



The Republic of Uganda
Ministry of Local Government

**The Local Governments
Internal Audit Manual, 2007**

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LIST OF ABBREVIATIONS

ABS	Abstract
Admin	Administration
B/d	Brought Down
C.B	Cashbook
C/d	Carried Down
CAAT	Computer Assisted Audit Techniques
CE	Chief Executive
HOF	Head of Finance
CPD	Continuous Professional Development
Dept.	Department
DHMCS	District Health Management Committees
ESAAG	East and Southern Africa Association of Accountants Generals
FFS	Fees for Services
FIFO	First In First Out
GoU	Government of Uganda
GRN	Goods Received Note
HIA	Head of Internal Audit
HQ	Headquarters
ICQ	Internal Control Questionnaire
IFMS	Integrated Financial Management Systems
IGG	Inspector General of Government
IIA	Institute of Internal Auditors
JV	Journal Voucher
LG	Local Governments
LGFAR	Local Government (Financial and Accounting) Regulations, 2007
LGPAC	Local Government Public Accounts Committee
LIFO	Last In First Out
LPO	Local Purchase Order
No.	Number
NSSF	National Social Security Fund
P.a	Per Annum
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PV	Payment Voucher
QS	Quality Surveyor
REC	Receipt
Sch.	Schedule
Shs	Shillings
TB	Treasury Bills
TNA	Training Needs Assessment
TR	Treasury Receipt
UC	User Charges
URA	Uganda Revenue Authority
VFM	Value for Money
VR	Voucher

GLOSSARY OF DEFINITIONS

Act – refers to the Local Government Act, Chapter 243 of the Laws of Uganda

Added Value - Value is provided by identifying operational improvement, and /or reducing risk exposure through both assurance and consulting services, thereby improving the likelihood of achieving organizational objectives,

Adequate Control – is present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Audit Entity- comprises a legal entity, organisation, project, accounting unit, department, local government, government unit such as a school or hospital, that is a subject of an audit activity.

Audit Objectives are broad statements developed by internal auditors and define intended audit accomplishments.

Audit Procedures are the tasks the internal auditor undertakes for collecting, analyzing, interpreting, and documenting information during an audit. Audit procedures are the means to attain audit objectives.

Audit Program is a document which lists the audit procedures to be followed during an audit. The audit program also states the objectives of the audit.

Audit Report is a signed, written document which presents the purpose, scope, and results of the audit. Results of the audit may include findings, conclusions (opinions), and recommendations.

Audit Scope refers to the activities covered by an internal audit. Audit scope includes, where appropriate:

- Audit objectives
- Nature and extent of auditing procedures performed
- Time period audited
- Related activities not audited in order to delineate the boundaries of the audit

Audit Working Papers record the information obtained, the analyses made, and conclusions reached during an audit. Audit working papers support the bases for the findings and recommendations to be reported.

Code of Ethics - The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance - Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest - Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

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

Control Environment - The attitude and actions of the Council 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.

Continuous Professional Development - The Continuous Professional Development can be described as a scheme under which participants can access information for the betterment of their professional services. It refers to learning activities that develop and maintain capabilities to enable professional accountants to perform competently within their professional environments.

Due Professional Care calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Due professional care is exercised when internal audits are performed in accordance with the *Standards for the Professional Practice of Internal Auditing*. The exercise of due professional care requires that.

- Internal auditors be independent of the activities they audit
- Internal audits be performed by those persons who collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly
- Audit work be planned and supervised
- Audit reports be objective, clear, concise, constructive, and timely

Internal auditors follow up on reported audit findings to ascertain that appropriate action was taken

Error as it relates to internal audit reports is an unintentional misstatement or omission of significant information in a final audit report.

External Auditors refers to those audit professionals who perform independent annual audits of an organization's financial statements.

External Reviews of the internal auditing department are performed to appraise the quality of the department's operations. External reviews should be performed by qualified persons who are independent of the organizations and who do not have either a real or apparent conflict of interest.

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.

Engagement Objectives - Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Work Programme - A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

Follow-up by internal auditors is defined as a process by which they determine the adequacy, effectiveness, and timeliness of actions take by management on reported audit findings. Such findings also include relevant findings made by external auditors and others.

Fraud - Any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance - The combination of processes and structures implemented by the Council and/or Management in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.

Head of Internal Audit - Top position within the local government responsible for internal audit activities.

Impairments - Impairments to individual objectivity and organizational independence may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, properties and resource limitations (funding).

Illegal Acts refers to violations of laws and governmental regulations.

Independence allows internal auditors to carry out their work freely and objectively. This concept requires that internal auditors be independent of the activities they audit. Independence is achieved through organizational status and objectivity.

Information is data the internal auditor obtains during an audit to provide a sound basis for audit findings and recommendations. Information should be sufficient, competent, relevant, and useful.

Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.

Internal Auditing Department includes any unit or activity within an organization which performs internal auditing functions.

Internal Auditor is an individual within an organization's internal auditing department who is assigned the responsibility of performing internal auditing functions.

Internal Control is a process within an organization designed to provide reasonable assurance regarding the achievement of the following primary objectives:

- The reliability and integrity of information
- Compliance with policies, plans, procedures, laws, and regulations
- The safeguarding of assets
- The economical and efficient use of resources
- The accomplishment of established objectives and goals for operations or programs

Irregularity refers to the intentional misstatement or omission of significant information in accounting records, financial statements, other reports, documents or records. Irregularities include (a) fraudulent financial reporting which renders financial statements misleading and (b) misappropriation of assets. Irregularities involve:

- Falsification or alteration of accounting or other records and supporting documents
- Intentional misapplication of accounting principles
- Misrepresentation or intentional omission of events, transactions, or other significant information

Internal Audit Activity - an 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.

Key Audit Findings are those conditions which, in the judgment of the director of internal auditing, could adversely affect the organization. Significant audit findings may include conditions dealing with irregularities, illegal acts, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses.

Objectives are the broadest statements of what the organization chooses to accomplish.

Objectivity is an independent mental attitude which requires internal auditors to perform audits 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.

Quality Assurance is a program by which the director of internal auditing evaluates the operations of the internal auditing department. The purpose of the quality assurance program is to provide reasonable assurance that internal auditing work conforms with the *Standards for the Professional Practice of Internal Auditing*, the internal auditing department's charter, and other applicable standards. The quality assurance program should include the following elements:

- Supervision
- Internal reviews
- External reviews

Recommendations are actions the internal auditor believes necessary to correct existing conditions or improve operations.

Residual Risk - The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

Risk is the probability that an event or action may adversely affect the organization or activity under audit.

Risk Assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process should provide a means of organizing and integrating professional judgments for development of the audit work schedule.

Risk Management - A process to identify, assess, manage and control potential events or situations in order to provide reasonable assurance regarding the achievement of the organization's objectives.

Shall - The use of the word "shall" in the standards represents a mandatory obligation.

Standards for the Professional Practice of Internal Auditing (the Standards) are the criteria by which the operations of an internal auditing department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be.

Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment. Supervision includes:

- Providing suitable instructions to subordinates at the outset of the audit and approving the audit program
- Seeing that the approved audit program is carried out unless deviations are both justified and authorized
- Determining that audit working papers adequately support the audit findings, conclusions, and reports
- Making sure that audit reports are accurate, objective, clear, concise, constructive, and timely
- Determining that audit objectives are being met

FOREWORD

Regulation 104 of the Local Governments (Financial and Accounting) Regulations, 2007 provides that every district, city, municipal or town council shall have an internal audit unit whose responsibilities are set out in section 90 of the Local Governments Act Cap 243 and detailed in the Internal Audit Manual and that all internal audits shall be carried out in accordance with the requirements of the Local Governments Act and the Internal Audit Manual and shall be considered as Statutory Audits required by law. This Internal Audit Manual, 2007 has been developed in conformity with the above requirements and to provide for the detailed responsibilities of the internal audit units in local governments.

The Manual provides procedural guidelines, illustrations and supporting audit programmes which the internal audit staff of local governments should follow in carrying out their day to day internal audit work.

The manual is structured as follows:

Part I Internal Audit Management: which is designed for use by Heads of Internal Audit Department in the Annual Planning, Resource Allocation and Management of their department, and the management of audit assignments.

Part II Local Governments Internal Audit Procedures and Policies: which is designed for use by internal audit staff in conducting audit assignments and for the audit reporting process.

Part III Local Governments Internal Audit Programmes: which contains all the detailed audit programmes and checklists for carrying out all the routine audits

Part IV Local Government Specialised Audits: this includes specialised audits such as Computer Systems Audits, Value for Money, and Human Resource Audits.

If the Manual is strictly followed, I hope that each Head of Internal Audit should be able to produce timely quarterly reports which frankly and concisely comment on the adequacy of the financial control and accounting systems, and provide observations and recommendations on the efficiency, effectiveness and economy of the administrative and departmental systems examined every quarter.

I would like to point out that Internal Audit is an important appraisal function that should offer a continuous internal evaluation and advisory service to the Local Government Councils. It should entail constant review of the internal controls to ensure that they are effective and reliable to guarantee safety of local council assets and reliability of financial statements. In this regard, the internal audit reports are supposed to be regular, to guide Councils on the general management of finances in order to ascertain whether value for money is received and to sound a signal where things are going wrong.

In the process of developing this Manual, close consultations were made with several institutions, agencies and local governments themselves. The contributions made by the stakeholders were very useful at all stages of developing the Manual.

I hope that this Internal Audit Manual will be easy to use and will serve to improve the standard of auditing within the Local Governments.

I would like to express my sincere gratitude to all the stakeholders who have contributed in one way or another to the development of this manual. We are especially grateful to our development partners, particularly the Department for International Development (DFID) and the World Bank, for their financial and material support towards the development of the manual.

I sincerely hope and trust that the users of the manual will find it quite useful in carrying out their duties.

Kahinda Otafire
Maj Gen
MINISTER OF LOCAL GOVERNMENT

August 2007

INTRODUCTION

i. Background

- (1) This Manual is intended for use by Local Government Internal Audit staff in Uganda. It is tailored to meet their demands in adequately discharging statutory and professional responsibilities towards those Local Governments being audited and the people of Uganda.
- (2) The Manual reflects international best practice in internal auditing and is tailored to the local environment and legislation in Uganda.
- (3) The complete Local Government Internal Audit Manual comprises a total of four Parts as follows:

Part I - Internal Audit Management, designed for use by Heads of Internal Audit Department, in the Annual Planning, Resource Allocation and Management of their department, and the management of audit assignments.

Part II - Local Governments Internal Audit Procedures and Policies, designed for use by audit staff in conducting an audit assignment, and for the audit reporting process.

Part III - Local Governments Internal Audit Routine Programmes, containing all the detailed programmes and checklists for carrying out all the routine audits

Part IV - Local Government Specialised Audits– These include specialised audits such as Computer Systems Audits, Value for Money, and Human Resource Audits.

ii. Statutory Responsibilities

- (1) The duties and statutory responsibilities of the Head of Internal Audit are set out in Regulation 12 of the LGFAR. For ease of reference the appropriate sections are repeated below:
 - (a) to maintain an efficient and effective internal audit unit able to carry out the functions of the unit;
 - (b) to implement all relevant aspects of the internal audit manual and ensure that the prescribed standards and work programmes are adhered to where applicable;
 - (c) to prepare annual and quarterly work plans for the internal audit unit to ensure optimal deployment of resources to priority audit areas, and to submit the plans to the chief executive for approval;

- (d) to supervise the conduct of audits, and review the draft audit reports and working papers of the unit staff to ensure that:
 - all audits have been carried out to an acceptable standard following prescribed programs;
 - all matters arising have been properly dealt with and reported in the correct manner;
 - (e) to prepare internal audit quarterly reports for submission to the council within one month at the end of each quarter;
 - (f) to review the financial and accounting systems of operation in each department and establishment of the administration to ensure that they are adequate, effective and conform to the provisions of these Regulations and the internal audit manual;
 - (g) to audit revenue collection to ensure that all monies due to the administration are collected and banked, or otherwise accounted for in terms of these Regulations and the internal audit manual;
 - (h) to audit procurement procedures and payments to ensure that all goods, services and works are properly ordered, received, examined and paid for in terms of these Regulations and the internal audit manual and that value for money as an objective of procurement has been achieved;
 - (i) to conduct manpower audits embracing all employees of the administration including staff records, remuneration levels, allowances, and payments to ensure conformity with the budget, approved establishment, these Regulations and the internal audit manual;
 - (j) to audit all stores, cash, assets and other property owned or in the care of the administration to ensure their safe custody, efficient and economic usage and disposal.
- (2) The Head of Internal Audit shall extend services to the sub-county and division councils, schools, health units and administrative units in his or her area of jurisdiction and submit quarterly reports.) The Head of Internal Audit shall work in harmony with Auditor General's representatives in all audits of local governments' accounts.

1. PART I: INTERNAL AUDIT MANAGEMENT

1.1 MANAGING THE INTERNAL AUDIT UNIT

1.1.1 Introduction

- (1) The Head Internal Audit is responsible for the efficient and effective functioning of a critical Institution within the Local Government, and one which is a key element of Good Governance. It is therefore important that the Head Internal Audit takes his/her responsibility very seriously.
- (2) Good management of the Internal Audit Department relies on
 - (a) thorough planning, as provided for in Section 1.4
 - (b) effective execution of the plan via the good allocation, and efficient use, of resources,
 - (c) effective staff monitoring, mentoring and appraisal
 - (d) technical development and capacity building of professional staff

1.1.2 Resource Management and Allocation

- (1) The optimum allocation and deployment of Audit staff to priority Audit Entities, is a key element in the efficient management of the Internal Audit Department. By completing the planning processes described under Section 1.4, the Head of Internal Audit will have a clear record of which audits are scheduled, and where each member of audit staff is to be deployed.
- (2) The Head of Internal Audit should hold regular meetings of his staff for effective deployment and operations of the department/unit staff. Such meetings should be held at least monthly.
- (3) If there are frequent amendments/ deferments to the planned schedule the Head of Internal Audit must take steps to identify the issues and resolve them. At the end of the quarter, the manager will have to account for reasons for major slippages in the execution schedule.
- (4) The Manager should organise a monthly staff meeting with a flexible agenda, which is scheduled to take approximately one hour. Several matters should be 'standard' items for the agenda, for example:
 - (a) Progress on overall execution of the Annual Work Plan – degree of slippage
 - (b) Technical issues – and lessons learnt
 - (c) Logistical issues
 - (d) Staff matters

1.1.3 Staff Monitoring, Mentoring and Appraisal

- (1) Performance of the Internal Audit Department will be enhanced if all staff members are effectively monitored, mentored and appraised, on an ongoing basis. The nature of internal audit makes monitoring and mentoring quite straight forward. The 'deployment meeting' will keep the Manager appraised of whether staff are completing their work on time, and the detailed review of staff audit working papers will enable the manager to monitor audit standards and quality.
- (2) It is important that whenever 'performance issues' arise with a member of staff, the matter is raised, discussed, and resolved on an immediate basis. Mentoring therefore becomes an ongoing process. This mentoring should apply equally to both good performance and substandard performance. The manager should also keep a record to keep track of such instances. This record of performance monitoring should then be brought into the annual performance appraisal. The appraisal process should follow normal GOU procedures.

1.1.4 Technical Development and Capacity Building

Objectives

- (1) The overall aim of the training and development programme should be to develop a wide range of audit skills in the following areas:
 - (a) **Basic Technical Skills:** these include , analytical skills, use of audit programmes and internal control questionnaires, production of satisfactory working papers and audit report writing;
 - (b) **Professional Skills:** a knowledge of accountancy and auditing, relevant legislation, ethics of the Institute of Internal Auditors
 - (c) **Specialist Technical Skills:** these include computer and contract audit skills;
 - (d) **Investigatory Skills:** how to conduct a value-for-money study and how to investigate fraud and corruption;
 - (e) **Interpersonal and Communication Skills:** interviewing techniques, how to deal with uncooperative auditees and how to persuade management to accept audit recommendations;
 - (f) **Management and Organisational Skills:** how to conduct an audit, how to lead an audit team and audit planning and control; and
 - (g) **Knowledge of an Organisation:** knowing the protocol, regulations, procedures and decision making processes of an organisation and knowing how it is structured.

Training Records

- (1) It is vital that adequate training records are kept for all members of staff. This should include details of the skills requirements for all audit posts and those held by the individual as a result of education, training or practical experience. These should be competency-based.
- (2) These records are essential for assessing further training needs and in comparing development between individuals.
- (3) They can also be used for purposes of selecting short lists for promotion.

The Training Programme

- (1) The development of a training programme is no easy task and clearly not all members of staff will require the whole range of skills.
- (2) A useful starting point, therefore, is to identify the skill requirements of each member of staff and, hence, their training needs. There are distinct advantages of involving staff in this process as frequently their perceptions of their own training needs differs markedly from that perceived by management.
- (3) Training can be divided into four broad categories:
 - (a) **Practical Experience:** staff should be given as wide an experience as possible as much can be learned by working under the supervision of an experienced auditor and observing how an experienced auditor operates;
 - (b) **Professional Training:** this is restricted to any members of staff undertaking studies towards professional qualifications. The audit manager can expect auditing to be covered in reasonable depth as part of the professional syllabus;
 - (c) **In-Service Training:** an essential part of in-service training is an **induction course** for new entrants aimed at providing basic audit skills and a broad appreciation of the organisation. Many audit managers find it useful to designate a specific day each month for in-service training. Another possibility, especially where auditors are geographically spread, is the **annual conference** at which staff can come together in a relaxed way to share problems and participate in a programme of concentrated training; and
 - (d) **External Training:** this is more costly than in-service training and care has to be taken to select the right courses. However, if this is done, staff can be thoroughly trained in topics which could not be adequately covered by in-service courses. They will also be exposed to a wider range of expertise and other view points. Other possibilities include seconding staff to other bodies for periods of time. If need for such are identified, this should be integrated in the Local Government's Capacity Building Plan.

(4) The table below indicates the range of training courses which should be made available to internal auditors.

Possible Training Courses for Internal Audit Staff

Course	Level	Objective	Content
Induction	Introductory	Understanding of Local Government and Internal Audit function; explains structure and operations.	(1) Local Government - Structure - Key Legislation (2) Internal Audit Department - Legislation - Manual - Independence - Ethics - Structure - Clients - Reporting - LGPAC (3) Basic audit programmes
Public Sector Finance	Intermediate	Overview of the legal and ethical reasons for Accountability, Budgeting and Financial Control in the Public Sector.	- Legislative Framework - Accountability - Budgeting - Financial Control - Final Accounts
General Audit Techniques	Intermediate	To give all audit staff the range of general skills required to undertake their tasks effectively.	- Materiality - Evidence - Systems Based Auditing - Interviewing - Sampling and Testing - Audit Programmes - Internal Control Questionnaires - Analytical Review - Analysis of Financial Systems and Accounts - Flow Charting
Audit Management	Advanced	To provide Audit Management with the skills required to Plan, Control and Report on audits.	- Audit Planning - Audit Control - Risk Assessment - Audit Review - Audit Reporting - Audit Standards - Audit Documentation - Audit Filing and Working Papers
Specialist Audit Techniques	Advanced	To give specialist audit skills to those staff requiring them.	- Contract Audit - Fraud and Corruption - Value-for-Money Audit - Operational or Management Audit - Computer Audit - Special Investigations - Donor Audit - Internal Audit Evaluation
Professional Auditing Skills			-Certified Internal Auditor -Certified Information Systems Auditor

1.2 RELATIONSHIP MANAGEMENT

- (1) The areas in which the auditor should have good relationships include:
 - (a) **Chief Executive:** The Chief Executive, Head of Finance and Head of Internal Audit should co-operate as an efficient and harmonious team, firstly to restore and then maintain the traditional high standards expected from Local Governments;
 - (b) **Central Government Monitoring/Advisory Teams:** The quarterly reports of the Head of Internal Audit will be filed for inspection. This will often represent the first intimation of the state of the Council's affairs. On visits by Monitoring Teams, the Head of Internal Audit has the obligation to disclose all facts and information known by him in respect of the authority's financial affairs;
 - (c) **Finance Department:** The Heads of Finance and Internal Audit must encourage full exchange of ideas and information to secure optimum internal financial control benefits for the council;
 - (d) **External Auditors:** External audit will need to be satisfied that the quality and planning of the internal audit coverage is satisfactory. Conversely, internal audit should be satisfied as to the ability and efficiency of external audit since the success of co-operation must depend on the experience and expertise of both parties. Information should be exchanged by making available audit plans, statements of systems and procedures, flow charts and audit reports. Regular meetings should be held between external and internal audit at which audit priorities, coverage generally, financial irregularities, fraud and other matters are discussed. The participation of both internal and external auditors in training assessments and the formulation of joint training programmes should help to improve working relationships;
 - (e) **Departments:** Good working relationships with client departments are essential for the smooth running of audit business, if only because of the help the auditor requires in such daily matters as locating files and examining papers in regular use. In practice, more extensive benefits may be expected by both parties where there is a spirit of positive co-operation;
 - (f) **Local Government Public Accounts Committee:** LGPAC receives copies of quarterly Internal Audit report and examines the Quarterly IA report (including reports from Auditor General and Commission of enquiry). While examining the reports, the author of the report (CIA or OAG) shall be present to guide the LGPAC, since they are authors of the report. The LGPAC shall submit their report to the Chairperson of the Council, the Committee and to the Minister responsible for Local Government. Other copies are submitted as per LGA
 - (g) **Council:** The council receives report from executive committee on action taken/not taken on LGPAC recommendations. These are referred to the committee responsible for finance for scrutiny for debate and make resolutions.

- (h) **General Public:** In dealings with the public, ethical and professional considerations are of prime importance. The general rule will be for the auditors to refer any approach by the public to senior officers. Where legislation provides the public with powers to inspect the accounts, the auditor must be careful to operate within the terms of the relevant statute and of any departmental guidelines, particularly as regards the need to keep the audited body informed and the limitations on the type of information which may be disclosed. Ideally, LGPAC proceedings will be open to the public and their reports published.

1.3 THE RISK BASED APPROACH TO PLANNING AND AUDIT EXECUTION

1.3.1 Introduction

- (1) Internal Audit has been defined as: “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Institute of Internal Auditors, 1999).
- (2) Management has the responsibility to establish internal control and overall arrangements for good governance so that its activities are conducted in an efficient and orderly manner. Internal control comprises the whole system of controls and methods, both financial and otherwise, which are established by management to:
 - (a) safeguard its assets;
 - (b) ensure reliability of records;
 - (c) promote operational efficiency; and
 - (d) Monitor adherence to policies and directives.

1.3.2 The Risk Based Approach to Internal Audit

- (1) Managers often expect internal auditors to identify breaches in financial regulations and to inform them when staff are not following established practice (the compliance audit approach). Wider benefits can be achieved when internal auditors take on the more important role of assessing the whole control environment and its adequacy and reliability in managing risk.
- (2) Under this latter approach (the risk-based approach), internal auditors have to determine whether compliance with financial regulations and other instructions will be sufficient to adequately mitigate the risks which the organisation faces to the achievement of the organisation's objectives. If not, internal audit may make recommendations to management to improve on internal controls or adopt additional risk mitigation measures.
- (3) Furthermore a LG Internal Audit unit does not have adequate resources to do a 100% audit of every transaction. Therefore the HIA has to decide how best to determine audit priorities, and where to allocate his relatively scarce resources.

- (4) The method of determining audit priorities is to carry out an assessment of relative risk of loss or error in each audit area, of each audit entity, and to assess the possible value and impact of the loss/error. Those areas which are considered high risk / high value must receive high priority and an appropriate allocation of the department's resources. This is called the risk based approach to the internal audit of financial transactions.
- (5) The steps involved in the risk based approach to auditing can be summarised as follows:[C4]
 - (a) Identify key risks and controls – what could go wrong
 - (b) Prioritise the risks and controls by assessing the importance of each risk focussing on their likelihood
 - (c) Assess the effectiveness of the identified controls in addressing risks – assess control coverage
- (6) Risk analysis – evaluate the vulnerability of the existing processes to risk. This is detailed below.

1.3.3 Risk Analysis

- (1) Risk analysis enables the auditor to evaluate the vulnerability of a particular system or group of systems. It is based on subjective judgment but various techniques can be used to make the analysis more systematic and, in part, more objective. Use of them will strongly support the auditor's judgment on the priority and frequency of audit. They can also help identify areas of high exposure which might not have otherwise been identified. The auditor should document fully all the stages of the risk assessment exercise.
- (2) In planning an audit the Head of Internal Audit will carry out an assessment of Audit Risk that exists in the Local Government being audited. High risk areas will be subject to audit at least quarterly, whilst low risk areas may be subject to audit annually. The main factors which increase risk in any single area of an audit include:
 - (a) The Volume of transactions - the higher the volume, the higher the risk
 - (b) The value of sums of money involved -the higher the value, the higher the risk
 - (c) The relative complexity [and strength or weakness] of the Systems, Internal Controls, and Segregation of Duties. Complex or weaker systems give rise to higher risk
 - (d) The sensitivity of systems which includes:
 - i. Systems that are particularly susceptible to maladministration such as Salaries, Allowances etc. These are high risk
 - ii. The likelihood of collusion amongst employees. This raises risk
 - iii. Systems where the capacity of staff is known to be weak [or there has been high incidence of new key staff,]. This raises risk

- (e) The relative strength or weakness of the overall control environment within the Audit Entity particularly with regard to financial management and analysis of financial performance. A weak control environment raises risk.
- (3) The Head of Internal Audit will assess the risk attached to each audit area or accounting system, in accordance with the table below:

Element (i)	Scale of Measurement (ii)	Risk Rating (iii)	Weighting Factor* (iv)	Risk Score $v=(iii)X(iv)$
a) Volume of Transactions	0 - 300 301 - 1000 Over 1000	1 2 3	1, 2 or 3	
b) Value of Transactions [UGS]	0 – 10million 10 – 100 million Over 100 million	1 2 3	1, 2 or 3	
c) Complexity of Systems	Degree of Complexity Low=1 Medium=2 High=3	1 2 3	1, 2 or 3	
d) Sensitivity of Systems	Degree of Sensitivity Low=1 Medium=2 High=3	1 2 3	1, 2 or 3	
e) Control Environment	Quality of Control Environment Low=3, Medium=2, High=1	1 2 3	1, 2 or 3	
Total Risk (R)				

Notes:

- (a) Risk rating represents the possible impact an element will have on the risk assessment process.
- (b) Weighting factor represents the importance the Auditor attaches to the particular element of risk. The low risk element being assigned 1 while the high risk area is assigned
- (c) The Auditor will be expected to use his/her professional judgement in the process of assigning the weighting factor to the elements of risk.
- (d) Weighting – After giving a risk rating for each factor, it is necessary to determine an appropriate weighting for each of the factors. The weighting given indicates the relative importance/potential impact of each of the risk factors. For example Sensitivity of Systems(d) may be given a weighting of 3, while Volume of Transactions (a) may be given 1. This indicates that the factor of Sensitivity is considered to be 3 times more important than the factor of Volume.

- (4) The auditor should calculate the risk inherent in each audit area by applying the following formulae:

$$\text{Risk Index (R)} = R_a + R_b + R_c + R_d + R_e$$

Where a - e are the elements of risk

R_a (Risk of element a) = Risk rating of element a X Weighting Factor of element a

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R_e (Risk of element n) = Risk rating of e X Weighting Factor of e

- (5) Applying the above formula to each system/audit area will result in a ranking of risks, i.e. the higher the resulting number, the higher the relative risk. In allocating scarce resources to each audit area [and in deciding on sample sizes or coverage in each area] priority and emphasis should be given to the high risk areas.

Example:

The Auditor has been assigned to carry out an audit of a Local Government. Aware that she is required to use a risk based approach to the audit she evaluated a number of risk elements and below are her findings regarding the expenditure area of the audit entity:

- (a) There were 250 payment transactions during the audit period.
- (b) The total value of all the transactions during the period is US\$ 50 million.
- (c) The payment system being used is semi-automated and is not very complex. She considers it to be of medium complexity. The Auditor is of the view that a complex system would increase the risk tremendously and has decided to attach the highest weight to this element.
- (d) The Auditor considers that the payments area is a highly sensitive area. She is also of the view that sensitivity of the system would increase the risk tremendously and has decided to attach the highest weight to this element.
- (e) The auditor's assessment is that the Control Environment is weak. This would imply that the audit risk is likely to be high. From her experience, however, she knows that the Accounting Officer and the Head of Accounts are very reliable and honest Officers who have served the Local Government for over two decades without any mismanagement of public funds. She therefore considers that this element is not likely to have a big impact on the overall risk of this audit area.

The risk assessment for the expenditure audit area would result in a score as shown in the table below:

Element (i)	Scale of Measurement (ii)	Risk Rating (iii)	Weighting Factor (iv)	Risk Score v=(iii)X(iv)
a) Volume of Transactions	0 - 300 301 - 1000 Over 1000	1	1	1
b) Value of Transactions [UGS]	0 – 10million 10 – 100 million Over 100 million	2	2	4
c) Complexity of Systems	Degree of Complexity Low=1 Medium=2 High=3	2	3	6
d) Sensitivity of Systems	Degree of Sensitivity Low=1 Medium=2 High=3	3	3	9
e) Control Environment	Quality Control Environment Low=3, Medium=2 High=1	3	1	3
Risk Index (R)				23

The Risk score of 23 obtained for the Expenditure audit area in the above table is then compared with that of other audit areas. These Risks are then ranked with the highest risk being assigned ranking 1, the next highest as 2, etc. Emphasis in the Risk Based Approach will then be on those areas with the higher scores that have been ranked as 1, 2, 3, etc.

This section has described the process of carrying out a risk assessment to determine priorities on the audit of a single audit entity. The next section will look at

- i. How the same principles will be used to conduct the annual and quarterly planning, and resource allocation for the IA unit as a whole
- ii. How the risk assessment carried out above feeds directly into the detailed planning of each audit engagement.

1.4 PLANNING AND BUDGETING

1.4.1 Introduction

- (1) Planning is comprised of two distinct elements. The first is Departmental planning, resulting in the preparation of Annual and Quarterly Work plans and the Department's budget. The second is the detailed planning for the audit of each Audit Entity. The HIA is responsible for both, and the respective procedures are described below.

1.4.2 Departmental Planning Methodology

- (1) Every Internal Audit Unit has a portfolio of Entities to audit. Each of these Entities has to be audited in accordance with a series of separate audit programmes.
- (2) Part III of the manual sets out all the detailed audit programmes covering the various classes of revenue, expenditure, assets and liabilities etc. Of course not all audit programmes are applicable to every audit entity, especially where cash accounting is applied.
- (3) The main planning to be completed at the beginning of the year is to carry out a comprehensive systematic exercise to determine
 - (a) Which of the programmes are applicable in which Entities
 - (b) How frequently each audit programme will be carried out.
 - (c) The frequency will depend on the risk assessment to be performed on each entity for each audit area, - as described in the previous section. Some programmes may need to be completed quarterly, some annually, some only bi annually.
- (4) Having completed the above analysis, the HIA now has the information to determine audit priorities, allocate staff resources to audits, and schedule the multiplicity of audits.
- (5) This is a demanding exercise and the HIA will need to determine what tools s/he will need to assist the process. S/he can opt to use an electronic spreadsheet, or alternatively a large manual planning board, which hangs on the wall in the office.
- (6) Once this planning is complete the HIA will have a clear picture of which audit jobs are going to be completed when, and by whom. The HIA must also consider, and if possible book time, for staff training, annual leave etc. If there is any staff time remaining "unbooked", the Manager can consider what "special audits" could be carried out, or what additional training could be useful.

- (7) Based on the above, the HIA can then determine transport and subsistence allowances for each audit, and any other resources required, and prepare budgets accordingly. The budgets will also need to cater for the planned training mentioned in paragraph (6) above

1.4.3 The Annual Work Plan

- (1) The annual plan is a document submitted to the Council for approval. Its purpose is to communicate
 - (a) The portfolio of Audits within the jurisdiction,
 - (b) The level of resources required to service the portfolio
 - (c) The staff resources, and the logistical resources available, and the present or expected budget
 - (d) The resource gap if any, including proposals on how this gap could be dealt with, and the risks /consequences arising if the proposals are not able to be implemented
 - (e) A summary of the actual audit jobs that are planned for execution and the allocation of audit staff thereto
 - (f) A summary of capacity building that is planned to take place noting any unmet needs
- (2) The Work plan should contain a major appendix comprising the Risk Assessment of the entire audit portfolio, as described in Section 1.3.3.

1.4.4 Budgeting

- (1) The HIA is required to produce the budget for the department. This should be compiled from four components as follows:
 - (a) The salaries for the Department's staff,
 - (b) Direct costs of executing each audit,
 - (c) Staff capacity building
 - (d) Capital/development expenditure
- (2) The HIA will prepare the budgets in the format prescribed by the LG Financial and Accounting Manual.

1.4.5 Quarterly Planning

- (1) The Annual Planning exercise described above is a "best estimate" carried out prior to the commencement of the year. Situations can and do change in the course of the year, and therefore an updated quarterly plan is produced prior to the commencement of each quarter, in the same format as the annual plan. Justification must be provided for any significant changes from the original annual plan.
- (2) The Quarterly plan is submitted to CE for authorisation.

1.4.6 Planning the Audit for each Entity

- (1) An audit engagement refers to the entire audit of an Audit Entity and comprises all the various audit jobs that need to be carried out to complete the audit.
- (2) The risk assessment carried out in section 1.3.3 above needs to feed directly into the detailed planning of each audit engagement.
- (3) The Planning of an Audit Engagement comprises two broad levels:
 - i. Strategic Planning;
 - ii. Operational Planning

Strategic Plan

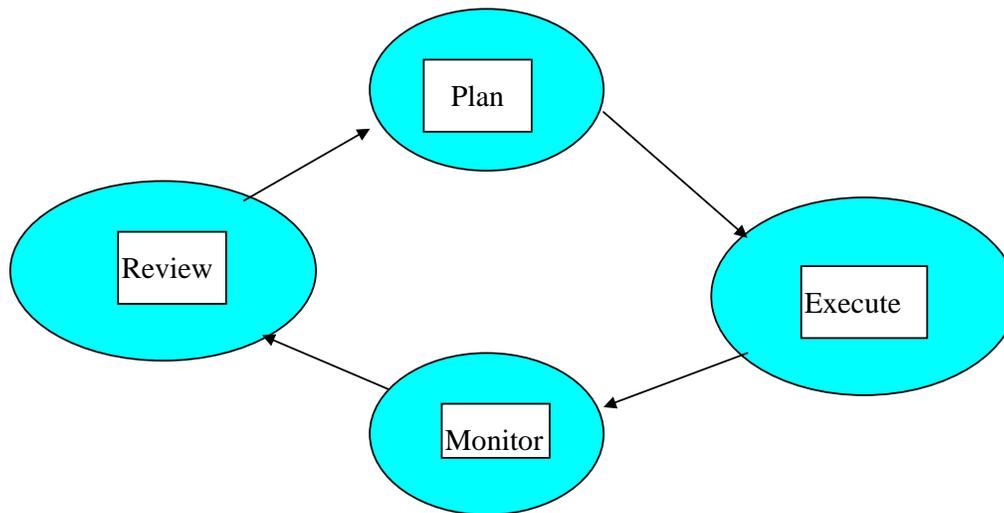
- (1) A long term, strategic or cyclical plan is necessary because it is impossible to audit every aspect of every entity each year.
- (2) It is important to have a plan which will ensure that nothing obvious is overlooked over the long-term cycle of the audit.
- (3) Such plans will need to be flexible because, as the audit progresses, fresh or better information will come to light which will result in a review of the priorities given to each area of work. This review needs to be a continuous exercise throughout the audit and the strategic plan altered accordingly.
- (4) Comprehensive review of all possible audit requirements can be assured by preparing a list of all separate audit jobs that exist in the particular entity.
- (5) The strategic plan will, thus, contain jobs which must be audited every year and jobs which will be looked only once or twice over the audit cycle, unless circumstances dictate that a more frequent review is required.
- (6) For most organisations a five year cycle is appropriate. It is likely that the Strategic Plan will be of a rolling nature and be updated every two or three years to run for a further five years rather than being a series of discrete five-year plans.

Operational Plan

- (1) When conducting this detailed planning the HIA must take the following considerations into account :
 - (a) risk, materiality and priorities on each audit job [covered in section 5 above]
 - (b) areas of audit that are significant because of past or anticipated problems;
 - (c) details of any abnormal circumstances or economic factors that are expected to affect the LGs performance;
 - (d) new or changed computer systems and the involvement of the computer auditor;
 - (e) changes in accounting requirements (new Accounting Standards) or legislation;
 - (f) staffing requirements and availability.

- (2) To be effective the planning and control of any function must follow a cycle, and audit planning is no exception to this rule. Figure 1 below illustrates the various and distinct stages in the cycle.
- (3) First the Head of Internal Audit must plan the audit work, and the individual audit jobs, and then conduct it along the planned lines. S/he must then monitor the success in achieving the planned objectives and, in the light of this, review the plan in order to begin the cycle again.

Figure 1: The Planning Cycle



- (4) After completing the Risk Assessment for each job, and taking any applicable factors mentioned above into account, the HIA will prepare an operational audit plan for the Audit Entity . This will entail:
- (a) Deciding which programmes/ jobs are to be carried out
 - (b) Deciding the number/value of items to be selected for each job. This will depend mainly on the risk attached to the job,
 - (c) Determining how much staff time is to be allocated to the job
 - (d) Completing a standard Audit Job Control Record for each audit programme to be executed
 - (e) Recording any other matters that need to be brought to the attention of the senior audit assistant.
- (5) The Operational Plan will comprise the following headings :
- A - Name of Entity – Period to be covered
 - B - The Current Operating Environment [including extraordinary issues that may impact the conduct of the audit]
 - C - Summary of all the Risk Ratings [for each audit job]
 - D - Mandatory Jobs [from the Strategic / Cycle Plan]
 - E - List of Jobs for Execution this year including Time allocated to each, and Staff assigned.

1.5 AUDIT EXECUTION

1.5.1 Introduction

- (1) The term Audit Execution refers to the process of carrying out an audit in terms of the audit plan prepared by the Head of Internal Audit and the briefing received from him/her. It basically entails carrying out all audit programmes specified in the Audit Plan. Audit execution is dealt with extensively in the Part II and Part III, including all audit programmes to be carried out. The text below is confined to the relevant text relating to the managers responsibilities for Supervision, Monitoring and Review.

1.5.2 Supervision, Monitoring and Review

- (1) The primary objectives of audit review are to ensure that:
 - (a) the work has provided a proper support for the audit findings and that no necessary procedures have been omitted nor important conclusions overlooked;
 - (b) the work has been conducted, properly documented and the audit report prepared in accordance with approved Audit Standards, any applicable statutory or other regulatory requirements and the policies of the Internal Audit Department; and
 - (c) Important matters have been or are being reported to the audit entity, including any significant frauds, irregularities or suspicious circumstances encountered and any recommendations on internal control, systems efficiency and accounting methods.
- (2) The secondary objectives of audit review are:
 - (a) to assess the performance and progress from previous reviews of individual members of the audit team; and
 - (b) to update the reviewer's knowledge of the client's operations.
- (3) In conducting a review, the reviewer should be on the alert for incomplete verification, inadequate documentation and faulty conclusions.
- (4) Review is an essential feature of professional audit approaches and the reviews performed by all levels of staff must be properly documented in the audit working papers.
- (5) Review points should be drafted so as to provide space for a clearance comment to be added. All review points must be cleared before the audit report is signed.

The nature, timing and participants in the review process will vary from audit to audit and will be influenced by the following:

- (a) The competence and size of the audit team;
 - (b) the complexity of the client's operations;
 - (c) the results of audit planning; and
 - (d) nature of the points arising from the audit.
- (7) Reviews should be performed as a continuous process at each critical stage of the audit to ensure that inefficiencies are minimised.
- (8) The nature and depth of reviews will depend upon the seniority of the reviewer. Generally, the Senior Auditor will review the work of assistants and the Head of Internal Audit will review the work of the Senior Auditor with a less detailed review of the work of the assistants.
- (9) The Head of Internal Audit should be presented with audit files completed to an advanced stage in which all significant points are highlighted and outstanding points listed. In this way he will be able to concentrate his review on the key issues.

The Head of Internal Audit have the discretion to carry out a more detailed review, depending on the circumstances.

1.5.3 External Quality Assurance

- (1) An external review of quality control and the performance of the Internal Audit Function will be periodically conducted through the Ministry of Local Government.
- (2) The objectives are:
- (a) To provide an independent review of the work performed upon which an opinion can be expressed;
 - (b) To monitor compliance with standards and procedures as defined in the audit manual;
 - (c) To recognise areas of weakness which require additional procedures;
 - (d) To develop new procedures; and
 - (e) To report where inefficient work is being carried out.
- (3) Reviews are performed to the level of detail to permit the reviewer to answer:
- (a) Am I satisfied that the audit was satisfactorily carried out,
 - (b) Is there adequate documentary evidence to support the opinion expressed or did the auditor rely on subjective assurances?; and
 - (c) Did the reviewer perform a rigorous review or merely read the file?
- (4) In addition the review will encompass assessing the quality of planning, resource allocation, execution and staff management within the department as a whole.

1.5.4 Standards of Control Review

- (1) The Institute of Internal Auditors have produced Standards for any Quality Assurance and Improvement Programme. These comprise:
 - 1300: Quality Assurance and Improvement Programme;
 - 1310: Quality Programme Assessments;
 - 1311: Internal Assessments;
 - 1312: External Assessments;
 - 1320: Reporting on the Quality Programme;
 - 1330: Use of “Conducted in Accordance with the Standards”; and
 - 1340: Disclosure of Non-compliance.

- (2) The Government will take the above standards into account when conducting their Quality Assurance and Review Procedures.

1.6 REPORTING

1.6.1 Introduction

- (1) Internal Auditors are required under Section 90 to the Local Governments Act to produce internal audit reports on a quarterly basis. Apart from these statutory reports, internal auditors should produce reports at the end of each audit exercise.
- (2) The objectives of reporting are to notify management of the councils of the results of the audit and to make recommendations, where appropriate. These reports will identify the audits carried out, recommendations resulting from the audits undertaken, follow up actions on previous audit reports and the audits planned for the next period.

1.6.2 Stages of Audit Reporting

- (1) The Quarterly Report of the Head of Internal Audit is a mandatory requirement under the Local Governments Act, which must be produced by local governments mandated to have internal audit units. This Quarterly Internal Audit report is produced using a three stage process
 - (a) Audit Findings
 - (b) Draft Internal Audit Report
 - (c) The Quarterly Report

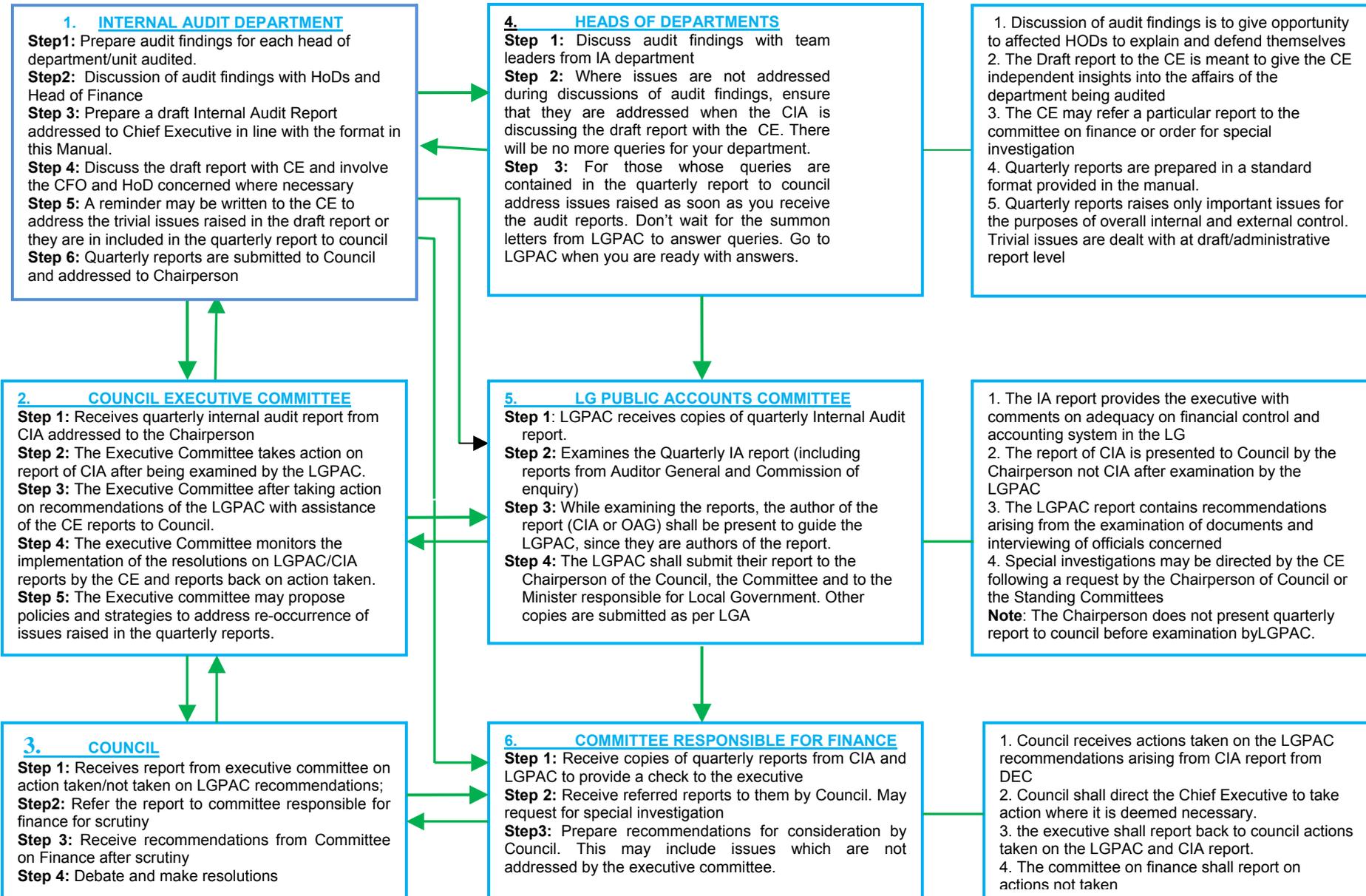
1.6.3 Reporting Structure

The diagram below shows the reporting structure and flow of the internal audit reports. The detailed processes and sample report contents are provided under Part II of this Manual, Section 2.9.

KEY ORGANS

ACTION TEAMS

NOTES



2. PART II: INTERNAL AUDIT PROCEDURES AND POLICIES

2.1 INTRODUCTION

2.1.1 Definition of Internal Audit

- (1) Internal Audit has been defined as: “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Institute of Internal Auditors, 1999)

2.1.2 Objectives of Internal Audit

- (1) Internal audit offers a continuous internal evaluation and advisory service to all Council’s establishments and Departments. It is specifically charged with reviewing, appraising and reporting on:
 - (a) the effectiveness and adequacy of internal controls;
 - (b) the reliability of financial and other management information;
 - (c) the effectiveness of the accounting procedures;
 - (d) the extent to which the Council's assets are safeguarded from losses
 - (e) arising from fraud, waste, extravagance and mal-administration, poor value for money and other causes.
 - (f) The optimal use of Council’s resources.
 - (g) Compliance with the Local Governments Act and the Local Governments Financial and Accounting Regulations.

2.1.3 Legal Requirements

- (1) Section 90 of the Local Governments Act provides that;
 - (a) Every District, City and Municipal Council Town Council shall provide for an Internal Audit Department.
 - (b) The Head of Internal Audit shall prepare quarterly audit reports and shall submit them to the Council giving a copy to the Local Government Public Accounts Committee.
- (2) Regulation 104 of Local Governments Financial and Accounting Regulations, 2007, provides that:
 - (a) Every district, city, municipal or town council shall have an internal audit unit whose responsibilities are set out in section 90 of the Act and detailed in the Audit Manual.
 - (b) All internal audits shall be carried out in accordance with the requirements of the Act and the Internal Audit Manual shall be considered as statutory audits required by law.

2.1.4 The Independence of the Internal Audit Department

(1) Independence is a must in auditing and it is particularly important that the Internal Auditor has the freedom to select the areas of audit he/she wishes to investigate and to report thereon to all levels of the Council.

(2) In order to operate effectively the following principal elements of independence should be present:

- (a) The Internal Auditor should at all times have direct access to all departmental heads, the Accounting Officer and the Council and the organisation's records and information.
- (b) The Head of Internal Audit should have the right of reporting, without editing, under his name.
- (c) Internal audit should be completely independent of all financial systems operating within the Council. Involvement in routine Departmental procedures will inevitably impair the work of the Internal Audit Department
- (d) The Head of Internal Audit should have the right of reporting on any aspect of the financial work including that of the Finance Department

2.1.5 Ethics and Professional Code of Conduct

(1) Internal Auditors like all other professional accountants are required to observe rules governing ethical behaviour. To this end the Internal Auditors should:

- (a) Behave with integrity and honesty
- (b) Strive for objectivity with regard to all considerations relevant to the task at hand.
- (c) Not accept or perform work which he/she is not competent to undertake unless he/she obtains such advice and assistance as will enable him/her.
- (d) Carry out his/her audit work with due skill, care, diligence and expedition and with proper regard to the technical and professional standards expected of him/her.
- (e) Conduct him/herself with courtesy and consideration towards all with whom he/she comes into contact during the course of performing his/her work.
- (f) Confidentiality shall be upheld.

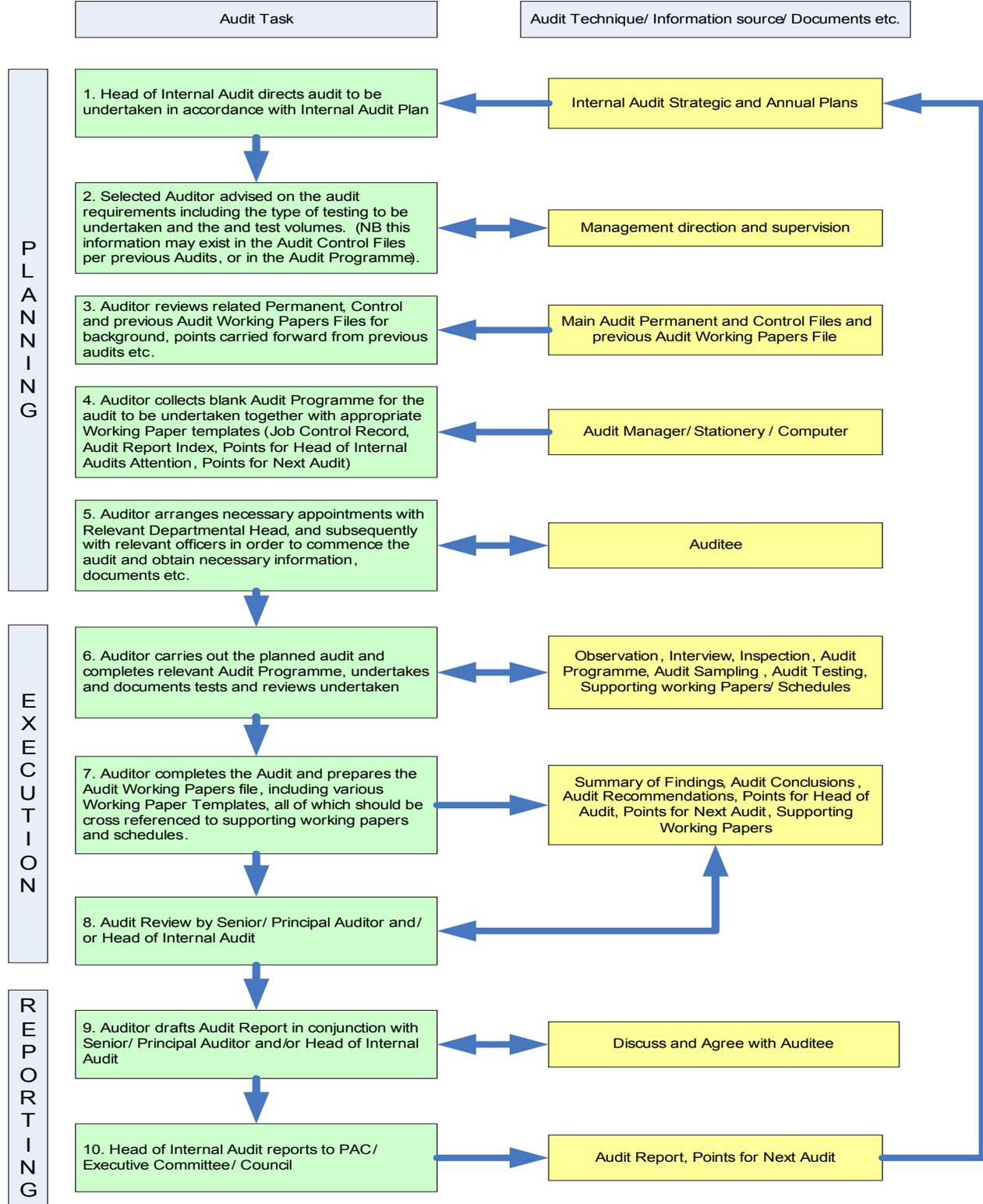
2.1.6 Qualities of the Internal Auditor

(1) Internal Auditors should have the following qualities:

- (a) Relevant accounting qualifications to be able to grasp the financial information provided.
- (b) Adequate relevant experience to be able to independently and competently carry out her/his duties.
- (c) High integrity and credibility.
- (d) Innovation and tact to ensure that he/she copes with any unique situation that may arise.

2.2 OVERVIEW OF THE AUDIT PROCESS

The following diagram outlines the process for undertaking an internal audit of a Local Government. At this overview level, there are 10 steps in the process. For each step, a brief description is given of the related techniques, information sources and documents used in the audit.



The following Sections of this Manual describe the related audit processes, techniques, and documents. The detailed audit programmes / checklists that are required to be completed are contained in Part III.

Further clarification may be obtained directly from the Head of Internal Audit.

2.3 AUDIT PLANNING AND AUDIT RISK

2.3.1 Audit Planning

- (1) The Head of Internal Audit is responsible for all planning relating to audit activities. This will include the preparation of strategic long term plans and annual plans which identify essential tasks to be performed annually and cyclical work, or areas which fall due for audit during the year. These plans will be given to Audit Staff and fully explained prior to the commencement of the audit
- (2) Essential tasks comprise matters of such fundamental importance that they require audit attention every year. The audit plan will provide for completing all the essential tasks each quarter.
- (3) Decisions about the range of matters to be reviewed annually and the nature and extent of the review are of critical importance in the effective application of audit resources. Extensive annual checking of systems and transactions either to prove ledger figures or to guard against relatively small loss by fraud must seriously reduce the resources available for other important aspects of the audit.
- (4) A list of essential tasks will be prepared for each department of the Council taking into account local circumstances, and will be completed at every audit. Essential tasks will include, as a minimum, the following aspects of the audit:

Income:

- (a) Test check the accuracy of the records in respect of the main areas of income to ensure all income received or due has been recorded. Make use of various sampling techniques as appropriate as indicated in the respective checklists;
- (b) Review substantial items written off; and
- (c) Review arrears and ensure that appropriate recovery action has been taken.

Expenditure:

- (d) Test check the accuracy of the records in respect of the areas of expenditure being examined this year. Make use of various sampling techniques as indicated in the respective checklists, and always be on the look out for unusual or large payments.

Cash and Bank

- (e) Conduct cash counts, and reconcile cashbooks with bank statements.

Assets and Liabilities

- (f) Verify all assets and liabilities.

General:

- (g) Conduct an analytical review of income and expenditure in relation to last years figures and the current year budgets, and obtain reasonable explanations for unusually large variations.
 - (h) Check that the financial statements have been properly drawn up from the trial balance, and that the trial balance has been correctly extracted from the books of account.
 - (i) examine and clear all notes arising from the overall review which must be dealt with at the audit
 - (j) Ensure that items marked for attention this year contained in last years working papers are examined.
- (5) It may be necessary to add to the essential task list at certain Audit Entities. If so you will be advised by Audit Management. Additions will be kept to a minimum and it will often be preferable to review problem aspects of the audit annually.

2.3.2 Audit Risk

- (1) In planning an audit the Head of Internal Audit will carry out an assessment of Audit Risk that exists in the Local Government being audited. High risk areas will be subject to audit at least quarterly, whilst low risk areas may be subject to audit every year. The main factors which increase risk in any single area of an audit include:

- (a) The value of sums of money involved. Generally the higher the value, the higher the risk
- (b) The relative strength or weakness of Systems, Internal Controls, and Division of Duties. Weaker systems give rise to higher risk

Subsidiary risk factors are:

- (a) Systems that are particularly susceptible to maladministration such as Salaries, Allowances etc, are high risk
- (b) The likelihood of collusion amongst employees raises risk
- (c) Systems where the capacity of staff is known to be weak [or there has been high incidence of new key staff,] raises risk
- (d) The relative strength or weakness of the 'oversight function' – particularly with regard to financial management and analysis of financial performance – exercised by Council. Weak oversight capability raises risk
- (e) Management's commitment to ethics and integrity. Low commitment raises the risk environment.

- (2) The Head of Internal Audit will assess the Risk attached to each audit area / accounting system, and allocate his audit resources accordingly, so that the highest risk areas receive the most extensive coverage

2.3.3 Audit Planning Outputs

- (1) After completing the Risk Assessment, the Head of Internal Audit will prepare an audit plan for the Local Government. This will comprise considering all the standard audit programmes in the manual [see Part III], deciding :
 - (a) which programmes are to be carried out
 - (b) the number/value of items to be selected
 - (c) completing a standard Audit Job Control Record – [W/P – I] for each audit programme to be executed [See Annexes for the standard format]
 - (d) Any other matters that need to be brought to the attention of the auditor in charge.

2.3.4 Audit Files

(1) Introduction

- (a) A sound system of filing and of working papers is essential for an efficient Internal Audit Section.
- (b) An auditor must be able to produce audit evidence to support his report. Unless care is taken when filing documentation this may be difficult.
- (c) Examples of all the key forms identified in this section are provided as annexes to this manual.
- (d) The following minimum required Internal Audit files must be maintained:
 - i) Permanent File;
 - ii) Control File; and
 - iii) Current Audit (Working Paper) File.

(2) Permanent File

- (a) As the name suggests, this contains all permanent, background data on the Audit Entity. Sections should include:
 - i) **Audited Accounts:** a complete set of audited accounts in date order for each department;
 - ii) **Reports:** copies of all audit reports, any responses, etc.;
 - iii) **Correspondence:** all correspondence with the Audit Entity on matters other than the management letter;
 - iv) **Structure and Systems:** details of the operational structure of the Audit Entity, names of key personnel, systems specifications, etc. These should be updated as required;
 - v) **Constitution:** a copy of the legislation setting up the Audit Entity, any joint-venture agreements, etc. (i.e. the legal framework within which the Audit Entity operates); and
 - vi) **Minutes:** where copies of minutes are routinely circulated to the auditor they can be filed here.

(3) Control File

- (a) The Control File should contain the Head of Internal Audits control records and audit plans, audit job allocations and Audit Job Control Records. Please refer to the Annexes for samples of appropriate forms.
- (b) This file fulfils a number of uses:
- i) **Summary:** of the five year audit plan;
 - ii) **Before the audit:** it details what has been planned;
 - iii) **During the audit:** it acts as a control on progress and can give early warning of potential delays; and
 - iv) **After the audit:** it is a permanent record of who did which job, when and how long they spent on it.

(4) Current Audit (Working Papers) File

- (a) There will be one of these files for each year of audit.
- (b) As each audit programme [audit job] is completed the relevant working papers will be placed on the file. A set of five standard working paper forms [WP/I – WP/IV] are contained in the annexes, and they should all be completed to guide every individual job assigned
- (c) When the audit is completed, the file will be handed to the senior manager responsible for the review [usually the Head of Internal Audit]
- (d) At this stage, the file will consist of the following Working Papers, except for schedules 1, 2, and 3, which are prepared later.

Index of a set of Working Papers:

Ref.	CONTENTS
1	Findings Summary – Entire Audit
2	Head of IA Review - and Subsequent Work
3	Points for Head of Internal Audit's Attention
4	Points for Next Audit
5	Audit Plan, including all the relevant job control schedules [WP/1]
6	Audit Administration
A-G [Note 1]	Job 1 – Working Papers [Note 1]
A-G	Job 2– Working Papers
A-G	Job 3 - Etc
	Each job will contain the following standard working papers [Note 2]
WP/I	Audit Job Control Schedule / Audit Programme
WP/II	Audit Test Schedule
WP/III	Exception/Error Analysis
WP/IV	Findings Summary – each Audit Programme

Note 1

Definition: each “Job” comprises the planning and execution of ONE audit programme [eg Procurement audit for goods, works and services – C3] the index of all the audit programmes is provided in the table at Section 3.2. They are numbered between A – G. . Each job must be given the same number as its related audit programme number

Note 2

Standardised templates have been developed for all working papers WP/I – W/P IV. Specimens are provided in the Section 2.8.

- (e) The audit team leader will complete all working papers, except for No. 1, 2, and 3. The Head of Internal Audit then will complete the review of the Audit File and return it to the audit team leader of the audit with his review points. The audit team leader will follow up and clear all the review points, conducting further work if required. It is often expedient for the two individuals to sit together to clear the points.
- (f) Once all work is completed / queries cleared, the Head of Internal Audit will prepare the Findings Summary for the entire audit [WP/F] and then draft out the audit report. This will be discussed with the auditor before being discussed with the Council officer(s) in draft format before its formal issue.
- (g) A copy of the audit report will be added to the front of the file which is then complete. The Head of Internal Audit has thus been responsible for the completion of sections 1, 2, and 3 of the Working Papers
- (h) The file shows the depth of audit work and audit evidence on each job. It shows that this has been reviewed by senior management and forms the basis on which the management letter is based.

(5) Techniques of Preparation

- (a) Audit working papers must be maintained on a standard basis using standardised stationery. The following techniques should be observed in preparing audit working papers:
 - i) Each working paper must have a heading, comprising;
 - the name of the audit entity ;
 - title or purpose of the working paper; and
 - the period covered by the audit.
 - ii) Each working paper must be initialled and dated by the auditor concerned;
 - iii) Each working paper must contain an index or reference number;
 - iv) Each working paper must bear the initials of the reviewer and the date of review;
 - v) Standardised tick marks must be used throughout. Where additional tick marks be necessary, there should be a note of explanation of their meanings. Standard ticks and marks are documented in Section 2.6.5; and

- vi) All sources of data must be clearly identified.
- (b) Although the individual audit working papers are important in themselves, they must be analysed, interrelated and presented in summary form to facilitate audit review, decision-making and audit reporting, as well as future reference.

(6) Indexing of Working Papers

- (a) All individual working papers must be indexed as soon as possible and maintained at all times in the working paper files, except when actually being used for audit work.
- (b) The first working paper in each area must be indexed in the upper right corner with the index. The mandatory standard indexing system for all the audit programmes is shown in Part III of this Manual (Standard Working Papers Index).

(7) Cross Referencing of Working Papers

- (a) All working papers developed on the audit engagement must be cross-referenced as this is vital to the documentation of the audit work done and significantly aids in reviewing the audit work. To the extent practicable, all financial data included in an audit working paper should also be cross-referenced to all other working papers where the same information is shown.
- (b) The most common cross-referencing situation should occur when a specific figure on a working paper is supported by a detailed analysis of the amount on another working paper.
- (c) For example, assume lead schedule B-2/1 shows total rates income of 5,000,000 shillings for the year, and working paper B2/17 lists rates income by month for the period under audit and totals 5,000,000 shillings. A cross-reference reflected on B2/1 should be made in red to the left of the 5,000,000 shillings. The corresponding cross reference on figure B2/17 should be made to the right of the 5,000,000 shillings.

(8) Security of Documents

- (a) Ensure that papers in the files of the auditee are copied and placed in the audit files. All documents with a privacy or security classification, whether generated within or outside of the audit office, should be controlled in strict accordance with the standing procedures for such items.
- (b) Auditor's should regard copies of the Audit Entity's documents as private, whatever their security classification, and they should not be released or discussed outside of the audit office, except with the express prior permission of the responsible officer. Similarly, unpublished information relating to the Audit Entity requested by third parties should not be disclosed by the auditor. Such a request should be referred to the Audit Entity to deal with directly.

(9) Retention and Disposal of Accounting Records

- (a) Keeping documentation for longer than needed is inefficient and expensive. It is normally reasonable to destroy audit files six years after closing. Other audit documents can be destroyed in accordance with Section 67 of Local Governments (Financial and Accounting) Regulations, 2007.
- (b) Auditors should always be on the alert to the need for longer retention of documents in these and similar circumstances.
- (c) In unique circumstances it may be necessary for the Internal Audit office to arrange that vouchers or other accounting documents be kept by the Audit Entity for longer than their normal policy. This situation might arise, for example:
 - i) Where there is a risk of a belated claim; or
 - ii) Where the voucher relates to a long running contract. The period of retention would depend largely on whether contract ledgers were kept in sufficient detail to enable the clearance of final accounts in the absence of earlier claims and interim payments.
- (d) The Head of Internal Audit will be responsible for reviewing the retention and disposal requirements for audit documents, and advising on special safeguards needed for the destruction of security classified documents.
- (e) Special consideration may have to be given to arrangements for the retention of computer documents, including error and other control reports and console logs, and of data held on magnetic media.
- (f) The work of the auditor is based on accounting records and since the audit files are a result of such work, then their destruction should be in conformity with the existing laws relating to destruction of records.

2.4 AUDIT EXECUTION

2.4.1 Audit Testing and Sampling

(1) Introduction

- (a) The objective of an internal audit engagement is to provide an independent and objective level of assurance to assist the Local Government to achieve its objective.
- (b) The techniques employed are based on an assumption that examination of a portion of the accounting entries or other data will reveal the same characteristics as would an examination of all items.
- (c) Testing is broadly divided into three areas: (a) compliance testing and (b) substantive testing, for which various sampling methods may be applied, and which are discussed in this section. Specific sampling guidance for each audit is also provided in the Audit Programmes Manual Annex, and also (c) analytical reviews.

(2) Compliance Testing

- (a) Compliance tests are tests to determine whether the prescribed accounting systems and internal controls actually exist and are being complied with. An agreed number of transactions are selected for checking / testing to ensure that all prescribed systems, procedures and processes have been adhered to. The method of selecting the transactions for checking can be by systematic sampling, random sampling, statistical sampling, and stratified sampling. These techniques are described below.
- (b) Conclusions will be drawn from this on the reliability or otherwise of the system. This will in turn lead to decisions with regard to the level of substantive tests required.

(3) Substantive Testing

- (a) Substantive tests are tests to obtain evidence as to the validity and propriety of the accounting treatment of transactions and the correctness of balances shown in the accounting records; in addition the legality and prudence of the financial operations or, conversely, the nature and extent of errors and irregularities are examined. Substantive tests mainly comprise the detailed verification of particular transactions and balances. ..
- (b) A number of different forms of sampling can be used for both substantive and compliance testing: random sampling, stratified sampling and statistical sampling (Discovery and Monetary Unit).

(4) Random Sampling

- (a) Items selected are drawn at random from the entire population so that each item has an equal chance of selection. Random sampling works best when each of the items in the population bears some sort of serial number. A table of random numbers, or a random number computer program, should be used to select the items. Alternatively select a Uganda Shillings note, take the last digit of the serial number to establish the starting point, and select every "nth" item thereafter. [Most tests in the IA programme manual stipulate every 10th item] In rare occasions where this is not stipulated, calculate the "Nth" item interval by taking the total field size - by specified sample size.

(5) Stratified Sampling

- (a) Where transactions or records vary in materiality or relative risk, they may be grouped and each group sampled separately.
- (b) Thus, items could be grouped: below USh100,000, USh100,000 to USh1,000,000 and over USh1,000,000 with differing sampling methods used for each.

(6) Statistical Sampling

- (a) Where the Council has large transaction populations, statistical sampling may be used and advice will be given to the auditor in such circumstances by the Head of Internal Audit or Principal or Senior Auditor.

(b) Sampling to be applied

- i. Within the standard Audit Programmes contained in Part III sampling is mainly based on transactions representing up to 80% of the value of, for example, expenditure. This is known as the Pareto principle of distribution, such that in this case approximately 20% of the number of transactions will represent 80% of the value of all transactions. This is commonly called the "80/20 rule or principle". Where this can be achieved, i.e. there are not a large number of transactions; the auditor should follow the sampling levels as directed in the specific audit programme.
- ii. However, in cases where (a) there are potentially a large number of transactions, (b) the transactions are low risk/low value, the Head of Audit shall advise on the test sample volume and method of selection. In case (a) statistical sampling may be appropriate, whilst in case (b) tests may, for example, be limited to an analytical review for reasonableness.

(c) Analytical Review

- i. Analytical review procedures are substantive tests of financial information made by a study and comparison of relationships among data.
- ii. Analytical Reviews should be undertaken under the direction of Internal Audit Management, usually at the commencement of an audit. They are usually undertaken as part of the audit planning processor and/ or in conjunction with ongoing audits.

- iii. The objectives of analytical reviews may be several fold, but in essence an analytical review compares data (which may be financial or non financial) between periods, for example the value of debtors values, manpower figures, collection statistics, stockholding periods etc. As such there is no definitive procedure in undertaking such a review; however, general guidance is given in the Audit Programmes Manual Annex.

2.4.2 Audit Evidence

(1) Introduction

- (a) Audit evidence comprises a combination of documentation and information obtained, or inspected, in executing audit programmes and in arriving at the conclusions on which the audit report is based.
- (b) Sources of audit evidence include the accounting systems and underlying documentation of the audit entity, the tangible assets, management and employees, customers, suppliers and other third parties who have dealings with, or knowledge of, the entity's business.
- (c) Relevant audit evidence must relate to the general and specific audit objectives. Evidence which is not related to the audit objectives should not be collected.

(2) Obtaining Audit Evidence

- (a) Audit evidence is obtained by carrying out audit tests which should be classified according to their primary purpose.
- (b) Evidence can either be substantive or compliance in nature – as outlined in section 2.4.1 above.
- (c) Substantive evidence is that which provides direct assurance about completeness, existence, etc. and which the auditor gathers to form his opinion.
- (d) Compliance evidence is used to enable the auditor to make assessment of the effectiveness of internal controls and, thus, reduce the extent of his substantive testing. Substantive testing must always be carried out.
- (e) The weight attached to the two types of evidence depends on which audit approach is selected for each area of audit work. There are two recognised approaches:
 - i) **Direct Substantive Testing:** under this approach the auditor reaches his opinion on the accounts by obtaining evidence direct from his substantive tests. Two examples [of many] are verifying the bank reconciliation with the bank statement, or physically inspecting an asset that has been purchased ; and
 - ii) **Systems Based Compliance Audit:** under this approach the auditor seeks to obtain the required level of assurance by first establishing that an effective system of internal control is operating, by evaluating and compliance testing relevant internal controls. Two examples are testing the system of receipting/banking, and the system of purchasing and payment of goods/services. Once satisfactorily completed the amount of substantive testing can be appropriately reduced

- (f) Generic techniques of audit testing fall into the following broad categories:
- i) **Inspection:** reviewing or examining records, documents or tangible assets. Inspection of records and documents provides evidence of varying degrees or reliability, depending upon their nature and source. Inspection of tangible assets provides reliable evidence as to their existence, but not to their ownership, cost or value;
 - ii) **Observation:** looking at an operation or procedure being performed by others with a view to determining the manner of its performance. Observation provides reliable evidence as to the manner of performance at the time of the observation but not at any other time
 - iii) **Enquiry:** seeking relevant information from knowledgeable persons inside or outside the audit entity, whether formally or informally, orally or in writing. The degree of reliability that the auditor attaches to evidence obtained in this manner is dependent on his opinion of the competence, experience, independence and integrity of the respondent; and
 - iv) **Computation:** checking the arithmetical accuracy of accounting records or performing independent calculations.

(3) Appropriateness of Audit Evidence

- (a) Appropriateness of evidence depends on the source of the evidence and the circumstances under which it was obtained. The following general presumptions are applied:
- i) **Documentary evidence** is more reliable than oral evidence;
 - ii) Evidence obtain from **independent sources** is more reliable than that from the Audit Entity; and
 - iii) Evidence **originated by the auditor** by such means as analysis, testing and physical inspection is more reliable than evidence obtained from others.

(4) Sufficiency of Audit Evidence

- (a) The auditor is required to obtain sufficient relevant and reliable evidence. In all circumstances it will be a matter of judgment as to what constitutes sufficient relevant and reliable audit evidence.
- (b) Further influencing factors are:
- i) Knowledge of audit entity;
 - ii) The degree of risk of misstatement through errors or irregularities;
 - iii) The nature and materiality of items in the financial statements;
 - iv) Experience as to the reliability of the management, staff and accounting records;
 - v) The financial position of the audit entity;
 - vi) Possible management bias; and
 - vii) Persuasiveness of the evidence.

(5) Techniques for Obtaining Substantive Evidence

(a) The major sources of substantive audit evidence are:

- i) Direct Personal Knowledge;
- ii) Physical evidence
- iii) Re-performance
- iv) External Evidence;
- v) Internal Evidence;

(b) **Direct Personal Knowledge** should be used as it is the most reliable source of substantive evidence, however in some occasions the auditor may use less reliable sources in the interest of economy and efficiency.

(c) **Use Physical evidence** to achieve or contribute to the substantive objectives for balance sheet items on accounts prepared on an accruals basis:

(d) For physical inspection to be effective, the auditor requires sufficient knowledge of the Audit Entity to tell if the item under examination is what it is said to be.

(e) **Re-performance** of accounting routines contributes to the substantive objectives of verifying the measurement of receipts and payments and valuing assets and liabilities on a balance sheet.

(f) In some cases, re-performance may also provide evidence to contribute to the existence and completeness of balance sheet items. For example, checking a list of debtor balances will help to verify that no items have been omitted or counted twice in arriving at the balance sheet figure for debtors.

(g) External evidence

- i. External evidence originates from outside of the audit entity and includes statements made to the auditors by third parties.
- ii. External evidence is generally less reliable than direct personal knowledge but evidence obtained directly from third parties is more reliable than that obtained from within the body.

(h) Internal Evidence

Internal evidence originates from within the audit entity. It is less reliable than direct personal knowledge or external evidence, but is the most plentiful evidence available and can be obtained with relatively little effort. This evidence consists of documentary evidence such as accounting records, sales invoices and statement's by the Audit Entity's staff.

(i) Techniques for Gathering External and Internal Evidence

- i. The techniques applicable for obtaining both external and internal documentary evidence are: vouching and scrutiny. Confirmation and enquiry are used for obtaining statements from third parties and the Audit Entity's staff.

- ii. **Vouching:** Vouching consists of validation by means of examination of supporting documentary evidence. Vouching can contribute to any of the substantive objectives for transactions.
- iii. **Scrutiny:** Scrutiny consists of a detailed review of information or financial data in order to discover significant or unusual items. This includes the examination of a ledger to identify high value items or items which originate from an unusual source, scrutiny of invoices for high value items, scrutiny of stock listings for either slow moving items or items with a high cost per unit.
- iv. **Confirmation and enquiry:** Confirmation and enquiry are the basic techniques for obtaining evidence:
 - i) **Direct from Third Parties:** Such evidence is used to establish the existence and ownership of either assets or amounts due from third parties shown on balance sheets. For example: cash at bank (by obtaining a bank certificate) or debtors (by a debtor's circulation);
 - ii) **From Staff of the Audit Entity:** Statements or representations from staff of the Audit Entity represent the least reliable source of substantive evidence and must be corroborated by other types of evidence.

(6) Techniques for Obtaining Compliance Evidence

- (a) Compliance tests are those tests directed at obtaining evidence that control procedures have operated adequately throughout the period of audit.
- (b) **Observation:** Observation should be used together with a different technique since it only gives evidence about the activity observed at the time of observation. Staff that are under observation tend to perform more effectively when they know that they are being watched. Observation can only be used to obtain compliance evidence. It is not appropriate for substantive testing.
- (c) **Interview:** Interviewing the management and employees of the Audit Entity should be used in compliance testing with care as it does not provide particularly reliable evidence.
- (d) **Re-performance:** Use this technique in circumstances where it is possible to re-perform the original control. For example, reworking a bank reconciliation to make sure that it was done properly.
- (e) **Vouching:** Vouching consists of validation by the examination of supporting documentary evidence.
- (f) **Conclusion**

In conclusion, only limited assurance can be obtained from compliance testing, which often provides negative evidence; for example the auditor can usually prove that a control did not operate but cannot prove that it did.

(7) Regulatory Audit

- (a) Regulatory audit is the part of the audit which tests whether the rules of the Audit Entity have been followed and to confirm that a Audit Entity is acting within its statutory powers.
- (b) Regulatory audit uses sampling and other techniques to test whether there is/ are a large number of errors and/ or fraud within the Audit Entity
- (c) The extent of Regulatory audit is based on the results of systems audits. Where systems are strong and are followed the level of regularity audit can be reduced. Where procedures are weak and little confidence can be placed in the controls more extensive regularity audit will be necessary.
- (d) Regulatory audits are usually based on audit programmes which do the following:
 - i) Test whether the rules of the (standing orders, financial regulations, stores instructions, etc.) have been followed and, thus, whether income, expenditure and the assets of the Audit Entity have been dealt with properly. Such testing is normally carried out through:
 - Vouching:** ensuring that each voucher complies with a set of standard criteria;
 - Extension:** ensuring that multiplications are correct;
 - Casting:** ensuring that summations are correct; and
 - Comparisons:** with norms.
 - ii) Test that no significant level of errors have occurred;
 - iii) Test that there are no significant frauds or other irregularities; and
 - iv) Test whether all activities of the Audit Entity fall within its powers.

2.5 OBSERVATION AND INTERVIEW

2.5.1 Introduction

- (1) This section addresses techniques for observation, interviewing and inspections. It also covers steps that an auditor must take when some form of irregularity is suspected or identified as having taken or is taking place.
- (2) The auditor must take care when observing or interviewing suspects, and ensure that any evidence obtained is admissible in court and that the police's chances of gathering evidence by premature action are not compromised.
- (3) In such circumstances the Head of Internal Audit or Audit Management must be alerted, and direction will be given to the auditor in such circumstances relating to the necessary actions to be taken, including notifying the appropriate authorities.

2.5.2 Observation

- (1) Observation takes two forms: passive and active.
 - (a) **Passive Observation** means remaining in one place whilst observing an individual's activities. For example, this could be observing a revenue collector. To be successful the auditor must have a valid reason for being where he is and, preferably, be unknown to the individual. It is possible to ask people to assist in observation where it is felt that the auditor cannot do it himself; and
 - (b) **Active Observation** is where the auditor follows a person suspected of malpractice. This will usually be removing some of the Audit Entity's property or claim wages, bonus or overtime for periods not actually worked.
- (2) The general rules for observation are:
 - (a) Where possible observation should be done in pairs;
 - (b) A record of the observation should be kept all the time, if at all possible;
 - (c) This record must have the time it covers, dates, mileage readings (if appropriate), etc. It must be signed by the auditors immediately each page is completed. There should be no gaps on the paper. The original record should be retained, no matter how rough it is, as it is this, not a fair copy, which will be required in evidence; and
 - (d) If spotted by the person being observed try to avoid explanations and leave at once or conduct an interview.

2.5.3 Interview

(1) Introduction:

Interviewing is a key skill required of every auditor. Interviews where fraud is suspected require especially careful handling and should always be referred to the Head of Internal Audit for advice before any action is taken.

(2) Before Interview:

- (a) Familiarise yourself with the topic of the interview and the interviewee. This includes finding out about the interviewee's post, and his or her responsibilities, previous relations with Internal Audit and attitude towards Internal Audit.
- (b) Agree the time, place and estimated duration of the interview with the interviewee.
- (c) Prepare your questions, after first having clarified your objective in proposing the interview. This requires writing them down, or at least writing down some indication of what you want to say.
- (d) You should not normally read the questions out verbatim at the interview, so it is not worthwhile drafting out carefully worded questions. It is much more important to have an understanding of what information you need to acquire, and of how it relates to the problem that you are working on.
- (e) Apart from any other considerations, this comprehension of background data will allow you to recognise the need for supplementary questions, and to frame them during the interview.
- (f) It is helpful to anticipate answers or sets of possible answers, so that you are forearmed with the necessary supplementary questions. But be careful not to spend too long in developing these supplementary questions as the interviewee may not give the answers you expect.

(3) Opening the Interview

- (a) Establish a rapport as soon as possible. This is largely a matter of personal style and experience. The best guidance is to act naturally and politely, and proceed as promptly as is appropriate to business. Unless you already know each other, you will need to introduce yourself and confirm the identity of the person you are interviewing.
- (b) It may be appropriate to indulge in preliminary informal conversation, especially if the interviewee is someone you know, or is relatively junior. This may be less likely to be appreciated if the interviewee is a Senior Manager for example.
- (c) In order to get the maximum information from the interviewee, sit so that you can see his or her face and expressions easily. For example, avoid sitting so that the interviewee is between you and the window or other strong light.
- (d) Start the interview by making its purpose explicit, and explain how you intend to conduct the interview.

- (e) Set an appropriate tone. Be courteous yet businesslike, be friendly yet firm, and give the interviewee the opportunity to voice any uncertainties. For example, you could ask "is that alright?" after outlining the purpose of the interview.

(4) During the Interview

- (a) Listen. A good interviewer should be spending close to 90% of the time listening, not speaking. At the same time, do not distract the interviewee by, for example, fidgeting, fumbling with papers or looking out of the window.
- (b) In addition, the auditor should remember it is their interview. They should be in charge and they should ensure that the interview remains on the topics that need to be covered for the audit in progress.
- (c) Sympathise with and encourage the interviewee. Whenever possible indicate that you agree or at least understand the interviewee's point of view, using brief comments ("I can understand that", "that's right" or "yes" for example) or body language (nod or smile, for example).
- (d) Likewise give credit where you can, for example by saying "that is a good idea" or "that is what I should have done, too".
- (e) Another powerful way of getting people to say more than they already have is to employ silence. When the interviewee stops speaking, do not rush in with your own comments. Just smile or nod and wait for him or her to continue.
- (f) You will normally need to take notes. And you will often need to be analyzing the interviewee's answers as they are given, in order to see whether any supplementary questions are necessary.
- (g) If you find (or know in advance) that you are taking a long time doing these things, and generating what may appear to be interviewee to be awkward silences, tell the interviewee what is happening, and ask him or her not to worry, but to bear with you.
- (h) When taking notes, do it openly, and keep them to be bare minimum necessary for your purposes. Do not try to take notes verbatim in the normal course of things.
- (i) Your questions should be open in the sense that the form of the questions should not restrict or prejudice the answers which the interviewee may consider. Avoid questions which limit answers to yes or no ("do you record the exact time of your arrival?")
- (j) Avoid questions which impose a choice between two options ("do you sign before or after you check?") And avoid leading questions ("presumably you record the exact time you arrive?"). The best way to phrase questions is to start them with words like how, why, when, what.
- (k) When asking questions, do not have a suspicious, accusatory or apologetic tone or attitude. Be neutral.

- (l) If the interviewee gives an answer which does not fit the question you were trying to ask, the best way forward is to say that you must have asked the question unclearly. Do not say "you have answered the wrong question" or "you were not listening to the question".
- (m) It is often beneficial to summarise the information obtained on one topic before moving on to the next. Recap in your own words what you think you have been told. This serves to reassure the interviewee that his or her message is getting across, and it confirms that you have understood properly.
- (n) If it turns out that you have taken the wrong meaning, the preference is to accept the blame, rather than to blame the interviewee for not being clear.

(5) Ending the Interview

- (a) Make it clear that the interview is at an end, and make the way forward explicit. This includes summarising the ground covered, checking to see whether the interviewee has anything further to add and agreeing what you will do and what, if anything, the interviewee has agreed to do. Finally, thank the interviewee for his or her time and help.

(6) After the Interview

- (a) It is necessary to go over your notes to make sure they are adequate. Are there any parts which you can read now, but may not be able to decipher in a few days time, or which other file reviewers will not be able to read? If so, clarify them.
- (b) Similarly, clarify any abbreviations which may cause puzzlement in the future. You should not normally need to type up notes, or to rewrite them. If this turns out to be necessary, it will be using up valuable time, and you need in the future to take a little longer time taking the notes more legibly in the first place, so that only minor amendments are necessary.

(7) General

Where the person is functionally illiterate, the interviewer should have an independent third party present who can read any record, statement, etc. and agree them as accurate records of the proceedings.

2.6 AUDIT TICKS AND MARKS

2.6.1 Introduction

- (1) During the course of an audit, the Auditor collects a lot of information. The information collected is the basis for the opinion the Auditor will express.
- (2) The information collected will, however, not help the Auditor to form an opinion unless they are verified. The fact that the data collected has been verified should be carefully described on the audit working papers. This should be done by the use of specific symbols which in audit language is called “ticks and marks”.
- (3) These “ticks and marks” are odd and distinctive characters which have special meanings to the Auditor using them. The purpose of this chapter is to standardize the “ticks and marks” used by the internal auditors in an Audit Entity so that they are commonly used and understood by them.
- (4) Accordingly, a simplified regime of “ticks and marks” is introduced in this manual.

2.6.2 Marking Records

- (1) In marking books and records the Internal Auditor should make every effort to avoid untidiness. Ticks and marks should be neat and legible. On no account should a tick cover or partly cover a figure, nor should it be placed in such way as to confuse a figure.
- (2) If an amount is ticked in error, the incorrect tick should be neatly circled and when accuracy of the entry is finally ascertained, a second tick should be made. A fine – point ball pen is the best instrument to use for audit ticking.

2.6.3 Additions, Corrections and Erasures

- (1) Internal Audit staff should not make any additions, corrections or erasures in the accounting records they examine. If a correction is required, the matter must be brought to the notice of the Officer responsible for the account or record who should make the correction in accordance with the Financial and Accounting Regulations.
- (2) A possible exception to this rule concerns discovery of an incorrect cast (total) where, if no responsible Officer is available to carry out a correction, the Auditor may insert the correct cast (in purple/violet) above or near the incorrect total.

2.6.4 Significance of Audit Ticks and Marks

- (1) As stated in the introduction, audit ticks and marks are of significance for the Auditor only and mean that the item against which it is placed has been verified.
- (2) It also specifies the type of verification that has been made and the findings as each type of verification has a different tick or mark. At the foot of a work paper the Auditor should put a key which explains the significance of the ticks and marks he/she has used so that in case, for some reason, he is unable to continue with the Audit, another Auditor can continue with the audit, or an audit review can be done even if he/she is not available.

2.6.5 Audit Ticks and Marks Specifications

The ticks and marks listed below are recommended for various types of audit verifications so that the Internal Audit Departments in the Local Councils operate a standard system.

	Tick / Mark	Significance	Position		Illustration
(a)	Operation				
1.	/	Down cast found correct	Below the total		7,836 /
2.	X	Down cast found wrong	Below the total		7,836 X
3.	∧	Sub- Total carried forward	Below the figure		7,836 ∧
4.	V	Subtotal brought forward	Above the figure		V 7836
5.	/	Sub-total column cast and found correct	Below the sub-total	2,631 1,923	4,554 /
(b)	Postings				
6.	Y	Vouched and found properly authorised with all supporting documents attached	On left of figure		Y 1,248
7.	¥	Vouched and found something wrong (specify) either not authorised or supporting documents missing	On left figure		¥ 1,248
8.	ı	Clearance – verified and found correct	On left of figure		ı 763
9.	ıı	Clearance i.e . all postings making up total have been checked	On left of figure	ı 601 ı 86	ıı687
10.	Z	Transfer tick i.e. traced transfer from one book to another or one account to another and found correct	On left of figure being traced forward and on right of the figure that has been traced		Z 763 763 Z
11.	Zx	Non-transfer tick – i.e. traced transfer from one book to another or one account to another and found not transferred	On left of figure not transferred		Zx 763
12.	¢	Contra i.e. transfer within the same account	On left of figure		¢ 763
13.	β	Balance carried/brought forward	On left of figure for carried forward and right of figure for brought forward		β 763 763 β
14.	∅	Nil tick – to indicate an item which had been cancelled or deleted at the time of examination	On left of figure		∅763
15.	O/S	Outstanding – to indicate an item which is outstanding by the time of examination	On left of figure		O/S 763
16.	≠	Empty space – to prevent subsequent wrongful use	At centre of empty space		Y 594 Y 623 ≠ 156 786
17.	(-)	Altered figure – brackets	To left of previous figure		

	Tick / Mark	Significance	Position		Illustration
		around altered figure underlined			(763) 786
(c)		Comparison of audit balances on stock records, inventories, etc.			
18.		Audit count agrees with record	Stock of items		67AB67
19.		Audit count disagrees with record N.B. In both cases the actual count is shown (otherwise, ordinary vouching ticks are used in stock records)	Stock of items		67AB69
(d)		Information regarding receipt books (e.g. in receipt Book Registers, Cash Books, Revenue Registers, etc.			
20.		Receipt Books in use (last receipt number used is shown)			RU(714)
21.		Receipt Book in stock (unused) (i.e. Seen and checked)			RU(801.900)
(e)		Other symbols that may be needed			
22.	P/C	Paid cheque			
23.	D/N	Debit Note			
24.	GRN	Goods Received Note			
25.	C/N	Credit Note			
26.	R	Receipt			
27.	I	Invoice			

2.7 AUDIT REVIEW

- (1) The primary objectives of audit review are to ensure that:
 - (a) All the instructions per the Audit Plan have all been executed.
 - (b) for each audit programme the work as specified in the Audit Job Control Record [W/P 1] and elaborated in the relevant Audit has been conducted, and properly documented, and all queries have been either cleared, or 'logged' for inclusion in the report.
 - (c) a complete working papers file for the audit has been presented, and that the specified audit working paper templates have been properly completed, such that the auditor's "scoring" of the system concerned has been completed, and reflects the result achieved.
 - (d) and the audit report prepared in accordance with approved Audit Standards, any applicable statutory or other regulatory requirements and the policies of the Internal Audit Department; and,
 - (e) important matters have been or are being reported to the Audit Entity, including any significant frauds, irregularities or suspicious circumstances encountered and any recommendations on internal control, systems efficiency and accounting methods have been included in the report.
- (2) Audit reviews should be undertaken by
 - (a) The senior auditor reviewing the work of his assistant auditors in detail.
 - (b) The Head of Internal Audit reviewing the work of the senior auditor in detail to ensure the adequacy of the audit work performed in support of the audit findings and recommendations to be made in the Audit Report. The Head should also briefly review all the assistants' working papers to ensure that they have been reviewed and cleared by the senior, and that they are in order, in accordance with the manual.
- (3) The reviewing party must review all the working papers on the file, ensuring that
 - (a) all the work required by the audit programme has been diligently carried out,
 - (b) all errors or exceptions discovered have been properly recorded and investigated,
 - (c) additional tests have been undertaken where necessary,
 - (d) all standard working papers have been completed properly, and accurately capture and record the findings and conclusions,
 - (e) the working papers have been properly documented and duly cross referenced, and
 - (f) the reviewing party must initial /sign each working paper as evidence of his/her review.

- (4) The reviewing party must prepare a schedule setting out the full text of all the review queries. All the points on this schedule must be discussed with the auditor performing the work, and the point must be cleared accordingly by:
 - (a) providing satisfactory answers to the query
 - (b) by filling in any gaps or shortcomings in the working papers
 - (c) by carrying out any additional work needed.
 - (d) Recording any points for attention at the next audit
- (5) The manner in which each query has been cleared must be clearly indicated against the query itself, with cross references given to any additional evidence gathered, or the additional work done Management comments regarding the significant findings should be properly captured

2.8 SPECIMEN AUDIT WORKING PAPERS

Set out below is the standard Working Paper Contents. The working papers for which standard formats have been provided are indicated in the left column.

Ref	CONTENTS	Standard Working Paper Yes / No
Schedule		
Sch 1	Findings Summary – Entire Audit	Yes
Sch 2	Head of IA Review - and Subsequent Work	Yes
Sch 3	Points for Head of Internal Audit's Attention	Yes
Sch 4	Points for Next Audit	Yes
Sch 5	Audit Plan, including all the relevant job control schedules [WP/1]	Job control schedules - Yes
Sch 6	Audit Administration	No
Section		
A-G	Job 1 – Working Papers	n/a
A-G	Job 2– Working Papers	n/a
A-G	Job 3 - Etc	n/a
Working Papers	Each job will contain the following standard working papers	
WP/I	Audit Job Control Record and Audit Programme	Yes
WP/II	Audit Test Schedule	Yes
WP/III	Exception/Error Analysis	Yes
WP/IV	Findings Summary – each Audit Programme	Yes

SCHEDULE 1 - OVERALL FINDINGS SUMMARY – ALL AUDIT PROGRAMMES

Purpose: To provide an overall summary of all the errors and exceptions found during the audit - in all the work programmes. The data for each audit programme is picked from schedule W/P IV.

Audit Programme.	I - Values of Errors - Involving actual or potential loss of money or assets			II -Values of Errors- Non compliance only - No loss likely		Overall Score: This Year	Overall Score: Last Year
	Actual Value	Extrapolated Value	Report Ref	Actual Value	Report Ref		
Total Value						Av. Score:	Av. Score:

Overall Conclusion on the Audit as a Whole : [plus comment on change in average score]

Auditor Signature:..... Date:.....	Head of Internal Audit Signature:..... Date:.....
----------------------------------------------	-------------------------------------------------------------

W/P 0 - AUDIT WORKING PAPERS INDEX

AUDIT ENTITY: _____

AUDITORS: _____

DATES OF AUDIT: _____

AUDIT ENTITY STAFF SEEN:

Ref	CONTENTS	Tick and Initial when attached
Schedule		
Sch 1	Findings Summary – Entire Audit	
Sch 2	Head of IA Review - and Subsequent Work	
Sch 3	Points for Head of Internal Audit's Attention	
Sch 4	Points for Next Audit	
Sch 5	Audit Plan, including all the relevant job control schedules [WP/1]	
Sch 6	Audit Administration	
Section		
A-G	Job 1 – Working Papers	
A-G	Job 2– Working Papers	
A-G	Job 3 - Etc	
Working Papers	Each job will contain the following standard working papers	
WP/I	Audit Job Control Record and Audit Programme	
WP/II	Audit Test Schedule	
WP/III	Exception/Error Analysis	
WP/IV	Findings Summary – each Audit Programme	

Note 1– Definition: each “Job” comprises the planning and execution of **ONE** audit programme [eg Procurement audit for goods, works and services – C3] the index of all the audit programmes is provided in the table at Section 3.2. They are numbered between A – G. Each job must be given the same number as its related audit programme number

W/P I - AUDIT JOB CONTROL SCHEDULE

AUDIT JOB NUMBER: [Enter job number from Job Allocation form]: _____

AUDIT Year: _____

AUDITOR: _____

TIME ALLOCATED: [Enter time allocated from Job Allocation form]: _____

TIME TAKEN: [Enter when job completed]: _____

PREPARED BY: _____ **DATE** _____

DETAILED JOB INSTRUCTIONS

This section is prepared by the Head of Internal Audit and will contain:

1. the control objectives of the audit, and the risks
2. the sample size to be selected, and the source of selection
3. the audit programme to be followed
4. any specific instructions which augment the standard audit programme.

Detailed guidance on points 1-3 above is given in the detailed audit working programmes set out in Part III. In most cases it will be possible to “cut and paste” the required instructions from the manual.

W/P II - AUDIT TEST SCHEDULE

Purpose : To record all the tests carried out on the sample of items selected for testing, and arrive at an overall scoring for this particular programme.

Audit Entity: _____ **Prepared By:** _____ **Date** _____

Audit Programme Reference: _____ **Reviewed By:** _____ **Date** _____

Total Field Size – No. Items: _____ **Value:** _____

Sample Size: - No. Items _____ **%** _____ **Value** _____ **%** _____

Items Selected for Checking					Tests Carried Out – As per Audit Programme Numbering									
Item #	Ref.	Date	Brief Description	Value Sh	1	2	3	4	5	6	7	8	9	10
1														
2														
3														
4														
5														
6														
Etc														
			Total Value - of the Sample											
			Total Exceptions/ Errors Number.											
			Value.											
			Error Number	%										
			Value	%										
			Exception Report Reference No.											
			Exception Report Score **											

Overall Average Score Achieved [+4 to – (1)]

** Picked from Exception/ Error Analysis – W/P III

* This working paper may need to be expanded in cases where there are more than 10 tens and/or 7 items to be tested.

WP/III - EXCEPTION/ ERROR ANALYSIS

Purpose: To summarise each type of exception or error discovered, to identify the likely cause, determine the remedial action and draw an appropriate conclusion.

Audit Entity: _____ Prepared By: _____ Date _____

Exception Report Ref No: _____ Reviewed By: _____ Date _____

1) Brief Description of Exception, Error, or Omission		
2) What was the %'age error rate within the sample – by No _____ by Value _____		
3) Has the infraction caused actual loss to the Local Government? – Yes / No		
4) If Yes, quantify the loss - Actual loss – Sh _____ Extrapolated' loss Sh _____		
5) If No, what is the potential consequence?		
6) What is the likely cause(s) of the “Infraction” [Briefly justify]		
a) Lack of Knowledge or Training b) Carelessness		
c) Gross Negligence d) Possible Deliberate Intention/Fraud e) Lack of Supervision f) Other		
7) Conclusion – [Circle One option]	SCORE*	*Take to scoring summary
No Errors	4	Excellent
Minor Exceptions /errors <i>Not considered material/ significant [exclude from formal report]</i>	3	Good
Significant / Material issues <i>Not considered very serious [nevertheless include in formal report]</i>	2	Adequate
Substantial exceptions/errors <i>Overall cause for concern</i>	0	Weak
Major issues of a serious nature	-1	Not Acceptable
Recommendation of Auditor [including corrective action]		
Recommendation of Head of Internal Audit:		
Results & Recommendations included in report dated: _____		

W/P IV - FINDINGS SUMMARY – INDIVIDUAL PROGRAMME LEVEL

Purpose: To summarise the losses incurred [or other impacts] from the individual errors discovered while auditing the following named programme, and to provide an overall conclusion on the area being audited.

Audit Entity: _____ **Prepared By:** _____ **Date** _____

Period: _____ **Reviewed By:** _____ **Date** _____

I - Values of Errors involving potential loss of money or assets			
W/P Ref	Summary Description Of Error/ Loss	Actual Loss	Extrapolated
	Total Value of Losses [Note – Individual Losses should not be double counted]		
II - Non-compliance with regulations where no loss is likely to have occurred (include potential impact of error)			
III – Overall Score Achieved [per WP/II] and Overall Conclusion:			
IV - Head of Internal Audit Comment:			

2.9 AUDIT REPORTING

2.9.1 Introduction

- (1) Internal Auditors are required under section 90 to the Local Governments Act to produce internal audit reports on a quarterly basis. Apart from these statutory reports, internal auditors should produce reports at the end of each audit exercise.
- (2) The objectives of reporting are to notify management of the councils of the results of the audit and to make recommendations, where appropriate. These reports will identify the audits carried out, recommendations resulting from the audits undertaken, follow up actions on previous audit reports and the audits planned for the next period.

2.9.2 Stages of Audit Reporting

- (1) The Quarterly Report of the Head of Internal Audit is a mandatory requirement under the Local Governments Act, which must be produced by local governments mandated to have internal audit units. This Quarterly Internal Audit report is produced using a three stage process namely:
 - (a) Audit Findings
 - (b) Draft Internal Audit Report
 - (c) The Quarterly Report
- (2) Audit Findings are preliminary reports from audit units/departments being audited. The head of internal audit or the team leader of the audit team will arrange to discuss the audit findings with the relevant Heads of Departments, Head of Finance and where necessary at this stage the Chief Executive. The purpose of this discussion is to give the affected heads of departments an opportunity to explain or defend themselves and where necessary the Chief executive to authorise further investigations.
- (3) Draft Internal Audit Reports are administrative reports prepared by the Head of Internal Audit after discussion of preliminary audit findings with the affected heads of departments and where necessary the Chief Executive.

The draft Internal Audit report will be prepared by the Head of Internal Audit in line with the format shown in schedule 1 (A), and will be addressed to the Chief Executive and copied to the Head of Finance and the heads of departments.

Routine internal reports give independent insights into the affairs of the Departments, so the Chief Executive should pay considerable attention to these administrative reports. He/She may refer a particular report to the relevant standing committee of council or ask the Head of Internal Audit to send copies to the Resident District Commissioner, the Ministry of Local Government or the Auditor General.

- (4) Finally a Quarterly Report is prepared. This is a Statutory Report by the Head of Audit. The report is addressed to the Chairperson of the Council and in conformity with section 90(2) of the Local Governments Act, copied to the Local Governments Public Accounts Committee.

Copies of the report should also be sent to the Resident District Commissioner, the Ministry of Local Government, the Auditor General, the Council Committee responsible for Finance and the Chief Executive, and also placed on file for central monitoring purposes. The Content of the Quarterly Audit Report is specified in Schedule I (B).

2.9.3 Purpose and Effect of the Quarterly Internal Audit report

- (1) The Quarterly Reports is meant to report on the internal audit work carried out in the preceding quarter. A well prepared report will frankly and concisely comment on the adequacy of the financial control and accounting systems of the entity and will provide observations and recommendations on the efficiency, effectiveness and economy of the administrative and departmental systems examined during the quarter.
- (2) Effects
 - (a) It will brief the Chairperson of the Council (and the Executive Committee), the standing committee responsible for finance, the RDC, the Auditor General and the Central Monitoring teams on the adequacy of the financial and administrative systems of the authority, and enable action to be taken on such matters together with corrective measures as may appear necessary
 - (b) It will assist the Auditor General in his work of reporting on the accounts and expenditure of the Council
 - (c) It will provide information to the Central monitoring teams on the adequacy of the financial and administrative arrangements of the authority and guide them in formulating their inspection plans and arrangements.
 - (d) The correct completion of the audit of an entity will enable the appropriate conclusions to be drawn. These may include findings resulting from system weaknesses, test results, and audit observations., which will be recorded in the Working Papers.
 - (e) It is recommended that the audit reports clearly identify to management:
 - i. the importance of the control or transaction tested;
 - ii. the nature and purpose of the test conducted;
 - iii. the results of the test, in a standard form such as percentage compliance;
 - iv. a firm conclusion, on whether the control was in place or the transactions valid;
 - v. the implication of findings for the effective operation of the Audit Entity; and
 - vi. recommendations to management on action to address weaknesses found.

2.9.4 Specimen Internal Audit Reports

Specimen 1: The Draft Internal Audit Report For Departments/Entities

To: The Chief Executive

Heading: Internal Audit report forDepartment/Entity for the period.....

1. INTRODUCTION:

- a. Nature of Assignment (routine, special assignment (refer to TOR)
- b. Period under review
- c. Timing of visit (from....to.....)
- d. Composition of the Audit team
- e. Representatives from the Auditee (Places visited & persons met)

2. SCOPE OF AUDIT:

- a. Systems audit (Checklists/Audit Programme areas)
- b. Other Specific areas (eg project/special areas audited)
- c. Follow up of previous audit recommendations
- d. Documents and Books examined

3. MAJOR FINDINGS AND RECOMMENDATIONS

- a. Systems Audit(According Audit check lists/programmes)
- b. Other specific areas (eg projects audited)
- c. Actions required
- d. Recommendations

4. FOLLOW UP OF PREVIOUS AUDITS

5. GUIDANCE AND TRAINING REQUIRED

6. CONCLUSION BY HEAD OF AUDIT

7. DATE AND SIGNATURE

- The detailed report of the specific findings of each programme carried out are included in a sequence of attachments.
- Attach summary scores for each department/entity as appendices.
- Copy the draft report to the Head of Finance and Head(s) of Department(s) concerned

Specimen 2: –The Quarterly Report

The quarterly report summarises the salient points arising from audit of all entities undertaken during the quarter. It should not be too voluminous. The main report should be supplemented by annexes which explain the salient issues raised in the report. For example the details of advances should be annex to the report.

The Contents

To The Chairperson/Mayor

The Quarterly Internal Audit Report for (Insert name of LG) for the period.....to.....

1. MANDATE

- a) The authority and mandate of Internal Audit

2. PREAMBLE

- a) Introduction-matters brought forward for previous audit and action taken
- b) Summary of current financial and administrative control situations

3. WORKS UNDER TAKEN IN THE QUARTER

- a) List of all entities that were audited in quarter
- b) Note variances in coverage in comparison to entities approved in work plan, give explanations for variances
- c) Provide, in general, the overall performance rating for the quarter compared to the rating ascribed at the last quarter/audit
- d) Provide summary of main findings according to thematic areas (Check lists/Programmes)
- e) Provide a synthesis of the most common major issues arising, and any trend emerging
- f) Action required and recommendations on findings
- g) Summary of special investigations undertaken
- h) Report on Special Investigations will appear as appendices

4. RECOMMENDATIONS AND CONCLUSIONS

Recommendations on action to be taken and matters carried forward

5. SIGNATURE AND DATE

Note : A summary of audits scores of entities audited in that quarter is then included as appendices to the quarterly report

**3. PART III: LOCAL GOVERNMENTS INTERNAL AUDIT
PROGRAMMES – ROUTINE AUDITS**

3.1 INTRODUCTION

- (1) Part III of the Manual contains standard audit programmes that have been developed for auditing;
 - (a) Significant sources of Revenue
 - (b) Significant items of Expenditure
 - (c) Significant Assets, Liabilities and Reserves
 - (d) Review of Budgets and Financial Statements
- (2) It provides the tools for Internal Audit staff to perform their day-to-day internal audit activities, and comprises the detailed audit procedures and audit programmes to be used in undertaking specific internal audit reviews.
- (3) The main purpose of this introduction is to show the linkage of the Chart of Accounts with the main audit programmes, and to provide the working paper index. These are as set out on the following table:

3.2 INDEX OF AUDIT PROGRAMMES

(1) The table below shows the index of audit programmes detailed in this Manual. The classification of the audit programmes is as follows:

- A** – Budget
- B** – Revenue
- C** – Expenditure
- D** – Assets
- E** – Liabilities
- F** - Reserves
- G** – Financial Statements

CHART OF ACCOUNT CODE	MAIN CLASSIFICATION & SUB CLASSIFICATIONS	AUDIT PROGRAMME	AUDIT PROG. NO.	PAGE NO.
N/A	BUDGET	Budgeting	A1	72
		Vote Book	A2	74
		Analytical Review	A3	76
CLASS I	REVENUE, RECEIPTING AND BANKING			
111	Taxes On Income			
xxxxx	Local Services Tax	Local Services Tax **	B1	79
113	Taxes On Property			
113102	Property Rates	Property Rates **	B2	82
114	Taxes On Goods & Services			
114505 114506 xxxxx	Business Licences Liquor Licences Hotel Tax	Business levies **	B3	84
131	Grants – Donor Funds			
131101	Foreign Governments – Current Foreign Governments – Capital Multilateral Dev Ptnrs – Current Multilateral Dev Ptnrs - Capital	Donor Funds	B4	86
133	Grants From Government			
133103 133104 133105	LG Conditional Grants LG Unconditional Grants LG Equalisation Grants	Central Government Grants	B5	88
141	Property Income			
141601	Sale of Government Assets/Property	Capital Receipts	B6	90
142	Administrative Fees & Licenses			
142201 142203 142205 142214	Revenue From Outsourced Contracts – Parking Fees [Street, Taxi, Lorry, Boda] Public Convenience/ Refuse Collection Advertising / Bill Boards Market Charges Business Licences Liquor Licences	Contracted Revenue Collection	B7	92
N/A	Other Income Sources			
Various Codes	Application Fees Registration Fees Inspection Fees Court Filing Fees Animal / Crop Husbandry Levies	Other Income Sources	B8	94

CHART OF ACCOUNT CODE	MAIN CLASSIFICATION & SUB CLASSIFICATIONS	AUDIT PROGRAMME	AUDIT PROG. NO.	PAGE NO.
	Festivals, Plays Letting of Halls Hire of Equipment Royalties Gate Charges			
N/A	RECEIPTING AND BANKING OF REVENUE: CASH AND CHEQUES	Revenue Collection, Receipting & Banking	B9	96
N/A	REVENUE SHARING	Revenue Sharing Audit	B10	98
CLASS 2	EXPENDITURE AND PAYMENTS			
	Wage Expenditure -			
211 212	Wages & Salaries Social Contributions	Salaries, Pensions & Gratuities	C1	99
	Non Wage Expenditure			
221 222 223 224 225 226 227 228 229 213	General Expenses Communications Utility and Property General Supplies of Goods and Services Professional Services Insurances & Licenses Transport & Travel Maintenance Inventories Other Employee Costs	Non Wage Payments Procurement Audit for Goods, Works, and Services Advances & Allowances Imprests	C2 C3 C4 C5	101 104 106 108
CLASS 3	ASSETS			
	Non-Current Assets			
311101 312101 312103 312201 312202 312203 321201-205	Non Produced Assets [Land] Buildings [Residential / Non Residential] Roads & Bridges Transport Equipment Machinery & Equipment Furniture & Fixtures Investments	Fixed and Non Produced Assets Investments	D1 D2	110 113
	Current Assets			
314201	Materials & Supplies	Stores	D3	115
321601 321602 321603 321501 321502	Taxes Receivable Trade Debtors Sundry Debtors Staff Advances Departmental Advances	Debtors, Prepayments & Advances	D4	117
321103	Cash at Bank	Cash & Bank Balances	D5	119
CLASS 4	LIABILITIES			
	Creditors And Accruals			
415001 415002 415003	Trade Creditors Sundry Creditors Accruals	Trade Creditors & Accruals	E1	121
413003	Loans	Loans / Borrowings	E2	123
Class 5	RESERVES	Reserves	F1	125
N/A	FINANCIAL STATEMENTS	Review of Financial Statements	G1	126

** These programmes are only applicable where the Entity has not contracted out the collection of the related revenue. If the revenue collection has been contracted out, then programme B7 should be used.

(2) The Standard Internal Audit Programmes are the minimum tests that should be performed in the audit of any system or area. The Head of Internal Audit may specify additional tests wherever deemed necessary.

(3) The fundamental set of audit principles are as follows:

(a) When auditing assets or expenditure (i.e. the “debit” transactions), the auditor is primarily looking for **overstatement**. In this case the auditor needs to verify the transactions and balances that are reflected inside the books, so the source of selection of the sample must start inside the books of account. So for example when auditing payments, the auditor starts his selection from the payments recorded inside the cash books

(b) When auditing liabilities and income (i.e. the “credit” transactions), the auditor is primarily looking for **understatement**. In this case the auditor needs to ensure that all credits have been brought into the books, and that none are omitted. The auditor must look “outside” the books of account for what may not have been brought to account. The sample selection must therefore start outside of the books of account. So for example when auditing local revenue – business licences, - the auditor should visit a sample of businesses, ask for their receipt, and trace the receipt back to Entity’s records , and ensure the money was banked intact and on time.

The principle is set out in summary form in the following table:

<u>DEBITS</u>	ASSETS	EXPENSES	Audit for OVERSTATEMENT	Source of selection is INSIDE the books of account – i.e. verify/vouch what is there
<u>CREDITS</u>	LIABILITIES	INCOME	Audit for UNDERSTATEMENT	Source of selection is OUTSIDE the books of account – i.e. verify/vouch what is NOT there

(4) The Tools required for carrying out all audits are as follows:

- (a) Constitution of the Republic of Uganda
- (b) Local Governments Act
- (c) Local Governments Financial and Accounting Regulations
- (d) Finance and Accountability Act
- (e) Local Government Rating Act
- (f) Public Procurement and Disposal of Public Assets (PPDA) Act
- (g) Local Government PPDA Regulations
- (h) The Local Government Amendment Act
- (i) Guides, Manuals and Instructional Publications

3.3 AUDIT PROGRAMMES

A BUDGET, VOTE BOOK, AND ANALYTICAL REVIEW

A1 Budget

1. Main Activities Involved

This audit covers the key budget process – formulation, approval, execution and control.

2. Control Objective

To ensure that the Entity's budget is prepared in accordance with the laid down regulations and instructions, that there is effective monitoring of expenditure and revenue against estimates and that there is effective budgetary control.

3. Risks

The key risk to the Entity is that budget allocations may be over or under estimated, resulting in inadequate or inefficient budget execution and the inability of the Entity to meet its policy objectives.

The underlying risks are:

- (a) that inadequately supported budget estimates result in poor quality budget estimates
- (b) that the incorrect recording of budget provisions/ estimates in the vote book results in poor quality of budget monitoring
- (c) that the lack of, or inadequate, budget monitoring and reporting results in overspending and under-collections.
- (d) government national priority programme areas are not adequately catered for

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Development Plan
- (b) Budget Workplans / estimate Working Papers;
- (c) Budget Framework Paper
- (d) Approved Budget;
- (e) Vote Books;
- (f) Finance Department Monthly Reports.

5. Sampling to be used

- (a) undertake a check on the largest programme heads that cover at least 80% by value of all expenditure and income.
- (b) 100% of the key programmes as defined by the Head of Internal Audit.
- (c) a balance of 10% (by number) of the remaining votes heads.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme- Budget

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
Budgetary Preparation	
1	Obtain all relevant budget preparation documents from the Budget Desk and confirm that the requirements and procedures set out in the Local Government Financial Accounting Regulations 23-28 and the Financial and Accounting Manual were followed in the budget preparation process, and in accordance with the laid down timescales. In particular review: (a) the composition of the budget desk, i.e. officers. (b) the adequate submission of departmental annual work plans and budgets (c) the consolidation of annual budgets, ensuring that they fall within the Budget Framework Paper (d) the approval of the annual plans and budget by the Entity.
2	From discussions with the Vote Controllers confirm that all estimates headings have been agreed with them and included in the development plans and budget preparation working papers.
Budget Monitoring and Control	
3	By examining the vote books confirm that the Vote Books correctly record the amounts as per the approved budget estimates.
4	By examining the vote books ensure and confirm that the expenditure budgets have been adhered to, and have not been exceeded.
5	By examining the estimates of revenue, compare actual collections with estimates. Note and investigate significant variations, in particular apparent under collections.
6	By discussion with the Vote Controllers ensure that timely action was taken to applying budget revisions.
7	Confirm by discussion with the Head of Finance and review of appropriate reports that the Finance Department monitors actual expenditure against budget estimates and informs the spending department on performance of actual against budget and if the budget appears likely to be exceeded.
8	Confirm by discussion with the Head of Finance and review of appropriate reports that the Finance Department monitors actual revenue against estimates of revenue and informs the receiving department on performance of actual against budget.

A2 Vote Book

1. Main Activities Involved

This audit programme covers the audit of the Entity's vote books.

2. Control Objective

To ensure that all entries in the Vote Book reflect accurately the financial transactions of the Entity.

3. Risks

The key risk to the Entity of poorly kept vote books is that all accounting data will be tainted and unfit for use for financial management purposes.

The underlying risks are:

- (a) incorrect information is recorded in the vote book, including the vote, details of approved estimates, virement, re-allocation, supplementary provisions, imprests, departmental warrants etc.
- (b) entries in the vote book are not complete or inaccurate, and as a result commitments and payments may exceed the balance of available funds and overspending may occur.
- (c) the vote book is not promptly and properly reconciled each month with the Finance Department's records.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Vote Book;
- (b) Approved Budget Estimates
- (c) Expenditure Warrants/ Supplementary estimates/ reallocation Warrants;
- (d) Payment Vouchers.

5. Sampling to be used

From the vote books of at least three selected departments select:

- (a) the largest vote heads that cover at least 80% by value of all expenditure and income.
- (b) 100% of the "key votes" as defined by the Head of Internal Audit.
- (c) a balance of 10% (by number) of the remaining votes heads.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Vote Book

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
1	Use the Budget estimates book and appropriate warrants and supplementary allocation provisions to confirm for the selected sample that the Vote Book pages correctly records the <ul style="list-style-type: none"> • vote account details, • approved estimates, • virements/ re-allocation, • supplementary provisions, • imprests and • departmental warrants
2	Confirm that a separate page has been opened for each expenditure item under the control of the department under review.
3	Confirm that the entries are correct for both commitments and payments by checking the Vote Book entries against payment vouchers
4	Confirm whether any of the votes are overspent.
5	Confirm that every entry in the Vote Book properly initialled.
6	Confirm that the year to date balances been calculated accurately by re-proving the calculations.
7	Confirm that all Departmental and Accounting Codes have been correctly entered.
8	Confirm that the Vote Book has been properly and promptly reconciled each month with the General Ledger. <i>NB Care should be taken to ensure that the Vote Book is not being written by merely copying the Finance Department statements.</i>

A.3 Analytical Review

1 Introduction

- (1) Analytical review procedures are substantive tests of financial information made by a study and comparison of relationships among data.
- (2) Analytical Reviews should be undertaken under the direction of Internal Audit Management, and may be undertaken as part of the audit planning process or in conjunction with ongoing audits.
- (3) The objectives of analytical reviews may be several fold, but in essence an analytical review compares data (which may be financial or non financial) between periods, for example the value of debtors values, manpower figures, collection statistics, stockholding periods etc. As such there is no definitive procedure in undertaking such a review; however, general guidance is given in this section.

2 Timing

- (4) The timing of an analytical review will vary with the objectives. The following occasions are most relevant:
 - a) In the initial planning stage to assist in determining the nature, extent and timing of other audit procedures by identifying significant matters that require consideration during the examination;
 - b) During the conduct of the examination in conjunction with other procedures applied to individual elements of financial information; and
 - c) At the conclusion of the audit as an overall review of the financial statements.
- (5) The sorts of analytical reviews which can be undertaken include the following:
 - a) Comparison of the financial information with comparable prior periods;
 - b) Comparison with the budget or other anticipated results;
 - c) Study of the relationships of elements of financial information that would be expected to conform to a predictable pattern based on the experience of the Audit Entity;
 - d) Comparison with similar information regarding the broad area within which the Audit Entity operates; and
 - e) Study of relationships with relevant non-financial information.
- (6) The following factors should be taken into account before commencing an analytical review:
 - a) **Nature of the Audit Entity:** an analytical review may not be meaningful when applied to an Audit Entity with diverse activities;
 - b) **Availability of Financial Information:** examples may include budgets, forecasts, , detailed accounts, departmental results and monthly reports;

- c) **Availability of Non-financial Information:** examples would be number of employees, hours worked, area of office space, vehicle mileage, machine hours, any of which may be related to financial information;
- d) **Reliability of Information:** the possibility that information might not be reliable will need to be considered, based on the knowledge of the Audit Entity and the means by which the information is produced. Matters that have required adjustment in previous periods should be regarded with caution; and
- e) **Changes in Management Policy and Practices:** will have an impact on the figures and this should be considered.

3 Comparisons

- (7) There are a number of comparisons which can be made using analytical review, including:
 - a) Comparisons with budgets should take into consideration past experience of reliability, care taken in the preparation of the budget, the extent to which a budget is a motivational tool rather than an estimate of probable outcome and the length of time that has elapsed since the budget was prepared;
 - b) Comparison with the prior year, and
 - c) Comparisons over time. If the Entity is subject to seasonal fluctuations then only similar periods should be compared. Comparison with more than one period is most valuable. Inflation is likely to form an important factor in comparisons over time.

4 Fluctuations

- (9) Unexpected fluctuations, or the absence of fluctuations that are expected, and other items which appear unusual should be investigated, initially by making suitable enquiries of management. Answers given must be assessed for credibility and reasonableness. Where answers appear inadequate further investigations should be carried out, including extended substantive tests.

5 Working Papers

- (10) Working papers supporting analytical review procedures should record the following:
 - a) Brief description of fluctuations, variances and apparent inconsistencies in the figures;
 - b) Management explanations of the above points;
 - c) An assessment of those explanations and a conclusion as to what further examination, if any, should be carried out to confirm the accuracy of the explanation; and
 - d) Summary of the results of any detailed examination.

6 Performance Indicators

- (11) Commonly used performance indicators are based on the following measures:
- i) **Output** - What is the activity or goods/services?
 - ii) **Efficiency** - How are resources used? What is the cost per unit of output?
 - iii) **Service** - What do communities think?
 - iv) **Outcome** - What has changed for the community?

(12) Examples of performance indicators may include:

- (a) % of revenue (e.g.. rates) collected
- (b) % of staff attending training
- (c) % of vehicles in running condition
- (d) speed of processing creditor payments (against target period)
- (e) % of days lost to staff sickness
- (f) % of ratepayer complaints not resolved within target days
- (g) average maintenance/ fuel cost per vehicle kilometre covered
- (h) % of audit recommendations addressed within target period
- (i) Unit cost per student
- (j) unit cost per child attending vaccination centre
- (k) vehicle accident rate per 1,000 kilometres driven
- (l) Average number of receipts issued per collector per week
- (m) Average value of receipts issued per collector.

(13) It is suggested that a simple matrix be included in a working paper that shows the results and comparisons of performance indicators. For example:

Ref	Description	Target	Indicator	Last measure	Current measure	Movement	Comments/ notes

B REVENUES, RECEIPTING & BANKING

B.1 Local Services Tax [LST]¹

1. Main Activities Involved

The Local Services Tax is a tax levied on the incomes of four categories of individual taxpayer, namely

- owners of businesses,
- self employed professionals and artisans,
- salaried employees of any organisation, and
- commercial farmers.

With the exception of commercial farmers, the audit will be carried out concurrently with the audit of Business Levies, which is separately listed below

2. Control Objective

To ensure that all LST revenue is assessed, collected and banked promptly

3. Risks

The key risk to the Entity of incomplete or inaccurate assessment, recording and collection of LST is a shortfall or misappropriation of funds. This means that planned activities financed from these revenues cannot be completed, and service delivery is impaired

The underlying risks are:

- (a) incorrect assessment of LST
- (b) failure to collect LST
- (c) incomplete receipt and recording of LST .

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Receipts for LST
- (b) LST Revenue records and
- (c) Applicable LST Revenue Registers.

5. Sampling to be Used

(A) Businesses and their Employees

Walk around the Entity's main business/trading area[s] and select all major businesses and 10 % of the minor ones, including offices and facilities of all practicing professionals and artisans. In addition identify and include in the sample;

¹ To be applicable if the Local Service Tax is approved by Parliament as a source of local revenue for the Local Governments.

- Organisations that may not be businesses as such, but is renting office space and should have salaried employees, eg NGOs, International Organisations, Government Agencies, Charitable Organisations, Associations etc.
- new businesses that have been established during the last year.

Record the name, type of business/organisation, and address of the business/organisation on a schedule, for testing per the programme below

(B) Commercial Farmers

From the Production Department, obtain a schedule of all known Commercial Farmers in the Subcounty, and organise to visit about 25% of them, including all the larger ones.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Local Services Tax [LST]

Ref	Audit Programme Tasks
	Data Collection
1	<p><u>For Businesses, Self Employed, and Organisations :</u> Meet the management of the business / organisation and ask to inspect, as applicable,</p> <ul style="list-style-type: none"> • The assessment[s] for LST pertaining to the owner[s] of the business. • The quarterly schedule of LST deductions from salaried employees • the payment receipts [assuming they have been paid], <p>and record all the details thereof on a schedule. Note that the audit of all other Business Levies will be carried out simultaneously – See audit programme B3</p>
2	<p><u>For Commercial Farmers:</u> Visit the Farmer on site and ask to inspect the LST assessment, and the related receipt. Interview the farmer and inspect the available evidence to ascertain whether the farmer may have been under assessed, in terms of the assessment table.</p>
	LST Register Accuracy
3	Trace the business, self employed professional / artisan or farm to the respective Business / LST Register[s]
4	Ensure the LST register records the correct details of the assessment, and the receipt/amount paid..
	Assessment and Billing
5	For the selected sample, confirm that annual demands for LST were issued as soon as possible within the financial year.
6	Through re performance, confirm that the LST assessment was correctly calculated in accordance with the act
7	.If any assessment is still unpaid [and is over 3 months old] the amount is to be recorded as an 'exception / error, due to unsatisfactory follow up action.
8	For each assessment, inspect the matching receipt, and record details on the schedule in [1] above
	Receipt and Banking
9	Check the receipt information recorded on the schedule, to the actual receipt books copy of the receipt, ensuring all details match, particularly the amount.
10	Ensure the Revenue Classification is accurately recorded on the receipt [for eventual posting to the General Ledger]
11	Ensure the receipt book used is recorded in the register of Receipt books, under the correct name of the revenue collector.
N/A	Note that the prompt banking of the receipt is verified under a separate programme
	Arrears
12	From the LST register[s] confirm that periodic schedules of arrears are prepared, and that concerted follow up procedures are consistently made to collect the arrears
13	Inspect the LST register [s] and confirm that all arrears are included in the current annual demand.

B.2 Property Rates

1. Main Activities Involved

This audit covers the collection of the Entity's rates revenue.

2. Control Objective

To ensure that all rates income is assessed and collected promptly.

3. Risks

The key risk to the Entity is that of omitted, incomplete or inaccurate assessment, recording and collection of rate revenues resulting in a shortfall of funds meaning that planned activity cannot be completed.

The underlying risks are:

- (a) the incorrect calculation of rate assessments
- (b) the failure to collect rate arrears
- (c) the late and incorrect billing of rates
- (d) the inadequate follow-up of arrears and late payments
- (e) the incomplete receipt and recording of rate income.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Approved Valuation List;
- (b) Council Rating Decision;
- (c) Rating Records/Database; and
- (d) Revenue Records.

5. Sampling to be Used

From the Valuation Rolls select,

- (a) the most valuable properties that represent at least 80% by value of the Valuation Roll.
- (b) 100% of the "key rateable properties" as defined by the Head of Internal Audit.
- (c) a balance 10% (by number) of the remaining rateable properties.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Property Rates

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Assessment and Valuation
1	Confirm that the Valuation List has been revised by the Chief Valuer in accordance with legislation and regulations.
2	From the Valuation Roll and the Entity's Approved Rate decision, confirm that each assessment has been correctly calculated., and properly recorded in the rates revenue register
3	Walk around the LG and select several or all new rateable properties with recently completed buildings. Confirm that they have been added to the Valuation Roll and the Rates Revenue register by way of Provisional Valuations.
	Billing
4	Confirm that demand notes were issued as soon as possible in the year and that they are accurately calculated (valuation * rate).
5	Confirm that follow up action was taken promptly in the event of non-payment.
	Payment by Ratepayer
6	Confirm that payments have been received in full, properly receipted and correctly recorded in the revenue accounts and rating database.
	Arrears
7	For the selected rating areas, confirm that all arrears are included in the current annual demand.

B.3 Business Levies

1. Main Activities Involved

This audit covers the Entity's collection of business levy revenue, including Business Registration Fees, Business Licenses, Liquor Licenses, and the Hotel Tax². Note also that the audit of the Local Services Tax [LST] that applies to Businesses, and their employees, should be carried out concurrently. However the audit programme for LST is listed separately elsewhere in the manual.

2. Control Objective

To ensure that all Business Levies income is assessed and collected promptly

3. Risks

The key risk to the Entity is that of omitted or incomplete or inaccurate assessment, recording and collection of business levies/LST resulting in a shortfall of funds meaning that planned activity cannot be completed.

The underlying risks are:

- (a) incorrect assessment of business
- (b) failure to collect business levy revenue
- (c) Late and incorrect demands for business levies
- (d) inadequate follow-up of arrears and late payments
- (e) incomplete receipt and recording of business levy / income.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Database of Business, Liquor, and Hotel Licences;
- (b) Applicable Revenue Registers;
- (c) File records
- (d) Copies of Annual Demand;
- (e) Copies of Legal Action; and
- (f) Revenue Accounts.
- (g) Relevant Acts and Regulations

5. Sampling to be Used

From a walk around the Entity's main business/trading area select all major businesses and 10 % of the minor ones, including all hotels/ lodges/ guest houses, and businesses containing liquor outlets. In addition identify and include in the sample new businesses that have been established during the last year. Record the name, type of business, and address of the business on a schedule.

² In the event that Parliament approves the Hotel Tax as a source of local revenue for the Local Governments

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Business Levies

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Data Collection
1	Ask to inspect, as applicable, <ul style="list-style-type: none"> • The business registration notice • the business licence, • the liquor licence • all the related assessments for each category of revenue. • the payment receipts [assuming they have been paid], and record all the details thereof on a schedule.
	Business Register Accuracy
2	Trace the business to the respective Business Register[s]
3	Ensure the business register records the correct details of the license, the assessment , and the receipt/amount paid..
	Assessment and Billing
4	For the selected sample, confirm that annual demands for licenses were issued as soon as possible within the financial year.
	For the Hotel Tax, check to ensure that the occupancy declared on the monthly self assessment [room nights sold] tallies with the independent register of hotel guests. Check all other arithmetic to ensure the self assessment has been correctly computed
5	For Business Levies, confirm that the assessment was correctly calculated in accordance with the correct business licence tariff.
6	.If any assessment is still unpaid [and is over 3 months old] the amount is to be recorded as an 'exception / error, due to unsatisfactory follow up action.
7	For each assessment, inspect the matching receipt, and record details on the schedule in [1] above
	Receipt and Banking
8	Check the receipt information recorded on the schedule, to the actual receipt book copy of the receipt, ensuring all details match , particularly the amount.
9	Ensure the Revenue Classification is accurately recorded on the receipt [for eventual posting to the General Ledger]
10	Ensure the receipt book used is recorded in the register of Receipt books, under the correct name of the revenue collector.
N/A	Note that the prompt banking of the receipt is verified under a separate programme
	Arrears
11	From the business register[s] confirm that periodic schedules of arrears are prepared, and that concerted follow up procedures are consistently made to collect the arrears
12	Inspect the business register [s] and confirm that all arrears are included in the current annual demand.

B.4 Donor Funds

1. Main Activities Involved

This audit covers the receipt and expenditure of donor funds.

2. Control Objective

To ensure that the donor funds are spent with due regard to economy, efficiency and effectiveness and in accordance with any laid down requirements and with the same amount of care as the Entity's own funds and in accordance with any rules pertaining thereto.

3. Risks

The key risk to the Entity is that donors funds are not used in accordance with their intended objective, resulting in the waste of the funds received to the detriment of the inhabitants of the area and poor control over donor funds which may resulting in the loss of future donor support.

The underlying risks are:

- (a) the failure to properly record and account for donor funds
- (b) the failure to properly record or account for donor non-financial contributions
- (c) the inadequate reporting of donor programme support.
- (d) Failure to abide by donor conditions

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Lists of donor funds received;
- (b) Copies of agreements with contractors;
- (c) Copies of receipts for funds received;
- (d) Bank Statements
- (e) Stock Register for donated materials;
- (f) Cash Book for donor funds;
- (g) Financial Statements and
- (h) Copies of Accountability Statements.
- (i) Progress reports submitted to the donors
- (j) Memorandum of Understanding
- (k) Copies of Agreement with donors
- (l) Donor Accounting Guidelines

5. Sampling to be Used

From the records of Donor Programmes select 100% of all Programmes

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Donor Funds

For the selected donor agreement, review the entire agreement and then conduct the following checks to ensure, where applicable, that the provisions of the agreement have been properly complied with. This audit may be combined with expenditure audit:

Ref	Audit Programme Tasks
	Funds Received and Agreements for Use
1	Contact the donor and request a detailed schedule of all funds donated or transferred to Entity. From the schedule confirm that : Receipts have been issued for all donations/ transfers on the schedule
2	All donations/ transfers have been posted in the cashbook and appear on the bank statement.
	Expenditure [Assuming a separate bank account has been opened] From the cashbook, select the largest payments that account for at least 80% of all expenditure, plus a further 10% of randomly selected payments and
3	Ensure that each payment complies with the specific clauses pertaining to the use of the funds, the payment approval procedure, and any other controls / requirements. In the event that there are no specific clauses [or very few], carry out the standard expenditure audit per C1
	Stock Register
4	If the donor has provided non-financial materials ensure that all have been entered into a Donor Stock Record and confirm with the donor the materials delivered and recorded as received by the Entity/ recipient programme.
5	By observation confirm that all material issued from the Stock Record have Stores Issue Notes, and where appropriate undertake site visits to confirm existence of material and quantities issued
	Accountability
6	Confirm that complete and accurate financial statements are prepared and submitted either on monthly or quarterly basis in accordance with the agreement entered into with the Donor.
7	Ensure that an Accountability Statement has been prepared for the previous year for each aid donor and that it has been received by the donor.
8	Contact each donor to confirm that they are satisfied with the treatment of their donated funds and/or material.

B.5 Central Government Grants

1. Main Activities Involved

The audit covers the transfer by Central Government of funds to the Audit Entity through Unconditional, Conditional and Equalisation Grants.

Unconditional grants are paid to the Entity to run decentralised services.

Conditional grants consist of monies given to the Local Government to finance programmes agreed upon between the Government and the Local Government s and shall be expended for the purposes for which it is meant and in accordance with the conditions agreed upon.

Equalisation grants are monies to be paid to Local Governments on giving subsidies or making special provisions for the least developed Districts and shall be based on the degree to which a Local Government Unit is lagging behind the national average standard for a particular service.

2. Control Objective

To ensure that the Entity accounts for all central government transfer and that it applies them in the correct manner.

3. Risks

The key risk to the Entity of poor control over government transfer is that grants may not be received on time, or applied as anticipated or required to the appropriate programmes and that central government will ask for repayment.

The underlying risks are:

- (a) the Inadequate recording and accounting for grants resulting in the failure to fully identify expected grants, expected
- (b) the late receipt of grants affecting the implementation of planned programmes
- (c) the incorrect use and application of grants to programmes.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Approved Estimates;
- (b) Bank Statements;
- (c) Revenue/ transfer notifications from the Ministry responsible for finance.
- (d) Duplicate Receipts;
- (e) Accounting Records ;
- (f) Cash Flow Statements; and
- (g) Conditional Grant Programmes/Guidelines;
- (h) Bank Advice Notes

5. Sampling to be Used

From the estimates of expected transfers:

- (a) undertake a 100% check on the grants/transfers of conditional, unconditional and equalisation grants,

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Central Government Grants

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Receipting and Accounting
1	From the Estimates prepare a schedule of expected central government releases.
2	From the MOFPED schedules of transfers/ notifications obtain details of amounts released and the dates of those transfers, compare with 1 above, and investigate any variations
3	From the appropriate cash book confirm the correct recording of the receipt of funds.
4	From the bank statement confirm receipt of money.
5	From the accounting records confirm the recording of the correct amount in the Government Grant Collection Account.
	Unconditional Grant
6	Check that the timing of the actual receipt of the grant per the cash book, corresponded to the timing expected per the in the Cash Flow budget
	Conditional Grant
7	Confirm transfer of amount from Government Grant Collection Account to correct Agency Account.
8	Check that the timing of the actual receipt of the grant per the cash book, corresponded to the timing expected per the in the Cash Flow budget
9	For the accounting records (vote book) check that the funds have been expended in accordance with approved budget estimates.

B.6 Capital Receipts

1. Main Activities Involved

This audit covers capital receipts.

2. Control Objective

To ensure that the sale of assets is based on a fair value and that receipts from the sale of assets are properly received and accounted for.

3. Risks

The key risk to the Entity is that public assets are not disposed of in accordance with appropriate legislation, and as a result the corresponding capital receipt is not received by the Entity.

The underlying risks are:

- (a) the failure to properly record and account for capital receipts
- (b) capital receipts are understated in the accounts

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Bank deposit slip/ paying in book
- (b) Bank Statements
- (c) Entity Minutes and Approvals
- (d) Board of Survey Report

5. Sampling to be Used

From a review of the Entity Minutes select:

- (a) the largest disposals that cover at least 80% by value of all capital receipts.
- (b) 100% of the “key items” as defined by the Head of Internal Audit [if any]
- (c) a balance 10% (by number) of the remaining capital disposals

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Capital Receipts

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Assessment
1	Check that assets sold have been disposed of in accordance with the Public Procurement and Disposal of Fixed Assets Regulations including the following: Ensure the disposal was officially referred to the Contract Committee for disposal
2	Ensure that a minimum reserve price was assessed and set.
3	Ensure the disposal was advertised
4	Ensure bids were fairly assessed.
5	Ensure the award went to the highest bidder
	Invoicing/ Receipting
6	Ensure that the agreed sale price was correctly invoiced to the purchaser.
	Payment
7	Confirm that payment has been received and banked in full .
8	Confirm that the transaction is correctly recorded in the ledger,
9	Confirm the amount was correctly minuted
	Asset Register
10	Ensure the disposal has been properly recorded in the asset register

B.7 Contracted Revenue Collection

1. Main Activities Involved

This audit programme covers the Entity's collection of revenue from contracted sources. These primarily include Markets, Parking Fees [Street, Taxi, Lorry, Boda Boda], Public Convenience, Refuse Collection, Advertising, Bill Boards

2. Control Objective

To ensure that all revenue from contracted sources is properly assessed and collected promptly.

3. Risks

The risk to the Entity of poor control over assessment and/or collection of revenue contracts is a shortfall, or misappropriation, of funds meaning that planned activities, funded by these revenues, cannot be completed.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Register of Contracts;
- (b) Council/Contract Committee Minutes;
- (c) Evaluation Committee Minutes
- (d) Copy of Contracts;
- (e) Contract Monitoring Records; and
- (f) Revenue Registers.
- (g) Approved Budget Estimates

5. Sampling to be Used

From the schedule of contracts, select:

- (a) 100% of revenue collection contracts.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Contracted Revenue Collection

For all contracts conduct the following checks:

Ref	Audit Programme Tasks
	Contracts
	Assessment and Valuation For every Revenue Collection contract ensure, through inspection, that a rigorous valuation and assessment of the potential revenue base and yield was undertaken, at the outset of the contract, and within the last 12 months. The assessment process should specifically have included the steps 1-4 , [each of which should be audited]:
1	Ensure the register / database of related taxpayers is complete & up to date
2	Check that the factors used to calculate yield / occupation rate / average revenue per unit [ie whatever is applicable for the revenue source concerned], are reasonable and realistic.
3	Ensure that reasonable calculations were carried out of the all the costs involved in the collection of the revenue
4	Ensure that a realistic "reserve price" was set which provided both the Entity and the Contractor with a reasonable return from the asset base [Entity], and the effort/risk [Contractor]
5	Review the tendering process and ensure that all the key provisions of the PPD Act were complied with in awarding the tender. In particular ensure that the Contract Committee award is in agreement with the Evaluation Committee recommendation.
6	Confirm that, given all the evidence, the revenue being received from the contract is commercially reasonable in relation to the value of the asset base and function being contracted out. Specifically conclude whether the setting of the Reserve price and the award of the tender was either : a) Fair / Reasonable b) Somewhat fair / reasonable c) Somewhat unfair/unreasonable d) Unreasonable/unfair
	Contract Content
7	From the contracts prepare a schedule of when payments were due and the amounts due (or basis of calculation if based on actual revenue collection).
8	Confirm that the contracts are fully enforceable in the event of non-payment.
9	Confirm that the contracts contain provision for a performance bond in accordance with Local Government Public Procurement and Disposal of Public Assets Regulations.
10	Confirm that the contracts can be cancelled immediately in the event of non-payment of amounts due,
11	Confirm that the contract provides for a review of the contract price annually
	Contract Performance
12	Examine the Finance Department records for contract performance monitoring and confirm that these are up to date and fit for purpose.
13	Confirm for all contracts that payments are being made on time and for the amounts expected, [Check the payment to the cashbook, deposit slip and bank statement]
14	Ascertain that effective legal action has been taken in cases where revenue has not been paid in accordance with the contract
15	Confirm that all such cases have been formally communicated to Entity
16	Confirm that the contracts are for a reasonable period and that they are put out for tender on a regular basis [i.e. on expiry]
17	Confirm that all suitable services have been the subject of discussions re contracting out.

B.8 Other Income Sources

1. Main Activities Involved

This audit covers the Entity's collection of several minor sources of revenue including, but not limited to the following:

- a. Application Fees,
- b. Registration Fees,
- c. Inspection Fees,
- d. Court Filing Fees,
- e. Animal / Crop Husbandry Levies,
- f. Festivals/ Plays,
- g. Letting of Halls,
- h. Hire of Equipment,
- i. Royalties,
- j. Gate Charges,
- k. etc.

2. Control Objective

To ensure that the above revenue has been correctly receipted and banked, and that collection performance is broadly in line with the amounts budgeted.

3. Risks

The key risk to the Entity of incomplete or inaccurate receipting / banking is a shortfall of funds meaning that planned activities, funded by these revenues, cannot be completed, and service delivery is impaired.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Receipts
- (b) Revenue Registers, where applicable

5. Sampling to be Used

The risk analysis may show that these income sources are low risk areas as the volume and value of transactions should be low. For this reason the programme does not include detailed testing of individual transactions. Rather it relies on analytical review and investigation of anomalies.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Other Income Sources

Ref	Audit Programme Tasks
	Analytical Review
1	Prepare a schedule which reflects the current revenue balance collected on each of these respective revenue codes, as well as the amount budgeted to date, and the amount collected as per the same time in the previous year
	Investigation
2	For those amounts codes which reflect major variations – especially a [very] low performance against budget, interview the head of the relevant section, and obtain plausible reasons why the collections are performing badly.
3	Authenticate the reasons given by seeking some form of corroboration, possibly by interviewing individual officers who are involved in the revenue generation process, or other practical means.
4	In the event that explanations or evidence are unsatisfactory, and if the circumstances warrant further action being taken, consider the following : <ul style="list-style-type: none"> • Undercover observation of the officials concerned to ascertain whether or not they are issuing receipts for all the monies being paid to them. • Organising for ordinary citizen[s] to utilise the service which is under investigation, and then establish: <ul style="list-style-type: none"> (a) whether a receipt[s] was issued for the correct amount per the relevant tariff (b) the value reflected on the citizens copy of the receipt matches the value on the Entities copy
	Banking
Note	The banking of money receipted is carried out under programme B9 .It is important that the programme is executed, so there is no need for further compliance work here.

B.9 Revenue Collection, Receipting and Banking

1. Main Activities Involved

This audit covers the general collection of revenues, and should be applied to all specific revenue collection and receipting locations.

2. Control Objective

To ensure that all revenue due to the Entity is assessed and collected; that all revenue is promptly and accurately recorded; and that all revenue is promptly banked or handed over.

3. Risks

The key risk to the Entity of poor revenue collection is that under-collection and/ or under-banking of revenue will mean insufficient funds to provide the planned level of service delivery, and that inadequate safeguards exist to prevent fraud, embezzlement and losses. The underlying risks are:

- (a) that there is incorrect accounting and recording of revenues collected, resulting in the failure to record, or the under recording of revenue due to the Entity.
- (b) that there is the incorrect or incomplete application of cash receipting and cashier procedures and controls as required by the Local Governments Financial and Accounting Regulations 2007.
- (c) that cash collected, and therefore revenues of the Entity are at risk due to poor physical controls over cash and the poor application of controls as required by the Financial and Accounting Regulations.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Revenue Registers
- (b) Revenue Collector's Cash Book;
- (c) Main Cash Book;
- (d) Daily Cash and Cheque Summaries
- (e) Register of Paying-in books;
- (f) Register of Receipt Books;
- (g) Paying-in Books/ Slips
- (h) Bank Statements and advices
- (i) Cancelled Receipts;
- (j) Job Description of Cashier; and
- (k) Organogram.
- (l) Copies of demand notes

5. Sampling to be Used

- (a) From the Register of Receipt books issued select 100% of receipt books previously issued, ensuring that every revenue collection officer is covered evenly.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Revenue Collection, Receipting and Banking

For the selected sample of receipt books and the related receipts, conduct the following checks to ensure that the system is being operated in accordance with the Accounting Manual

Ref	Audit Programme Tasks
	Preparation and Banking of Receipts
1	Ensure that the authentic signature of the Entity issuing officer is evident on the cover of the receipt book
2	Confirm that receipts are made out in indelible pencil or blue/ black ballpoint pen
3	For each receipt book, do a 100% validation/matching of receipts issued, to the amounts banked per bank stamped deposit slip, and to the bank statement, ensuring all amounts receipted have been banked
4	Ensure that the funds have been banked promptly and intact into the correct Bank Account – namely the Revenue Collection Account [subject to subsequent “revenue sharing” between Entities]
5	Ensure that all amounts per the bank stamped deposit slip are correctly recorded in the Revenue Collectors Cash Book,.
6	Check that the revenue classification in the cash book is correct, ie it accurately reflects the classification recorded on the receipt
7	Trace the deposit to the main / central cash book, ensuring correct classification again.
8	For any receipt that has been “cancelled”, ensure all copies of that receipt have been retained
	Integrity of Receipt Register
9	From the receipt register, validate the authenticity of the signature of the revenue collector who is signing for the receipt of the receipt book [for the sample selected.]
10	Meet every revenue collector, ask to see all the current receipt book(s) s/he is using, record the number sequence(s), and check that sequence(s) back to the central receipts register [this is to guard against “unofficial” receipt books being in use.]
11	Carry out a physical inspection of the stock of all unused receipt books on hand, and check the sequences back to the receipt register, ensuring that the register records the receipts as un-issued.
12	Inspect the Receipts Register, to ensure that all [non sampled] receipt books have been signed for
	Arithmetic Accuracy and Posting
13	Check the casting and balancing of the receipts cashbook,
14	Post the receipt totals to the general ledger
	Cash Count & Division of Duties
15	Immediately after test 6 above , conduct a cash count [covering every revenue collector, and cashier] to ascertain that the officer is holding the cash for all receipts issued that have not yet been banked, plus any imprest they may be holding.
16	Undertake control of all cash and imprest points to guard against switchovers
17	Ensure that the cashier does not have access to ledgers, accounts or write-offs.
18	Confirm that there are satisfactory arrangements in operation to cover any absence of the cashier, including holidays.

B.10 Revenue Sharing Audit

1. Main Activities Involved

This audit programme covers the Local Government compliance with the statutory revenue sharing arrangements.

2. Control Objective

To ensure that all revenue income collected is shared between participating Local Governments in accordance with the Law.

3. Risks

- (a) Non disclosure of actual revenue collected
- (b) Non compliance with the laws

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Council Minutes;
- (b) Revenue collection records;
- (c) Revenue Accounts
- (d) Revenue Collection Bank Statements; and
- (e) Financial Statements

5. Sampling to be Used

From the audited Revenue Accounts and revenue collection records of the Local Government, undertake a 100% sample of transfers between the Entities under audit.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Revenue Sharing Audit

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Contracts
1	Obtain the schedule showing the calculation of the revenue share, and check all the arithmetic on the schedule
2	Check the amount of Total Revenue Collected on the schedule agrees with the Entity's local revenue collection records
3	Check that the correct sharing formula has been applied to the total revenue, in favour of its higher and lower LGs.
4	Check that the corresponding payment voucher has been compiled, checked and approved.
5	Make a record to subsequently check that the cheque [or bank transfer instruction] has been receipted and deposited by the beneficiary LG

C PAYMENTS

C1 Salaries, Pensions and Gratuities

1. Main Activities Involved

This audit covers all aspects of salaries and pensions including appointment, salary levels; gross pay; deductions; sickness; annual leave and training.

2. Control Objective

To ensure that approved procedures are followed; that the payments made are correct and in accordance with agreed scales; that records maintained are adequate and accurate; and that proper security is exercised over collection, make-up, custody and pay-out of cash or cheques.

3. Risks

The key risk to the Entity of poor control over payroll is that “ghost employees” may exist resulting in the overpayment on the salaries or pensions accounts.

The underlying risks are:

- (a) salary or pension payments may not have supporting documents and not be properly authorised.
- (b) the Local Governments Financial and Accounting Regulations may have been flouted when recording, paying and reporting salary and pension details.
- (c) the incorrect salary or pension may have been calculated and the wrong persons may have been paid.
- (d) the payments may have been incorrectly posted in the cashbook and the ledgers and that the wrong accounts coding may have been used.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Establishment Register;
- (b) Approved Salary Structure;
- (c) Staff Records (of staff selected for audit);
- (d) Payroll Records (for the departments and periods selected for audit);
- (e) Timekeeping Register (signing in book);
- (f) Overtime Register;
- (g) Advances Register;
- (h) Sickness Records;
- (i) Leave Records and
- (j) Training Records.

5. Sampling to be Used

From the Monthly Payrolls, select one months salary payroll

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Salaries, Pensions and Gratuities

For the one month payroll selected conduct the following checks:

Ref	Audit Programme Tasks
Payroll Payments	
1	Agree 100% of the payroll payments to the LG establishment register, checking that all amounts tally
2	From the Approved Salary Structure confirm that all posts are paid at the correct salary grade and at the correct rate of pay and ensure a coverage of at least 25%
3	Review the deductions to ensure they are reasonable. Investigate any unusually large deductions and obtain justification
4	For any significant supplementary advances /allowances , inspect [and note] the relevant authority to make such payment, and check the amount is entered in the advances register
5	Check 100% of net amounts per the payroll to the Bank Transfer Instruction
6	Check the casting on the Bank Transfer Instruction to ensure the total is correct.
7	Check the total amount on the Bank Transfer Instruction has been reflected on the bank statement
8	Carry out a review of the gross monthly payroll amount and investigate significant fluctuations, validating the reasons given.
Payroll Deductions	
9	Check the casting of the deduction columns on the payroll , to ensure the total is correct
10	Ensure that the total amounts have been paid to the respective creditors [URA / NSSF etc] ie check that the payment is reflected in the cash book [and bank statement]
11	For recovery of advances, ensure the recovery has been entered into the advances register.
Payroll Records	
12	For each selected employee per 2 above, verify their existence, by various approved means.
13	Confirm that the salary grade contained in each person's staff record file is the same as that on the Establishment Register.
14	Confirm that a permanent record is kept of all service of every individual for pension and redundancy purposes.
15	Ascertain which members of staff have left in past 12 months and check that the Establishment register and Payroll have been updated.
16	Confirm that new staff are entered in the Payroll in the right period and amounts
17	Review the amounts of Payroll and pension arrears
Pension & Gratuity Payments	
18	Inspect Pensions General Ledger Account [212105] to determine whether any pensions have been paid.
19	If the balance is significant, vouch the Pensions Expenditure, by locating the appropriate payment vouchers, ensuring that all approval procedures have been carried out.
20	Vouch the amount paid, and the name of the Pensioner to the Pension Register

C2 Non-Wage Payments

1. Main Activities Involved

The audit covers the entire payment process covering:

- (a) Requisitions
- (b) Authorisations
- (c) Local Purchase orders
- (d) Receipt of Goods
- (e) Payment Vouchers
- (f) Cheque and Cash Payments
- (g) Recording and allocation of expenditure and
- (h) Posting to books of accounts

2. Control Objective

To ensure that all payments made in respect of Non-Wage Expenditure are within relevant budgets and that this expenditure has been properly incurred and approved in accordance with specified procedures.

3. Risks

The key risk to the Entity of poor expenditure controls is that goods or services could be paid for which were not ordered or received or of adequate quality, and that expenditure was incurred without due regard to economy, efficiency and effectiveness.

The underlying risks are:

- (a) payment vouchers may not have supporting documents and were not properly authorised.
- (b) the Local Governments Financial and Accounting Regulations may have been flouted when ordering for goods and services
- (c) budget allocations may not have existed for the payment made.
- (d) the wrong persons may have been paid.
- (e) the payments may have been incorrectly posted in the cashbook and the ledgers and that the wrong accounts coding may have been used.
- (f) Paying a wrong amount

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Cash Book;
- (b) Copies of Bank Payment Instructions
- (c) Requisitions;

- (d) Local Purchase Orders;
- (e) Goods Received Notes
- (f) Vote Book;
- (g) Accounting, Stores and Fixed Asset Records;
- (h) Journal/ Payment Voucher File;
- (i) Approved Signatories List;
- (j) Departmental Organigrams;
- (k) List of approved contractors and suppliers
- (l) Minutes of Contracts Committee

5. Sampling to be Used

From the cashbook[s] in use in the Entity select:

- (a) the largest payments that cover at least 80% by value of all expenditure.
- (b) 100% of the “key items” as defined by the Head of Internal Audit.
- (c) a balance 10% (by number) of the remaining payments.

Note

- (1) Where a payment selected is in respect of an advance for operational expenditure (e.g. Workshops, Allowances etc), the payment should be tested under programme C3 – Advances, not under this programme. Such payments should be listed on a separate schedule.
- (2) Where a payment selected is in respect of a procurement contract , there will be additional tests to be performed which are contained in programme C3 – Procurement Audit for Goods, Works and Services

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Non-Wage Payments

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
1	Locate the payment voucher and ensure that it has been properly completed and authorised by officers with appropriate authority.
2	Ensure that where applicable the payment voucher is supported by: (a) a requisition for goods or services from the user department (b) a copy of the LPO (c) a delivery note from the supplier (d) a GRN from stores (e) a suppliers invoice (f) contracts committee authority (for contract payments)
3	Inspect the purchase requisition, LPO and GRN and ensure that each have been fully completed and signed by the correct officers of appropriate authority.
4	Where applicable inspect evidence that all key aspects of the procurement process have been properly carried out and that contracts committee approval has been granted.
5	Inspect the suppliers invoice and ensure that: (a) the payment checking stamp has been fully completed by the appropriate offices (b) the details of goods and services thereon match all the supporting documentation (requisition, LPO, GRN etc.). (c) all calculations and arithmetic is correct (d) the price is in accordance with Contract Committee approved prices or other approved price lists/ quotations
6	Confirm that the expenditure has been charged to the correct vote/ sub vote.
7	Confirm that the LPO and the payment have been properly recorded in the respective vote book and that budget availability existed at the time of incurring commitment for the expenditure
8	Confirm that the LPO was correctly entered into the commitment register, and that the commitment was subsequently 'extinguished' once payment was made [cheque issued]
9	Inspect the payment instruction and ensure that; (a) signed by authorised signatories (b) made payable to the correct payee per the invoice/ contract and Bank Account
10	Where applicable,inspect the paid cheque and ensure that: (a) it has been crossed (b) signed by authorised signatories (c) made payable to the correct payee per the invoice/ contract
11	Ensure the payment instruction has been recorded in the Payments Register
12	Trace the payment and its classification into the Abstracts Ledger
13	Add up the Abstracts Ledger and check the postings of the totals into the General Ledger.
14	Where applicable check that stores purchases are correctly recorded in stores records by checking from the Goods Received Note to the stores record.
15	Where applicable check that fixed assets are correctly recorded in fixed asset register by checking from the Goods Received Note to the Fixed Asset Register.

C 3 Procurement Audit for Goods, Works and Services

1. Main Activities Involved

This audit programme covers contracted procurement expenditure on Council's Goods, Works and Services.

Note: Some audit tests within this section have been covered above under the audit of Non-Wage Expenditure.

2. Control Objective

To ensure that that all contracts (written or implied) are properly entered into and that they are correctly implemented.

3. Risks

The risk to the Entity of poor control over contracts is that goods will be paid for which were not ordered or received; that goods were not purchased with due regard to economy, efficiency and effectiveness and that contract execution did not deliver the quality, quantity, or benefits expected,

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Estimates;
- (b) Vote Book;
- (c) Accounting Records;
- (d) Copies of all relevant Contracts;
- (e) Goods Received Records;
- (f) Financial Regulations;
- (g) Contract Committee Minutes and Working Papers; and
- (h) Petty Contract Vouchers.
- (i) Payment Certificates / Certificates of Work Done

5. Sampling to be Used

The selection of transactions to be tested will have been done under programme C2 above – Non-Wage Payments. To recap, the selection is from the cashbook - select:

- the largest payments that cover at least 80% by value of all contract payments.
- 100% of the “key items” as defined by the Head of Internal Audit.
- a balance 10% (by number) of the remaining contract payments.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance
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7. Audit Programme - Procurement Audit for Goods, Works and Services

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Tendering
1	Obtain the contract file, and through inspection of the Contract Committee minutes and other documents confirm that PPDA regulations were complied with regarding, the following requirements : [simultaneously record the project chronology]
2	The preparation and approval of specifications or Terms of Reference
3	Advertising the tender, or shortlisting of suppliers/ contractors
4	Receipt, storage and opening the tender bids.
5	Technical evaluation of bids
6	Evaluation of financial proposals
7	The contract negotiation, finalisation and award
	Contract execution and payment – [record the project chronology]
8	Inspect evidence of adequate contract monitoring and supervision by the LG
9	Confirm the contract has been recorded in the commitment register
10	Confirm all payments are supported by an authentic progress payment certificate, prepared by the contract specified technical supervisor , and fall within the payments schedule of the contract
11	Confirm the payment is supported by a contractors invoice, and all internal approval processes have been completed
12	Ensure Progress payments reflect the deduction, where appropriate, of retention fees.
13	Confirm the expenditure has been correctly allocated, and is recorded in the vote book, and the commitment register
	Contract Completion
14	Confirm that a project completion certificate has been completed by the technical supervisor
15	Confirm any other key user or stakeholder has similarly signed a completion/acceptance certificate, and that issues of satisfactory quality and quantity have been addressed
16	Review the project evaluation report to ensure it was diligently completed, and to ensure that any serious issues have been escalated and dealt with at the appropriate level
17	Review the project chronology to ensure the time elapsed through the various stages of the project cycle were reasonable and efficient
18	Where applicable inspect the Output produced, and interview the users of the output. Make an informed judgment [acknowledging technical limitations of the IA] as to whether the outputs appear to be “ fit for purpose [FFP] ”. If FFP appears questionable, escalate the matter through appropriate channels and call for an independent technical inspection.
	Fixed Asset Record
19	Where the contract has given rise to the acquisition or construction of an asset(s), check that all details of the asset(s) have been fully recorded in the fixed assets register
	Minor Works (Petty Contracts)
	NB mainly the supply of casual labour - usually via a petty contract voucher.
20	From Accounting Records (Expenditure) ensure that no payments are made without the existence of a supporting Petty Contract Voucher.
21	Confirm the existence of adequate evidence that the work was actually completed.
22	From the Petty Contract Voucher confirm that there are signatures/marks/thumbprints of the casual labourers confirming hours worked and amounts paid. (NB. Examine these carefully to ensure they were made by the people concerned. Try to attend a pay parade).

C4 Advances and Allowances

1. Main Activities Involved

This audit programme covers the audit of personal advances, and administrative advances to the Entity's staff to facilitate operations of the Entity [Workshops. Allowances etc]

2. Control Objective

To ensure that all personal and administrative advance accounts are properly managed and accounted for, and all allowances paid are approved and in accordance with specified rates.

3. Risks

The key risk to the Entity is of poor control over advances and allowances resulting in advances not being properly recorded, retired and accounted for. This could lead to misappropriation and/or improper use of Entity Funds.

The underlying risk is that money advanced will never be properly accounted for or fully recovered by the Entity.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Advance register;
- (b) Cash Book;
- (c) Payment Vouchers for advances;
- (d) Advance Account Ledger;

5. Sampling to be Used

Obtain a listing of all advances issued during the period of audit ;

Thereafter, from the Advances Register select:

- (a) the largest advances that cover at least 80% by value of all advances.
- (b) 100% of the "key items" as defined by the Head of Internal Audit.
- (c) a balance 10% (by number) of the remaining advances.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Advances and Allowances

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
1	From the selection of payments from the cashbook, ensure that the all pertinent details of the advance are recorded in the respective advances register.
2	All Advances For the sample selected from the Advance Register confirm that:
a	the granting of advance has been authorised by the Chief Executive as required by LGFAR .
b	the officer to whom the advance was made did not have any other outstanding / unaccounted advance
c	the amount advanced agrees with the authorisation and the payment voucher, and that the payment voucher effectively constitutes an “acknowledgement of debt”
3	Administrative Advances
a	Confirm that a full accountability return was submitted within one month of original disbursement.
b	Scrutinise the return in detail to ensure that all elements of the accountability are in order, and vouch the expenditure to valid supporting documentation e.g. i) Signed receipt of allowances schedules which must be matched to signed schedules of attendance registers, ensuring the rates for allowances are in accordance with approved rates ii) Authentic invoices for the supply of accountable services or goods [hotel or fuel invoices, etc] iii) Determine whether there was, or should have been, a balance left over [this should usually be the case], and verify that this sum was returned, receipted, and accounted for.
c	Report on the total amount vouched in the entire sample , and the total amount and the percentage returned, and seek justification where the amount returned is unrealistically low.
d	Check the accounting of the return to the related journal, confirming that the correct account code has been charged.
4	Personal Advances
a	Check that recoveries are being made according to schedule, and recovery is not overdue
b	For all recoveries reflected, check the evidence that the amount concerned was actually received or deducted from salary.
c	Where an officer has transferred between departments, check that the advance record has been properly transferred to ensure accountability or recovery.
d	Where an officer has resigned, retired or dismissed, check that the outstanding advance balance has been fully recovered.
e	Check that the previous years balance has been correctly brought into account for this year.
f	Agree the balances on individual accounts with the individual's concerned.

C5 Imprests

1. Main Activities Involved

This audit covers the issue and retirement of Imprest accounts.

2. Control Objective

To ensure that all imprest accounts are properly managed and accounted for.

3. Risks

The risk to the Entity is that poor control over the issue and management of imprest accounts may result in their improper use, including misappropriation, and subsequent inaccurate or incomplete retirement.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Standing Imprest Record;
- (b) Cash, Cash Book, Vouchers;
- (c) Special Imprest Records;
- (d) Accounting Records (retired imprests);

5. Sampling to be Used

From the record of standing and special imprests, select imprests that represent at least 80% by value of all imprests.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Imprests

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
1	<p>Obtain details of all outstanding imprest balances held by the imprest holders for the sample selected and confirm that:</p> <ul style="list-style-type: none"> (a) the Financial Accounting Regulations and requirements of the Financial and Accounting Manual have been followed in respect of the imprests. (b) that the cash book for the imprest has been properly maintained and reflects all the payment vouchers, and can be reconciled to the balance of cash. (c) Count the cash on hand and agree it to the imprest accounting record.
2	<p>For the retired imprests selected in the sample confirm that:</p> <ul style="list-style-type: none"> (a) the Financial Regulations and requirements of the Financial and Accounting Manual have been followed in respect of the imprests. (b) for workshops etc a budget was approved. (c) that the imprests selected have been fully retired with adequate supporting documentation for sums expended (all payments are fully supported by signed disbursement sheets). (d) check that the expenditure has been allocated the correct COA classification. (e) check the posting of expenditure to the general ledger (f) where the special imprest was for attendance at seminars meetings etc. investigate all claims for accommodation, meals and transport. Contact the organisers to find out what they paid for and what the delegates had to fund themselves, and that correct payments were made only to approved participants by reference to the workshop documentation. (g) check that the imprest was sufficient, and not excessive to meet its purpose. (It should be just large enough to cover the period of transactions plus allow time for reimbursement to take place, and not be retired with an excessive balance)

D ASSETS

D1 Fixed and Non Produced Assets

1. Main Activities Involved

This audit programme covers the audit of the Council's fixed assets including its

- (a) Non Produced Assets [Land]
- (b) Buildings,
- (c) Roads & Bridges
- (d) Transport Equipment
- (e) Machinery & Equipment
- (f) Furniture & Fixtures,

The programme incorporates, additions, disposals, the calculation of depreciation, title/ownership, physical inspection, as well as the operations and usage of assets

2. Control Objective

To ensure that the Council operates adequate management over all categories of fixed assets , including their acquisition, day to day operation, maintenance and disposal.

3. Risks

The key risk to the Council is that fixed assets acquired by the Council are not properly recorded in the Council's books of account, and that assets may be sold to or utilised by third parties without due and valid approval, and that the value received may be misappropriated.

The underlying risks are:

- (a) failure to comply with procedures and regulation for the procurement, and disposal of land and building
- (b) that there is poor control over the day to day costs of operating and maintaining assets,
- (c) assets are not properly maintained so that they are fit for purpose
- (d) that there is poor control over the use and allocation of assets
- (e) that excessive costs are incurred and/ or revenue is lost by the Council

4. Records Required at Audit

The following records are required for the audit:

- (a) Asset register
- (b) Title deeds, and registration documents
- (c) Council policy for the acquisition, hire, lease and disposal of assets ;
- (d) Cash Book
- (e) Payment Vouchers
- (f) Hire/ lease documents
- (g) Ledger Accounts for fixed assets

5. Sampling to be Used

From the Assets Register, select all assets acquired during the year .

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Fixed and Non Produced Assets

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Acquisition of Assets
1	Confirm that: (a) the Council's Acquisition policy have been followed, (i.e. procurement and contracts committee procedures), and vouch the expenditure accordingly. (b) the Council's hiring/leasing policies have been followed (c) the Asset is recorded in the General Ledger
2	Vouch the asset cost reflected in the ledger back to the payment voucher. Note that under the Expenditure audit programme [C2], the majority of the larger asset purchases will have already been vouched. This test is to vouch the remaining assets
3	For acquisitions ensure that the appropriate asset registers have been updated correctly with: (a) asset details (b) asset costs (c) acquisition and ownership details (d) appropriate depreciation/amortisation charge
4	Obtain and review a schedule of the asset balances per the fixed assets register, add it up, and ensure it balances, or has been formally reconciled with the related GL account. Investigate discrepancies.
5	Verify the existence of a sample [say 80% by value] of the assets on the register by physical inspection. [Simultaneously note the physical condition of the asset]
6	Establish existence/ ownership of legitimate title deeds, registration books etc in Entity Name.
	Maintenance
7	Confirm that the Entity has in place a policy for the repair and maintenance of the sampled assets. Where applicable ensure that the policy is based on time and usage of the asset [eg vehicles, equipment etc]. Confirm that asset registers/ records/ job cards record the usage and maintenance costs for the individual assets.
8	Review the maintenance costs and charges made to the ledger accounts for the selected assets for reasonableness.
9	For any assets noted as being in unsatisfactory state of repair [test 4], determine whether a maintenance budget exists. If not discuss the matter with the CAO, and determine what action must be taken
	Operations and Usage – General
10	Confirm that assets are being used for the appropriate task, (i.e. for Entity operations and revenue generating activities. Investigate assets not being used for such activities.
11	Confirm that adequate security arrangements exist for the storage and custody of assets [particularly vehicles and plant and equipment] such that it is unlikely assets can go missing, or be utilised for “ private contracts”
12	Confirm that where assets are leased out or used by third parties or other departments that this is properly approved and adequate charges are made [according to an approved tariff] and that related revenue has been received and banked.
	Operations and Usage – Vehicles
13	Confirm from stock records for petrol, diesel, oil, tyre and other “consumable items” and check these to the related records of issues of the same to vehicles maintenance cards.

Ref	Audit Programme Tasks
	Check that the stock and maintenance records accurately reflect the operational use of both consumable items and the use of the vehicle and vice versa.
14	Examine the log books for sample vehicles and investigate reasons for low or excessive use.
15	Examine the record of kilometres per litre for each vehicle, as well as the overall cost running cost per kilometre, and ensure that obvious anomalies have been acted upon.
16	Examine the record for tyre issues and ensure that obvious anomalies have been acted upon.
17	Examine the record for spare parts and ensure that obvious anomalies have been acted upon.
18	Confirm that vehicles are being used for the appropriate task, (i.e. is a 4X4 being used when a normal car could do the same job at less cost).
19	Confirm that careful consideration been given for routing vehicles, delivery/collection routes, etc.
20	Confirm that adequate security arrangements exist for the garaging of vehicles.
21	Confirm that adequate security arrangements exist for the custody of vehicle spares and tools etc.
22	Confirm that there is a system for recording all expenditure and costs relating to individual vehicles, as well as in total
	Asset Disposals
23	For all disposals recorded in the asset register, carry out the tests listed in the programme Capital Receipts

D 2 Investments

1. Main Activities Involved

This audit covers the audit of the item of investments on the Entity's balance sheet.

2. Control Objective

To ensure that all investments have been recorded at the period end and that amounts in the balance sheet are stated on a consistent basis and are properly classified and described.

3. Risks

The key risk to the Entity is that the investments of the Entity are not properly recorded in the Entity's books of account and balance sheet, and that investments they may be sold to or utilised by third parties without due and valid approval, and the disposal value or interest received may be misappropriated.

The underlying risks are:

- (a) failure to comply with procedures and regulations governing investments
- (b) that there is poor control over monitoring the value of the investment, as well as its returns, and any "retain / or sell" decisions
- (c) weak understanding of the risks involved in holding an investment [possibilities of losses]
- (d) that excessive costs are incurred and/ or revenue is lost by the Entity
- (e) lack of proper custody of certificates and title

4. Records Required at Audit

The following records should be requested at the start of the audit:

- Investment Register
- Accounting Records;
- Bank Statements
- Investment certificates
- Interest notices
- Entity Investment Policy.
- Minute of council.

5. Sampling to be Used

Review all investments undertaken during the period of audit

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Investments

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
1	From the investment register ensure, through inspection that investment certificates [or other evidence of title] are held in the name of the Entity for all recorded investments .
2	Confirm that income has been received for all investments, and verify the receipt of interest to the bank statement and investment register.
3	For new investments, confirm the payment per the cash book and the investment register to the investment certificate.
4	Confirm that investments are subject to annual valuation, and that appropriate appreciation or depreciation entries are recorded in the investment account and the reserve account.
5	Confirm that proceeds from the sale of investments are properly recorded in the investment register, investment account and shown in the bank statement.
6	Ensure that Entity has approved and minuted all acquisitions or disposals,

D 3 Stores

1. Main Activities Involved

This audit covers the audit of the item of stores/ stocks on the Entity's balance sheet.

2. Control Objective

To ensure that all stores have been recorded at the period end and that amounts in the balance sheet are stated on a consistent basis and are properly classified, described and costed.

3. Risks

The key risks to the Entity is that the value of stores and stocks of the Entity are overstated and not properly recorded in the Entities books of account and balance sheet, and that stores may be misappropriated . This will mean that the Entity's expenses have been understated.

The underlying risks are:

- (a) failure to comply with procedures and regulations governing stores
- (b) that there is poor control over the use and allocation of stores
- (c) that excessive costs are incurred and/ or revenue is lost by the Entity

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Stores Ledger/ record
- (b) Stock Accounting Records/ Cards;
- (c) Schedule of Debtors;
- (d) Entity Accounting Policies Statement;
- (e) List of stock write offs.

5. Sampling to be Used

From the stores ledger/ records select:

- (a) the largest stock values that cover at least 80% by value of all stores.
- (b) 100% of the "key items" as defined by the Head of Internal Audit.
- (c) a balance 10% (by number) of the remaining stores.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Stores

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Security
1	Confirm that when you arrived at the stores, you were asked to show your identification prior to access.
2	Confirm that there is a controlled access point into the stores.
3	Confirm that the premises seem secure against intruders.
4	Can storekeepers observe all exits? If not, is any improvement possible?
5	List the key-holders.
6	Confirm that the storekeeper is the only person allowed to receive and issue stores.
	Ordering Note that the ordering function is audited under the Programme on Purchasing of Goods and Services. No further testing should be necessary.
	Goods Received [and goods returned] Note that the Goods Receiving function is audited under the Programme C1 – Purchasing of Goods and Services. However because it is necessary to do an intensive audit of the stock records over one entire month, additional block testing is required as follows: Select all GRN's issued for the entire previous month [also covering any goods returned into stores] and,
7	Check that all details were correctly and promptly entered onto the stock records [GRN No, date, description, quantity, cost, LPO No etc]
8	Confirm that any bulk materials were weighed before being accepted. Check the last five bulk deliveries.
9	For a sample of say 10 -30 high value / desirable items from the stores ledgers/ records carry out a physical stock verification and investigate any missing items /discrepancies
	Issues From the Stores Issues Notes select all issues made in the preceding month and test as follows:
	Check the details on the issue note to the requisition note, which must be prepared by persons who are not storekeepers.
10	Check that all details were correctly and promptly entered onto the stock records
11	Stock Cards
	Validate the authenticity of all entries on the stock cards for the preceding month by scrutinising all stock cards to ensure that all entries relating to stores received, and stores issued, have been 'ticked' during the conduct of tests 8 & 11
12	Investigate fully any entries on the stock records [in the preceding month] which have not been ticked, - as they appear to be 'invalid' entries
13	Stock Counts
	Select at least 50% by number of the stock cards and physically count the stock, comparing the count amount to the balance on the card. Note all differences, [including the unit cost of the item]
14	Request storekeepers to explain the discrepancy and investigate the authenticity of their explanation.
15	Initiate official ' write off' procedures for any discrepancy
16	Confirm through enquiry and inspection of stock sheets that Stores / Stocks have been comprehensively physically counted at least quarterly, by persons independent of the storemen
17	Verify that a Board of Survey was convened in accordance with the Financial and Accounting Regulations, and appropriate action taken on any subsequent report.
18	Write-offs
	Confirm that all differences / shortfalls per 17 above were reported and dealt with through the official 'write off' procedure
19	Confirm that obsolescent and damaged items are properly approved for write off and that the stock ledger/ records are updated correctly and contain appropriate reference to the write-off approval.
20	Scrutinize all write offs that have been made and ensure that they have been appropriately reported, approved and accounted for per LGFAR
21	Confirm existence and compliance with procedures for identifying slow moving, expired and obsolete stocks

D 4 Debtors, Prepayments and Advances

1. Main Activities Involved

This audit programme covers the audit of the item of debtors, prepayments and advances on the Entity's balance sheet.

2. Control Objective

To ensure that all debtors, prepayments and advances have been recorded at the period end and that amounts in the balance sheet are stated on a consistent basis and are recoverable

3. Risks

The key risk to the Entity is that debtors, prepayments and advances may be misstated or may not be recoverable. This would mean that the Entity has recorded more income or revenue than it expects to collect, and that the financial position is misstated.

The underlying risks are:

- (a) the recorded debtors may not accurately represent the amounts due from third parties at the period end, and may be fictitious
- (b) debtors, prepayments and advances may not be accurately stated and not valued according to sound accounting principles
- (c) The recorded debtors, prepayments and advances may not be attributable to the Entity.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Accounting Records;
- (b) Schedule of Debtors, pre-payments and advances
- (c) Entity Accounting Policies Statement; and
- (d) List of Bad Debts and write offs
- (e) Board of Survey Report
- (f) Performance Bonds
- (g) Revenue Registers
- (h) Minute of the Executive Committee (on write offs)

5. Sampling to be Used

The audit programme consists of substantive tests.

The Auditor is looking at the possibility that debtors/ prepayments and advances are overstated, and must therefore conduct tests to ensure that there are no significant inclusions.

Perform a 100% check on all items appearing on the account balances as per the audit programme below.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Debtors, Prepayments and Advances

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Debtors
1	Obtain a schedule of debtors and prepayments
2	Confirm that the schedules add up correctly.
3	Confirm that the totals agree with those in the debtors control account. If not, ensure that a valid reconciliation has been prepared.
4	Confirm that all the debtor's balances on the schedule agree with the debtor's statement (or a valid reconciliation).
5	Vouch or verify any material reconciling items.
6	Vouch significant debtors by either: <ul style="list-style-type: none"> • Ensuring the amount was received / banked after the period end • Confirming that rigorous authentic follow up actions have been instituted • Consider contacting the debtor to confirm the amount is still unpaid and is due. • Confirm contracts exists between Council and its debtors.
7	List any credit balances and establish valid reason for existence. [indication of money being paid to Entity before an assessment is issued]. If the cause was a late assessment, the amount is an error and should be taken to revenue
	Bad and Doubtful Debts
8	Establish the basis on which Entity provides for bad and doubtful debts. Confirm that the basis for making provisions for bad and doubtful debts is in accordance with LGFAR.
9	Review the revenue collection "follow up file", to identify whether adequate provision has been made on the schedule for all persistent defaulters, and that such defaulters have been handed over to recovery agents
10	Establish what debtors/ revenue have been written off during the year, and ensure all write offs / waivers have been approved and accounted for in the prescribed manner – LGFAR / Accounting Manual
	Prepayments
11	For significant prepayments check the payment voucher to ensure that an authentic prepayment of expenditure exists.
12	For advance payments on contracts, ensure a performance bond exists.
	Advances
13	Note - by the year end, all advances should have been cleared by the recipient For those advances still on the books, confirm that the original payment was authorised, and that repayments are being made according to entity policy, and are up to date

D 5 Cash and Bank Balances

1. Main Activities Involved

This audit programme covers the audit of the key aspects of Treasury Management: cash and bank balances. It covers both the operation of cash book[s] and bank accounts during the course of the year, as well as balances at the year end.

2. Control Objective

To ensure that all bank accounts are properly authorised and that cash books are properly maintained and reconciled to the Bank Statement on a regular basis.

3. Risks

The risks to the Entity of poor control over cash and bank balances are that funds will not be properly controlled, and are therefore subject to misuse or loss,

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Details of all bank accounts;
- (b) Certificate of Bank balances;
- (c) Correspondences with the Bank
- (d) Financial Regulations (Banking Instructions);
- (e) Cheque Books/Bank instructions records;
- (f) Bank Reconciliations.
- (g) Board of Survey Report
- (h) Cash Books

5. Sampling to be Used

Select 100% of Bank Accounts

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Cash and Bank Balances

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	SYSTEM & COMPLIANCE TESTS
	Bank Accounts
1	Obtain details of all bank accounts with full titles, account numbers and authorised signatories.
2	Authenticate this list by requesting the Bank(s) concerned to confirm in writing all accounts in operation [and any dormant].
3	Confirm that the number and nature of bank accounts conforms to LGFAR
4	Obtain a copy of the contract and correspondence with the Entity's bankers ,and confirm that the Entity has taken appropriate steps to negotiate favourable conditions of service, and favourable bank charge rates.
5	Confirm instructions have been issued that that money can only be released from the main bank account to fund subsidiary accounts out of which payments are made.
6	Confirm that all subsidiary bank accounts are operated on an imprest basis.
	Cheque Control
7	Confirm that cheques are stored in safe custody and subject to control via a cheque register, which covers the operation of all bank accounts.
8	Review the payment register and confirm that all cheques/payment instructions are issued to approved and identifiable personnel and acknowledged in writing. Authenticate the signature
9	Confirm that the stock balance of cheques is verified at least monthly
10	From the payment register, select one used cheque book/payment instructions for every bank account, obtain the cheque book and the returned cheques from the bank [if available], and account for the entire sequence of cheques in the related cash book
11	Inspect the returned cheque to confirm that are "open" cheques are never used, and all cheques have been signed by the stipulated number of designated signatories.
12	If any cheques are spoiled or cancelled inspect the cheque to ensure it has been properly cancelled.
13	Confirm that cheques returned as "unpaid" have been cancelled, and a new chque issued, and the payment voucher annotated [and approved] accordingly.
	Reconciliation of Cash Books with Bank Statements
14	Confirm that the person(s) responsible for bank reconciliations are independent of the preparation and despatch of cheques/payment instructions.
15	Confirm that bank reconciliations are made monthly or every time a bank statement is received.
16	For each bank account check one bank reconciliation as follows: (a) Verify the arithmetic accuracy of the reconciliation ; (b) Verify the " cash book balance" and the "bank statement balance" with their respective sources (c) Trace all outstanding cheques and deposits through to the bank statement in the next accounting period and verify their validity; (d) Scan the cashbook/bank statements for any unusual items (e.g. contra entries, dishonoured cheques) and investigate; (e) For any cheques that are still outstanding : i) examine the nature of the item not cleared; ii) examine the supporting documentation and authorisations to determine whether they were of a routine nature;
17	Obtain direct confirmation of account balances from the bank and compare these with the cash book balances and ensure that this agrees with the Board of Survey Report.
18	Check the arithmetical accuracy of all cash books and check every cash book balance back to its respective GL account
19	Examine security arrangements and adequacy of insurance cover, including for cash in transit
	YEAR END BALANCES
20	Confirm that full bank reconciliations have been prepared for all bank accounts, and scrutinise reconciliations for reasonableness. Obtain explanations for unusual reconciling items, and validate as necessary
21	Agree balances per cash book to the respective general ledger account
	Imprest Balances
20	Check that the imprest balances at the end of the year, agree with the Board of Survey cash counts.

E LIABILITIES

E1 Trade Creditors and Accruals

1. Main Activities Involved

Creditors relate to invoices received by the Entity that are still to be paid in respect of goods, works and services supplied and expenses applicable to the current year for which invoices are pending.

2. Control Objective

To ensure that all creditors and accruals have been correctly recorded at the period end and that amounts in the balance sheet are stated on a consistent basis and are properly classified and described.

3. Risks

The key risk to the Entity is that creditors and accruals may be misstated. This would mean that the Entity has not recorded all the expenditure it has incurred and that the financial position is misstated.

The underlying risks are:

- (a) the recorded creditors may not represent all the amounts due to third parties at the period end
- (b) Accruals and provisions may not be accurately stated and not valued according to sound accounting principles
- (c) The recorded creditors and accruals may not be attributable to the Entity.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Accounting Records;
- (b) Schedule of Trade Creditors and accruals
- (c) Commitments register
- (d) Unpaid invoices;
- (e) Age Analysis;
- (f) Exchange Rate Data;
- (g) Annual Accounts.

5. Sampling to be Used

The audit programme consists of substantive tests. From the commitments register select:

- (a) the largest value items that cover at least 80% by value of all commitments.
- (b) 100% of the "key items" as defined by the Head of Internal Audit.
- (c) a balance 10% (by number) of the remaining commitments.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Trade Creditors and Accruals

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	Trade Creditors
1	Obtain a schedule of creditors as at the end of the last quarter.
2	Confirm that the schedule adds up correctly.
3	Confirm that the schedule totals agree with those in the creditors control account. If not ensure that a valid reconciliation has been prepared.
4	Confirm that all the creditor's balances on the schedule agree on or with the creditor's statement (or a valid reconciliation).
5	Vouch or verify any material reconciling items
6	For the items/ amounts selected from the commitments register, check to ensure that the item/amount appears on the creditors list. If it does not, check to ensure that the goods or services were received after the period end [in which case exclusion from creditors is OK]
7	Compare this years schedule with that of the previous year/ period. If major creditors appear on last year/ period list that are absent this year/ period ensure that there are valid reasons and that there is no omission.
8	Scrutinise the vote book and check the last payment entries before the end of the year as follows: (a) ascertain whether the goods and services were received before the year end. (b) If so, ascertain whether the payment appears in the cash book before the year end. (c) If not ensure that the liability (invoice) appears on the schedule of creditors.
	Non-trade Creditors and Accrued Liabilities
9	Confirm that the basis for accrued liabilities is consistent with previous years from the Entity's Accounting Policies statement.
10	Confirm, by re-performance, that the accrued liabilities calculations are correct.
	Provisions
11	Obtain from the accounting records, a schedule of provisions. (a) confirm that the basis for provisions is consistent with previous years from the Entity's Accounting Policies statement (b) confirm, by re-performance, that the provision calculations are correct
12	Confirm that any disclosures of material provisions have been made in the final accounts.
13	Ensure that any commitments in the commitment register, which are not included in Creditors, appear as a note in the financial statements.
14	For all commitments in the register at the end of the fiscal year, confirm that official approval has been received from MOFPED to hold back the required cash.

E2 Loans / Borrowings

1. Main Activities Involved

Loans may be raised and received by the Entity to fund capital and development works. The terms of loans will include repayment of interest and principle. These terms must be complied with and the use of the application of the loan confirmed to ensure it has been used for the purpose for which it was intended.

2. Control Objective

To ensure that all loans have been recorded correctly in the balance sheet are have been raised in compliance with the relevant Laws.

3. Risks

The key risk to the Entity is that loans have not been recorded properly and the financial position is not misstated.

The underlying risks are:

- (a) the loan balances do not represent all the loan amounts due to third parties at the period end
- (b) that loan receipts have not been applied for the purpose(s) intended, and
- (c) The Entity may not have complied with all regulations regarding the raising and repayment of Loans

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Accounting Records;
- (b) Loans Register
- (c) Loans Ledger
- (d) Loan Agreement
- (e) Commitments register
- (f) Unpaid invoices;
- (g) Age Analysis;
- (h) Exchange Rate Data;
- (i) Annual Accounts.
- (j) Minute of council.

5. Sampling to be Used

The audit programme consists of substantive tests.

From the Loans register select all loans acquired during the year.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Loans / Borrowings

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
1	Verify that the procedure for obtaining the selected loans was in accordance with the provisions of the Law.
2	Review the minutes of the Entity to ensure that the loan was properly authorised
3	Review the usage of the loan to ensure that it was used for the purpose for which it was obtained
4	Review the terms of the loan and verifying compliance with them
5	Confirm that all interest and principle due on the loan has been paid or accrued
6	Confirm the loan balance to an official statement provided by the lender, or validate any reconciling item. In particular ensure that any "repayment" reflected on the Entity's record, is reflected on the Lenders statement.
7	Confirm that a loan progress report is prepared by the HOF

F1 Reserves

1. Main Activities Involved

This audit covers the movements and the closing balances on all Capital and Revenue Reserves

2. Control Objective

To ensure that Capital and Revenue Reserves have been correctly reconciled and accounted for in accordance with stipulated accounting policies.

3. Risks

The key risk to the Entity is that the reserves are misstated, and that the financial statements therefore misrepresent the financial position of the Entity as reflected on its balance sheet.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) Entity Policy for Reserves
- (b) Schedule showing the movement on Reserves between the opening and closing balances.

5. Sampling to be Used

- (a) 100% of movements should be verified.

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Reserves

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
1	Accumulated Fund Ensure that the Accumulated Fund is properly reconciled, and comprises the Balance Brought Forward from previous year, plus / minus the surplus / deficit of revenue over expenditure
2	All Other Capital & Revenue Reserves. Investigate all other movements on any Reserve Account, obtain explanations for the increase or decrease, and ascertain what the closing balance represents [ie what is the debit transaction that gave rise to the Reserve]
3	Authenticate all significant movements, and the amount, by reference to supporting evidence, e.g. a capital reserve arising from a revaluation of fixed assets, should be supported by the valuers report.

G1 Review of Financial Statements

1. Main Activities Involved

This covers the review of the operation and management of the accounting systems and the preparation of financial statements

2. Control Objective

- a. To confirm that the accounting systems, records and preparation of financial statements are in accordance with the Local Governments Financial and Accounting Regulations.
- b. To confirm that the accounting system produces accurate, reliable, and complete reports and that the financial statements are prepared in accordance with Local Governments Financial and Accounting Regulations.
- c. To confirm that the Accumulated Fund balance reconciles with the Revenue & Expenditure account.

3. Risks

The key risk to the Entity is non-compliance with accounting requirements, controls and procedures resulting in the failure to meet legislative and reporting requirements.

The underlying risks are:

- (a) the incorrect application, and inconsistency in applying accounting policies and principles
- (b) the incorrect posting of accounting transactions
- (c) the production of incorrect or incomplete Financial Statements
- (d) The financial statements are not presented in an acceptable format.

4. Records Required at Audit

The following records should be requested at the start of the audit:

- (a) General Ledger and Subsidiary Ledgers
- (b) Trial Balance
- (c) Journal and Journal Reports
- (d) Abstracts
- (e) Board of Survey Report

5. Sampling to be used

Select

- a) all journal entries over an agreed limit to be determined by the Head of Audit
- b) the appropriate ledger accounts specified in the audit programme or as directed by the Head of Internal Audit.
- c) all monthly financial statements presented to Entity for the current year

6. Estimated Time Budgets

Time Allocated	Actual Time Spent	Variance	Explanation of the variance

7. Audit Programme - Review of Financial Statements

For the selected sample conduct the following checks:

Ref	Audit Programme Tasks
	SYSTEM AUDIT
	Check that the ledgers for the General Fund and Operations accounts, and the below-the-line accounts, are posted, up-to-date and balanced on a monthly basis, and at the year end.
	Journal
1	Confirm that all sampled journal adjustments are supported by relevant vouchers which are / properly filed, completed, authorised and are supported by appropriate documentation.
2	Examine the rationale behind the journal entry and confirm its legitimacy / justification
	Trial Balance and General Ledger
3	Check the balances carried forward from last years ledger, to the balances brought forward in this years ledger
4	For the latest month, obtain the trial balance, and check the arithmetical accuracy of the totals
5	Check all the trial balance figures back to the respective general ledger totals
6	Select sufficient general ledger accounts that make up 80% by value of the total trial balance, and check the arithmetic accuracy of the total amount in the general ledger.
	Financial Statements
7	From this validated trial balance, re - perform the preparation of the financial statements
8	Confirm that the financial statements are produced in the format required by the accounting manual, and that they disclose all the information required by the The Local Governments Act, LGFAR and the Accounting Manual
9	Confirm through inspection, that complete financial statements have been prepared at the end of every month, in a timely manner
10	Confirm that major variances in Revenue and Expenditure are adequately explained in reports that support the monthly financial statements, and that this report and accompanying financial statements (latest version) are presented to Entity whenever it meets.
	YEAR END AUDIT
11	Repeat tests 4,5,7,8, and 10 for year end purposes
12	Ensure the financial statements are submitted for audit within the prescribed period

4. PART IV: LOCAL GOVERNMENTS SPECIALISED AUDITS

4.1 INTRODUCTION

- (1) This Section of the Manual contains Specialised Internal Audit programmes for performing audits in the following areas:
 - a. Computer Audit
 - b. Value For Money(VFM) Audit
 - c. Human Resource Management Audit
- (2) It should be noted that each of these audit areas are wide ranging and specialised in their own right, and contain many sub-audit areas. The programmes provided are not intended to be comprehensive, but to introduce and enable the Local Government internal auditor to perform an introductory level of internal audit work, as directed by the Head of Internal Audit.
- (3) The programmes are designed to enable the auditor to review, appraise and report on some of the key control and procedural areas within each audit area.
- (4) It will be noted that there are significant VFM aspects within the Computer and Human Resource Management audit programmes/ checklists.

4.2 COMPUTER AUDIT

4.2.1 Introduction

- (1) Computer Audit can be categorised into the five main areas identified in the table below. The areas have different relevance to the Local Government Internal Auditor. This will depend upon the particular computer system and environment to be audited.

Ref	Computer Audit Area	Description	Applicability to Internal Audit
1	Administrative and Organisational Controls	The review of the adequacy of those controls which ensure safe and efficient day to day organisation of the installation;	Applicable to Computerised Management Information Systems within Local Governments
2	System Procedural Controls	The review of computer systems to ascertain whether they incorporate adequate procedural controls and that those controls are not invalidated by any subsequent amendment	Applicable to Computerised Management Information Systems within Local Governments
3	Systems Development Controls	The review of the adequacy of controls governing the development and maintenance of all computerised systems	Not very applicable as there is very limited computer system development and maintenance within LG's.
4	Acquisition of Computer Facilities	The review of the systems for proposing and approving the acquisition of computer facilities and checking upon the accuracy and completeness of the information provided to assist management in coming to a decision;	Not very applicable as there is very limited acquisition of computer facilities. This would best be handled as part of the expenditure audit (for new computers) or contracts audit for major new computer installation procurements.
5	Use of computer Resources	The review and appraisal of waste, extravagance and inefficient administration or poor value for money	Applicable and can be viewed as a Value for money audit within the computer/ IT environment of the Council

- (2) In general, the terms of reference or audit objective for a computer audit are to review, appraise and report upon the following key areas:
- a. The soundness, adequacy and application of standards and procedures for all stages of systems development, maintenance and operation;
 - b. The extent of compliance with these standards and procedures;

- c. The security of the organisation's investments in computer hardware and software, including the adequacy of contingency arrangements;
 - d. The completeness of information on which proposals for the procurement or enhancement of computer hardware and software are based; and
 - e. Whether optimum use is made of all computing resources.
- (3) Computer Audit requires a relatively high degree of technical knowledge which may be acquired through experience but also training in computer systems, processes and techniques. The audit of the more technical aspects of sophisticated ICT systems may require the direction, support and review by a specialist Computerised Information Systems Auditor – CISA
- (4) The following audit programmes and checklists have been tailored to enable entry level computer audits to be undertaken, and in so doing provide explanations and guidance. However, they cannot be a substitute for acquired computer audit skills through specialist qualification and training, and the ability to apply more technical computer audit programmes.
- (5) The checklists provide guidance on the key areas to be reviewed and indicate appropriate questions to ask in order to review and appraise the appropriate standards, controls and procedures in place, and their level of application and compliance.
- (6) In some instances not all areas will be applicable, however, by attempting to address as many areas and questions as possible will give an indication of the existing controls and procedures.
- (7) For smaller Councils the use of the small computer application programme/ checklist may be most appropriate for assessing individual computer systems/ applications.

4.2.2 Administration and Organisational Controls

- (1) The overall audit **objective** of a review of Administrative and Organisational Controls is to “review the adequacy of administrative and organisational controls to ensure that the controls and procedures governing the organisation of staff, operational functions, access to files and software, terminal activity and general environmental protection provide for safe and efficient day to day operation of the computer installation”.
- (2) These controls and procedures can be considered over five sub-objectives
- a. **Organisational Control:** those dealing with the organisation of the responsibilities of all involved in the computer process and the standards established for their efficient working;
 - b. **Operational Control:** those relating to all aspects of the data preparation, data control and operating functions;
 - c. **File and Software Control:** those governing the access to and protection of all physical magnetic files and to the data contained on them both by way of software controls and physical controls;
 - d. **Terminal Control:** those governing access to and processing performed by all terminals connected to the computer installation; and

e. **Environmental Control:** those dealing with the risks of fire, flood, vandalism, sabotage and theft and the adequacy of insurance cover.

(3) The following checklists provide guidance to the auditor in the areas to consider during an audit. In some instances not all areas will be applicable, however, by attempting to address as many areas and questions as possible will give an indication of the strength of the administrative and organisational controls.

a. Organisational Controls

1. Separation of Duties	
1.	Who has immediate responsibility for managing the computer functions?
2.	To what extent is this person involved in the development or operations work?
3.	To whom does that person report?
4.	How often; and is this on a formal basis?
5.	Have job descriptions been defined for all staff?
6.	Do different persons perform the following functions: (a) Development: systems analysis, design and control; maintenance of systems software (b) Operations, data control; data preparation; operating; file librarianship (c) Are these arrangements affected by holidays, sickness, etc.
7.	Do the following restrictions always apply? (a) Prime source documents are only handled by data control and data preparation; (b) Data control has no duties which would violate its control function (e.g. responsibility for the completeness and accuracy of input and output); (c) Operators have sole responsibility for operating within the computer installation (i.e. excluding terminal activity); (d) Operators are forbidden to correct errors in rejected data and to over ride error conditions; (e) Programmers are denied access to program or data files used for production runs; (f) Author of a program does not design and provide his own test data.
2. Personnel Policies	
8.	Are adequate references required for all new employees?
9.	Are all employees required to sign a security statement?
10.	Does the organisation's termination policy provide for quick removal of discharged employees?
11.	Are appropriate security measures taken after employees' services are terminated (e.g. changing passwords, reclaiming ID badges etc.)
3. Standards	
12.	Have written standards been prepared for: (a) Systems Analysis; (b) Programmers; (c) Operators; (d) Data Control; (e) Data Preparation; (f) File Librarian; (g) User Departments.
13.	In the absence of Standards Manual are there written instructions setting out the responsibilities and duties of the above?
14.	Who is responsible for ensuring that the standards and instructions are: (a) properly prepared?; (b) complied with?; (c) adequately amended?
4. Security Officer	
15.	Is there a designated security officer and, if so, what are his duties?
16.	If no member of the computer department is responsible for security then who is?

b. Operational Controls

1. Management and Supervision	
1.	Who is responsible for scheduling work and checking its execution and the quality of performance?

2. Personnel Policies	
2.	If there is a data control section, to whom does it report?
3.	Does the data control section have any responsibility for batching and controlling source data on behalf of a user department?
4.	Do data control's responsibilities include: (a) only accepting authorised batched documents; (b) test checking the completeness and accuracy of source documents; (c) recording the receipt and flow of documents through the computer division; (d) recording control titles and their reconciliations with computer produced totals; (e) logging and reporting to senior management the volume of errors and returns; (f) control of jobs submitted by programmers; (g) preparation and control of job control statements; (h) file librarianship;
5.	Is any work processed independently of data control (e.g. on line processing) and does data control monitor or control such activity?
6.	In the absence of a data control section, who performs the data control functions and does that person have other functions (e.g. data preparation, batching and controlling source data on behalf of users?)
7.	How is the risk of duplicate processing minimised?
8.	Who has responsibility for error correction?
9.	Are such corrections clearly recorded and advised to the user?
10.	Is the procedure for re-submitting rejected data clearly defined?
11.	Who exercises control over the receipt, custody and issue of financial stationery?
12.	Does data control exercise quality control over output before releasing it to users?
13.	Is a schedule kept of the expected output and distribution arrangements for each run?
14.	Does data control ensure that output is properly distributed?
15.	Is abortive confidential output destroyed and are such arrangements applied to waste output from user departments?
3. Data Preparation	
16.	Is the receipt of source documents and despatch of keyed data recorded?
17.	How is the risk of duplicate processing minimised?
18.	Have data entry clerks been instructed not to accept oral amendments to data?
19.	Is verification performed independently and by different operators from those who keyed the data originally?
20.	Is all data verified?
21.	If only selected data is verified, who determines which items are verified and who checks that the minimum is adhered to?
22.	How is verified data distinguished from unverified data?
4. Operations	
23.	When is the machine operational?
24.	Are two or more operators always on duty?
25.	Does this apply during evenings and weekends?
26.	Is all weekend work authorised and by whom?
27.	Do operators have sole access to the computer room?
28.	Are there clear and concise operating instructions for each job?
29.	Are operators instructed not to accept oral amendments to these instructions?
30.	Is there a written schedule of all jobs to be run each shift?
31.	Do operators record that each job has been processed?
5. Logs and Journals	
32.	How often are logs and journals produced?
33.	Who receives them?
34.	How are they used?
35.	Is a manual log kept indicating: (a) machine failure; (b) idle time; (c) re-runs; (d) jobs with unduly short/long run times?

c. File and Software Control

1. Program Maintenance	
1	Are all program amendments authorised by a senior officer?
2	Is a record maintained of all program amendments and is this record inspected by a senior officer?
3	Is all program maintenance work processed on test programs and data files?
4	Are programmers denied access to production data files and programs?
5	Are all program amendments tested and checked by a senior officer before their transfer to production work?
6	If online program development software is employed, does this provide adequate protection over program maintenance and over other line files?
2. File Librarianship	
7	Who is responsible for file librarianship?
8	Is there a separately located tape and disk library?
9	Which generations of data files and programs are separately located?
10	Who has access to such files?
11	What happens during weekends/night shift?
12	Where a librarian is appointed, do they have incompatible responsibilities?
13	Is a record of all files maintained: (a) Manually; (b) By Computer.
14	2.8 Are any files not included in the record and/or not under the control of the librarian?
3. Back Up Copies	
15	Can production files be reconstructed completely and accurately by: (a) retaining files and associated input data and operating documents; (b) maintaining a file generation system.
16	Is data stored on the hard disk safeguarded by periodic dumping to back-up store?
17	Who organises and controls such dumping?
4. File Protection	
18	What protection is there in respect of data files?
5. Systems Software	
19	Who is responsible for controlling systems software?
20	Are there any special controls over the use of high level utility software? If so, describe.
21	Does the organisation modify any systems software (other than by specifying installation parameters)?
22	Are such modifications documented?
6. Documentation	
23	Does the installation maintain an index of all systems and application software?
24	Are documentation standards prescribed for all application software?
25	Is supporting documentation for all software adequately guarded?

d. Terminal Controls

1. Physical Access Controls	
1.	Has a person been made responsible at each terminal site for security of, access to and use of the terminal?
2.	Is authorisation granted for use of each terminal?
3.	Are there adequate physical safeguard arrangements for custody of all keys and/or personal identification devices?
4.	Where terminals are not locked, is this deemed adequate?
5.	Are all terminals automatically disconnected after a specified time lapse?
6.	If not, what protection is there to prevent an unauthorised user accessing the previous terminal user's data.
2. Software Control	
7.	Can each terminal be separately identified by the software system?
8.	Must each user identify himself before being granted access?
9.	Is effective control exercised over the issue and use of identification codes?
10.	Are there adequate procedures for the issue and changing of passwords?
11.	Is the printing or display of passwords inhibited? If not, what precautions are taken?
12.	Are attempted password violations monitored and reported to senior management?
13.	Are there any access restrictions imposed on specified master files?
3. Documentation	
14.	What documentation is produced of terminal activities?
15.	Who receives this and how is it used?

e. Environmental Controls

1. Environmental Controls	
1.	Is there adequate protection against storm, fire and flood?
2.	Is there adequate protection against terrorist attack?
3.	Is the computer suite protected against unauthorised entry and how is access controlled?
4.	Is all computer equipment subject to regular maintenance?
5.	Are there safeguards against the risk of electrical failure?
6.	Are there adequate standby facilities?
7.	When were they last tested?
8.	Is there adequate insurance cover for damage, theft, standby costs, consequential loss and reinstatement of lost data, and do procedures and safeguards satisfy the conditions and requirements of insurers?
9.	Has the computer department obtained external advice to assess the vulnerability of the computer suite and facilities to deliberate or accidental damage and determined the safeguards required (e.g. fire and safety officers, police, consultants, insurance assessors)?
10.	Is there a contingency plan for the provision of services by other means in the event of complete failure of the computer facilities and the non-availability of alternative computer facilities?

e. Small Computer Installations

	1. General
1.	Does the application system: <ul style="list-style-type: none"> • Permit making a “back-up” copy. If so, has this been done? • Provide clear levels of security within the application software? • Give clear disk loading instructions on screen? • Check disk identity? • Retain transactions on current files for a sufficient number of periods? • Accept year to date adjustments directly?
	2. Input Controls
2.	Does the application system: <ul style="list-style-type: none"> • Have adequate validation routines (e.g. formats, range, completeness, master file matching)? • Provide batch totals? • Provide rejection/exception reporting? • Disallow direct posting to automatically posted control totals? • Disallow transaction types in a batch being mixed? • Prevent a systems “crash” due to incomplete validation at any stage?
	3. Processing Controls
3.	Does the application system: <ul style="list-style-type: none"> • Provide control total reports (e.g. brought forward number and amount + processed number and amount = carried forward number and amount)? • Ensure that the program actually adds up balances each time and does not rely on internal totals? • Provide physical and software checks on the file generation number to ensure that the correct version of the file is used? • Provide control over running period end update programs at the correct time?
	4. Output Controls
4.	4.1 Does the application software: <ul style="list-style-type: none"> • Calculate report totals? • Provide page/sequence numbering? • Ensure that “End of Report” is printed on all reports? • Provide printer failure/out of paper procedures?
5.	Is there physical control over confidential reports?
	5. Master File Controls
6.	Does the application software: <ul style="list-style-type: none"> • Protect all “value” fields from amendment? • Provide periodic reports on master file data for checking? • Provide more restrictive password protection? • Provide reports of amendments to standing data on a “before” and “after” basis? • Provide control totals over the number of accounts (e.g. Brought forward + created - deleted = Carried forward)?
	6. Audit Trail
7.	Does the application software: <ul style="list-style-type: none"> • Enable a trail from source documents through the system to master files? • Enable a trail from master file through the system to source documents? • Provide adequate sub-totalling? • Enable a trail from control printouts to machine log cross-referencing? If an integrated system to the Nominal Ledger is in use, check that source documents are traceable to the Nominal Ledger and <i>vice versa</i>.
	7. Organisational Controls
8.	Is there segregation of duties with regard to computer processing?
9.	Are manual control totals kept in user departments?
10.	Is there regular reconciliation of control totals?
11.	Is the input/output checking on a “one-to-one” or sample basis. If a sample basis, is this adequate?

4.2.3 System Procedural Controls

a. Input Controls

1. Preparation	
1	How are data input and processing authorised and is authorisation comprehensive?
2	For batch processing, are documents batched and batch headers used and are batch control totals suitable and adequate?
3	For batch processing, does the user maintain suitable records of control totals and movement of data?
4	Where data is entered directly by the user through terminals: <ul style="list-style-type: none"> • are the terminals physically secure? • does the communication software provide adequate protection? • are batch control totals employed? • is validation performed at entry? • does the system provide suitable records of terminal usage and data input?
5	Does the user make adequate use of control records to agree the results of batch processing and reconcile the results of on line data entry and processing?
2. Conversion	
6	Does Data Control maintain and use adequate records of control totals and movement of data?
7	Does Data Preparation maintain and use adequate control records?
8	Are verification routines for data preparation sufficient and suitable?
9	Does Data Control check input for: <ul style="list-style-type: none"> • accuracy of data preparation? • completeness of data? • authorisation to process the data? • no prior submission and processing of data?
10	Are source documents securely retained by Data Control during processing?
11	Does Data Control exercise any control over on-line entry or on-line processing and are such controls suitable and adequate?

b. Processing Controls

1. Processing Controls	
1	Are master files identifiable and their use controlled and recorded?
2	Are all programs identifiable and their use controlled and recorded?
3	Are validation and checking routines adequate as to: <ul style="list-style-type: none"> • validation of input data? • checking results of calculations and output? • provision of control totals, including run to run totals? • provision of control records? • recording of amendments to sensitive data or use of sensitive routines? • production of control reports for error exceptions and control totals?
4	Are the operating system reports adequate to show the completeness and correctness of the processing cycle?
5	Is the period of retention of source documents, input data media, master files and operating systems reports for the processing cycle adequate?
6	For on-line or real time processing, does the application software provide adequate protection of files and data?
7	For on-line or transaction processing, does the system software provide adequate protection of files and data?
8	Are run to run controls during processing and between suites properly utilised by both operators and Data Control?

(c) Output Controls

1. Output Controls	
1	Are the tests applied by Data Control or User control to ensure completeness and credibility adequate?
2	Are the procedures for the correction and re-submission of corrected data adequate?
3	Where rejected items are written to a suspense file are they cleared properly and promptly?
4	Is all output either agreed with input controls or reconciled with externally maintained controls?
5	Is the control over distribution of output, including financial stationery, adequate?

(d) Master File and Program Controls

1. Master Files	
1	Was the master file verified and then created by reference to original documents?
2	Is the master file periodically verified by reference to original sources?
3	Are the balances on master files subject to direct verification?
4	Are control totals and records for master files periodically agreed or reconciled with independently maintained external control totals?
2. Programs	
5	Are application programs adequately protected?
6	Is systems software, including tele-processing software, adequately protected?
7	Are all programs identifiable and their usage controlled and recorded, including year end programs and utility programs?
8	Does the procedure for amending programs conform to installation standards and are these satisfactory?

(e) Audit Trail Controls

1. Audit Trail	
1.	Can output be directly and readily related to source documents?
2.	Can source documents be related to output?
3.	Is the audit trail identifiable at record level and/or group level?
4.	Can intermediate stages within a suite and between suites be agreed by run to run totals?
2. Documentation and Audit	
5.	Is the documentation of the system complete and up to date?
6.	Is the test data for the system up to date and does it take account of amendments?
7.	Are all manuals up to date and accurate?
8.	Was audit involved in development of the system and is audit involved in any way in the maintenance of the system?
9.	Is audit approval required to amendments to the system?

4.2.4 Use of Computer Resources

The **objective** of the audit in this area is to review the procedures by which management exercises control over the use of computer facilities.

In particular, the auditor will consider:

	1. Computer Section/ Division
1.	Is its structure and position within the organisation suitable to make the most effective use of the overall computer resources owned by the organisation?
	2. Staffing
2.	Is the best use made of staff within the division?:
3.	
	3. Total Costs
4.	Is it possible to identify the total costs of computing and are they effectively controlled and allocated?;
	4. Hardware
5.	How effectively and efficient is the use made of the computing facilities;
	5. Software
6.	How effective and efficient is the control which is exercised over the development and use of software;
	6. Data
7.	The availability, accuracy, relevance and completeness of data used and produced by the computer facilities. Is this data produced in such a way as to optimise the use made of computing resources?
	7. Customer/ End User Satisfaction
8.	Are user departments and management satisfied by the service which they get from the computer division?

4.3 VALUE FOR MONEY (VFM) AUDIT

4.3.1 Introduction

- (1) Value-for-Money (VFM) auditing represents an extension of the traditional audit concerns with financial systems. Broadly, VFM auditing is concerned with
 - a. the good allocation, and efficient use, of resources,
 - b. determining to what extent a Local Government is achieving its objectives, delivering its programmes and activities, and providing an acceptable standard of service delivery, given its budgetary constraints.
- (2) The main approach to VFM is the Local Government's control over the use of resources rather than over financial transactions, in order to achieve its objectives.

4.3.2 Definition

- (1) VFM auditing is concerned with "three E's": economy, efficiency and effectiveness.
 - a) **Economy** is concerned with minimising the cost of resources acquired or used, having regard to quality (i.e. **spending less** for an equivalent product or service);
 - b) **Efficiency** is concerned with the relationship between the output of goods, services or other results and the resources used to produce them. How far is maximum output achieved for a given input, or minimum input used for a given output? (i.e. **spending well** and not wasting money on reaching a particular level of service);
 - c) **Effectiveness** is concerned with the relationship between the intended results and the actual results of projects, programmes or other activities. How successfully do outputs of goods, services or other results achieve policy objectives, operational goals and other intended effects? (i.e. **spending wisely** to achieve policy. It is possible to be economic and efficient but not achieve the aim of a policy - this is **not** effective).
- (2) In practice the boundaries between economy, efficiency and effectiveness are seldom clear-cut. VFM audits may, therefore, pursue these different aspects as a joint exercise, particularly when considering the closely linked aspects of economy and efficiency.

4.3.3 Standards

- (1) The auditor shall satisfy himself by examination of the accounts or otherwise that the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. - UK Standard on Economy, Efficiency and Effectiveness.

- (2) It fits in well with traditional systems auditing, placing the emphasis on management [not the auditor] to ensure that VFM is being achieved, in the same way that it is up to management to ensure that sound systems exist.

4.3.4 Aims and Objectives of VFM Auditing

- (1) The basic aim of VFM audit is to provide the council with independent information, assurance and advice about economy, efficiency and effectiveness in the management of its resources, particularly its assets, its expenditure budget, and its employees.
- (2) The specific aim is to provide independent and reasonable assurance / advice on whether the Council is
 - a. Meeting the minimum standards of departmental service delivery.
 - b. Allocating its resources in accordance with properly defined developmental priorities, and applicable regulations
 - c. Designing efficient, effective programmes/activities to address these priorities, and deliver the appropriate services.
 - d. Executing its planned programmes/activities/services “on time” , and “within budget”
 - e. Delivering the specified outputs to a standard and quality which is “fit for purpose”

The audit programmes are designed to cover all of the above aspects of service delivery, or to determine the nature / extent of departure. In so doing the audits will ensure that arrangements exist to secure good value-for-money; and will expose serious waste, extravagance or other examples of mismanagement, i.e. bad value-for-money.

- (3) As the auditor is bound to have limited resources it is logical to concentrate attention on areas where the largest resources are involved and where VFM is most at risk.

4.3.5 Types of VFM Investigation

There are basically four types of VFM Investigation which are applicable. These are

- a. Overall Management and Oversight Arrangements
- b. Planning and Resource Allocation
- c. Programme/Activity Execution
- d. Specialist Areas

(1) Overall Management and Oversight Arrangements

- a. Although not the only area of VFM work, the overall management and oversight arrangement is an important area and a useful starting point if one is coming new to VFM work in any organisation.
- b. A framework for doing this review is outlined below and an audit programme is attached. The framework covers five characteristics of a well managed Council:
 - i. Well functioning Committees
 - ii. Effective structures
 - iii. Well executed Annual Work Plans
 - iv. Competent motivated staff
 - v. Effective systems

(2) Planning and Resource Allocation

Councils are obligated to prepare the following documents:

- a. Development Plans
- b. Budget Framework Papers
- c. Annual Budgets
- d. Annual Work Plans
- e. Procurement Plan

The VFM audit will review the comprehensiveness and cohesion of all aspects of the planning and resource allocation process,

(3) Programme/ Activity Execution

- a. Thereafter the VFM review moves onto selecting a sample of activities in the Annual Work Plan [AWP], to establish whether the selected activities were completed “on time”, “within budget”, and whether the respective outputs were “fit for purpose”. In such cases, good value for money has clearly been achieved.

(4) Specialist Areas

- a. The Internal Auditor should develop their expertise in reviewing areas of high cost, and potentially high waste / inefficiency, which are not otherwise adequately covered in the Financial Systems audit, or in the “Activity/Programme Execution” review.
- b. The specific areas for review may include :
 - i. Maintenance and Utilisation of Buildings and Equipment;
 - ii. Operation of Transport Fleets;
 - iii. Land and Property Management and Utilisation;
 - iv. Energy Conservation and Costs;
 - v. Appraisal Procedures for New Development;
- c. The above areas are highly technical, and should be periodically examined, as there is often scope to achieve improved VFM, and better utilisation of Assets. Where any of these areas are in need of a detailed VFM review, the Council, on the advise of the Internal Auditor, may call for external technical assistance in carrying out the review. The intention should be that the Internal Audit department builds its capacity to carry out increasingly higher proportions of such technical VFM reviews including recruitment of technical officers if such reviews are very regular.

4.3.6 Reporting

- (1) Decisions on whether and how to report the results of VFM audits rests with the Head of Internal Audit. All reports should be discussed with the audited body before publication to ensure accuracy and completeness and to confirm a balanced and fair presentation.

- (2) Reports will normally incorporate the audited body's response to any conclusions, criticisms, recommendations and other issues raised.
- (3) VFM reports will not always present specific recommendations for action since, in more judgmental areas, it may be more appropriate for the committee being reported to make recommendations having taken into account the audited body's views.

4.3.7 Audit Programmes

1. Introduction

Three audit programmes have been designed to verify whether the Council has in place suitable arrangements

- a. to allocate scarce resources in accordance with defined priorities
- b. to enable Council to meet its developmental and service delivery objectives,
- c. to establish whether there is VFM in the use of Council's resources, and the execution of its programmes and activities

2. Control Objective

To compare the organisation's arrangements for securing value-for-money with current best practice.

3. Risks

The risk to the Council of not having sound overall arrangements for securing value-for-money is that scarce resources will be wasted, that Council will fail in meeting its developmental objectives, and service delivery will fall short of minimum standards

4. Records Required at Audit

The following records should be requested at the start of the audit:

- a) Development Plan
- b) Budget Framework Papers
- c) Annual Budgets
- d) Annual Work Plans
- e) Programme/Activity M&E reports
- f) Procurement Plan
- g) Organograms of Council Staffing and Committee Structures;
- h) Council and Committee Minutes.
- i) Management Information Systems
- j) Programme/Activity Financial reports

5. Types of Audit Tests; Sampling and Source

There are three types of standard programmes that the Internal Auditor should execute without recourse to specialist technical assistance, these are

a. Programme (i) VFM in the Council's Management and Oversight Arrangements.

No sampling involved. Conduct review as per specified programme

b. Programme (ii) VFM in Planning and Resource Allocation.

No sampling involved. Conduct review as per specified programme

c. Programme (iii) VFM in Council's Execution of AWP Activities

Conduct reviews in line with the risk based approach to auditing, as guided by the HIA. In the absence of any other considerations, the HIA may stipulate that the selection of activities to be audited will be from the Council's Annual Work Plans, and will comprise the largest programmes/activities which account for 80% of the Council's activities, plus 10% by number of the rest.

The detailed audit programmes are set out on the following pages:

Audit Programme (i) – Value for Money - Management and Oversight Arrangements

Ref	Audit Programme Tasks
	Committees
1	Prepare a schedule of meetings held by the following committees and confirm that the frequency of meetings complies with minimum requirements specified in relevant legislation: (a) Council (b) Executive Committee (c) Standing Committees [5] (d) Technical Planning Committee (e) LGPAC (f) Contracts Committee (g) DSC (h) Land Board
2	Review the Minutes of the above Committees and ensure that each Committee (a) Is dealing with the all the key issues in its mandate (b) Is presented with information and reports which summarise matters requiring the Committee's consideration (c) follows up on all "action" items, and matters arising (d) is conducting its business in a professional and thorough manner
	AWP Execution
3	In particular confirm that (a) the Technical Planning Committee is meeting monthly to specifically review the status of execution of AWP activities, and Sector expenditure against Sector budget. (b) appropriate note is made of lagging activities and remedial action is minuted and subsequently taken. (c) Council actions are leading to the AWP being efficiently and effectively executed
	Structure
4	Compare the Councils actual organogram and its establishment levels, with the respective "Model Structure" and identify variations. In particular identify any key vacant posts, and establish whether rigorous efforts are being made to fill the vacancy. Determine what impact the vacancy may be having on Council operations.
5	Ensure that Job Descriptions exist for all Council established positions, and are signed by the incumbent.
	Skills and Staffing
6	Confirm that every individual manager's performance is regularly assessed by his/her superior against the agreed results and that training and development needs are explicitly identified.
	Systems
7	Confirm that all modules in LOGICS have been comprehensively updated on a sector basis such that a) all service delivery data and infrastructure investments are up to date b) the data on the status of all AWP activities is up to date c) up to date revenue and expenditure information is captured
8	Confirm that Sector Management is actively utilising the LOGICS data to plan, make decisions and monitor progress
9	Confirm that the LOGICS data is being transferred to MOLG on a quarterly basis

Audit Programme (ii) - Planning and Resource Allocation

Ref	Audit Programme Tasks
	Planning and Resource Allocation
1	Review the Council's Three Year Development Plan to ensure <ul style="list-style-type: none"> (a) it conforms to required content and layout (b) it adequately compares Actual Standards of Service Delivery [per Sector] with the Minimum Standards of Service Delivery, and gaps are noted and prioritised for resources to be allocated. (c) there is evidence of an appropriate degree of 'participatory planning', which has influenced resource allocation
2	Review the Council's BFP and <ul style="list-style-type: none"> (a) ensure that the investments of highest priority have been allocated appropriate funding (b) determine to what extent local revenues are being applied to unfunded priorities, and to other essential activities.
3	Review the annual budget, and ensure that the BFP allocation of resources remains intact or justifiable reasons are evident for any major changes
4	Review the Departmental Work Plans, and ensure that all activities/programmes specify the tasks required to execute the activity in adequate detail, to enable subsequent monitoring.
5	For each Departmental Work Plan, ensure that : <ul style="list-style-type: none"> a) appropriate diligence has been applied in costing the activities/programmes and that working papers are retained which show the detailed breakdown of the costing for each activity b) the costing reflects the unit cost per output [if applicable] c) the Workplans, and their costing [including unit costs per output], have been reviewed and formally approved by HODs, the respective Technical Committees, and the CAO. d) have been properly consolidated into the Council's overall AWP
6	Ensure all elements of procurement in the AWP, are included in the Procurement Plan
7	Ensure all relevant costs in the AWP and in the Procurement Plan, are captured in the Cash Flow Projection
	Performance and Ratio Analysis
9	Determine / tabulate the following ratios and statistics per Department, and in total. Investigate and provide comment where the ratio falls significantly short of stipulated Benchmarks, and/or shows major variations from the prior year(s) <ul style="list-style-type: none"> (a) Recurrent expenditure to Development expenditure, (b) Wage to Non Wage expenditure (c) % of Established Posts which are vacant, differentiating between Key & Non Key Posts (d) Ratio of Technical/Service Delivery Staff, to Administrative and Support Staff (e) Total Expenditure budget per employee (f) Total Expenditure budget per Citizen (g) Total Local Revenue per employee (h) Total Local Revenue per 1000 of Population
10	Once Activity Based Budgeting and Accounting is introduced, determine the ratio of expenditure between Service Delivery activities [to citizens] , and Administrative/Support activities

Audit Programme (iii) - Assessment of VFM in Council's Execution of AWP Activities

Ref	Audit Programme Tasks
	For each programme/activity selected conduct the following review
1	Overall Approach - Inspect evidence that in designing the programme/activity, the department conducted a technical and financial analysis of alternative approaches, and then selected the preferred option on the basis of overall economy, efficiency and effectiveness
	Economy
2	Obtain the detailed costing schedule, and critically review all elements of the costing to <ol style="list-style-type: none"> ensure it was diligently prepared all the inputs are necessary, and will lead to efficiency and effectiveness input unit costs are reasonable and in line with market rates
3	Review the "unit cost" per output, and take appropriate steps [document them], to determine whether the unit cost per output is reasonable.
4	Overall, conclude whether the cost budget, and the output unit costs are reasonable, or whether they appear to be too high.
	Efficiency
5	Review the planned timelines for each activity [and if applicable the tasks within the activity] and ensure that the timelines are 'demanding' and therefore efficient
6	Confirm that the programme/activity has been entered into LOGICS, including the planned "timelines"
7	Confirm that any procurement involved is entered onto the Procurement Plan
8	Ascertain the current status of completion of the activity (preferably by physical inspection, or by examination of other evidence, eg completion certificates etc), and compare it with <ol style="list-style-type: none"> the LOGICS timeline the Procurement Plan timeframe.
9	Conclude whether the programme/activity is being executed within planned time schedule. If not, note the degree of "time slippage" – expressed in weeks, and as a %age of the original schedule
10	From Programme/Activity financial reports [where available], compare the detailed breakdown of actual expenditure with budgeted expenditure to ascertain <ol style="list-style-type: none"> that actual expenditure [the amounts and the "nature"] falls within the budget that actual expenditure correlates closely with the "stage of completion"
	Effectiveness
11	Where possible, inspect the related outputs, and / or relevant independent evidence, to establish that the outputs produced are "Fit For Purpose" (FFP). FFP is defined as <ol style="list-style-type: none"> quality and volume is in accordance with technical specifications, the output is performing its task [or has met its objective] as expected, the output is appreciated by the user / beneficiary the output is sustainable / long lasting. Note (1) - for large complex/technical projects it is advisable for an independent technical specialist to be called in to assist with the FFP assessment. Note (2) – Test 11 can really only be applied once projects are complete. Many projects selected in the sample may still be "work in progress". In such cases the related FFP rating should be deferred to a subsequent period/year. In the current review, the FFP tests may need to be carried out on a mixture of current completed projects, plus some that may have been completed in the prior year
12	Review Monitoring and Evaluation reports produced, to ensure that <ol style="list-style-type: none"> they were produced on time at the required intervals their content highlighted early any issues of slippage, quality, or other adverse matters such reports were acted upon early , as appropriate
	Overall Assessment
13	Provide a "score" for each of the "five elements" <ol style="list-style-type: none"> Overall - selection of most appropriate "approach" [Test 1] Economy – budget adequacy / over –generosity Economy – actual spending within budget

Ref	Audit Programme Tasks
	iv –Efficiency – execution/completion on time, in accordance with planned timeline v - Effectiveness – Fit for Purpose on a scale of: 3 – Very Good, 2 – Good , 1- Fair, 0 – Poor / Non Existent .
14	Provide an total “average” score for each selected activity / programme
15	Provide an overall weighted average “execution score” for each department as a whole, based on the sample selected

4.4 HUMAN RESOURCE AUDIT

4.4.1 Introduction

The overall objective is to ensure that Human Resource Management (HRM) is conducted economically, efficiently and effectively. The following checklist summarises the five HRM special audit components. Detailed checklists are then provided for each component.

	1. HRM Summary
1.	Are activities of Human Resource departments adequately devised, assigned and carried out?
2.	Is recruitment strategically planned and conducted in a robust and open manner?
3.	Are comprehensive training needs assessed? Is appropriate training provided and evaluated?
4.	Are there adequate procedures for managing, developing and communicating with the people in the organisation?
5.	Are there are adequate procedures for monitoring, improving and rewarding performance in the organisation?

4.4.2 Human Resource (HR) Departments

The objective is to ensure that the activities of HR departments are adequately assigned and carried out.

Ref	Audit Programme Tasks
	1. HR Strategies
6.	Has an HR strategy been developed within the organisation, and is it revised appropriately?
7.	Does the HR strategy links the organisation’s mission, vision and value statements, and does it include a statement on the organisation’s commitment to its employees?
8.	Has the HR strategy been communicated properly to all organisations and staff?
9.	Have responsibilities for implementation been assigned?
	2. HR Division Status
10.	Is the head of HR a member of the senior management team?
11.	Are HR issues discussed at the highest level in the organisation?
12.	Does HR have its own budget, under the control of the head of HR, which is adequate for it to fulfil its duties?
13.	Does HR have the appropriate number of qualified staff commensurate with its responsibilities and status within the organisation/
	3. Monitoring of HR Activities
14.	Does the head of HR report to the accounting officer in the organisation?
15.	Does HR help set, monitor and report performance targets for the organisation? Including for example: <ul style="list-style-type: none"> • Staff turnover rates • Job vacancy rates • Absenteeism rates • Significant employee achievements.
16.	Are performance measures reported and used to drive remedial action?
17.	Does reporting include historical trends, analysis across divisions / departments, and comparison to other organisations?
	4. HR Policies
18.	Does HR produce appropriate policies and guidance on the conduct of staff dismissals?

Ref	Audit Programme Tasks
19.	Does HR takes the lead in data protection issues and ensures its own employee data meets data protection requirements?
20.	Does HR take the lead in formulating and implementing the organisation's policies on retrenchment and redundancy?
21.	Does the organisation's retrenchment policy considers all alternatives in retrenchment, including: <ul style="list-style-type: none"> • Natural wastage • Recruitment Bans • Redeployment • Voluntary Redundancy • Compulsory Redundancy.
5. HR and Key Staff Issues	
22.	Does HR have a lead role in helping to plan for and manage any major restructuring or retrenchment exercises?
23.	Is HR proactive in communicating to staff on all personnel issues?
6. HR and Risk Management	
24.	Does HR identify the key staffing and personnel risks to the organisation, and produce plans for dealing with these risks?
25.	Does HR monitor public perception of the organisation's staffing and personnel activities, and respond appropriately to press coverage of staffing issues, including: <ul style="list-style-type: none"> • Redundancies • Allegations of corruption • Allegations of nepotism • Concerns over salary levels, the award of allowances and expense payments.
7. Quality of HR Service	
26.	Does the HR department identify and seek to maintain best practice in its activities, and seeks external reviews of its activities to confirm this?
27.	Has HR adopted a culture of continual learning, and promoted this culture across the organisation?

4.4.3 Recruitment

The objective is to ensure that recruitment is strategically planned and conducted in a robust, transparent and open manner.

Ref	Audit Programme Tasks
1. Recruitment Strategies	
28.	Does HR conduct formal reviews of staffing needs to meet the strategic plan against current capacity in the organisation?
29.	Is the recruitment strategy sets out the organisation's recruitment policy, in terms of using internal and external recruitment?
2. Recruitment Process	
30.	Are all recruitment needs are driven by the strategic plan?
31.	For each position to be filled, is a formal job or person specification is produced? Is this used to design internal or external advertisements for the position?
32.	Do job adverts state the nature, terms and conditions of employment, including grade or salary if appropriate?
33.	For all vacancies, are leading candidates are interviewed in a fair and objective manner?
34.	Is the appointment process is conducted in an open and fair manner?
35.	Are formal references and evidence of relevant qualifications are obtained prior to employment?
3. Appointment Procedures	
36.	Are all appointments are made using formal conditions of employment, which are legally binding on the employee?
37.	Do conditions of employment include a probationary period during which the employee's performance in assessed?
38.	Where relevant, do the conditions of employment determine the length of the appointment and performance measures to be used in monitoring performance?
39.	Do the conditions of employment give the salary level / salary grade of the position?
4. Induction Procedures	

Ref	Audit Programme Tasks
40.	For all new staff, is an appropriate induction process is designed?
41.	Do management seek feedback on the appointment and induction process, and use this to make improvements?

4.4.4 Training

The objective is to ensure that comprehensive training needs are assessed and that appropriate training is provided and evaluated

1. Training Needs Assessments	
42.	Is a formal comparison of existing capabilities to assessed needs conducted across the organisation? If so, are the results are prioritised and used to produce training plans?
43.	Do training needs assessments make use of staff surveys to identify current skills and perceived needs?
44.	Are training needs are addressed through an appropriate balance of formal training programs and on the job training?
2. Training Records	
45.	Are adequate records are kept by personnel of employee's qualifications, training records and needs, tailored to current job specifications?
3. Training	
46.	For specific technical areas, are staff are enrolled on formal training programs to give them the skills or qualifications they need?
47.	Are junior staff are assigned mentors who take responsibility for their career development and for organising on the job training?
48.	Are regular assessments are carried out on training provided, including course assessments by delegates as well as external assessments?
49.	During their career development, do staff receive training in management skills, communication and team skills?
50.	Are qualified professional staff are encouraged to participate in relevant Continual Professional Development (CPD) programs?
4. Protection of Training investments	
51.	Where the organisation has sponsored professional training of its staff, has it made arrangements to recover the costs of this investment if the employee leaves the organisation within a certain period after qualification?

4.4.5 Communications

The objective is to ensure that there are adequate procedures for managing, developing and communicating with people within the Council.

1. Management	
52.	Is the organisational structure appropriate and has been communicated to all staff?
53.	Do all staff report to and are responsible to one (and only one) line manager?
54.	Do managers know which staff and what outputs and budgets they are responsible for?
55.	Do managers receive appropriate training on performance review and performance monitoring.
56.	Does HR enable managers to be aware of, and promote, compliance with corporate policies, such as: <ul style="list-style-type: none"> • Whistle blowing policies • Grievance procedures • Codes of conduct • Equal opportunities policies
2. Staff Development	
57.	Does HR or senior management take a responsibility for career development of key staff?
58.	Does HR identifies key positions within the organisation and utilises succession planning to develop junior staff for their future roles?
59.	As part of career development, are managers encourage rotation of duties, work experience and secondment to develop the skills staff will need in their future roles?
60.	Does management seeks to involve staff in organisational development through input to strategy and working groups to facilitate organisational change.
3. Communication Between Staff and Management	
61.	Are there appropriate communication channels to allow management to communicate efficiently and effectively with staff?
62.	Do management seek the opinion of staff regarding job satisfaction, scope for change etc through appropriate feedback mechanisms such as surveys?

4.4.6 Monitoring and Rewards

The objective is to ensure that there are adequate procedures monitoring, improving and rewarding performance in the organization

1. Performance Monitoring Systems	
63.	Have HR designed a performance review system which is used to set goals and targets for all employees, monitor performance and provide feedback to stimulate improvement?
64.	Is careful attention is paid to aligning and balancing individual and team targets in the performance review system?
65.	Are performance targets generated through a two way dialogue between staff and management?
66.	Does performance monitoring include 180° appraisal, allowing staff to provide feedback on managers?
67.	Do managers seek staff's perceptions of the organisation and compare these to the organisations value statement?
68.	Does management makes use of focus groups and communication events to assess staff perceptions of the organisation's internal procedures and culture?
2. Improved Performance	
69.	Do management use the performance monitoring system to identify poor performance and seek improvements?
70.	Are appropriate disciplinary procedures are used where poor performance continues?
71.	Has the organisation established mechanisms for implementing demotions, transfers or redundancies if appropriate?
72.	Does HR conducts periodic reviews of salaries and conditions against similar organisations and the private sector, in order to improve staff retention rates?
3. Incentive Schemes	
73.	Are promotion decisions linked to the performance appraisal system?
74.	Are incentives, where appropriate, are used to reward staff / teams for continually achieving their objectives?
75.	Is there an open and transparent mechanism in place to reward outstanding performance or innovation, through, for example, enhanced salary payments, financial rewards or formal awards?

