected timeline for the audit, and
- h. Resource requirements.

Once approved by the internal audit director, the document serves as the basis for conducting the audit.

The templates recommended as aids in engagement planning are: **Appendix I** – Template for Audit Engagement Plan; **Appendix J** – Template for Presenting an Audit Plan; **Appendix K** – Checklist for Reviewing an Internal Audit Program; and **Appendix L** – Engagement Planning Checklist.

6. Suspending Audit Activity

On occasion, the planning phase may result in a recommendation to suspend additional audit activity. For example, if there is an absence of even basic controls and the auditee accepts the need for immediate improvement action, The Audit Committee may recommend the auditee seek assistance to establish the basic elements of a management

control framework. Alternatively, the planning phase, including limited testing of controls, may reveal that there are no significant risks that are not apparently well mitigated by established control processes.

In these circumstances, the internal audit manager should prepare a recommendation to defer or cancel the engagement, or to revisit the objectives, so that the necessary senior management approval may be obtained administratively or via a formal recommendation to the Audit Committee.

E. ASSESSING INTERNAL CONTROL

Simply stated, control is making sure that what happens is what is supposed to happen and that, to the extent practical, undesirable results do not occur. A control is any action taken by management or staff to enhance the likelihood that established goals and objectives will be achieved while eliminating or mitigating the impacts of risks and protecting assets, including money, reputation, physical property, and human resources.

1. Definition of Internal Control

As defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO):

“Internal control is a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations”.

What internal control is and what it is not are briefly cited below:

- Internal control is a process. It is a means to an end, not an end in itself.
- Internal control is not merely documented by policy manuals and forms. Rather, is put in by people at every level of an organization.
- Internal control can provide only reasonable assurance, not absolute assurance, to an entity’s management and board.

- Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

Several key points should be made about this definition:

- a. People at every level of an organization affect internal control. Internal control is, to some degree, everyone's responsibility. Within a company, administrative employees at the department level are primarily responsible for internal control in their respective department.
- b. Effective internal control helps an organization achieve its operations, financial reporting, and compliance objectives. Effective internal control is a built-in part of the management process(that is, planning, organizing, directing, and controlling). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way. It promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations. It also ensures the reliability of financial reporting (that is, all transactions are recorded and that all recorded transactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarized and posted).
- c. Internal control can provide only reasonable assurance – not absolute assurance – regarding the achievement of an organization's objectives. Effective internal control helps an organization achieve its objectives. It does not ensure success. There are several reasons why internal control cannot provide absolute assurance that objectives will be achieved: cost/benefit realities, collusion among employees, and external events beyond an organization's control, to name a few.

2. Two Types of Controls

Controls, in general, are categorized in two types, either preventive or detective. As implied by the name, preventive controls are intended to prevent unintended consequences occurring, that is, they are intended to function *during an activity* or transaction, for example, overpayment of salary, a contribution to an ineligible recipient.

Whereas, detective controls are intended to detect unintended consequences *after they have occurred*.

a. Preventive Controls

Preventive controls are intended to trigger an obstacle that prevents the routine processing of a particular transaction, such as, a limit built into a payroll system, a certification of recipient eligibility. Some examples of preventive controls are providing (and reinforcing) training of employees on how to do the job correctly, segregating duties to reduce the opportunity for intentional wrongdoing, creating physical deterrents such as locks, alarms and building passes to deter theft, and convening peer review committees or expert panels to review project proposals and recommend funding. Preventive controls may also be thought of as application controls in the sense that they are embedded in the intended transaction, process, or activity.

b. Detective Controls

Detective controls are intended to detect unintended consequences after they have occurred. Some examples of detective controls are reports which detail the information accessed by an employee from a department or agency's systems, reconciliation of an inventory listing to the actual physical material, and monitoring (or auditing) contribution recipients to ensure that funds have been used for the purposes intended. Detective controls may also be thought of as monitoring controls in the sense that they operate above of or outside of routine processes or activities and their preventive controls.

Many models of internal control will prescribe specific criteria against which the internal control framework, and its components, can be assessed. In that sense, the models serve as criteria against which internal control frameworks and individual controls can be assessed.

3. Testing Controls

The internal audit manager who has gained an understanding of the auditee's objectives and control environment and has identified the key risks to the achievement of objectives is now in a position to identify and assess the related controls and their likely effectiveness in mitigating risks. In essence, the internal audit manager will document the process or activity for which the control is intended, evaluate the expected effectiveness, efficiency and cost effectiveness of the control, and test whether it is working as intended.

In testing controls, the internal audit manager will pay particular attention to the extent to which it might be possible to rely upon detective, or monitoring controls, as these may reduce the necessity for extensive testing of preventive controls. For example, a manager may have established a quality review team to review a sample of files or transactions on a regular basis. If this activity is reliable as a control, it may eliminate the necessity for the audit to test as many original files or transactions.

F. CONDUCTING THE ENGAGEMENT

The purpose of the conduct phase of the audit is to gather sufficient, appropriate audit evidence to reach a conclusion on each of the objectives identified in the planning phase. Fieldwork is generally regarded as the beginning of the conduct phase and is interpreted as the point at which the audit team is implementing the audit program, usually on site with the auditee.

1. Hold an Initial Meeting with the Auditee

An entrance meeting will normally be held on the first day of fieldwork with the audit team and the manager and supervisors directly responsible for the program, activity or organization being audited. Where practical, the internal audit director will attend the meeting, especially if the meeting includes executive heads responsible for the program, activity, or organization being audited.

The agenda will normally include:

- a. Introductions - members of the audit team and their areas of responsibility as well as key auditee staff and their areas of responsibility
- b. The audit objectives and scope - including any limitations or exclusions
- c. The audit process - the approach or methodology to be followed, the schedule, and the locations to be included
- d. Expectations - the internal auditor has for auditee cooperation and involvement and the auditee has in terms of professional conduct and respect of the auditee's environment
- e. Debriefing and reporting - activities and products

After the entrance meeting, the audit team members will normally meet individually with the supervisor responsible for the activity, organization or program that they have been assigned. This meeting can be used to gain an understanding of how the supervisor's responsibilities are carried out, to obtain access to required documentation, and to meet other staff.

2. Developing the Audit Program

The audit program specifies who is doing what, why it is being done, how it is to be done, when it is to be done and where it is to be done, while allowing some flexibility for the use of initiative and sound judgment in deviating from prescribed procedures or extending the audit work where warranted.

Audit programs document and detail the audit tests and procedures that the internal audit manager has designed as the approach to collect and analyze audit evidence in the most cost-effective manner while ensuring objectivity, independence and uniformity. The purpose of the audit program is to provide:

- a. A guide for conducting and coordinating the audit work to be done
- b. A framework for assigning audit work
- c. A framework for effectively supervising work and assessing the cost and the quality of the work performed and
- d. A vehicle to document the exercise of due care and compliance with professional standards and policies.

Once the objectives and scope have been determined, the efficiency and effectiveness of an audit depend largely on how well the audit program has been designed and executed. The key component of an effective audit program is the tests and procedures to be followed in gathering and analyzing audit evidence. The tests and procedures should be structured and described so that it is clear to which criterion and to which audit objective each procedure is directly linked. The format should also include a provision for recording cross-references to working papers.

Appendix J – Template for Presenting and Audit Plan and **Appendix K** – Checklist for Reviewing and Internal Audit Plan can provide the guides in conducting the audit work.

3. Complete the Audit Program

Once the entrance meeting has been held, the audit team members proceed to carry out their assigned parts of the audit program. As activities are completed there will be ongoing processes of analyzing and evaluating evidence and formulating, discussing, presenting and refining observations and findings.

Appendix M provides a Sample Audit Observation Worksheet to aid in ensuring that each observation is well developed. **Appendix N** provides a Checklist for Conducting the Engagement.

G. REPORTING THE ENGAGEMENT

As outlined in the Policy on Internal Audit, internal audit is to “provide ...added assurance...on risk management, control and governance processes.” In order to accomplish this objective, the audit team must effectively communicate its audit conclusions and recommendations.

Throughout the audit, the team leader will have discussions with the auditee to review and discuss observations and findings and potential recommendations. This helps ensure that all pertinent information has been considered in developing conclusions and provides an opportunity for the audit team and the auditee to work to develop effective solutions to identified deficiencies. At the end of the audit, this informal communication process is formalized through closing or exit meetings and written reports.

Appendix O – Checklist for Reviewing Audit Reports and **Appendix P** – Checklist for Reviewing Audit Observation Worksheets and Supporting Evidences will help the internal auditors document observations and develop effective solutions.

The reporting phase of the audit includes debriefing the auditee, drafting the report, issuing initial and subsequent drafts, reviewing management action plans, preparing the report for the Audit Committee, and distributing the final audit report.

1. Debrief the Auditee

The internal audit manager should formally discuss all significant audit findings and conclusions with auditee management before the report is drafted. This formal debriefing helps ensure that:

- a. There are no “surprises” with respect to reporting results.
- b. There have been no misunderstandings or misinterpretations.
- c. The internal auditor is aware of all relevant evidence and any corrective action already taken.

In addition, this process will help ensure there is buy-in and feedback on proposed recommendations.

A debriefing meeting may also be used to discuss points that are of interest but are not significant enough for the written audit report. These findings of lesser significance may be addressed in a management letter to the auditee.

2. Prepare the Draft Report

The purpose of the written report is to communicate. The messages must be clear and precise to ensure that the reader will understand what the report is trying to achieve. The report should be fair and balanced and presented in an unbiased tone, noting where management has taken actions to correct deficiencies and pointing out exemplary performance.

Only matters of significance should be included in the report – thus not all observations and recommendations recorded during the conduct of the audit will be brought forward to the report. Reports are normally more effective when related observations can be aggregated and addressed with higher-level recommendations, such as, to improve controls.

3. Reporting Responsibility of the Internal Audit Director

The internal audit director is responsible for ensuring that completed audit reports:

- a. Are issued in a timely manner and made accessible with minimal formality
- b. Are disseminated to all departments in a timely manner

- c. Provide sufficient context by describing the area that has been examined, how it fits into the organization, its importance, and the relevant laws, policies and standards and
- d. Clearly identify risks and opportunities for improvement to be addressed by management
- e. Identify the criteria used in the engagement, particularly on assurance engagements
- f. Include a statement of assurance which describes the level of assurance the auditor is providing, and
- g. Include a management action plan that clearly identifies actions to be taken by management to address recommendations and findings, the timing of such actions, and who is responsible for their implementation.

4. Outline of the Internal Audit Reports

The standard internal audit report is outlined and briefly described by section, and can be adopted by the Internal Audit Department:

- Executive Summary
- Statement of Assurance
- Objectives
- Scope
- Approach or Methodology
- Conclusions
- Observations and Recommendations
- Management Action Plan

Executive Summary

The executive summary should reiterate the objectives and scope of the engagement and include brief descriptions of the audit entity, the rationale for the internal audit, and the criteria and approach employed, including references to professional standards. A conclusion is required for each objective, and a summative conclusion may be provided. A statement of assurance should be included or referenced if it is located in the conclusions section or provided in a covering memorandum. Key recommendations and management responses may also be included. Above all, management should be able to readily focus on and understand the important issues being reported.

The executive summary may not be required when reports can be kept short.

Statement of Assurance

The Statement of Assurance provides a conclusion, relative to the audit objective(s), that conveys to management a clear understanding of what was assessed, the criteria against which the assessment was made, and the level of assurance supporting the conclusion. The conclusion must be put in context in the Statement of Assurance by including the following:

- the professional auditing standards (IIA) in accordance with which the audit was conducted
- the objectives of the internal audit
- a description (scope) of what the internal audit did and did not examine
- the time periods during which the internal audit was conducted and represented by any transactions examined or tests conducted
- the criteria on which the conclusion is based
- a statement that sufficient and appropriate audit procedures were followed and evidence gathered.

Objectives

- Reason for the engagement and the specific objectives

Scope

- Context of the subject matter (for example, a description of the program, activity, issue, organization, or system examined, its place within the department, and its importance or a description of exclusions)
- Timing (the period covered by the evidence examined)

Approach or Methodology

- Criteria (against which the observations and assessments were made and conclusions were drawn)
- Work conducted
- Standards used (any professional standards, such as that of IIA, governing how the work was done)
- Timing (the period during which the work was done)

Conclusions

- Conclusions on objectives and any qualifications
- Compliance with relevant laws, regulations, policies, and, standards
- A summative conclusion that may be desirable
- A statement of assurance that may be included or may be referenced if it is addressed in a covering memorandum
- Other higher level results relative to engagement objectives

Observations and Recommendations

For each area of observation:

- A topic sentence may be employed to introduce the essence of the observation
- Condition
- Criteria
- Cause
- Impact and exposure to risk
- Recommendation (action required and responsibility)

Management Action Plan

- Action to be taken for each recommendation
- Timing of the implementation

5. Discuss with Auditee

Once the first draft has been completed and reviewed by the Internal Audit Director, the internal audit manager shares a copy with the auditee so that they may review it to correct possible errors, misinterpretations, or omissions. It may be desirable to have more context provided. If observations and recommendations have been shared with the auditee throughout the audit, this process should flow relatively smoothly.

In the event that the auditee significantly disagrees with the audit report and the audit manager cannot resolve those disagreements by sharing findings and evidence with the auditee and by considering the auditee's perspective, the internal audit manager may need to be prepared to seek resolution at more senior levels. Normally this would involve

discussions with the Audit Committee to ensure that they would draw the same conclusions and formulate the same recommendations based on the evidence collected and analyzed.

In some cases, the internal audit director may decide to seek additional evidence and this would be communicated to the auditee. In other cases, it may be determined that evidence is sufficient and the conclusions are appropriate. The issues would then be discussed with a more senior level of management responsible for the auditee. If the issues cannot be resolved through this means, the report will be issued and management will be requested to respond and table it for approval.

6. Issue Draft Report and Request Management Action

Once the auditee has had the opportunity to suggest corrections, the internal audit director issues the report with a request for formal response and inclusion of a management action plan. The auditee should be given reasonable and sufficient time to properly review the report and provide a formal response and action plan, bearing in mind the desirability of finalizing the report in a timely fashion. If observations and recommendations have been discussed throughout the process, the auditee may be well advanced in developing their action plan before the formal draft report is issued.

7. Review the Management Action Plan

The internal audit director is responsible for ensuring that management action plans are prepared that adequately address the recommendations and findings arising from internal audits. Normally, the action plan should indicate where there is:

- Agreement with the recommendation and a commitment to undertake corrective action or
- Agreement with the recommendation and an explanation as to why corrective action cannot be taken at this time, or
- Disagreement with the recommendation together with an explanation.

The internal audit manager should review the action plan to determine whether it adequately addresses the recommendations, since the action plan is expected to be a key element of the report that goes forward to the Audit Committee. In particular, the internal audit manager should ensure that:

- The proposed action will fix the underlying problems and will produce concrete results at a reasonable cost
- The auditee has the capacity and authority to complete the actions, and
- It is clear who is responsible for doing what and within the timeframe agreed upon

The review of the action plan will allow the auditor to assess whether there is any undue risk in the action plan proposed.

The review of the action plan will also help the internal audit manager determine the most appropriate follow-up action, such as, regular status reports or a scheduled formal follow-up activity.

If the internal audit manager is not satisfied with the response or the action plan (for example, if there is too much risk in not correcting the deficiency), a meeting should be scheduled with the auditee to present the concerns and suggest means by which the action plan might be improved. In the event that direct discussion with the auditee does not lead to a more acceptable plan, the internal audit manager should raise the issue with the internal audit director to express concerns when the report is presented to the Audit Committee, as long as the intention to do so has been communicated to the auditee.

8. Prepare the Report for Audit Committee Approval

The internal audit director is responsible for approving all internal audit reports. To provide the Audit Committee with a fair and complete picture, the management action plan should be integrated into the audit report. This integration should be done in such a way as to clearly identify, for each recommendation provided in the report, the action to be taken, the position or person responsible, and the related timing.

In any situation where a management action plan is not forthcoming within a reasonable period of time, the internal audit report should be presented to the Audit Committee for timely approval as a completed report without the management action plan.

9. Finalize and Make the Report Available

Once the Audit Committee has approved the final audit report, there are a number of additional steps required, including:

- develop and execute the necessary communication plan in conjunction with the responsible auditee

- ensure that there are no passages which should be excluded from publication.

10. Close the Audit

Once the final report has been issued, the following steps to be taken to close the audit are:

- Finalize and archive working papers
- Complete project performance discussions
- Provide input to future audit plans, such as, update the auditable unit profile, recommend follow-up activity, or identify potential risk areas for consideration for audit

VI. APPLYING INTERNAL AUDIT TOOLS AND TECHNIQUES

Audit Evidence Control and Risk Self-Assessment Methods of Documenting Audit Evidence-Working Papers
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A. AUDIT EVIDENCE

Audit evidence is collected to enable the drawing of conclusions with respect to each of the engagement objectives. It is the information collected, analyzed and evaluated to support an audit finding or conclusion. The decisions on which type of evidence to seek and on how much evidence is enough require professional judgment. To support the exercise of that judgment, knowledge of the concepts underlying evidence is necessary.

1. Concepts

There are a number of attributes that are normally associated with good audit evidence. These are:

- **Sufficiency** - the measure of the quantity of evidence
Enough evidence should be collected and evaluated so that a reasonably informed unbiased person would agree with the auditor's findings and conclusions
- **Reliability** – the measure of the appropriateness and trustworthiness of sources and techniques

Generally evidence is more reliable if from a credible independent source than from the auditee, if obtained through direct physical examination, observation, computation and inspection than indirectly, documentary rather than oral, and confirmed rather than sole source

- **Relevance** – the measure of the pertinence of the evidence
The evidence shall have a logical relationship to what it purports to prove.

When considering the adequacy of evidence, the internal auditor should keep in mind:

- The audit is seeking reasonable, but not absolute, conclusions
- Incomplete data may result in the inability to reach reasonable conclusions
- Examination of extensive evidence may be uneconomical, inefficient and ineffective
- Evidence shall be reasonably representative of the population being reviewed or addressed.

2. Types of Audit Evidence

Evidence used to support audit conclusions may be categorized into different types:

Physical - consists of direct observation and inspection of people, property and events.

Testimonial - is provided in statements of auditee personnel and others. Examples of testimonial evidence include letters in response to audit enquiries and interview notes. If possible, testimonial evidence should be supported by documentary evidence.

Documentary - is that which exists in some permanent form such as records, purchase orders, invoices, memoranda, and procedure manuals.

Analytical - stems from analysis, verification, and assessment of compliance-non-compliance, consistency-inconsistency, or cause-effect relationships. The sources of such evidence are computations, comparisons with prescribed standards, past operations, similar operations, or laws or regulations, and reasoning.

In general, evidence accumulated from different sources and of different types is strongest. The determination of when it is necessary to gather corroborating evidence from different sources or of a different nature is a matter of professional judgment.

Factors that may be taken into consideration when deciding whether or not to seek additional evidence include:

- Is there a high degree of consistency among the evidence already collected (i.e. the lack of contradictory evidence)? If so, the need for additional evidence is decreased; if not, the need is increased.
- Is there a high degree of risk, significance or sensitivity associated with the matter to be reported? If so, additional evidence may reinforce the internal auditor's conclusion; if not, existing evidence may be sufficient to gain acceptance of the conclusion.
- Is the cost of obtaining additional evidence worth the benefits to be obtained in terms of supporting the finding? If not, don't bother; if so, proceed.

3. Methods of obtaining evidence

An effective approach to gathering audit evidence will normally incorporate a variety of auditing tools and techniques. Different tools and techniques have various strengths and weaknesses. For example, one may require a high degree of technical skill while another a high degree of interpersonal skill; one may be expensive but reliable, another inexpensive but less reliable.

The following sections describe some common methods of creating or gathering audit evidence.

a. Interviews

Interviewing is a frequently used technique to gather evidence and opinions. Interviews can help to define the issues, furnish evidence to support audit findings, and clarify positions between the auditor and the auditee on audit observations and recommendations. Interviews can also be used to solicit the opinions and experiences of stakeholders or recipients of the auditee's products or services. Adequate preparation and good skills are needed to use interviews effectively in building or confirming audit evidence.

b. Audit Tests

Testing implies placing selected activities or transactions on trial, so to speak, to reveal inherent qualities or characteristics.

Audit tests are developed and conducted for either compliance or substantive verification purposes.

Compliance oriented tests are designed to assess the adequacy and effectiveness of controls. Some questions to ask are: if a transaction exceeding a set limit is submitted into a system or process, will it be pulled out for special consideration, or, if a funded project has a risk score warranting a special monitoring plan, will it be implemented?

On the other hand, substantive test procedures include the detailed examination of selected transactions, such as, a sample of pay transactions could be reviewed against collective agreements to ensure correct processing, or a sample of contribution files could be examined to ensure terms and conditions have been respected.

In practice, many tests fall into the category of dual purpose tests. The checking of calculations may show that an internal control checking function is being properly executed (compliance) and may provide assurance as to the accuracy of the amount recorded in the system (substantive).

Many tests may include the re-performance or mathematical checking of source documents and other records. Once the appropriate test has been selected, it is important to determine how it will be applied, either as a:

- Specific item (or judgmental) test where individual items are selected for examination because of their size or other characteristic and reliable conclusions can only be drawn relative to the items tested; or
- Representative item test where the objective is to examine a random selection of items, usually accomplished through statistical sampling techniques, to support the formulation of conclusions with respect to the entire population based on the sample examined.

c. Sampling

Sampling is the process of selecting part of a population to determine parameters and characteristics of the whole population. The objective of sampling is to gather data on a limited number of observations (people, things, processes, documents, etc.) that represent the larger group about which more descriptive, normative, or cause-and-effect statements need to be made. Since it is rarely feasible to study an entire population (like doing a census), sampling must suffice. Unless the sample represents the population, however, sampling accomplishes little.

Sampling may be random or purposeful. The major difference between the two is that random sampling is more confirmatory while purposeful sampling is more exploratory. In the context of testing, specific item tests would more likely be applied on the basis of purpose whereas representative item tests would be applied on a random basis. Both types of sampling may be applied to attributes, to reach a conclusion about a population in terms of the proportion, percentage, or total number of items that possess some characteristic (attribute) or fall into some defined classification, or to variables, to draw conclusions about a population in terms of numbers, such as dollar amounts.

d. Surveys

Surveys are structured approaches to gathering information from a large population. Examples of survey use would include efforts to obtain input from all the members of the auditee on the perceived opportunities for training and development or to obtain opinions from recipients of services (either internal or external) on the quality and timeliness of services provided. Whether the survey is administered in person, by telephone, by Internet, or by mail, the key element is the existence of a structured, tested questionnaire.

Inspection consists of confirming the existence or status of records, documents or physical assets. Inspection of physical assets provides highly reliable evidence of their existence or condition. Inspection of records could confirm the existence of source documents for data entry, e.g. program participant questionnaires or evaluations.

e. Flowcharting

Flowcharting is the graphic representation of a process or system and provides a means for analyzing complex operations, such as in key control points, or redundant activities. A system flowchart would provide an overall view of the inputs, processes and outputs, while a document flowchart would depict value adding activities and critical controls.

f. Modeling

Modeling includes the field of quantitative techniques, often referred to as operations research. It makes use of mathematical and statistical models designed to simulate real processes and help in decision-making. Models are identified in terms of their intended uses, that is, descriptive, which classify variables and explain their relationships, predictive, which forecast on the basis of variable relationships how the variables will

behave if one or more of them are changed, and planning, which decide the best way of combining or changing relationships to achieve some result.

g. Observation

Similar to inspection, observation entails personally verifying or attesting to a process or procedure, as in the application of controls by members of the auditee's staff or the manner in which clients are treated. Many service transactions and internal control routines can only be evaluated by seeing the auditee perform them.

Whenever possible, two or more auditors should be present to make observations in order to provide additional support to the observations.

4. Confirmation

Confirmation involves a request, usually provided in writing, seeking corroboration of information obtained from the auditee's records or from other less reliable sources, for example in gathering anecdotal information from a client of the auditee.

5. Analysis

Analysis consists of examining information obtained and using it to corroborate other findings or to compare auditee performance against performance indicators and policies, past operations, similar operations in other organizations, and legislation.

B. CONTROL AND RISK SELF-ASSESSMENTS

The rapidly changing business environment today requires a culture of dynamic risk management through effective internal controls to ensure organization objectives are achieved. Organizations should continuously assess their risks and the effectiveness of the controls in mitigating these risks. To achieve this, leading organizations have turned to the use of facilitated group sessions with auditees as a means to more efficiently identify potential risks or control weaknesses.

Common to any facilitated process is a person who as facilitator is not necessarily an expert on a specific issue (but can be) but who is an expert on process. A facilitator is trained and effective in communication (verbal and non-verbal), working with people,

resistance, group dynamics, effective meetings, decision-making, workshop design and implementation, and dealing with crises.

1. Control Self-Assessment

Control self-assessment is normally focused on having the members of a working group identify and assess the controls that govern their activities. The process is usually an iterative one wherein an effort is made to identify all controls and then focus on the ones that are most important or may be questionable in terms of their effectiveness. In many instances, the process of control self-assessment can be a learning opportunity for the group and can lead to the taking of immediate action by management to address the identified areas of concern.

In terms of the conduct of an audit, control self assessment can be a very efficient and helpful process during the planning phase of the audit by identifying potential control weaknesses. The auditor cannot rely upon the self assessment alone but must always conduct sufficient testing to provide assurance as to whether a control is working as intended or not.

2. Risk Self-Assessment

Risk self-assessment is similar to control self-assessment in terms of the process but may often be focused on having peer groups or knowledgeable stakeholders identify the risks associated with one or a group of programs, activities, or initiatives. For example, senior management may participate in risk self-assessment to identify the key risks facing the organization while a group of regional program officers may come together to identify the risks associated with a new program initiative.

Risk self-assessment is frequently employed when a new program or initiative is required to prepare a risk-based audit framework.

In terms of the conduct of an audit, risk self-assessment can be a valuable tool to identify potential risks but the auditor must be satisfied that the process has been as complete and independent as possible. The auditor must ensure that all potential risks have been identified and evaluated. The auditor cannot abdicate that responsibility.

C. METHODS OF DOCUMENTING AUDIT EVIDENCE

1. Working Papers

Working papers are the supporting documentation for the entire audit – they are the repository for the accumulated audit evidence. Working papers provide a complete audit trail and demonstrate, in detail, how the engagement was performed. They contain the evidence to support the report and any related products, such as management letters that are frequently used to report matters outside of the scope of the audit or of less significance. More specifically, working papers provide a demonstrable link between reports issued and the work performed, and support the findings, conclusions and recommendations. Working papers can also be used to:

- Justify and provide proof of work carried out
- Help auditors respond to questions about coverage or results
- Facilitate supervisory quality assurance reviews and
- Provide supporting evidence when external auditors or other reviewers want to rely on the results.

A completed set of working papers is normally prepared in the form of either paper or computer files, however, the set may be later stored in the form of tapes, diskettes, films or other media. The organization, design and content of a set of internal audit working papers will depend on the nature of the audit, however, the set should document all aspects of the audit process, including all meetings and discussions with the auditee, and should be consistently and efficiently prepared to facilitate review and control.

A completed set of working papers should be neat and uniform in size and appearance and include:

- An index to contents
- A legend of symbols and abbreviations used
- A statement of the purpose of the working papers
- Evidence of the application of the audit program
- The results of the audit, e.g. debriefings, reports, action plans

Within the set of working papers, each page should include a descriptive heading such as, Interview Summary, Test Result, Document Examined), the auditor's name or

initials and dates of preparation, appropriate cross-references and evidence of supervisory review and comments.

Each audit working paper file should have an indexing system to assist future users to easily consult the information it contains. Although there is no set format for the indexing system, common practice is an alphanumeric system whereby alpha identifies the section within the working paper file and numeric identifies the items within a section.

As previously noted, working papers should be properly cross-referenced. Cross-references should stand out clearly and provide direct and prompt access to information so that a reviewer can trace conclusions back to the original audit tests and the evidence gathered and vice versa. Cross-referencing of documents should follow the system established for the working paper file index. The extent of cross-referencing required may vary depending on the engagement; good practice indicates, however, that, at a minimum, the following items should be cross-referenced:

- Specific items in the audit report to the pertinent audit observation worksheet
- Audit observation worksheets to the supporting evidence
- Evidence that relates to other evidence and
- Audit program steps to the supporting evidence.

All audit working papers should be reviewed to ensure that all information contained is relevant and supports the report and that all necessary auditing procedures have been performed. Evidence of supervisory review (i.e. review of the working papers by at least one more senior member should consist of the reviewer's initialing and dating each working paper after it has been reviewed.

Working papers are formal records belonging to FGC and their retention follows company records retention policy. **Appendix Q** – Checklist for Reviewing Working Papers provides key considerations on mechanics and content reviewing the working papers.

2. Access to Information and Privacy Acts

This applies to all internal audit reports, records, working papers, and files. As a consequence, care has to be taken to ensure that protected information is not inadvertently disclosed.

All members of the audit department have to be aware of the possibility that their work products, including working papers, e-mail and any other documentation, may be subject to an access to information request.

Formal requests for access to internal auditing related information are channeled to the Audit Director who is responsible, in consultation with the management to ensure that a timely response is provided and that protected information is not inadvertently disclosed.

VII. QUALITY ASSURANCE AND IMPROVEMENT

Quality Assurance and Improvement Quality Assurance
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A. QUALITY ASSURANCE AND IMPROVEMENT

Quality Assurance and Improvement Program - The internal audit director should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program includes periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program should be designed to help the internal auditing activity add value and improve the organization's operations and to provide assurance that the internal audit activity is in conformity with the Standards and the Code of Ethics.

Quality Program Assessments – The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments.

Internal Assessments – Internal assessments should include:

- Ongoing reviews of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal audit practices and the Standards.

External Assessments – External assessments should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

Engagement Supervision – Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

B. QUALITY ASSURANCE

An effective quality assurance and continuous improvement program helps internal audit groups achieve quality internal audits that effectively and consistently result in a value-added product for senior management.

1. Due Professional Care

The first and most important level of quality assurance is the due professional care exercised by the internal auditor and the supervisory review conducted of the internal auditor's work throughout all phases of the engagement by more senior members of the internal audit group. The supervisory review must encompass the planning, conduct, and reporting phases. To support these reviews, a number of checklists, referenced throughout this guide at the appropriate step for their use, are provided in the appendices.

For example, the management review certificate (refer to Appendix D – Management Review Certificate) is to be employed by the Internal Audit Department to which an entire audit engagement has been contracted, or by the internal audit director, to provide assurance that there has been adequate supervision and management at all points in the engagement.

2. Independent Internal Review

The second level of quality assurance in the Internal Audit Department is an independent internal review to assess the quality and adequacy of the work performed, in accordance with IIA and department or agency policies and standards. These reviews comprise an examination of the working papers and the resultant audit report by a professional member of the Internal Audit Department who has not participated in conducting the audit. These quality assurance reviews are performed either prior to reports being finalized or at any time after they have been finalized and are based upon the use of standardized questionnaires and checklists.

The purpose of these quality assurance reviews is twofold: 1) to ensure performance of work in accordance with professional standards and 2) to identify opportunities for improvement. From time to time, internal quality assurance reviews may be expanded to include other elements of the functioning of the Internal Audit Department, such as the annual risk-based audit planning.

Queries and deficiencies identified during the quality assurance review process are documented, and an action plan is developed to address significant deficiencies.

A report is provided to the internal audit director at the completion of each quality assurance review. The report indicates the degree of compliance with standards and the

level of audit effectiveness (i.e. whether the audit objectives were met) and provides recommendations for improvement.

Appendix R provides a Checklist for Quality Assurance Review and **Appendix S** provides a Checklist for Quality Assurance Review Observation Worksheet .

3. External Validation

The third level of quality assurance is intended to comply with the IIA requirement that internal audit groups undergo a formal comprehensive review of effectiveness and compliance with relevant standards every five years. The external quality assurance review addresses all aspects of the work of the internal audit group and is performed by qualified external reviewers who are independent of the internal audit group being reviewed. The IIA has developed a number of standard tools and work instruments, such as questionnaires to gauge senior management perspectives that can be employed in the external review process.

The IIA also permits a variation on the external quality assurance review that allows for internal review with external validation. As implied, the internal audit group can undertake its own review and have it recognized as meeting the standard, subject to validation by an external reviewer.

APPENDICES

A - The Internal Audit Charter

B – Internal Audit Terms of Reference

C - Glossary of Terms

D - Management Review Certificate

E - Annual Audit Plan Preparation Checklist

F - Template for an Auditable Unit Profile

G - Template for Documenting Engagement Risk Assessment

H - Checklist for Reviewing Audit Objectives and Criteria Statements

I - Template for an Audit Engagement Plan

J - Template for Presenting an Audit Program

K - Checklist for Reviewing an Audit Program

L - Engagement Planning Checklist

M - Sample Audit Observation Worksheet

N - Checklist for Conducting the Engagement

O - Checklist for Reviewing Audit Reports

P - Checklist for Reviewing Audit Observation Worksheets and Supporting Evidence

Q - Checklist for Reviewing Working Papers

R - Checklist for Quality Assurance Review

S – Checklist for Quality Assurance Review Observation Worksheet

T - Internal Audit Standards at a Glance

A – THE INTERNAL AUDIT CHARTER

1. Purpose and Application

The purpose of this document is to establish the mandate of FGC internal audit function and to assign the responsibilities and identify the standards according to which it will be implemented.

This Charter is effective as of the date of signature.

2. Role

In accordance with the Policy on Internal Audit, the role of the departmental internal audit function, in conjunction with the Audit Committee, is to ensure that the FGC is provided with added assurance, independent from line management, on the departments risk management, control and accountability processes.

The internal audit function fulfills this role by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the departments risk management, control, and governance processes.

3. Scope of Work

The scope of work of the internal audit function is to determine whether FGC's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- a. Risks are appropriately identified and managed
- b. Significant financial, managerial, and operating information is accurate, reliable, and timely
- c. Activities and actions are in compliance with policies, standards, procedures, and applicable laws and regulations
- d. Resources are acquired economically, used efficiently, and adequately protected
- e. Programs, plans, and objectives are achieved
- f. Quality and continuous improvement are fostered in the department's control processes and

- g. Significant legislative or regulatory issues impacting the department are recognized and addressed properly.

When opportunities for improving management control, governance, or resource stewardship are identified during audits, they will be communicated to the appropriate level of management.

4. Accountabilities

The Internal Audit Director is responsible for:

- a. establishing an internal audit function that is appropriately resourced and that operates in accordance with the Policy on Internal Audit and its related directives
- b. establishing an independent audit committee and ensuring that it receives all the information needed to fulfill its responsibilities
- c. appointing a qualified Internal Audit Director, reporting to the CEO to lead and direct the internal audit function, independent from departmental management and operations
- d. approving a departmental internal audit plan that addresses all areas of higher risk and significance
- e. putting in place effective procedures to ensure systematic review of control and accountability processes
- f. taking into account the results of internal audits conducted by the CFO
- g. ensuring that management action plans are prepared that adequately address the recommendations and findings arising from internal audits, and that action plans have been effectively implemented
- h. ensuring that completed audit reports are issued in a timely manner and made accessible to the public with minimal formality and posted in a timely manner

The FGC Audit Committee is responsible for:

- a. ensuring, in accordance with the FGC Audit Committee Terms of Reference, that the Internal Audit Director has independent, objective advice, guidance and assurance on the adequacy of FGC's risk management, control and accountability processes and

- b. preparing an annual report to the CEO on their activities, including an assessment of the internal audit function.

The Internal Audit Director is responsible for:

- a. establishing appropriate policies and procedures to guide the internal audit function
- b. establishing risk-based audit plans to set out the priorities of the internal audit function
- c. coordinating internal audit plans and activities with other internal and external providers of assurance activities
- d. communicating the internal audit plan of engagements and the related resource requirements (including the impact of resource limitations) to the CEO and the Audit Committee
- e. ensuring that internal audit resources are appropriate (i.e. professional qualifications and skills), sufficient and effectively deployed to achieve the approved plan
- f. ensuring the timely completion of and reporting on individual internal audit engagements in accordance with professional standards
- g. reporting periodically to the Audit Committee on whether managements action plans have been implemented and whether the actions taken have been effective
- h. maintaining a quality assurance and improvement program that covers all aspects of the internal audit function
- i. reporting annually to the Audit Committee on the internal audit functions conformance with professional internal auditing standards
- j. providing annually a holistic opinion to the CEO and the Audit Committee on the effectiveness and adequacy of FGC risk management, control, and governance processes
- k. maintaining unfettered access to the Audit Committee and to the CFO and
- l. informing the CFO without delay, but after discussion with the CEO of any issue of risk, control or management practice that may be of significance

FGC Management is responsible for:

- a. ensuring the adequacy and effectiveness of risk management, control and governance processes
- b. providing full and timely support and cooperation to the staff of the internal audit function in carrying out their approved engagements and
- c. preparing and implementing corrective action plans with respect to approved audit recommendations.

The CFO is responsible for directing horizontal audits and for focused, sustained functional leadership of internal audit across government in order to build and develop capacity, ensure adequate levels of professionally qualified resources, and ensure adherence to professional standards and rigorous methodology in the delivery of internal audits.

5. Authority

The internal audit function, as led by the Internal Audit Director and implemented by the IAD, has access to all departmental records, databases, workplaces and employees and has the right to obtain information and explanations from departmental employees and contractors, subject to applicable legislation. Access to certain confidential personnel records is to be limited exclusively to such information as may be required in the conduct of a particular audit

The staff performing the internal audit function must be independent of and objective towards the activities that they review. They do not have any direct authority over the activities of FGC managers or staff.

The internal audit staff will perform audits with the proficiency and due care expected of reasonably prudent and competent audit professionals.

6. Standards

The internal audit function will be conducted in accordance with the Internal Auditing Standards, the Institute of Internal Auditors International Standards for the Professional Practice of Internal Audit, and the FGC Internal Audit Manual. In the event of conflict with the International Standards for the Professional Practice of Internal Audit, the Internal Auditing Standards will prevail.

B – AUDIT COMMITTEE TERMS OF REFERENCE

1. Role

In order to maintain accountability, the CEO, through the Audit Committee, involves senior management and external members in planning and establishing audit, evaluation and review priorities; examining the results of audit and evaluation studies and reviews, including assessment of related actions taken; and promoting effective management and performance monitoring of departmental programs, services and operations.

2. Authority

The Audit Committee has authority to:

address issues and initiatives relating to the review, audit, evaluation and performance measurement of departmental programs, services, policies and management systems; enquire into the management of any or all of the department's human, financial, physical or data resources, subject to statutory confidentiality requirements; satisfy itself as to the existence of and satisfactory performance and use of systems for establishing managerial accountability, management plans, financial and operational processes, performance monitoring approaches and information systems; evaluate and review departmental programs, policies, services and management systems to determine their effectiveness in meeting departmental and government objectives and the efficiency and economy with which they are being administered; and approve evaluation and audit plans, and management action plans intended to address audit and evaluation recommendations.

3. Composition

The Audit Committee shall be composed of at least three (3) members of the Board of Directors who shall preferably have accounting and finance backgrounds, at least one (1) of whom shall be an independent director and another with audit experience. The chair of the Audit Committee shall be an independent director. The Audit Committee shall meet at least two (2) times a year. The internal audit director may act as the secretary. The CEO and the General Counsel of Legal Services may serve as ex-officio members.

4. Special Attendance at Meetings

In addition to members of the committee, the following may be invited to attend: functional specialists from other units, such as the human resource manager and middle executives for agenda items where their expertise or reporting may be required, and where they may be required to report on their management action plans or follow-up to audits, evaluations or reviews.

5. Frequency of Meetings

Normally, the committee will meet at least twice a year.

6. Responsibilities

The Audit Committee is responsible for:

- approving annual and multi-year audit and evaluation plans
- monitoring progress against the annual and multi-year audit and evaluation plans
- providing advice on the objectives identified in specific audit or evaluation terms of reference when the Internal Audit Executive deems such guidance to be appropriate to better serve the needs of senior management
- approving internal audit and evaluation reports and the management action plans developed to address the recommendations made in these reports, including reviews, reports and studies undertaken by sectors and branches themselves

All internal audit and evaluation project reports shall be presented for final approval to the Audit Committee by the Internal Audit Director. The committee is responsible for approving and recommending any changes or making suggestions concerning proposed management actions.

Following final approval, the Audit Committee is responsible for reviewing the progress made by the department in implementing recommendations for change arising from audits, evaluations and reviews.

7. Linkage to the Executive Committee

As appropriate and for information purposes, the Audit Committee may direct that presentations be made to the Executive Committee with respect to audit and evaluation findings of a department-wide nature.

Presented for approval to the _____ meeting of the newly constituted Audit Committee.

Internal Audit Director

C – GLOSSARY OF TERMS

Accountability

The obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties: one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it has been discharged. (Manual on Value-for- Money Audit, Office of the Auditor General. Ottawa, December 2003.)

Add value

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services. (IIA International Standards for the Professional Practice of Internal Auditing. Almonte Springs, Florida, December 2003.)

Adequacy

The quality or state of being adequate (i.e. sufficient for a specific requirement). (Webster's New Collegiate Dictionary. Thomas Allen and Son Ltd. Toronto, Ontario, 1977.)

Assurance services

An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements. (IIA International Standards for the Professional Practice of Internal Auditing)

Board

A board is an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the audit committee, to whom the chief audit executive may functionally report. (IIA International Standards for the Professional Practice of Internal Auditing)

Chief Audit Executive or Internal Audit Director

Top position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. (IIA International Standards for the Professional Practice of Internal Auditing)

Compliance

Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements. (IIA International Standards for the Professional Practice of Internal Auditing)

Consulting services

Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. (IIA International Standards for the Professional Practice of Internal Auditing)

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. (IIA International Standards for the Professional Practice of Internal Auditing)

Control environment

The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and Ethical Values
- Management's philosophy and operating style
- Organizational structure

- Assignment of authority and responsibility
- Human resource policies and practices
- Competence of personnel.

Control processes

The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process. (IIA International Standards for the Professional Practice of Internal Auditing)

Economy

Thrifty and efficient use of material resources: frugality in expenditures.

Effectiveness

Production of a decided, decisive or desired effect.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, Control Self-Assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives. (IIA International Standards for the Professional Practice of Internal Auditing)

Engagement objectives

Broad statements developed by internal auditors that define intended engagement accomplishments. (IIA International Standards for the Professional Practice of Internal Auditing)

Engagement work program

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan. (IIA International Standards for the Professional Practice of Internal Auditing)

Evidence

Something that is intended to prove or to provide support for some belief.

(Dictionary definition from Sawyer, Internal Audit Techniques and Practices, p. 139)

Finding

In auditing, it is used to describe the result of comparison between a criterion and an actual situation, control or circumstance to which this criterion was applied.

(Manual on Value-for-Money Audit)

Governance

The combination of processes and structures implemented by the board in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives. (IIA International Standards for the Professional Practice of Internal Auditing)

Independence

The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels. (IIA International Standards for the Professional Practice of Internal Auditing)

Internal audit activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (IIA International Standards for the Professional Practice of Internal Auditing)

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not

to subordinate their judgment on audit matters to that of others. (IIA International Standards for the Professional Practice of Internal Auditing)

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. (IIA International Standards for the Professional Practice of Internal Auditing)

Risk management

A process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives. (IIA International Standards for the Professional Practice of Internal Auditing)

D – MANAGEMENT REVIEW CERTIFICATE

Engagement name:

Based on my review of the draft audit report, the working papers, and other relevant documentation, I hereby certify that:

1. I regularly monitored progress throughout the engagement to assess the quality of work performed, to challenge emerging observations, and to ensure that the work carried out was appropriate and in accordance with professional standards;
2. the working papers have been reviewed, that they are logically organized and appropriately indexed, and that they adequately reflect the work performed;
3. observations and findings are well supported and material and that appropriate conclusions have been drawn;
4. the audit team possessed sufficient knowledge of the subject matter being audited and completed the engagement with due professional care;
5. the report is in compliance with TBS and Audit and Evaluation Sector internal policies and standards;
6. the auditee has been debriefed at the appropriate stages within the process;
7. the engagement has been performed in accordance with the audit objectives and the engagement plan (and any approved amendments); and
8. throughout the course of the engagement, I have directed matters to the attention of the head of the internal audit group that, in my opinion, are of special importance.

Date: _____

Title: _____

Name: _____ Signature: _____

E – ANNUAL AUDIT PLAN PREPARATION CHECKLIST

Desired Qualities

1. The annual audit plan is prepared and available for approval prior to the start of the fiscal year in which it will be implemented.
2. An updated audit universe/multi-year plan is desirable to demonstrate, in conjunction with the annual plan, sufficient internal audit coverage of all significant auditable units.
3. The annual plan demonstrates that the planned work is consistent with government and department or agency goals and priorities and is based upon an assessment of risk.
4. The plan clearly describes how the basic requirement of the Policy on Internal Audit is to be met (that is, sufficient and timely assurance services provided on risk management, control and governance).
5. The annual plan describes the planning process undertaken and the extent of consultation with senior management.
6. The annual plan identifies and schedules (an indication of the activity by quarter of the fiscal year is usually sufficient) the engagements to be undertaken by the internal audit group during the period of the plan.
7. The expected outcomes for assurance engagements are clearly identified and, where possible, the criteria to be employed in reaching conclusions or opinions should be referenced.
8. The annual plan notionally allocates resources to engagements.
9. The annual plan allocates resources to ensure that there is a systematic monitoring and effective implementation of management action plans arising from earlier audit activities.
10. The annual plan includes summaries of the resources required to implement the plan and demonstrates how shortfalls in resources may affect the implementation of the plan.
11. The annual plan, or covering document, references the Audit Committee's approval and describes the circumstances under which any significant changes to the plan may be made and the levels of approval required.
12. Senior management is fully aware of the approved audit plan.
13. The approved annual plan and any subsequent significant changes are submitted to the Board of Directors, in accordance with the Policy on Internal Audit.

F – TEMPLATE FOR AN AUDITABLE UNIT PROFILE

1. **Background:** The auditable unit and its structure, its goals, its products or services, its environment, and its stakeholders.
2. **Objectives:** The auditable unit's expected accomplishments or contributions.
3. **Activities:** The principal tasks that the auditable unit performs or administers to accomplish its objectives.
4. **Outputs:** The products, goods, or services that are produced or directly controlled by the auditable unit and distributed inside and outside the department.
5. **Expected Results:** The intended accomplishments or longer term outcomes of the auditable unit, expressed in quantitative or qualitative terms.
6. **Resources:** The authorized operating, capital, transfer payment and salary dollars devoted to the auditable unit.
7. **Systems:** The major system(s) used by the auditable unit in support of its key inputs, processes, and outputs.
8. **Previous audits or reviews:** The summarized results, including follow- up action taken, of any previous internal audits or reviews conducted on the auditable unit.
9. **Major Changes:** The significant changes, made in prior years or anticipated, that have affected, or may affect, the auditable unit.
10. **Other Factors:** The constraints or other considerations that may have an influence on the outputs of the auditable unit or on the way it operates.
11. **Risk ranking:** The results of the internal audit activity's assessment of the auditable unit's risks.

G - TEMPLATE FOR DOCUMENTING ENGAGEMENT RISK ASSESSMENT

1. Audit entity objectives: The key objectives of the audit entity, including those that may not be specifically stated but address the entity's obligations to account for results achieved and for the efficient and effective use of resources.
2. Key risks: The events or circumstances that could significantly prevent the audit entity from achieving each objective.
3. Effect: Each risk is evaluated as to whether the effect on achievement of objectives would be low, medium, or high should it occur.
4. Likelihood: Each risk is evaluated as to whether the likelihood that it will occur is low, medium, or high.
5. Risk exposure: The audit will normally focus on the risks with a combined effect and likelihood assessment in the medium or high exposure range.
6. Summary of key control considerations: From the engagement planning, the known control processes associated with the risks with a medium or high exposure are documented. A preliminary assessment or opinion may be provided as to whether or not the control appears to adequately mitigate the risk. This assessment will guide the extent of testing to be undertaken. (A reference to the documentation supporting the identification and assessment may be included.)
7. Inclusion in audit: An indication as to whether or not the risk should (and can) be addressed in the objectives and scope of the audit.
8. Engagement objectives and scope: Considering the audit entity objectives, the identified medium to high risks, and the availability of resources, the recommended audit objectives and scope.

H – CHECKLIST FOR REVIEWING AUDIT OBJECTIVES AND CRITERIA STATEMENTS

Considerations re: Objectives Statements

1. Does the audit objective address one or more key generic audit areas, e.g. risk, control, information for decision making? If not, is an important area of coverage being neglected?
2. Does the objective clearly address at least one high-risk area or issue identified during engagement planning?
3. Are any high-risk areas or issues not addressed by an audit objective?
4. Does each audit objective clearly describe what is to be accomplished by the engagement, e.g. a conclusion or opinion with respect to assurance?

Considerations re: Audit Criteria Statements

1. Are the criteria relevant, i.e. appropriate to the audit entity, and are they from a clearly reliable source (e.g. an industry association or an approved management control framework) or are they generally accepted, i.e. would reasonable people say that they suit the subject matter to be audited?
2. Are the criteria consistent with those used for similar audits?
3. Are the criteria reliable? (Would they result in the same conclusions or opinions when used by different auditors in the same circumstances?)
4. Are the criteria neutral? (Are they free from any bias that could lead to misinterpretation?)
5. Are the criteria complete? (Does the set of criteria cover all significant aspects required to reach a clear opinion or conclusion on the audit objective?)
6. Will the criteria lead to findings and conclusions that directly address the related audit objective?
7. Are all the criteria related to an audit objective necessary? (Are there too many? Is there overlap or duplication?)
8. Can audit evidence be reasonably (e.g. practical, cost-effective) gathered in support of each criterion?
9. Has the auditee accepted the criteria?

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9. Has the auditee accepted the criteria?

I – TEMPLATE FOR AN AUDIT ENGAGEMENT PLAN

1. **Background:** An overview of the audit entity, including its main goals, objectives, and desired results and their linkage to the department or agency; its size (e.g. number of employees, budget); its structure and delivery or service points (e.g. local or regional offices); recent or pending changes of significance; and significant issues.
2. **Auditee concerns:** Management's issues or concerns raised during planning.
3. **Risk assessment:** A brief description of the risk assessment process used to determine the objectives and scope of the audit. If a risk assessment process was not used, the rationale for not doing so should be explained, e.g. special request audit.
4. **Audit objectives:** The statements developed by the internal auditor to define intended engagement accomplishments, e.g. a conclusion or opinion with respect to assurance.
5. **Audit criteria:** For each audit objective, the standards of performance and control against which the audit entity and its activities will be assessed.
6. **Scope:** A rationale for, and description of, the issues, programs, activities, transactions, or systems to be examined and a rationale for related activities excluded from examination. The period of time represented by the activities to be examined, e.g. transactions between April 1 and September 30.
7. **Audit methodology:** A general description of the audit work (nature and extent) that will be undertaken to gather and analyze sufficient, appropriate audit evidence. Reference may be made to the detailed audit program.
8. **Time frames and reporting:** The reporting process and target dates for completing work, e.g. oral debriefings, distribution and review of reports, audit committee tabling.
9. **Budget and resource requirements:** The anticipated staff and funding requirements to complete the work, e.g. travel, training, contracts.
10. **Audit entity contact persons:** The key audit entity contacts and their responsibilities with respect to the audit.
11. **Audit responsibilities:** To ensure team members have a clear understanding of expectations, the responsibilities of each internal audit group member.
12. **Signature blocks:** The required approval(s) by the senior member(s) of the internal audit group.

J – TEMPLATE FOR PRESENTING AN AUDIT PROGRAM

Engagement name:

1.0 Objective: The audit objective that is being addressed in this section of the program should be reprinted verbatim from the audit engagement plan.

Criterion	Sub-Criteria	Approach	Results	W/P Reference
<p>The first criterion related to the objective would be reprinted verbatim in this column.</p>	<p>If a further breakdown of a criterion is useful to guide the audit approach, each element would be identified, e.g. if transactions are to be processed efficiently and effectively, there may be different audit tests designed to assess efficiency and effectiveness.</p>	<p>The approach, e.g. interview, testing of a sample of transactions, documentation review, that will be used to produce meaningful audit evidence with respect to the first (and each subsequent) criterion (or sub-criterion) would be described here in sufficient detail for any reasonably informed internal auditor to apply.</p>	<p>The results of the approach could be summarized here, once known.</p>	<p>Reference to the evidence generated as a result of the approach would be included here, once obtained.</p>

K – CHECKLIST FOR REVIEWING AN INTERNAL AUDIT PLAN

The internal audit plan verifies involvement, which may range from review of completed work to active audit participation in audit activities. In general, the plan would include the following:

General Information	
	Purpose
	Scope
	System Overview
	Project References
	Acronyms and Abbreviations
	Points of Contact
	Information
	Coordination
Audit Process	Type of Internal Audit
	Internal Audit Subject
	Roles and Responsibilities
	Method of Internal Audit
	Schedule
Evaluation	Strategy
	Metrics

The checklist below is part of the evaluation process for the internal audit plan and assists designated reviewers in determining whether specifications meet criteria, to determine whether the program complies with methodology requirements.

To be completed by the author/internal auditor			To be completed by the reviewer whether complied or not		
General Information	Ref	Comments	Yes	No	Comments
Purpose: Describe the purpose of the internal audit plan					
Scope: Present the scope of the Internal Audit Plan and relate it to the identified project.					
System Overview: Provide a brief system overview description as a point of reference for the remainder of the					

document, including responsible organization, system name or title, system code, system category, operational status, system environment and special conditions.					
Project References: Provide a list of the references that were used in preparation of this document.					
Points of contact					
Information: Provide a list of the points of organizational contact (POCs) that may be needed by the document user for informational and troubleshooting purposes.					
Coordination: Provide a list of organizations that require coordination between the project and its specific support function (e.g., installation coordination, security, etc.). Include a schedule for coordination activities					
Audit Process					
Type of Internal Audit: Identify the type of Internal Audit being completed.					
Internal Audit Subject: Identify the subject area and/or organization to be audited.					
Roles and Responsibilities: Identify roles and responsibilities for each organization and management area within each organization that will influence the Internal Audit of the project.					
Method of Internal Audit: Explain the Internal Audit Process.					
Schedule: Identify and describe all activities and events associated with the Internal Audit. List all deliverables.					
Evaluation					
Strategy: Describe the strategy used, which will result in a successful audit.					
Metrics: Describe how Internal Audits will be measured, and the results analyzed.					

L – ENGAGEMENT PLANNING CHECKLIST

Audit Planning Step	Date Completed	W/P Ref.
The project is assigned to a lead internal auditor within the internal audit group.		
The auditee is notified in writing that the engagement has commenced.		
An initial meeting is held with the auditee to explain the initial audit objectives and scope as well as the process to be followed during the engagement.		
A sound understanding of the audit entity is developed, including its objectives and their linkage to those of the department or agency and any significant pending changes.		
An assessment of the audit entity's risks is conducted to focus further planning work into areas of potentially higher relative risk.		
A study or limited testing of controls in higher risk areas is completed.		
Engagement objectives are formulated based upon the results of the risk assessment and the study of limited testing of controls.		
Criteria suitable for drawing conclusions with respect to the objectives are established.		
An engagement plan, including time and resource requirement estimates, is approved at the appropriate level.		
The auditee understands the engagement plan.		
An audit program is developed to document the procedures for identifying, generating, analyzing, evaluating, and recording information during the engagement.		

M – SAMPLE AUDIT OBSERVATION WORKSHEET

Audit name:
Audit objective:
Activity or function examined:
Audit criterion:
Audit observation:
Supporting evidence:
Cause:
Effect:
Potential recommendations:
Management comments:
Prepared by: Date:
Approved by: Date:

N – CHECKLIST FOR CONDUCTING THE ENGAGEMENT

Audit Step	Date Completed
The auditee is provided with a copy of the approved plan for the engagement before the fieldwork is begun.	
An initial meeting is conducted at the commencement of fieldwork.	
The audit program is completed.	
The evidence gathered is consistent with the objectives and criteria and meets professional standards.	
Findings are developed and recorded on audit observation worksheets.	
Working papers are prepared and retained to support findings.	
The auditee is debriefed on observations as they develop and is provided an opportunity to comment on the observations and to provide input on recommendations.	

O – CHECKLIST FOR REVIEWING AUDIT REPORTS

The Substance of the Report
<p>The body of the report:</p> <p>Sufficient background information on the audit entity is provided to understand the context and significance of the audit report.</p> <p>The audit objectives and the related criteria used to arrive at observations and conclusions are stated.</p> <p>The audit scope states what was and was not included in the examination and specifies the period of time represented by the activities examined.</p> <p>The timing of the audit, the methodology employed, and the professional standards followed are described. If appropriate, disclosure is made if any parts of the engagement were affected by non-compliance with professional standards.</p> <p>Detailed audit observations relate to the stated objectives and criteria and logically support overall opinions and conclusions.</p> <p>Each observation contains a statement of the condition (the situation supported by audit evidence), the criterion, the cause, the effect, and a recommendation.</p> <p>Convincing or persuasive evidence is presented in support of each audit observation.</p> <p>The impact of negative observations is quantified where possible but otherwise presented in a compelling argument, including an analysis of potential risks.</p> <p>Recommendations flow logically from observations and causes, are specific and cost-effective, and are directed to specific positions or individuals with the authority to act upon them.</p> <p>A conclusion, or a statement of inability to conclude, is provided for each audit objective and is supported by convincing evidence and analysis.</p> <p>As appropriate, a statement of assurance is provided.</p> <p>Positive observations and conclusions are provided where warranted.</p> <p>Appendices included in the report add value in understanding the engagement results.</p>

The executive summary:

The executive summary provides a brief overview of the audit entity, reiterates the audit purpose, objective, and scope, references the audit criteria and methodology, and repeats the opinions or conclusions with respect to each objective and with respect to the overall engagement, if provided.

The statement of assurance is referenced or reiterated, as appropriate.

The Style of the Report

The table of contents establishes the layout and structure of the report and correctly represents headings and page numbers in the body of the report.

Headings and text styles (e.g. italics, boldface, font size) are used effectively and consistently to draw the reader's attention, e.g. topic or lead sentences, highlighted recommendations.

Charts and other exhibits are referenced in the report and appropriately labelled.

Paragraph and sentence structure support understanding, e.g. single topic or issue, concise, logical.

Initialisms and acronyms are explained or defined upon their first use.

Language usage and terminology is appropriate to the intended audience(s), e.g. the active voice is used and jargon and overly technical terminology are avoided or clearly explained.

A balanced tone is maintained.

Grammar and spelling are correct.

Appendices are presented in a uniform format and are referenced in the body of the report.

Overall, the report is clear and concise - the important findings, recommendations, and conclusions are evident.

P – CHECKLIST FOR REVIEWING AUDIT OBSERVATION WORKSHEETS AND SUPPORTING EVIDENCE

Key Considerations: Audit Observation Worksheets
Is the observation clear, i.e. does it provide sufficient information in a logical order to encourage positive management reaction?
Does the observation clearly address a criterion (and its related objective) of the engagement?
Is the cause of the problem or situation clearly defined?
Is the impact or significance (effect) of the situation clear, and does it justify remedial action?
If the recommendation were implemented, would the situation causing the observation be resolved?
Is the recommendation within the auditee's capacity or capability to implement?
Can the recommendation be implemented cost-effectively?
Is the individual (or position) to whom the recommendation is addressed clear, and does the individual have the necessary authority to implement it?
Key Considerations: Evidence
Is the evidence supportive of the observation, and is it sufficient to lead to an opinion or conclusion on assurance?
Are observation sheets cross-referenced appropriately to the supporting evidence, e.g. cause-effect analysis, impact analysis?
Does the cross-referenced documentation demonstrate that the internal auditor has identified, analyzed, and evaluated sufficient information to achieve the engagement objectives, e.g. every program step has been completed or reasons for omission are clearly documented and appropriately approved?
Is it evident that management has been orally debriefed on the observation and has had the opportunity to be involved in developing the recommendation?

Q – CHECKLIST FOR REVIEWING WORKING PAPERS

Key Considerations: Mechanics	W/P Reference	Review Notes
Does the file contain a table of contents?		
Are the working papers arranged in a logical fashion?		
Is the file indexed consistently and appropriately?		
Do all working papers include proper heading and reference numbers, dates prepared, preparer's initials, and an indication of supervisory review.		
Do the working papers contain any extraneous or unnecessary pages or documentation?		
Is the draft copy of the audit report cross-referenced to the applicable audit observation work sheets?		
Key Considerations: Mechanics	W/P Reference	Review Notes
Does the file contain all information required as per any internal audit group standard working paper index?		
Does the file contain copies of the audit programs and evidence that they were executed completely?		
Are key management interviews documented?		
Are the subsequent analysis of the results of carrying out the audit programs and the development of observations and conclusions clearly documented?		
Are discussions with supervisory staff or management on the initial observations adequately documented?		
Is the disposition of all of the audit observations and the logic behind those dispositions clearly documented?		
Have all ongoing and final review notes been addressed?		

R – CHECKLIST FOR QUALITY ASSURANCE REVIEW

Engagement name: _____

1. The planning process undertaken is well documented in the working papers, e.g. initial audit objectives and scope specified as per annual plan, background program information researched, formal notification provided to auditee, interview notes recorded, risk assessments completed, and resource requirements and scheduling estimated and approved.
2. Final audit objectives and scope are clearly stated and supported by the planning undertaken, e.g. consistent with the key risks identified and the audit criteria are appropriate for the achievement of objectives.
3. Understanding of the plan for the engagement by the auditee is documented. (If necessary, approval by the audit committee is also recorded.)
4. The audit program is appropriate to achievement of the objectives and is approved by an appropriate senior level in the internal audit group.
5. The working papers demonstrate that the audit program has been completed as intended (or as modified with appropriate approval) and comprise information collected and analyses undertaken on all matters related to the audit objectives and the scope of the work.
6. Observations and conclusions are based on evidence that is contained in the working papers and that is appropriate (e.g. sufficient, reliable, and relevant).
7. Conclusions and recommendations are discussed at appropriate levels of auditee management before issuance of the draft report.
8. The draft report includes the audit objectives, scope, criteria, methodology, and results of the engagement, including findings, conclusions, and recommendations for improvement.
9. The findings documented in the draft report are cross-referenced to the supporting documentation in the working papers and provide relevant analysis and explanation of the exposure to risks for any significant problems.
10. Conclusions are consistent with the objectives defined in the plan for the engagement and with the detailed findings. An appropriate statement of assurance is provided.
11. The draft report is objective, balanced, clear, concise, constructive, and timely.
12. Management responses and action plans address the recommendations.

13. Significant issues raised in the report, particularly where there is disagreement, are discussed with appropriate senior officials.
14. There is evidence of appropriate supervisory review while the engagement is being conducted and of management review before closing the file, e.g. completion of a management review certificate.

S – CHECKLIST FOR QUALITY ASSURANCE REVIEW OBSERVATION WORKSHEET

Engagement name: _____

The following observations have been raised during the quality assurance review of the engagement. Please review the observations and provide an appropriate response, or explanation, in the space provided and return to the undersigned.

W/P Ref.	Observation	Response	Cleared/ Signed off

Quality Assurance Reviewer: _____

Date: _____

T – SYNOPSIS OF INTERNAL AUDITING STANDARDS

Proficiency and Due Professional Care - Engagements should be performed with proficiency and due professional care.

Due Professional Care - Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

Nature of Work - The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.

Performing the Engagement – Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.

Identifying Information – Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

Analysis and Evaluation – Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

Recording Information – Internal auditors should record relevant information to support the conclusions and engagement results.

Note: The full text of the International Standards for the Professional Practice of Internal Auditing are available in the website of the Institute of Internal Auditing.