



National Highway Authority (NHA)

Internal Audit Manual

March 25, 2017

Version NHA-IAM-F1



*Deleites Representative
Murphy's law.*



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Acronyms and Abbreviations

AIAP	Approve Internal Audit Program
AP	Audit Program
BL	Board Letter
CPD	Continuous Professional Development
DAC	Departmental Accounts Committee
Deloitte Pakistan	Deloitte Yousuf Adil, Chartered Accountants
EP	Engagement Plan
G/L	Agreed with General Ledger
HO-IAW	Head of Internal Audit Wing
IARA	Internal Audit Risk Assessment
IAU	Internal Audit Universe
IAW	Internal Audit Wing
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
JD	Job Description
KPI	Key Performance Indicator
MARCI Chart	Mitigate, Assure, Redeploy and Measure for Cumulative Impact Chart
ML	Management Letter
N/A	Attribute is not applicable
NHA	National Highway Authority
NHA Code	National Highway Authority Code 2005
NHA-IAW-F1	National Highway Authority-Internal Audit Wing-Final 1
PAC	Public Accounts Committee
PBC	Prepared by Client
PKR	Pakistan Rupee
PSCCG	Public Sector Code of Corporate Governance
QAIP	Quality Assurance and Improvement Program
RCM	Risk and Control Matrix

SOP	Standard Operating Procedures
T	Traced from Last Year Audited Accounts
The Board	Executive Board of National Highway Authority
√	No Exception Found
#	Calculation Check
%	Percentage

1. Foreword

The Internal Audit Wing (IAW) is providing internal oversight services to the National Highway Authority – “NHA”. The internal audit manual sets out the policies and procedures that govern the conduct of internal auditing at the NHA. It describes the underlying principles, standards and code of ethics for the professional practice of internal auditing, and describes the IAW’s audit management process from planning and preparation to the performance of the audit, reporting of results and follow-up of recommendations.

The Manual incorporates the Attribute and Performance Standards of the International Standards for the Professional Practice of Internal Auditing (Standards) developed and maintained by the Institute of Internal Auditors (IIA).

All IAW policies and procedures should be complied with. Inability to comply with any of them should be brought to the attention of the IAW management immediately.

The purpose of the Internal Audit Manual is to:

- Provide guidance on all relevant aspects of the audit function, including standards as issued by IIA to be followed and adhered to;
- Promote the highest level of professional competence in IAW; and
- Provide a basis for measuring audit performance.

The Internal Audit Manual is not designed to be all-inclusive or unduly restrictive. The provisions and procedures explained are intended to supplement the experience, competencies, skills, and judgement of internal auditors in planning, conducting and reporting on audits. The Audit Manual is meant to assist IAW staff in effectively performing their auditing duties and to serve as a “user-friendly toolbox” for internal auditors, offering standardized templates, checklists and forms, as well as more detailed guidance on certain steps of the audit process.

The Internal Audit Manual and its appendices are living documents and shall be continuously updated, amended and enhanced. Experience gained from actual usage will certainly lead to a number of changes. The Manual is the result of a team effort, and we wish to express our appreciation to Deloitte Yousuf Adil, Chartered Accountants “Deloitte Pakistan” and IAW staff members who have contributed their time and effort to its successful completion.

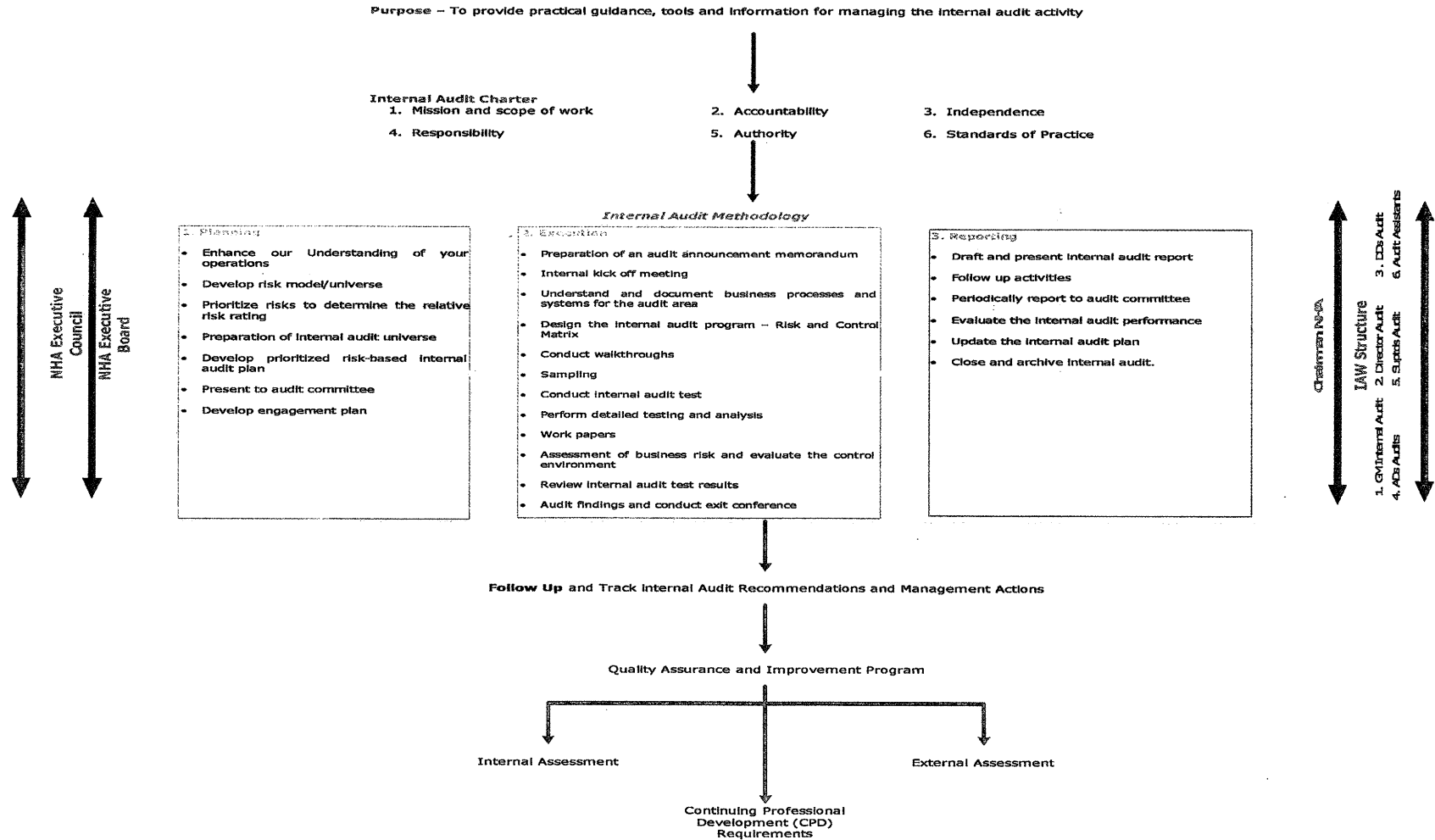
2. Internal Audit Wing - Mission

The mission of IAW is to provide high value audit services to the Audit Committee, the Executive Board (the Board) and senior management, to assist them in the effective discharge of their responsibilities of leading and monitoring the NHA operations with a view to achieving its Objectives. This mission is accomplished through:

- Performing independent audits to evaluate the effectiveness of the NHA's risk management system leading to the identification of material risk exposures relating to the NHA's risk management, control and governance;
- Performing evaluation of design adequacy and operating effectiveness of the NHA's internal control system;
- The consultancy and assurance services arising from its ongoing audits aimed at supporting management's efforts to achieve their objectives of:
 - Reliability and integrity of financial information.
 - Efficiency and effectiveness of operations.
 - Compliance with laws, regulations and internal policies; and
- Maintaining a dynamic, team-oriented environment, encouraging personal and professional growth, and challenging and rewarding the employees to excel in their profession.

3. Internal Audit Framework

INTERNAL AUDIT FRAMEWORK



4. Introduction

Purpose of the Manual

The purpose of the Internal Audit Manual, a core document of Internal Audit Wing (IAW), is to set out internal audit policies and to provide essential guidelines to the internal audit staff regarding the internal auditing activity of IAW. The Manual will ensure the compliance of IAW with the International Standards explained in International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA).

The Manual is approved by the Executive Board of NHA in its 276th meeting held on March 27, 2017.

The key components of the Manual include the following:

- Mission statement of IAW defining the purpose of the wing;
- The charter of the audit committee,
- Independence, objectivity, responsibility of the IAW including reporting relationship of the Head of Internal Audit Wing (HO-IAW);
- The organization structure and management of IAW;
- The IAW's operating principles delineating basic values that internal audit staff need to apply in carrying out their responsibilities;
- The guidelines relating to planning of internal audits, execution of audit work, reporting of audit results, and follow-up procedures for the implementation of audit recommendations;
- The guidelines relating to understanding of internal controls that is essential for internal audit staff to ensuring that recommendations by IAW are aiming to improve the effectiveness of internal control system of the National Highway Authority (the Authority); and
- AP's, Sampling techniques, Audit templates, Audit checklists containing audit procedures to be performed in the execution of internal audits.

The audit approach described in this Manual shall be used in carrying out internal audit activities in NHA.

Internal Audit Manual has been developed with the help of Policies and procedures (Standard Operating Procedures "SOP", currently effective) of various processes/functions of the NHA. In addition, NHA has also been governed by NHA Code 2005, other applicable laws and best practices tailored to the NHA controlled environment.

Responsibility for Implementation

The HO-IAW shall have the overall responsibility for the implementation, supervision and monitoring of activities to be performed under this Manual.

Custody and Confidentiality

The Manual shall remain in the custody of the HO-IAW and authorized staff of IAW. This is a confidential document and shall be kept secured by each of the recipient. The right for copy and its distribution is reserved with the HO-IAW. No recipient of the Manual is allowed to make a copy without obtaining formal approval from HO-IAW.

Access to the Manual is not allowed to any external party except with the prior approval of the HO-IAW. A strict disciplinary action shall be taken against the employee who is found guilty of contravening this provision.

Distribution

It is the responsibility of the HO-IAW to ensure that the copy of this Manual has been provided to all concerned staff of IAW.

Training

The HO-IAW will ensure that IAW staff is well conversant of the material contained in the Manual. The staff of IAW will be provided necessary training on the concepts and use of the Manual. The training may be formal as well as informal by internal as well as by external parties.

Update of the Manual

The Manual is a LIVE document and will be updated on a periodic basis. It will be amended as and when any changes occur that make it essential for its revision. The responsibility for keeping the Manual up-to-date remains with HO-IAW. He will initiate and document all revisions to the Manual.

The review and updating of this Manual shall be an on-going process to ensure continuous alignment of the NHA's operations with the organization-wide strategy and the internal and external dynamics in which the NHA operates, which may include the developments, changes and trends whether required by law or by generally accepted risk management practices within the NHA.

A log of proposed changes to the Manual shall be maintained by the Director/Deputy Director. Subject to the approval of HO-IAW, all the changes shall be incorporated into the manual on semi-annual basis. The HO-IAW shall authorize all the revisions to the Manual. The revised manual after incorporating authorized changes shall be circulated to all recipients of the Manual. A version control sheet attached in **Annexure A**.

Effective Date

The Manual is effective from March 27, 2017.

5. Code of Ethics

The purpose of this Code of Ethics is to promote an ethical culture in the IAW. The IAW is committed to conduct its audits with the highest level of independence and objectivity while maintaining the highest ethical standards.

This Code of Ethics provides the understanding of two essential components:

Principles that are relevant to the internal auditing; and

Rules of Conduct that describe behaviour norms expected.

To ensure understanding of these requirements, IAW staff is required to read this Code of Ethics at least on annual basis and shall sign off a declaration signoff of ethic. A specimen template for signoff of ethics is attached in **Annexure B**. A copy of this acknowledgment shall be placed in personnel files of all IAW staff members.

Principles

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

Integrity

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

Objectivity

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

Confidentiality

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

Competency

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

Rules of Conduct

Integrity

Internal auditors:

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

- Shall respect and contribute to the legitimate and ethical objectives of the NHA.

Objectivity

Internal auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the NHA;
- Shall not accept anything that may impair or be presumed to impair their professional judgment; and
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Confidentiality

Internal auditors:

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

Competency

Internal auditors:

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

International Standards on Internal Auditing – Compliance with the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and Code of Ethics

The HO-IAW and staff of IAW shall make their best endeavours to carry out their responsibilities and functions specified under this Charter in compliance with the International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors. Details regarding the updated Internal Audit Standards for the Professional Practice of Internal Auditing shall be available at <https://global.theiia.org>

6. Audit Committee Charter

Purpose

The purpose of the Audit Committee Charter is to:

- Oversee the accounting and financial reporting processes and audits of the financial statements of the NHA;
- Assist the Board in oversight and monitoring;
- Review the integrity of the NHA's financial statements;
- Review the compliance with legal and regulatory requirements;
- Oversee the independent auditor's qualifications, independence and performance; and
- Monitor and evaluate NHA's financial and operational controls.

Membership

The Audit Committee members will be appointed by, and will serve at the discretion of NHA's Executive Board.

The Audit Committee shall consist of at least three members of the Board. The committee shall have one chairman of audit committee from existing members.

Responsibilities

- To approve the hiring and firing of the independent auditors for audit / non audit services;
- Sole authority for overseeing the work of the independent auditors including resolving disagreements between management and the independent auditors;
- Review and discuss with the management and with independent auditors about NHA's Annual Report;
- Review all legal matters that may have a significant impact on NHA's financial statements;
- Ascertain that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;
- Review the board letter (BL) and management letter (ML) issued by external auditors and management's response thereto;
- Review NHA's policies and practices with respect to financial risk management, IAW, NHA structure and NHA's processes;
- Ensure coordination between the internal and external auditors, overseeing whistle-blowing policy and protection mechanism;
- Instituting special investigations with full access to all books, records, facilities and personnel of the NHA as and when the Audit Committee determines appropriate and necessary for the conduct of its duties;
- Review the engagement details of outside legal, accounting or other advisors as and when the Audit Committee determines appropriate and necessary for the conduct of its duties;

- Establishing procedures for receiving, retaining and treating complaints, anonymous submission by employees for operational, accounting, internal controls or any other matter as and when the Audit Committee determines appropriate and necessary for the conduct of its duties;
- Instituting special projects, value for money studies or other investigations on any matter specified by the Board, in consultation with the Chairman and to consider communication of any matter to the external auditors or to any other external body;
- Reviewing any reports by management or external auditors regarding the effectiveness and efficiency of internal controls or any deficiencies in the design or operation of internal controls;
- Review and provide guidance with respect to:
 - The independent auditors' proposed audit scope, approach and independence;
 - Statement from the independent auditors regarding relationships and services which may impact independence;
 - Report by the independent auditors describing any material issues raised by the most recent internal quality control review, or peer review, of the independent auditing firm, or by any inquiry or investigation by governmental or professional authorities and any steps taken to deal with any such issues;
 - NHA's financial statements and audit findings, including any significant adjustments, management judgments and accounting estimates, significant new accounting policies and disagreements with management and any other matters, as may be modified or supplemented; and
 - Reports submitted to the Audit Committee by the independent auditors in accordance with the applicable requirements.

Meetings

- The Audit Committee shall meet at least on quarterly basis each year;
- The Audit Committee shall meet separately with NHA Member Finance to review the financial affairs of the NHA;
- The Audit Committee shall meet separately with external and internal auditors fulfill the requirements of Public Sector Code of Corporate Governance (PSCCG) ; and
- A meeting of the Audit Committee shall also be held, if requested by the external auditors or the Head of Internal Audit.

Minutes

The minutes of the proceedings of the Audit Committee meetings shall be documented and maintained.

Reporting procedure and Reports

- The Audit Committee shall appoint a secretary of the Committee. The secretary shall circulate minutes of meetings of Audit Committee;

- The NHA shall ensure that internal audit reports are provided for review of external auditors. The auditors shall discuss any major findings in relation to the reports with the Audit Committee, which shall report matters of significant importance to Board; and

Compensation

- Members of the Audit Committee shall receive such fees, if any, for their services may be determined by the Board in its sole discretion. Such fees may include retainers or per meeting fees. Fees may be paid in such form of consideration as is determined by the Board; and
- Members of the Audit Committee may not receive any compensation from NHA except the fees that they receive for service as a member of the Board or any committee thereof.

Limitation of Audit Committee's Role

While the Audit Committee has the responsibilities and powers set forth here, it is not the duty of the Audit Committee to plan or conduct audits, to establish the scope or procedures.

7. Internal Audit Charter

Introduction

This chapter explains purpose, authority and responsibility of the internal audit activity. It establishes internal audit activity position within NHA, authorizes access to records, personnel, and physical properties relevant to the performance of the engagements and defining the scope of the internal audit activities. The HO-IAW shall develop the charter that define the nature of services for assurance and consultancy engagements and shall seek approvals of the charter by the senior management and the Board. The audit charter must be consistent with the standards.

The charter has been approved by the Audit Committee in its meeting held on _____ . Following are the typical elements of the internal audit charter.

Mission

The mission of the IAW is to provide independent objective assurance and consulting services designed to add value and improve the NHA's operations. It helps the organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Scope of Work

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

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable and timely;
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the NHA's control process;
- Significant legislative or regulatory issues impacting the NHA are recognized and addressed properly; and
- Opportunities for improving management control and operations may be identified during audits. These will be communicated to the appropriate level of management.

Accountability

The HO-IAW in the discharge of his/her duties, shall be reportable to senior management and the audit committee for:

- Annual assessment on the adequacy and effectiveness of the NHA's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work;

- Reporting of significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution;
- Provision of information on periodical basis on the status and results of the annual audit plan and the sufficiency of wing resources; and
- Oversight of other control and monitoring functions (risk management, compliance, security, legal, and ethics environmental, external audit).

Independence

The personnel of IAW shall report to HO-IAW. To ensure independence, HO-IAW shall functionally report to audit committee and administratively to the Chairman NHA.

Responsibility

The HO-IAW and staff of the internal auditing wing have responsibility to;

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and to submit that plan to the Audit Committee for review and approval;
- Implement the annual audit plan as approved, including, and as appropriate, any special tasks or projects requested by senior management and the Audit Committee;
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter;
- Enter in an outsourcing/ co-sourcing contract with outside resources for execution of internal audit activities;
- Establish a quality assurance program for maintenance of quality standards in performance of internal audit activities;
- Perform consulting services to certain business process owners besides assurance services. Examples may include facilitation, process design, training, and advisory services;
- Evaluate and assess the need of merging/consolidating different functions of NHA;
- Issue periodic reports to the Audit Committee and management summarizing results of audit activities;
- Keep the Audit Committee informed of emerging trends and successful practices in the area of internal audit;
- Provide a comparison of Key Performance Indicators (KPI) with results to the Audit Committee;
- Assist in the Investigation of significant suspected fraudulent activities within the NHA and notify management and the Audit Committee of results; and
- Consider the scope of work of external auditors and regulators as appropriate.

Authority

The HO-IAW and staff of the internal auditing wing are authorized to:

- Have unrestricted access to all records, property (plant and machinery, fixed assets, land, building and vehicles) and personnel;
- Have full and free access to the Audit Committee;
- Allocate resources, set frequencies, select subjects to determine scopes of work and apply audit techniques required to accomplish audit objectives; and

- Obtain the necessary assistance of personnel in units of the organization where they perform audits as well as other specialized services from within or outside the organization.

The HO-IAW and staff of the internal auditing wing are not authorized to:

- Perform any operational duties for the organization or its affiliates other than required for performance of internal audit activities;
- Initiate or approve accounting transactions other than required for performance of internal audit activities; and
- Direct the employees of other departments except required for the performance of internal audit activities.

Standards of Audit Practice

The IAW shall follow the International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors.

Head of Internal Audit Wing

Chairman

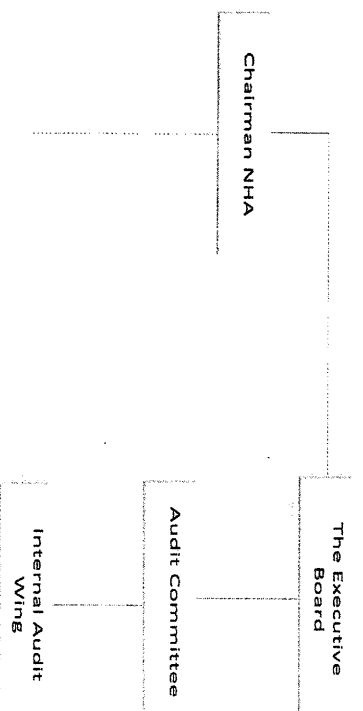
Audit Committee Chairman

8. Organisation Structure and Management

The IAW at NHA is managed by the General Manager, as the functional head of the IAW who is assisted by a team of director, deputy directors, assistant directors and superintendents. IAW is equipped with professionals having adequate qualifications and experience for the performance of their duties. IAW performs its activities based on the approved internal audit plan from the Audit Committee.

Reporting Relationship

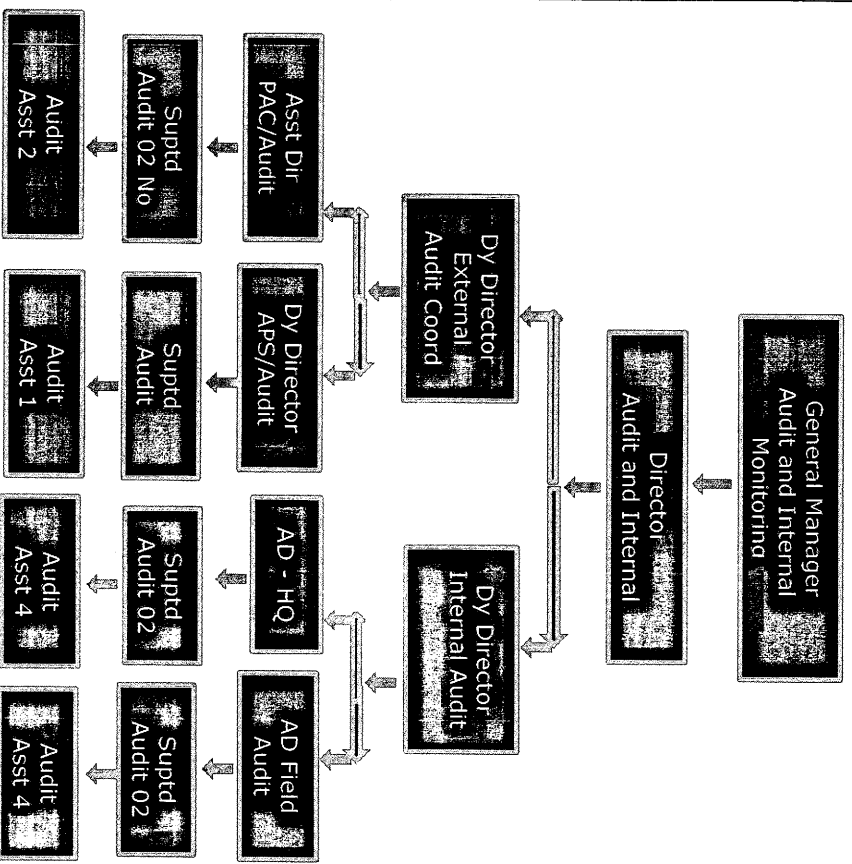
The HO-IAW shall report functionally to the Audit Committee and administratively to the Chairman of NHA. This dual reporting relationships shall ensure the independence of IAW.



Internal Audit Wing Organizational Structure

Supp Staff GM	BS	No
Office	16	1
PA	16	9
Audit Suptd	14	12
Audit Assit	09	4
UDC/SAC	07	7
LDC/JAC	04	2
Driver	01	2
Naib Qasid		
Total		37

Officer	BS	No
General Manager	20	1
Director	19	1
DD	18	2
AD	17	4
Total		8
Support Staff		37
Grand Total		45



Internal Audit Wing Management - Job Descriptions (JD)

In order to ensure effective operations of the IAW, it is essential that the responsibilities of the IAW staffs are clearly defined in the form of JD's.

Responsibilities of Head of Internal Audit Wing

Job Description Title

Head of IAW.

Reports To

Functionally to Audit Committee and administratively to Chairman.

Coordinates with

Audit Committee, Chairman, senior management, wing management, auditors and related organizations.

Responsibilities

Responsibilities of the HO-IAW are detailed as follows;

- Development of the internal audit charter and presenting it to the Audit Committee for approval;
- Develop annual internal audit plan and obtain Audit Committee's approval thereto;
- Approve the engagement plan (EP), audit program (AP), basis of sampling and audit procedures;
- Assess the adequacy of staff resources and expertise in relation to the annual internal audit plan and recommending enhancements to the Audit Committee where necessary;
- Initiating the audit activities by sending audit announcement memorandum to the auditable area process owner;
- Directing internal audit staff in the planning, organizing, directing, and monitoring of internal audit operations, including assisting in hiring, training, and professional development, evaluating staff, and taking corrective actions to address performance problems;
- Review internal audit working papers to gain an overall understanding of the internal audit work performed and reportable matters identified;
- Directing the overall performance of internal audit procedures, including identifying and defining issues, developing criteria, reviewing and analysing evidence, and documenting processes and procedures;
- Directing the internal audit staff in conducting interviews, reviewing documents, developing and administering surveys, composing summary memos, and preparing working papers;
- Directing the internal audit staff in the identification, development, and documentation of audit issues and recommendations;
- Communicating the results of internal audit and consulting projects via written reports and presentations to the senior management and the Board;
- Approve internal audit and follow up reports issued by the IAW;
- Attendance at the Audit Committee and reporting of significant issues identified during the course of audit;
- Undertake specific/ special assignments which may be entrusted by the Audit Committee;
- Serve as liaison between the wing and the senior management;
- Directing the identification and evaluation of the organization's audit risk areas;
- Overseeing the wing's Quality Assurance and Improvement Program (QAIP);
- Developing and maintaining productive staff, management, and the Board relationships through individual contacts and meetings;
- Pursuing professional development opportunities, including internal and external training and professional association memberships, and sharing information gained with co-workers; and
- Benchmarking internal audit work processes and promoting continuous process improvement.

Responsibilities of Director Audit of Internal Audit Wing

Job Description Title

Director IAW.

Reports To

Head of IAW.

Coordinates with

Senior management, wing management and auditors,

Responsibilities

- Supervise the overall affairs of IAW under the guidance of the HO-IAW;
- Assign internal audit assignments as included in annual internal audit plan to Deputy Directors IAW;
- Assist the HO-IAW in the development of the annual internal audit plan, internal audit objectives and scope consistent with the wing's charter, business objectives, the assessment of internal audit risk, function area's needs, and internal audit priorities communicated by the Audit Committee;
- Scheduling internal audits, determining the resources that are necessary, and seeing that the approved internal audit plan is executed and accomplished;
- Conduct planning meeting with the IAW staff at the commencement of every internal audit assignment;
- Attend the kick-off meeting, as and when appropriate.
- Review the EP before it is approved by the HO-IAW;
- Reviewing and approving detailed internal AP's tailored to each audit to assure that no specific tests or activities necessary for the audit are overlooked and to assist in preventing ineffective audit techniques from being performed.
- Liaise with the internal audit staff and auditee to ensure smooth and timely completion of audit tasks;
- Review observations noted by internal audit team;
- Conduct conclusion meeting with the auditee to discuss matters arising out of internal audit report;
- Review the draft internal audit and follow up reports and submit the same to the HO-IAW;
- Assess the actions taken by the management to correct the reported inefficiencies and follow up reported recommendations with the management;
- Recommend improvement in internal controls designed to safeguard resources and to comply with applicable laws and regulations;
- Deal with staffing matters such as formation of audit teams, approval of staff leaves and formulation of succession planning;
- Evaluating audit staff performance, providing on-the-job training, and counselling auditors to strengthen the person's knowledge/skills/development;
- Pursuing professional development opportunities, including external and internal training and professional association memberships, and sharing information gained with co-workers;
- Liaise with the external auditors to share knowledge of internal audit in the NHA;
- Ensure compliance of the internal audit manual by IAW personnel;
- Ensure availability of the entitled infrastructure for smooth conduct of IAW; and
- Perform any other functions in connection with the internal audit assigned by the HO-IAW from time to time.

Responsibilities of Deputy Directors of Internal Audit Wing

Job Description Title

Deputy Director IAW.

Reports To

Director/ Head of IAW.

Coordinates with

Senior management, wing management, auditors.

Responsibilities

- Plan the staff for internal audits engagements;
- Look after audit assignments entrusted by the director and the HO-IAD;
- Convene planning meetings with the internal audit staff;
- Develop internal AP's that assure the auditing steps will accomplish the objectives, address major risk and exposures and reasonably ensure completion of the assignment within allocated time;
- Comprehensively review all the working papers to ensure that appropriate and sufficient audit work has been performed to achieve objectives stated in internal audit work programs;
- Upon working paper review, preparing to do lists, or counselling the staff member(s) assigned as to additional testing, editing, further documentation judged necessary, or how unnecessary work can be eliminated in the future;
- Ensure that the Internal audit work is conducted in the most appropriate manner and to maintain appropriate level of quality;
- Keeping the Director IAW informed regarding the status of internal audits in progress and contacting them regarding targeted audit completion and scheduling of the formal audit review meeting;
- Convene conclusion meeting with the auditee to discuss matters arising out of internal audit report;
- Review draft internal audit report;
- Review and compare performance with the approved plans;
- Ensure proper execution of the internal audit plan components as assigned to him / her;
- Adequately manage records of the internal audit reports and working papers;
- Compile the permanent file on an on-going basis;
- Making recommendations on ways to improve the internal audit work process;
- Pursuing professional development opportunities, including external and internal training and professional association memberships, and sharing information gained with co-workers; and
- Perform any other functions in connection with the internal audit as assigned by Director IAW from time to time.

Responsibilities of Assistant Directors of Internal Audit Wing

Job Description Title

Assistant Directors of the IAW.

Reports To

Deputy Director/Director/ Head of IAW.

Coordinates with

Senior management, operational management and wing management,

Responsibilities

- Ensure that internal audit is executed and reported within the given timeframe;
- Perform internal audit procedures as outlined in approved AP approved;
- Obtain sufficient appropriate audit evidence to support reportable matters highlighted during the course of internal audit;
- Review working papers as and when completed by internal audit team;

- Apprise the Deputy Director/Director IAW of significant issue/ observations identified during the audit on frequent basis and consider revision of AP with consultation of the Deputy Director/Director IAW;
- Prepare an audit summary memorandum;
- Performs audit procedures, including identifying and defining issues, developing criteria, reviewing and analysing evidence, and documenting processes and procedures;
- Draft internal audit report and undertake preliminary discussions with the auditee on matters being reported in internal audit report;
- Adhere to the wing's standards in execution and documentation of internal audit;
- Close the reviewed current files against an acknowledgement from the custodian and shall also close permanent files which shall be handed over to the custodian;
- Pursue professional development opportunities, including external and internal training and professional association memberships, and shares information gained with co-workers;
- Represent internal auditing on organizational project teams and at management meetings;
- Comply with the IAW Manual; and
- Perform any other function in connection with the internal audit as assigned by the Deputy Director/Director/ HO-IAW from time to time.

Responsibilities of the Superintendent of Internal Audit Wing

Job Description Title

Superintendent of the IAW.

Reports To

Assistant Director/Deputy Director/Director/ Head of IAW.

Coordinates with

Operational management, wing management, and auditors.

Responsibilities

- Perform audit procedures as outlined in AP approved by the HO-IAW;
- Obtain sufficient appropriate audit evidence to support reportable matters highlighted during the course of internal audit;
- Prepare the working papers which is subject to review of Assistant Directors;
- Update the Assistant Directors regarding any significant issue/ observations identified during the audit and amend the audit procedures accordingly with the approval of Assistant Directors;
- Help in identifying issues, analysing evidence and documenting processes and procedures;
- Finalizes the working papers and issue document and aid Assistant Directors in preparation of draft internal audit report and undertake preliminary discussions with the auditee on matters being reported in internal audit report;
- Manage the current audit files and shall hand it to the custodian of the file;
- Adhere to the wing's standards in execution and documentation of internal audit;
- Pursue professional development opportunities, including external and internal training and professional association memberships, and shares information gained with co-workers;
- Comply with the IAW Manual; and
- Perform any other function in connection with the internal audit as assigned by the Assistant Directors/Deputy Director/Director/ HO-IAW from time to time.

Knowledge, Skills and Abilities required by all the Internal Audit Wing Staff Members

- Considerable knowledge of and skill in applying internal auditing and accounting principles and practices, and management principles and preferred business practices;
- Knowledge of management information systems, concepts, and practices;
- Knowledge of the policies, procedures, regulations, and laws;
- Skills in conducting quality control reviews of audit work ;
- Skills in collecting and analysing complex data, evaluating information and systems, and drawing logical conclusions;
- Skill in planning and project management, and in maintaining composure under pressure while meeting multiple deadlines;
- Skills in negotiating issues and resolving problems;
- Skills in using a computer with word processing, spreadsheet, and other business software to prepare reports, memos, summaries, and analyses;
- Considerable skills in effective verbal and written communications, including active listening skills and skills in presenting findings and recommendations;
- Ability to establish and maintain harmonious working relationships with co-workers, staff and external contacts, and to work effectively in a professional team environment.
- Skill in assessing the effectiveness of internal controls over key IT risks, identifying significant exposures, analysing transactions and other management information, and detecting changes in key risks and/or control effectiveness. Skills in developing appropriate recommendations to address exposures; and
- Knowledge of generally accepted IS audit standards, statements, and practices, and IS security and control practices.

Responsibilities of Audit Resource Librarian of Internal Audit Wing**Job Description Title**

Audit Resource Librarian.

Reports To

Superintend/Assistant/Deputy/Director/ Head of IAW.

Responsibilities

- Evaluation and indexing;
- Information;
- Ensure that internal audit records are maintained in compliance with statutes and within the recommended guidelines;
- Keep extracts of publications related to the NHA's internal audit; and
- Keep proper records of internal audit reports and ensures its availability on timely basis.

Staff Rotation in Internal Audit Wing

IAW shall have an effective staff rotation policy amongst all types of auditable activities. The HO-IAW shall be responsible for monitoring the adequacy of staff rotation within the IAW. Objective of the policy is to provide diversity of audit exposure and cross-training to the IAW staff so as to minimize any effect of turnover within the IAW.

IAW shall cooperate with other business functions to provide opportunities for IAW staff to rotate out of the IAW and gain hands-on experience in other business functions. To maintain objectivity, returning internal auditors shall not be assigned to audit the area of their rotation for a period of at least one year.

9. Outsourced Resources - Oversight and Management

Outsourced / Co-Sourced Function

It is the policy of the NHA IAW to, when needed, supplement internal audit activities by contracting or co-sourcing with outside parties. The following are guidelines and principles to be followed in such cases.

Outside resources may be used for:

- Planned internal audits;
- Internal audits requiring specialized expertise not held by permanent staff; and
- Emergency or unplanned review of projects requiring supplemental resources.

Responsibility to contract outside resources lies with the HO-IAW to the extent that contract value is within the HO-IAW approval limits and is covered by the annual budget. Items exceeding must be approved by the audit committee.

Regular enterprise contracting procedures, as set out by procurement and approved by human resources, will be used for all outside resources, including conflict of interest, confidentiality, ethics, and security clauses.

Additionally, the contract shall specify that all work done will be in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

All outside personnel engaged by IAW shall report to the HO-IAW. In case of outside specialized expertise, a team approach using a full-time combination of IAW staff and outsourced staff will be used to ensure maximum knowledge transfer.

Management

In the effective management of operations, the NHA shall occasionally contract with a third party or “outsourced” services or functions traditionally done in-house.

Full responsibility for management, accountability, risk, and control of outsourced/co-sourced activity remains with NHA.

Internal audit policy over audit of outsourced/co-sourced functions will be guided by the following principles:

- All outsourced/co-sourced functions shall be included in internal audit plan universe;
- Internal audit will take a proactive role in the contracting process to ensure adequate right to audit clauses;
- Outsourced/co-sourced functions will be subject to the same risk assessment process as in NHA’s functions; and
- The HO-IAW will make a concerted effort to ensure consideration of the unique risks inherent in outsourced/co-sourced functions.

10. Internal Audit Methodology

IAW of National Highway Authority follows a three step risk based internal audit methodology.

This methodology initiates from understanding the operations of the entity, consideration of both internal and external factors which can impact the achievement of NHA objectives, development of a risk based internal audit plan and AP. Audit test are planned, performed, result are obtained, analysed and reported.

Details of phases involved in this methodology is listed as:

- Planning;
- Execution; and
- Reporting.

PLANNING

1

- Understanding of operations for risk assessment
- Develop risk model
- Preparation of internal audit universe (IAU)
- Develop prioritized risk-based internal audit plan
- Present to audit committee
- Develop engagement plan (EP).

EXECUTION

2

- Preparation of an audit announcement memorandum
- Kick off meeting
- Understand and document business processes and systems for the audit area
- Design the internal audit program – Risk and Control Matrix (RCM)
- Conduct walkthroughs
- Sampling
- Conduct internal audit test
- Work papers
- Assessment of business risk and evaluate the control environment
- Review internal audit test results
- Audit findings and conduct exit conference

REPORTING

3

- Draft and present internal audit report
- Follow up activity
- Periodic reporting to Audit Committee
- Evaluate internal audit performance
- Update internal audit plan
- Close and archive internal audit.

10.1 Planning

Planning is the first phase of the NHA internal audit methodology which addresses the following features:

- Understanding of operations for risk assessment
- Develop risk model
- Preparation of internal audit universe (IAU)
- Develop prioritized risk-based internal audit plan
- Present to Audit Committee

Understanding of Operations for Risk Assessment

The objective of understanding the operations is to plan the audit activities so that resources are allocated to prioritize areas of the audit and objectives are timely achieved. The extent of planning will vary according to the size and complexity of the auditable process and the auditor's experience and knowledge of the operations. It is the responsibility of the Head of IAW to execute the planning process.

Internal Audit Risk Assessment (IARA) process requires internal auditors to plan the audit activities based on the assessment of enterprise-wide risks. It involves the understanding of both internal and external environment of the entity in which it operates. For environment understanding following questions are raised:

Internal Understanding

- What is the NHA mission for being (mission)?
- What does the NHA aspire to become (vision)?
- How does the NHA intend to realize its vision and mission (overall strategic intent)?
- How is the overall strategy expressed in actionable and measurable steps and tactics (plans and objectives)?
- What are the NHA's key business processes and how do they support the achievement of the NHA's plans and objectives?
- What are the NHA's key information systems and how do they support their key business processes?
- Where are the NHA's main operations located?

External Understanding

- What are the key industry developments, issues and trends?
- What are the key environmental/regulatory changes, issues, and trends that may affect the NHA's business?

Based on the preliminary understanding of the environment an entity level risk listing may be developed as mentioned below:

Serial No	Business Risk	Explanation
1	Governance	Governance is the set of processes, customs, policies, laws and institutions affecting the way the NHA is directed, administered, or controlled. Key elements of good governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the NHA.
2	Strategy and Planning	Strategy and planning deal with the identification of internal and external threats to the organization; setting overall direction and deploying the NHA resources.
3	Operations and Infrastructure	Operations and infrastructure covers operational and supporting business process. It include risk associated with inefficient and ineffective business processes.
4	Compliance	Compliance objectives of an organization pertain to compliance with applicable laws, regulations and standards.
5	Reporting	Reporting concerns the aggregation, compilation, presentation, and distribution of financial and non-financial information to an organization's stakeholders. Such reporting may range from internal reports for management's use, to external reports required by local laws and regulatory bodies
6	Budget Risk	NHA's annual budget which acts as a monitoring tool for enhancing controls over expenditure.
7	Reputation Risk	NHA's public image is sensitive to improper actions, inadequate maintenance of key assets or poor services on the part of the management, officials or staff
8	Legal Claims Risk	Legal claims are filed against the NHA

Mapping NHA Process

The understanding of the following documents of the NHA is necessary to map the NHA processes which are critical to the operations of the NHA:

- Prior year audit plans;
- Financial statements;
- Management reports;
- NHA Code 2005;
- Management letter (ML) and Board letter (BL) issued by external auditors;
- Minutes of the Departmental Accounts Committee (DAC) and Public Accounts Committee (PAC);
- Policies and procedures manuals;
- Organizational structure; and
- Rules and Regulations issued by the various regulatory authorities.

Based on the understanding of the NHA and the environment we shall map the NHA's processes. All the risks pertaining to NHA will be inventoried and prioritized under the Develop Risk Model phase.

Develop Risk Model

This phase emphasis over the relativeness of risk with the impact and vulnerability. Details of each is detailed as under:

Impact

Impact or inherent risk is an estimate of the severity of adverse effects, the magnitude of a loss, or the potential opportunity cost should a risk be realized. Impact is measured for all the relevant risk factors such as: Financial impact, Reputation impact, Regulatory impact, etc. Once the impact definitions were identified, they were scored based on past experience / interviews with management on a scale of High, Medium or Low. Based on the scorings, each risk was categorized as follows:

High: Particularly when cash flows are seriously affected, serious diminution in reputation with adverse publicity and regulatory impact.

Medium: In this situation cash flows may be affected, reputation will be affected in the short term.

Low: In this case generally the cash flow impact will be absorbed under normal operating conditions, potential impact on reputation.

Vulnerability

Vulnerability is the extent to which the functional area may be exposed or unprotected in relation to various risk factors after existing controls have been taken into account.

High: Controls minimally reduce the functional area's exposure to an adverse impact. Controls are primarily detective (vs. preventative) or non-existent.

Medium: Controls moderately reduce the functional area's exposure to an adverse impact. Controls are primarily detective (vs. preventative).

Low: Controls currently produce the desired result to significantly reduce the functional area's exposure to an adverse impact. Controls are primarily preventative (vs. detective) and believed by management to be operating effectively.

The concept of vulnerability combines the likelihood of a risk occurring with the level of preparedness should the risk be realized. In addition, vulnerability addresses the qualitative aspects of the risk assessment process.

Risk Assessment – Impact Criteria

	FINANCIAL (Asset size, revenue or transaction volume)	REPUTATION (NHA image)	LEGAL / REGULATORY (Regulatory and legal environment)	STAKEHOLDERS (Shareholders, lenders, investors)
HIGH	> 2.5-3.0%	National coverage - Major business publication	Any Federal	Significantly impacts stakeholder relationships and any metrics set with key stakeholders
MODERATE	> 1-2.5%	Escalating community activism, Regional Press Coverage	Any Federal or Local Action	Moderately impacts stakeholder relationships and any metrics set with key stakeholders
LOW	0-1%	Local Press Coverage	Any Local Scrutiny	Very low or no impact to stakeholder relationships and any metrics set with key stakeholders

Risk Assessment – Vulnerability Criteria

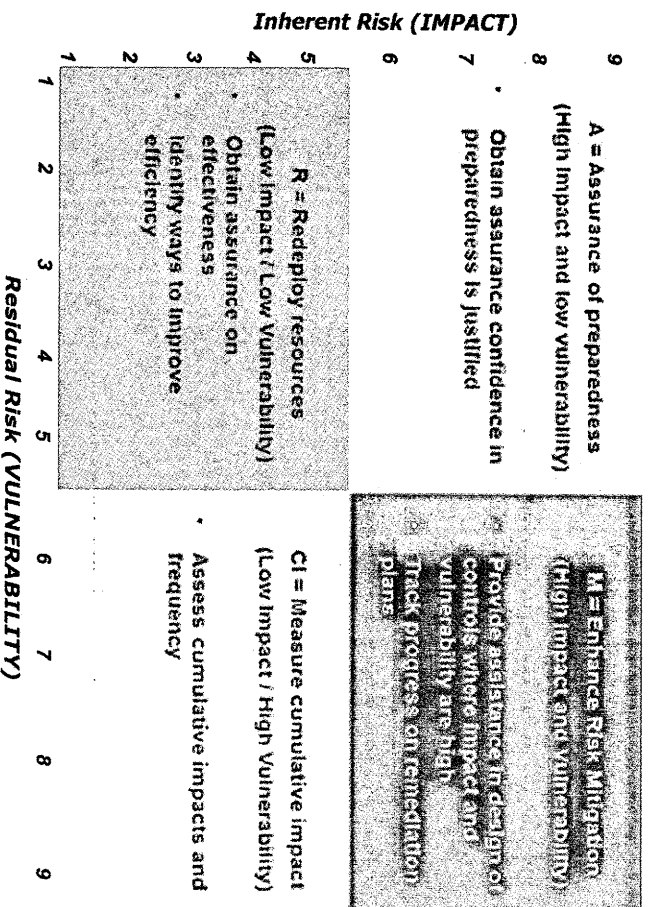
	Control Effectiveness & Efficiency	Response To Prior Risk Experience	Complexity	Rate Of Change
HIGH	(Adequacy and effectiveness of internal controls, ethical climate, competence, adequacy and integrity of personnel)	(Detection, speed of response, recovery)	(Complexity of activities; activities subject to judgment and estimation)	(Expansion or contraction - operational, technological, external)
MODERATE	Controls are not working or do not exist. Residual risk is approximately equal to inherent risk due to a lack of controls effectiveness	HIGH recent adverse experience	Risk affects a HIGH number of transactions OR a HIGH number of processes; OR transactions are highly subject to judgment and estimation	Risk is managed by, or directly impacts, people, processes, systems or businesses that have experienced a HIGH rate of change over the last 6 months
LOW	At this point in time, controls produce the desired result to significantly reduce the NHA's exposure to an adverse impact. Controls are appropriately preventive and detective and there is effective reporting.	LOW recent adverse experience	Risk affects a LOW number of transactions OR a LOW number of processes and low subjectivity to judgment and estimation	Risk is managed by, or directly impacts, people, processes, systems or businesses that have experienced a LOW rate of change over the last 6 months

Prioritize Risk

The objective of this phase is to prioritize the risks based on input obtained from the prior phase. This phase is important, because it forms the basis for developing a risk-based internal audit plan. Key Considerations include:

- The NHA's organization and strategic objectives;
- Focus on areas that allow value creation to the NHA;
- Involve the right people to highlight appropriate risks for the NHA; and
- Prioritization of risks based on quantitative and qualitative characteristics.

MARCI Charts are used as a tool to prioritize risk in various operational processes. The objective of this task is to mitigate, assure, redeploy, and measure the cumulative impact to identify an appropriate internal audit approach for different business risks. The identified business processes, locations, and systems are then mapped to the auditable risks. A MARCI Chart template is as given as:



Understanding the MARCI Chart

- Four quadrant are appearing, we shall calculate the severity of both the impact and vulnerability of the risk for each activity; and
- We shall allot numbers to this chart from 1 to 9 for both impact and vulnerability of the risk as appearing on x axis and y axis respectively.
- For grading the risk, following table shall explain the various risk scenarios, impact and vulnerability status, internal risk response and risk numbers for grading :

Risk Scenario	Impact and vulnerability status	Internal risk response	Risk numbers
Assurance of preparedness	High impact and low vulnerability	<ul style="list-style-type: none"> • Test internal controls • Evaluation mitigation activities 	Impact = 5,5 to 9 Vulnerability = 1 to 5,5

Enhance risk mitigation	High impact and high vulnerability	<ul style="list-style-type: none"> Assist with control design Validate remediation progress 	Impact = 5.5 to 9 Vulnerability = 5.5 to 9
Measure for cumulative impact	Low impact and high vulnerability	<ul style="list-style-type: none"> Define Worst Case Scenarios Look for Value Killers 	Impact = 1 to 5.5 Vulnerability = 5.5 to 9
Redeploy resources	Low impact and Low vulnerability	<ul style="list-style-type: none"> Rationalize Control Design Cost/Benefit Analysis 	Impact = 1 to 5.5 Vulnerability = 1 to 5.5

Based on the risk number ascertain in above table, we shall use a risk class bracket as to which risks shall be classified as high, moderate and low risk:

Impact	Vulnerability	Risk
>5.5	>5.5	High
<5.5	>5.5	Medium
>5.5	<5.5	Medium
<5.5	<5.5	Low

Note

It should be noted that while calculating risk for each process, we have to take following three steps

- Identify the sub process wise risk for each process;
- Allot risk numbers given in MARCI Chart based on the impact and vulnerability to each sub process;
- On the basis of total of impact and vulnerabilities of each sub process, calculate the process wise weighted average risk number for impact and vulnerability; and
- Apply these weighted average number against the risk class brackets and accordingly classify the risk.

Once all the processes are prioritized based on MARCI Charts approach we will shift to the next phase which is the development of internal audit plan.

Preparation of Internal Audit Universe

Defining the audit universe is the first prerequisite to risk ranking. The audit universe to which this risk assessment will be applied will be determined by the Head of IAW. Their determination of the audit universe will be based on his knowledge of the NHA's strategic plan and operations, a review of organization chart and function of all divisions, and discussions with responsible management personnel.

Sr. # activity / Audit universe	Auditable Risk Rating	Activities to be covered in Year 2015-2016	Activities to be covered in next years	Remarks
1. Procurement	High	✓	✓	Core business activity, planned to be audited every year.
2. Capital Work in Progress	High	✓	✓	This section is in material amount for the NHA. We will take this process every year
3. Fixed Asset Management	High	✓	✓	Property Plant and Equipment is in material amount of total assets of the company
4. Revenue	High	✓	✓	Core NHA activity, planned to be audited every year.
5. Entity level controls	Low	✓	✓	We have covered this activity in the year 2014-2015. Structural changes in NHA do not occur frequently therefore, we planned to cover this activity in every three year's cycle.
6. Payroll Processing	Moderate	✓	✓	We have covered this activity in the year 2014-2015. Structural changes in NHA do not occur frequently therefore, we planned to cover this activity in every alternate year's cycle.
7. Maintenance	High	✓	✓	Core NHA activity, planned to be audited every year.
8. Disputes and Claims	Moderate	✓	✓	We have covered this activity in the year 2014-2015. Structural changes in NHA do not occur frequently therefore, we planned to cover this activity in every three year's cycle.
9. Expenses	Moderate	✓	✓	We have covered this activity in the year 2014-2015. Structural changes in NHA do not occur frequently therefore, we planned to cover this activity in every three year's cycle.

10 Record to Report **Moderate** ✓

We have covered this activity in the year 2014-2015. Structural changes in NHA do not occur frequently therefore, we planned to cover this activity in every alternate year's cycle.

11 Information Technology General Controls **Moderate** ✓

We have covered this activity in the year 2014-2015. Structural changes in NHA do not occur frequently therefore, we planned to cover this activity in every three year's cycle.

Develop prioritized risk-based internal audit plan

Sr. #	Auditable activity	Risk Rating	Start of audit activity	Start of field work	Number of days for field work	End of field work	Report discussion before submission	Submission of draft report for management comments	Submission of final report
1.	Procurement	High							
2.	Capital Work In Progress	High							
3.	Fixed Asset Management	High							
4.	Revenue	High							
5.	Maintenance	High							
6.	Payroll Processing	Medium							
7.	Record to Report	Medium							

Present to Audit Committee

The audit universe shall be presented to the Audit Committee to obtain their acceptance and approval. Table-a below provided a sample audit universe indicating activities to be covered in the year 2015-2016 and activities to be covered in next years. Table-b provides tentative audit time schedules. Agreeing on audit schedule in advance assists in scheduling and ensuring that the right resources are available to provide quality services to the NHA.

Develop Engagement Plan (EP)

Once, the approved internal audit plan (AIAP) is prepared by IAW and approved by the Audit Committee. It is then submitted to all HO-IAW for implementation. Based on the

AIAP, IAW shall start preparing the EP. EP shall be addressing each of the engagements which fall under the AIAP. This will be prepared by the Deputy Director in consultation with Assistant Directors for each audit engagement ahead. Approval of EP shall be subject to the review of Director IAW and approval of HO-IAW.

Responsibility for Planning

HO-IAW is responsible for planning and conducting the individual engagements with appropriate supervisory review and reporting. The responsibilities for planning, execution of work, supervision, review and reporting are clearly described in EP's prior to the commencement of the fieldwork. The HO-IAW will designate an audit in charge for each specific audit engagement.

Development of internal audit engagement plan

The development of EP consists of following steps:

- Understand why the area was selected for an audit;
- Formalize audit objectives and scope of work;
- Consider appropriateness and sufficiency of engagement timings and resource;
- Conduct internal planned meeting with the team members and highlighting the critical areas to be focused;
- Arrangement for specialist involvement for specialized auditable area; and
- Prepare a budget.

A specimen template of EP document is attached in **Annexure C**.

10.2 Execution

Following steps shall be addressed in this phase:

- Preparation of an audit announcement memorandum
- Kick off meeting
- Understand and document business processes and systems for the audit area
- Design the internal audit program – Risk and Control Matrix (RCM)
- Conduct walkthroughs
- Sampling
- Conduct internal audit test
- Work papers
- Assessment of business risk and evaluate the control environment
- Review internal audit test results
- Audit findings and conduct exit conference

- Preparation of an audit announcement memorandum
- Kick off meeting
- Understand and document business processes and systems for the audit area
- Design the internal audit program – Risk and Control Matrix (RCM)
- Conduct walkthroughs
- Sampling
- Conduct internal audit test
- Work papers
- Assessment of business risk and evaluate the control environment
- Review internal audit test results
- Audit findings and conduct exit conference

Preparation of an audit announcement memorandum

This activity is initiated when HO-IAW formally write an audit announcement letter to the concern process owner whose process is selected to be audited as evidenced through Board approved AIAP. This letter addresses the timing of initiation and completion the audit, details about the deputed audit team along with the protocol of sharing draft and final report with the head of the respective process owner. A template of audit announcement memorandum is provided in **Annexure D**.

Kick off meeting

A format internal kick off meeting shall be conducted between the HO-IAW and audit team where HO-IAW focuses on the materially risky area and focus on the quality of the work. Minutes of such meeting shall be maintained which shall become the part of the audit permanent file. A template of kick off meeting is provided in **Annexure E**.

Deputation of team at the auditable area and meeting with the client

Audit team once deputed at the client shall conduct a planned meeting with client representatives to ensure:

- Management's agreement with scope and objectives;
- Responsibilities and roles of client and audit team;
- Expectations, concerns, and issues of client;

- Engagement timeline;
- Key client contacts; and
- Recent business changes in client organization.

Understand and document business processes and systems for the audit area

This phase involve a detail understanding and documentation of the NHA business processes and associated system supporting those processes so as to understand the following:

- How far the process is documented and mapped with the manual and automated system to support the organization objectives;
- What is the process organogram and how many wing staff members associated with the process;
- How far the process is located at head office and regional offices;
- What standard documentation protocols exist for executing a transaction;
- Does authority matrix exists at the NHA level as to which responsibility and accountability can be established;
- What is the frequency and templates of periodic management reporting relevant to each process; and
- What controls are established at the NHA level to ensure that fraudulent activities may be prevented.

This activity can be divided into two phases:

- Familiarization; and
- Identification of potential problem areas.

Familiarization

In this phase, the internal auditors will obtain detail information of the auditable area with their operational and general background. The internal auditor shall be aware of the operational procedures, the size, objectives and scope of the auditable area and controls established by management thereon. Any regulation, laws or wing policies should also be considered.

The information can be obtained from sources like:

- Policies & procedures manual;
- Management reports;
- Laws, regulations and legal opinions;
- Wing structure; and
- AP's & prior year audit working papers.

Identification of Potential Problem Areas

Those operations, which are significant, are a key in determining the problem areas. These areas can be identified as:

- Programs/activities that are susceptible to fraud and error;
- Absence or mismanagement of policies;
- Activities in which there is a large amount of investment made and are subject to loss if not controlled properly;

- Any significant matter expressed with great concern by management previously and
- Any significant matter disclosed in previous audits.

In order to identify the significant activities and programs, the internal auditors need to carry out a survey of management controls.

Design the Internal Audit Program – Risk and Control Matrix

Based on the understanding of process and risk and control activity therein, the Deputy Director shall prepare an AP before any fieldwork is started. The purpose of AP is to provide information regarding the auditable areas, its objectives, scope, any special concerns or considerations, name of audit team and time budget.

Components of the audit program

AP also called Risk and Control Matrix (RCM) is a basic tool used for auditing purposes. Following are the components of the AP.

Basic Informational Component

Name of the auditable area - Subject

It addresses the name of the process which is planned to be audited.

Period

It defines the period of time to be considered for performing audit activity, all the population, sample selection, work performed and communication of result shall be addressing this area.

Process owners

It defines the name and designation of the process and sub process owners who are contacted for the performance of audit activity.

Audit objective

It addresses the overall objective to be achieved after performing audit on a particular process/section.

Budgeted and actual time

It defines the budgeted time allocated at a particular section and the actual time spent.

Risk factors at planning stage

It defines the risky areas in a particular process identified in planning phase.

Internal audit team section

It defines the name of audit staff allocated to particular section, work reviewed by along with the date and initials of both preparer and reviewer so as to ensure that the working paper is duly reviewed.

Strategic Component

Control Objective

If defines the audit objective which an auditor is going to ascertain through the performance of the audit procedure.

Control Risk

It defines the embedded risk in a control objective if not achieved.

Control Guide

It defines the best practice to be performed so that the control objective is achieved and risk is minimized.

Control Activity

It defines how in actual with respect to the control objective an activity is performed at the NHA.

Control Type

It defines the type of control we are evaluating (preventive/detective etc.).

Frequency of control

It defines the frequency of control with respective to occurrence of transaction on daily, fortnightly, monthly, quarterly, bi annually or yearly basis.

Gap Description

It defines the control deficiency (gap) in the exercise of a control.

Audit Procedure

It defines the details of sample selected, information required and audit procedures performed for auditing the control objective.

Working Paper Reference Page Number

It defines the space to mention the working page number as a reference.

Key audit program requirements

Key AP requirement for the performance of an audit are as follows:

- Sample size and basis of selection;
- Time period subject to testing;
- Reports from which samples will be obtained;
- Names of reports and documents to be reviewed or used for testing;
- Specific attributes to be tested; and
- Columns allowing referencing.

Approval of the Audit Program

- Audit plan should be approved in writing by HO-IAW prior to the commencement of audit work; and
- Adjustments to audit plan should be approved in a timely manner.

A template of AP is attached as reference, please visit **Annexure F**.

A specimen of planning checklist is also provided in **Annexure G**.

Conduct Walkthroughs

Besides conducting a preliminary walk through in planning and risk assessment phase, it is recommended that each of the audit team conduct process walk through once deputed on the audit every year so as to ensure that any significant changes have not happened at entity level which may cause an auditor to amend the risk assessment initially conducted. These detail process walk through shall become part of a separate permanent file.

Sampling

Audit Sampling involves the application of audit procedures to less than 100% of items within a population so that all sampling units have a chance of selection. This will enable the internal auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Sampling methodology for each internal audit plan shall be reviewed and approved by the HO - IAW before execution of internal audit activities.

Population means the entire set of data from which a sample is selected and about which the internal auditor wishes to draw conclusions.

Selecting items for testing to gather audit evidence

When designing audit procedures, the auditor should determine appropriate means of selecting items for testing. The means available to the auditor are:

- a) Selecting all items (100 % examination) and
- b) Audit sampling.

The decision as to which approach to use will depend on the auditor's judgment in the particular circumstances after giving consideration to audit risk involved and audit efficiency.

Selecting all items

The internal auditor may decide that it will be most appropriate to examine the entire population. For example a 100% examination may be appropriate when the population constitutes a small number of large value items, or when the repetitive nature of a calculation or other process performed by a computer information system makes a 100% examination cost effective.

Audit sampling criteria

In best practice there are following two audit sampling techniques for the use of internal auditors.

- a) Systematic selection; and
 - b) Random selection.
- a) **Systematic selection**

In this method the sampling units in the population are divided by the sample size to give a sample interval. For example, if the total numbers within population are 100 and the sample size is chosen to be 20 the resulting sample interval will be 5. If the random starting point is supposed to be 2 then the first sampling unit will be the 7th item and the second unit will be the 12th item and then 17th, 22nd, 27th and so on.

In the systematic selection, the high value items are separated from the population for 100% testing, while the sample from remaining items is selected by establishing sampling interval. For example, if the population is consisted of the following 30 items:

S. No	Amount	S. No	Amount	S. No	Amount
1	2,750,000	11	5,263,000	21	1,562,500
2	835,000	12	8,234,100	22	10,000,000
3	2,435,000	13	56,000	23	356,835
4	2,358,000	14	83,000	24	1,754,500
5	1,750,000	15	1,872,500	25	1,825,000
6	4,350,000	16	1,654,700	26	54,500
7	1,675,000	17	1,352,800	27	34,750
8	5,102,000	18	1,555,600	28	698,500
9	21,025,000	19	35,000	29	85,400
10	1,535,210	20	65,200	30	7,000,000

Total value of population

PKR 87,359,095

Suppose that all items having value of more than PKR. 5 million are considered to be high Value. In the first step the following will be selected:

Total of high value items PKR 56,624,100
 Percent (%) of high value items (56,624,100 / 87,359,095) 65%

Selection of Low Value Items (Desired Percent of Testing)

Suppose that testing of 75 % value of items is considered to be appropriate. Out of 75 %, 65 % has already been selected. The remaining 10 % will be selected among the low value items. The value to be selected among the low value items will be PKR.8,735,910 i.e. 10 % of total value of population. Assume that every third item of low value will be selected starting from number 2.

S.No	Amount	S.No	Amount	S.No	Amount
1	2,750,000	13	56,000	21	1,562,500
2	835,000	14	83,000	23	356,835
3	2,435,000	15	1,872,500	24	1,754,500
4	2,358,000	16	1,654,700	25	1,825,000
5	1,750,000	17	1,352,800	26	54,500
6	4,350,000	18	1,555,600	27	34,750
7	1,675,000	19	35,000	28	698,500
10	1,535,210	20	65,200	29	85,400

The selection will be stopped when the desired aggregate value of PKR.8,735,910 is achieved. Thus, the selected items will be the following:

S.No	Amount	Acc Amount
5	1,750,000	1,750,000
10	1,535,210	3,285,210
15	1,872,500	5,157,710
18	1,555,600	6,713,310
21	1,562,500	8,275,810
25	460,100	8,735,910

Selection of Low Value Items (Sampling Interval)

Suppose that every fourth item of low value is decided to be selected for testing irrespective of the value. Under this method, the following items among the low value will be selected.

S.No	Amount
4	2,358,000
10	1,535,210
16	1,654,700
20	65,200
25	1,825,000
29	85,400

b) Random Selection

Random selection is one in which the sample is selected without using any structured technique. However, while using this method of sample selection the auditor should avoid any conscious bias and must ensure that all the items of the population have an equal chance of selection. This method is more suitable for audit of debit and credit vouchers, where the quantity is huge and selection is difficult. In this case, few days among the audit period are selected. For example, the 15th date and last date of each month are selected. Then vouchers are selected randomly without any bias.

A specimen template to record the results of sampling (i.e. Sampling Matrix) is attached in **Annexure H**.

Conduct Internal Audit Test

Objective of the testing is to ensure that the design and operating effectiveness of all the controls are adequate so as to ensure that controls are aiding the NHA in the attainment of the following objectives:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Safeguarding of the NHA's assets.

Gaps

Gaps are the deficiencies which are found in the design as well as in the operations of the controls.

Types of Gaps

Design Gaps

Control deficiency observed in the design of the control are called design gaps.

Compliance Gaps

Control deficiency observed in the compliance of the established control.

Control

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

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Control Environment

The attitude and actions of the board and management regarding the importance 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; and
- Competence of personnel.

Control Loop

The process in a control loop is:

- Determine the objective that the management has established for the NHA as a whole;
- Establish the acceptable standard prior to beginning the evaluation of the control;
- Compare the actual finding of the control against the previous established standard; and
- Determine corrective action.

Types of Control

Whether a control is a manual or automated below mentioned are the various types of controls an understanding of which is critical to the IAW:

Preventive. These are proactive controls that deter undesirable events from occurring. An example is a reward mechanism based on relevant KPI for an area rather than based on achieving an arbitrary budget number.

Detective. Detective controls are reactive and detect undesirable events that have occurred. Examples are account reconciliations or exception reports.

Corrective. Corrective controls are reactive controls designed to allow manual or automated correction of errors or irregularities discovered by detective controls, including resolution of duplicate payment in cash disbursement system, audit trails or backup and recovery procedures.

Directive. Directive controls are proactive controls that cause or encourage a desirable event to occur. Guidelines, training programs and incentive plans are examples of directive controls

Mitigating. Mitigating controls reduce the potential impact should an event occur. Insurance is prime example of mitigating control.

Compensating. These controls compensate for the lack of an expected control. For example, close supervisory, review may compensate for a lack of segregation of duties where a small staff size makes proper segregation impractical.

Entity-Level Controls. Entity-Level controls apply to the entire organization and are designed both to ensure that organizational objectives are achieved and to mitigate risks that threaten the organization as a whole.

Process Level Controls. Process-level controls are established by a process owner to ensure that the objectives of the process are achieved and that process-level risks are addressed. Examples include supervision, monitoring, oversight, process-level risk

assessments, performance evaluations, key account reconciliation, and inventory counts.

Transaction-level controls. Transaction-level controls are specific to individual transactions. They exist to ensure that the objectives of the transaction are achieved and transaction-specific risks are addressed. Examples include documentation requirements, segregation of duties or authorizations, and IT application controls (input, processing, and output).

Key Controls. Controls that must operate effectively to reduce a significant risk to an acceptable level.

A table of controls is shared here which is encompassing different types of controls which may be exercised and internal audit staff should have an understanding of such controls:

<ul style="list-style-type: none"> • Ethical "tone at the top." communicated in words and deeds • Organizational structure that promotes the flow of information • Clear definition of responsibilities • Delegation of authority commensurate with responsibility • Mechanisms to hold people accountable for results • Reward mechanisms • Qualified and well-trained personnel, particularly in key positions • Positive, motivating work environment • Effective empowerment of employees • An atmosphere of mutual trust • Frequent interaction between senior and operating management • Appropriate policies and procedures for hiring, training, promoting, compensating employees • Written policies and procedures • Performance standards • Procedures for authorizing and processing transactions • Reviews: budget to actual comparison, current to prior: period comparison performance indicators, project management reports, etc. • Independent verification of performance • Reconciliations • Security for assets and records • Supervisory review 	<ul style="list-style-type: none"> • Segregation of duties (e.g., separation of initiation, authorization, recording, and custody; at least two sets of eyes involved in every transaction) • Checklists • Formal compliance program, including a designated compliance officer • Forms control (e.g., prenumbered documents, maintaining integrity of numerical sequence, limited access to key forms) • Exception reports (e.g., receivables past due, overtime, duplicate payments, discounts not taken) • Information systems controls: <ul style="list-style-type: none"> ➢ Environmental controls (e.g.. heat, humidity, fire extinguishers) ➢ Data security system ➢ Backup and recovery policies and procedures ➢ Disaster recovery or business continuance plan (tested periodically) ➢ Input controls—authorization, validation, error notification and correction (e.g.. blocked transactions, transaction limits, error listings, field checks, self-checking digits, sequence checks, validity checks, completeness checks) ➢ Processing controls (e.g., edit checks, control totals and other programmed steps within application software, audit trails) ➢ Output controls (e.g., output review, exception reports, master file change reports) ➢ Software license compliance controls
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Analytical Procedures

Analytical procedures mean the analysis of significant ratios, trends including resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or deviate from predicted amounts.

Internal auditors shall apply analytical procedures at planning stage (only limited application is required) as well as at overall review stages of the audit (a more extensive

application is required). Application of analytical procedures at the planning stage will help in identifying the potential risk areas whereas their application at the overall review stage will enable the auditor to corroborate audit evidence obtained during the course of audit.

The application of analytical procedures is based on the premise that, in the absence of known conditions to the contrary, relationships among information may reasonably be expected to exist and continue. Examples of contrary conditions include unusual or non-recurring transactions or events; accounting, organizational, operational, environmental, and technological changes; inefficiencies; ineffectiveness; errors; irregularities or illegal acts.

Nature and Purpose of Analytical Procedures

Analytical procedures include comparisons of the entity's current statement of affairs with:

- Statement of affairs of prior periods; and
- Anticipated results of the entity, such as budgets.

Uses of Analytical Procedures

Analytical procedures should be used:

- To assist the internal auditor in planning the performance of audit procedures; and
- As an overall review of the financial statements in the final review stages of the audit.

Analytical procedures provide internal auditors with an efficient and effective means of making an assessment of information collected in an audit. The assessment results from comparing such information with expectations identified or developed by the internal auditors.

Analytical procedures are useful in identifying, among other things:

- Differences that are not expected;
- The absence of differences when they are expected;
- Potential errors;
- Potential irregularities or illegal acts; and
- Other unusual or non-recurring transactions or events.

Analytical procedures may be performed using monetary amounts, physical quantities, ratios, or percentages.

Additional Audit Procedures

After evaluating the aforementioned factors, internal auditors shall consider and use additional auditing procedures, as necessary, to achieve the audit objectives:

- When analytical procedures identify unexpected results or relationships, internal auditors should examine and evaluate such results or relationships;
- The examination and evaluation of unexpected results or relationships from applying analytical procedures should include inquiries of management and the application of other auditing procedures until internal auditors are satisfied that the results or relationships are sufficiently explained; and
- Unexplained results or relationships from applying analytical procedures may be indicative of a significant condition such as a potential error, irregularity, or illegal act.

Investigating Unusual Items

The investigation of unusual fluctuations and relationships ordinarily begins with inquiries of management, followed by:

- Corroboration of management's responses, for example, by comparing them with the auditor's knowledge of the operations and other evidence obtained during the course of the audit; and

Consideration of the need to apply other audit procedures based on the results of such inquiries, if management is unable to provide an explanation or if the explanation is not considered adequate.

Work Papers

An internal auditor's opinion regarding an audited entity is based on the conclusions drawn by him, which in fact is supported by the findings/observations made during the audit. If these supports (observations) are well arranged and documented, then besides helping the entire internal audit team, even a person having little practical knowledge of that particular audit can understand the main theme of audit conclusions reached by the internal auditors.

Audit working papers are the principal evidential support for the audit report and demonstrate the IAW's compliance with the best practices. Besides facilitating third parties, audit working papers also help in the professional development of the internal audit staff.

Proper working papers demonstrate professionalism and document the work that was performed from the preliminary stages to the final report.

The working papers may include planning documents, information obtained during the audit, correspondence made with the addressee management, minutes of the meetings held with the management, etc. The other forms of working papers are discussed in detail later in this chapter.

Contents of Work Papers

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

- Planning;

- Examination / evaluation of the adequacy and effectiveness of the internal control system;
- Auditing procedures performed, the information obtained and the conclusions reached;
- Review;
- Discussion with management/concerned staff regarding audit findings;
- Reporting; and
- Follow-up.

Working papers should be complete and include support for audit conclusions reached. Among other things, working papers may include:

- Planning documents and AP's;
- Organization chart of entity, activities flowcharts and descriptions;
- JD's of entity staff;
- Notes and memoranda resulting from interviews;
- Copies of important contracts;
- Information about operational and financial policies;
- Results of control evaluation;
- Results of analytical auditing procedures;
- Audit report and management's responses; and
- Audit correspondence if it documents audit conclusions reached.

Working Paper Techniques

Descriptive Headings

All working papers include the title of the audit, title of the working paper, preparer's initials, date, source of information and purpose of the working paper.

Tick Marks

The internal auditor makes frequent use of a variety of symbols to indicate work that has been performed. These symbols are commonly referred to as tick marks. An explanation of these marks has to be given on each schedule on which they appear.

Tick Mark	Definition
T	Traced from last year audited accounts
G/L	Agreed with General Ledger
✓	No exception found
PBC	Document is "prepared by client". Name and title of client personnel who provided document, as well as date provided, should be noted.
N/A	Attribute is not applicable
#	Calculation checked

Cross-Referencing

Cross-referencing within working papers should be complete and accurate. Working papers should be cross-referenced to the audit findings. Audit findings should be cross-referenced to the exit interview memo and audit report to indicate final disposition of the items.

Indexing

The system of indexing the audit working papers should be simple, yet leave room for flexibility. A fully numeric indexing system using decimal positions for identifying different sections/working papers provides the greatest flexibility.

Types of Working Papers

Documents

Copies or actual samples of various documents can be used as examples, for clarification, and as physical evidence to support a conclusion or prove the existence of a problem. These documents can be memos, reports, electronic files, computer printouts, procedures, forms, invoices, flowcharts, or any of numerous other items.

Process Write-ups and Flowcharts

In many audits, it is necessary to describe systems or processes before carrying out the audit. Description of process can be in the form of write-up and/or flowcharts, write-ups are easier to use but are lengthy whereas the flowcharts conveniently describe complex relationships because they reduce narrative explanations to a picture of the system.

Interviews

Most verbal information is obtained through formal interviews conducted either in person or by telephone. Formal interviews are more desirable as the interviewer knows that they are providing input to the audit. However, any verbal information that is likely to support a conclusion in the audit working papers should be documented. In preparing working papers, following should be considered:

- Particulars of all the personnel interviewed like; name, wing and position held;
- Time and place of interview;
- Topic-wise organization of notes, wherever possible; and
- Sources of information quoted by the interviewee.

Observations

What the internal auditor observes can serve the same purpose as interviews. If observations can be used to support any conclusions, then they should be documented. Observations used as supporting documentation should generally include the following items:

- Time, date, and place of observation;
- Where the observation was made;
- Who accompanied the auditor during the observation; and

- What was observed? When testing is involved, the working papers should include the sample selections and the basis of the sample.

Findings

All audit findings should be documented in the working papers. Findings should be summarized on a standard format. Creation of a finding summary matrix will assist auditor in keeping all findings organized.

Preparation/Arrangement of Audit Working Papers

Audit working papers should be arranged and filed in such a manner that any concerned official can access any desired information in a timely manner. The information remains important as long as it serves the user. Thus, it should be easily traceable. If tracing of required information becomes difficult, the working papers will lose their importance. An audit working papers file should be arranged systematically and in logical order. All the findings should be referenced properly with the details prepared during the audit as the opinion is supported by these findings. A template audit work paper is attached as **Annexure I**.

Security of Working Papers

Working papers are the IAW's property and should be kept under proper control. The internal auditors should know exactly where working papers and supporting documents are during the conduct of the audit. When not in use, they should be kept in a locked cabinet with librarian or otherwise secured so they are not readily available to persons unauthorized to use them. Access to electronic working papers should be controlled through passwords.

Responsibility of Head of Internal Audit Wing

HO-IAW is responsible to ensure that workings papers are properly maintained and reviewed. He shall ensure the compliance for maintenance of working papers with the requirements of IAW. For this purpose, he should periodically select some working papers files for his own review.

Retention Requirements of Working Papers

Working papers should be retained as per the record keeping regulation as stated in NHA Code 2005.

Assessment of Business Risk and Evaluate the Control Environment

Throughout the testing phase, assessment of business risk and control environment shall be considered, if the result of the test are not in line with the initial assessment of risk, we shall revise our materiality and assessment of business risk and control environment and accordingly sample testing size shall also be revised. Situation where sample size and initial assessment is revised, rationale for such revision shall be reported to HO-IAW.

Review Internal Audit Test results

The purpose of audit working papers review is to evaluate the adequacy of audit work performed and to determine if the predetermined audit objectives have been met.

All audit working papers should be reviewed by Audit In-charge to ensure that they properly support the audit report and that all necessary auditing procedures have been performed. Evidence of supervisory review should be documented in the working paper file and consist of reviewer initialing and dating each working paper after it is reviewed. The review process generally designed to ensure:

- Adequate documentation for all findings with cross-references to specific supporting working papers;
- Consistency in the working papers numbering scheme;
- Notes of any AP steps, which will remain open; and
- Necessary cross-referencing to ensure there is a complete tie-in to all working paper pages for a complete audit trail.

Audit Findings and Conduct Exit Conference

Attributes of Audit Findings

Following are the attributes of well-developed audit findings:

- Statement of Condition;
- Criteria;
- Effect;
- Cause; and
- Recommendation.

Statement of Condition

The condition identifies the nature and extent of the finding or unsatisfactory condition. It often answers the question: "What was wrong?" Normally, a clear and accurate statement of condition evolves from the auditor's comparison or results with appropriate evaluation criteria.

Criteria

This attribute establishes the legitimacy of the finding by identifying the evaluation criteria, and answers the question: "By what standards was it judged?" In financial and compliance audits, criteria could be accuracy, materiality, consistency, or compliance with applicable accounting principles and legal or regulatory requirements. In audits of efficiency, economy, and program results (effectiveness), criteria might be defined in mission, operation, or function statements; performance, production, and cost standards; contractual agreements; program objectives; policies, procedures, and other command media; or other external sources of authoritative criteria.

Effect

The significance of a condition is usually judged by its effect. In operational audits, reduction in efficiency and economy, or not attaining program objectives (effectiveness), are appropriate measures of effect. These are frequently expressed in quantitative terms; e.g., number of personnel, number of transactions, or elapsed time.

If the real effect cannot be determined, potential or intangible effects can sometimes be useful in showing the significance of the condition.

Cause

The fourth attribute identifies the underlying reasons for unsatisfactory conditions or findings, and answers the question: "Why did it happen?"

Identification of the cause of an unsatisfactory condition or finding is a prerequisite to making meaningful recommendations for corrective action. The cause may be quite obvious or may be identified by deductive reasoning if the audit recommendation points out a specific and practical way to correct the condition. However, failure to identify the cause in a finding may also mean the cause was not determined because of limitation or defects in audit work, or was omitted to avoid direct confrontation with responsible officials.

Recommendation

This final attribute identifies suggested remedial action and answers the question: "What should be done?"

Recommendations in the audit report should state precisely what needs to be changed or fixed. How the change will be made is management's responsibility. More generalized recommendations (e.g., greater attention be given, controls be re-emphasized, a study be made, or consideration be given) should not be used in the audit report, but they are sometimes appropriate in summary reports to direct top management's attention to compliance-type findings disclosed in several areas.

Unless benefits of taking the recommended action are obvious, they should be stated. Whenever possible, the benefits should be quantified in terms of additional revenue, lower costs, or enhanced efficiencies. The cost of implementing and maintaining recommendations should always be compared to risk.

Well-written audit findings should result in recommendations that add value to the NHA and include: the nature of the findings, the criteria used to determine the existence of the condition; the cause of the condition; the significance of its impact; and what the auditors think should be done to correct the situation. Fully developed findings containing each of these five attributes are easily understood and convey impact and significance to appropriate management officials. Audit recommendations may be shared with management in a summarized form, for guidance a template is enclosed in **Annexure J** as a table of recommendation.

Review of Findings

The audit in charge will discuss all aspects of audit findings with audit team member (s) and will review the findings to establish that they include their nature, the criteria used to determine the existence of the condition, the cause of the condition, the significance of its impact, and what the internal auditors think should be done to correct the situation.

Exit Meeting with Auditee Management

The purpose of this procedure is to define certain events which should take place prior to and during the exit meeting.

The Audit In charge should discuss all major audit findings with the process owners before the exit conference is held.

The Audit In charge is responsible for scheduling the exit meeting. The goal is to have accountable auditee management supervisory and management personnel at the meeting. Exit meetings should be held prior to the last day of fieldwork to provide time for any auditee management requested follow-up.

The purpose of the exit meeting is to inform management of the entity audited about the audit results and the report process, reach agreement on findings, and learn of corrective action measures planned or taken to correct any deficiencies disclosed by the audit. The Audit In charge should review the audit objectives, scope, and reporting process before discussing the audit findings. Where practical, audit findings and recommendations should then be discussed by the individual who developed the audit findings or audited that area. Consideration should also be given to noting any commendable practices or procedures observed. One audit employee should be assigned to document all discussion during the meeting. An Exit Meeting Summary Sheet should be prepared for each finding discussed during the exit meeting

A template of exit meeting is attached in **Annexure K.**

An audit completion checklist is attached in **Annexure L.**

An audit file checklist (for permanent and current file) is attached in **Annexure M.**

10.3 Reporting

Following are the stages in this phase:

- Draft and present internal audit report;
- Follow up Activity;
- Periodic reporting to Audit Committee;
- Evaluate internal audit performance;
- Update internal audit plan; and
- Close and archive internal audit.

Draft and Present Internal audit report

Once the field work is completed and all the major points are discussed with the management, internal audit staff has to share the draft internal audit report with the management in accordance with the timelines provided for sharing such report in the AIAP approved by the management. This draft report shall be prepared by the Assistant Directors/Deputy Directors and shall be revised and approved by the Director and HO-IAW to the management. Once the draft internal audit report is issued by HO-IAW to the concerned process owner, internal audit staff shall seek to discuss and obtain the management feedback with timelines to implement the observation. It is the responsibility of the IAW to provide evidence of non-compliances highlighted raised in the report.

Once through discussion all the points are reviewed and discussed by the process owner with the internal audit team, a final report shall be shared by the internal audit staff with the approval of the HO-IAW.

Following are the terms which are used as heading while writing an internal audit report:

Objective shall address the ultimate aim to achieve after performance of the audit;

Scope shall address the details the extent of what we did to execute the audit;

Limitations shall highlight the issues faced during the performance of the audit which has curtailed our scope of work;

Methodology shall address the various techniques to perform the audit work;

Executive summary shall be highlighting the crux of the matter detailed in observation;

Risk rating criteria are the grading provided to each observation based on the impact and vulnerability, it has on the NHA's operations.

Risks highlighted in report may be:

High: Control is generally weak leaving the system open to significant error or misuse.

• Draft and present internal audit report

• Follow up activity

• Periodic reporting to Audit Committee

• Evaluate internal audit performance

• Update internal audit plan

• Close and archive internal audit.

Moderate: Weaknesses in the systems of internal control design are such as to put the system objectives at risk.

Low: Whilst there is basic sound system of internal control design, there are weaknesses in design but are not considered as material.

In order to assist management in using the internal audit report, findings are categorized according to their level of priority as per following benchmarks:

Observations: details the shortcomings observed during the process of audit.

Implications: highlights the risk associated with observations if not eradicated.

Recommendations: highlights the input from the IAW as to how this shortcoming in process should be addressed.

Agreed Management Action: highlights the comments received from the auditee with respect to the observation.

Responsibility: section shows the process owner responsible for area who will be responsible for implementation of shortcomings.

Table of content of an internal audit report shall be as follows:

- Objective;
- Scope;
- Limitations;
- Methodology;
- Executive Summary;
- Risk rating criteria;
- Detailed report; and
- Annexures.

A template of audit report is shared in **Annexure N**.

Draft Report Review Considerations

While reviewing the report the HO-IAW must consider the following:

- Report is prepared on the prescribed format;
- Report is prepared within acceptable time frame;
- Audit objective and scope of audit are already described in the report;
- Each finding has an appropriate heading and serial number;
- The findings are correctly classified into high and moderate risk finding;
- The recommendations against significant findings are appropriate in the circumstances and will rectify the situation;
- Findings are reasonably explained to the understanding of readers;
- The executive summary is a true reflection of the entire report;
- Audittee accomplishments are fairly explained;
- The report is clear, concise, and constructive;
- Use of correct grammar, punctuation, and spelling;
- Technical terms and abbreviations used in the report are adequately defined;
- The tone of report is positive; and

- The font of the report is consistent and readable.

Backups of Report

The timely backup and security of data maintained on personal computers assigned to internal audit staff is an individual responsibility. It is the auditors' responsibility to save, copy, and backup their own work. This procedure applies to both laptops assigned to individual auditors and to the shared desktop.

Printing hard copy documentation as the audit progresses will save time for the audit currently in process in the case of a hard drive loss, but having timely backups on diskette will also save time on future audits.

Since backups are an individual responsibility, each staff member should assess the work that would be necessary to reconstruct data potentially lost through a hard drive crash.

Follow up Activity

One of the primary responsibilities of internal audit function is to determine that the auditee management has taken corrective action on recommendations. This applies in all cases except where "senior management has accepted the risk of not taking action." Follow up activity depends on the results of the audit and can be carried out based on the approved AIAP.

Follow up procedures can begin when corrective action is confirmed by acceptance of an audit recommendation or when management decides to accept the risk of not implementing the recommendation. Based on the risk and exposure involved, as well as the degree of difficulty in achieving the recommended action, follow up activity should be scheduled to monitor the situation or confirm completion of the changes that were planned.

Best practices suggest that AIAP should define both performance of internal audit of a particular function as well as its follow up activity. Accordingly results of the follow up action to be reportable to the management.

While drafting follow up status following terms are used with their description:

- **Implemented**, observations highlighted in the internal audit report are properly addressed;
- **In process initial stage**, there is some work done against observation highlighted in the internal audit report;
- **In process – documentation complete**, most of the work against the observation highlighted in the internal audit report is addressed;
- **Pending**, no action has been taken by the management against the observation highlighted in the internal audit report; and
- **Closed**, when the management is willing to accept the risk level.

A template of follow up report is attached in **Annexure O**.

Reporting Matrix

Below mentioned is a matrix highlighting the reporting channel with respect to the respective risk rating.

Risk Rating	Reporting To
High Risk	All reportable to Audit Committee and Process Owners
Moderate Risk	Head of IAW discretion for reporting to Audit Committee however, all are reportable to Process Owners
Low Risk	All Reportable to Process Owners

Periodic reporting to Audit Committee

Both the internal audit reports and follow up status as approved in the AIAP, shall be presented to the Audit Committee on Quarterly basis. Minutes of the Audit Committee shall have a section for presentation and discussion over internal audit reports and follow ups.

Evaluate internal audit performance

Once the internal audit activity is completed, a feedback is obtained from the auditee regarding the performance, attitude and other skills of the internal auditor. A format of such a survey is attached in **Annexure P**. This evaluation allows the internal audit management to improve its and team and work management skills.

Update internal audit plan

It shall be the responsibility of the HO-IAW to update the AIAP each time Audit Committee meetings are held where status has to be presented to the Audit Committee and enhancement in the scope of the internal audit plan takes place.

Close and archive internal audit

From an audit perspective, performance of an engagement is as important as its documentation and filing. It is the responsibility of the internal audit staff librarian to ensure that all documents (i.e., hard copy and electronic) have been appropriately referenced, reviewed and filed and records are kept in the way as is required by the local laws and regulations.

11. Fraud

The IPPF Glossary defines fraud as "any illegal act 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."

Fraud is an area where the services of outside experts are often retained. The internal auditor's responsibilities for detecting fraud during engagements include:

- Considering fraud risks in the assessment of control design and determination of audit steps to perform;
- Having sufficient knowledge of fraud to identify red flags indicating that fraud may have been committed;
- Being alert to opportunities that could allow fraud, such as control weaknesses; Evaluating the indicators of fraud and deciding whether any further action is necessary or whether an investigation should be recommended; and
- Notifying the appropriate authorities within the organization if a determination is made that fraud has occurred to recommend an investigation.

Duty of Internal auditors regarding Fraud

While internal auditors are not expected to be experts in fraud, they are expected to understand enough about internal controls to identify opportunities for fraud. They also should understand fraud schemes and scenarios as well as be aware of the signs that point to fraud and how to prevent it.

Frauds that injures the organization

- **Asset misappropriation** – involve stealing cash or assets from organization;
- **Skimming** – cash stolen before it is booked;
- **Disbursement fraud** – occur when a person causes an organization to make fictitious payments against goods/services;
- **Expense reimbursement fraud** – payment of inflated/ fictitious expenses to employees;
- **Payroll fraud** – ghost employees;
- **Financial statement fraud** – over/understatement of elements; and
- **Tax evasion.**

Fraud Risk Categories

Category	Examples
Financial Statement Fraud	<ul style="list-style-type: none"> Fictitious revenues (including premature revenue recognition) Improperly valuing assets Recording expenses in the wrong period Improper use of off-balance-sheet accounting to conceal information such as actual asset or liability levels on financial reports Concealing potential or actual liabilities (e.g., debts, lawsuits) Failure to disclose required or significant information (e.g. conflict of interests, events that occurred subsequent to the close of the reporting period but that may affect the financial statement)
Cash theft	<ul style="list-style-type: none"> Skimming cash from records (through a variety of schemes, including destroying receipts, altering or falsifying receipts, charging customer accounts, not recording transactions and pocketing cash, falsifying credits) Lapping payments (diverting payments from a customer to personal use and using payments from other customers to cover missing payments) Pocketing all or part of daily deposits Selling waste and scrap materials and pocketing the proceeds
Fraudulent disbursement	<ul style="list-style-type: none"> Creating "ghost employees" and diverting their pay checks to one's own account Creating fictitious vendors or invoicing schemes and diverting payments to one's own account False refunds Falsifying bills of lading and sharing proceeds with shippers Altering timecards Falsifying expense reports or misusing advances Colluding with suppliers to increase invoices and sharing the excess
Misuse or theft of assets (embezzlement)	<ul style="list-style-type: none"> Sale or assignment of fictitious or misrepresented assets (e.g., incorrectly valued properties) Personal use of NHA property (e.g., postage stamps and stationery) Theft of furniture, tools, computers, supplies Falsifying financial records (e.g. procurement/fixd assets reports) to conceal theft Intentionally concealing or misrepresenting events, transactions, or data Alteration of computer programs or data for personal gain
Bribery and Corruption	<ul style="list-style-type: none"> Business activities prohibited by law Intentional errors to reduce tax liabilities Intentional failure to act in circumstances where action is required by NHA policy or by law (e.g., reporting an environmental accident) Granting special prices or privileges in exchange for kickbacks in the form of cash payments, gifts, loans, hidden interests (e.g., shares of stock) Bid rigging (diverting to an employee or outsider a transaction that would normally generate profits to the organization)

Examples of Reasons that might give rise to Fraud

- Weak internal controls;
- Poor management philosophy;
- Low employee morale;
- Lack of background checks on new hires;
- Lack of employee support programs;
- General conditions, such as high employee turnover, excess trust in key employees, etc.;
- Concentration of authority over, and responsibility for, resources and activities of an entire process in one person;
- Inadequate feedback on results of projects, programs, or operations;
- Lack of standards for judging the results of projects, programs, or operations;
- Lack of independent verification of the accuracy of records, transactions, and data.
- Vague and confusing procedures;
- Inadequate physical safeguards over resources;
- Inability to identify responsibility;
- Lack of adequate supervision;
- Unreasonable budgetary and procurement requirements;
- Failure to strictly enforce contract provisions;
- Failure to correct deficiencies identified by existing control procedures and systems;
- Existence of complex, poorly understood transactions; and
- Failure to take appropriate disciplinary action in response to ethics violations and departures from approved procedures.

2. Quality Assurance and Improvement Program

Organizations undergo refinement and internal processes change and evolve. As an organization changes, auditing services must keep pace. To ensure the consistent quality of internal audit activities, the internal audit function is required to have a quality assurance and improvement program (QAIP) in place.

HO-IAW shall develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics.

Following are the guidelines in this regard:

- The quality assurance and improvement program shall include both internal and external assessments.
- Internal assessments shall include:
 - Ongoing monitoring of the performance of the internal audit activity; and
 - Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.
- External assessments shall be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The HO-IAW shall discuss with the board regarding frequency of external assessment and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
- The HO-IAW shall communicate the results of the quality assurance or improvement program to the Board.

Internal Assessments

Ongoing internal assessments are practices put into place by the HO-IAW to do routine evaluations of the practices and policies of performing individual audits. Conclusions should be developed on an ongoing basis, and appropriate actions should be taken to improve the quality of the ongoing audit activities.

Periodic reviews are another important aspect of the internal assessment process. This is more of a scheduled self-assessment approach to determine if the right activities are being performed should changes be made to the internal audit practices and procedures in order to enhance the quality of the programs.

A checklist of internal QAIP assessment is provided in **Annexure Q**.

12. Quality Assurance and Improvement Program

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A checklist of internal QAIP assessment is provided in **Annexure Q**.

Scope of internal assessments

Such assessments should include:

- Routine and continuous supervision and testing of the performance of audit and consulting work;
- Ongoing measurements and analyses of performance metrics (e.g., audit plan accomplishment, cycle time and recommendations accepted);
- Periodic validations of compliance with applicable laws, regulations, and government standards;
- Periodic validations of compliance with the Standards and Code of Ethics, including timely corrective actions to remedy any significant instances of noncompliance;
- Evaluation of the adequacy of the internal audit activity's charter, goals, objectives, policies, and procedures;
- Assessment of contribution to the organization's governance, risk management, and control processes;
- Evaluation of the effectiveness of continuous improvement activities and adoption of best practices; and
- Whether the auditing activity adds value, improves operations, and helps the organization achieve its objectives.

External Assessments

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of or under the control of the organization to which the internal audit activity belongs.

External quality assessment reviews may be performed by:

- A team that is totally independent of the organization that is being reviewed;
- Self-assessment with independent validation by an independent reviewer; and
- A peer review team made of members from at least three different organizations.

The required qualifications are the same for all three of these types of assessment teams. An external review team should also include members with information technology expertise, relevant industry experience, and expertise in other specialized disciplines (such as accounting, taxation, or environmental affairs, as necessary).

Integrity and objectivity are critical considerations in the selection process. The HO-IAW should involve the Audit Committee and the board in the selection process for an external reviewer and obtain their approval.

Scope of external assessments

External assessment consist of a broad scope of coverage that includes the following elements of the internal audit activity:

- Conformance with the Definition of Internal Auditing; the Code of Ethics; and the Standards; and the internal audit activity's charter, plans, policies, procedures, practices, and applicable legislative and regulatory requirements;
- Expectations of the internal audit activity expressed by the board, senior management, and operational managers;
- Integration of the internal audit activity into the organization's governance process, including the relationships between and among the key groups involved in the process;
- Tools and techniques employed by the internal audit activity;
- Mix of knowledge, experience, and disciplines within the staff, including staff focus on process improvement; and
- Determination as to whether or not the internal audit activity adds value and improves the organization's operations.

Quality Control Reports

For internal assessments, the HO-IAW should share the results, necessary action plans, and their successful implementation with the senior management, the board, and external auditors. For external assessments, the preliminary results of the review should be discussed with the HO-IAW during and at the conclusion of the assessment process. Final results should be communicated in a formal report to the HO-IAW or other official who authorized the review for the organization, preferably with copies sent directly to appropriate members of senior management and the board.

The formal report for external assessments should:

- Contain an opinion on the internal audit activity's compliance with the Definition of Internal Auditing, the Code of Ethics, and the Standards based on a structured rating process;
- Assess and evaluate best practice usage, both that observed during the assessment and others potentially applicable to the activity; and
- Provide appropriate recommendations for improvement.

13. Training and Professional Development

Training and professional development is the means by which professional staff at IAW improve and broaden the knowledge, skills and competence required in their professional services.

The internal auditing profession is constantly evolving. Internal auditors are responsible for continuing their education to enhance and maintain their proficiency. Internal Auditors need to stay informed about improvements and current developments in internal audit standards, procedures and techniques, including the IIA's International Professional Practices Framework (IPPF) guidance.

Any topics that contribute to developing and enhancing an auditor's proficiency contribute to continuing education. This may include specialized training in business processes, audit techniques, interpersonal skills, communication skills and related topics.

Internal Audit Training

Training is a feature which enable the IAW to embrace with latest developments in audit planning, risk assessment and execution. It is the responsibility of the HO-IAW to ensure that a budgeted scheduled training and development program shall be in place.

Mode of trainings may be:

- An in-house training organized by the NHA; and
- External training.

Objective of the program is:

- To educate staff about the ethical requirements of the IAW and proper channel of communication in any ethical violation faced by the wing;
- To understand the NHA's operating processes including changes in the NHA rules and regulation;
- To enhance the understanding of risk based audit methodologies, AP and execution, maintenance of risk profile for the entity and evaluation of both the manual and automated operational and financial controls of the NHA;
- To understand the fraud indicators, their implications and the mode of evaluating and reporting fraud indicators;
- To develop and improved report writing and presentation skills of the wing;
- To seek for the use of various auditing tools to be used by the IAW for enhancement of their efficiency.

In-house trainings shall be held by IAW, after approval of HO-IAW. External training may be conducted by the subject specialist at any venue and attendance shall be ensured at such training. HO-IAW shall ensure that minimum required number of training hours have been conducted in a year so that IAW staff is equipped to perform their job in effective manner.

Professional Development

Professional development may further be accomplished through a variety of activities such as:

- Occupational assignments;
- Mentoring;
- Networking;
- Participation in research projects;
- Collective wisdom derived from analysing information, synthesizing information etc.;
- Formal Education;
- Attendance at conferences;
- Membership and Participation in professional societies; and
- Certification and recertification

List of Annexures

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DECLARATION OF SIGNOFF OF ETHICS

I do declare that **I** have read of NHA's Code of Ethics and **I** undertake to comply with the same and understand that the continuance of my employment with the NHA is dependent on my strict compliance therewith.

1. I know where and how to access the NHA's Code of Ethics, a copy of which has been provided to me and that I have read and understand the same in letter and spirit.
2. I am aware of the Reporting Channels of the NHA to report the ethical issues and potential violations.
3. I know my responsibilities to read, understand, and comply with the Code of Ethics and to report potential violations.
4. I have fulfilled my responsibilities with respect to the Code of Ethics.
5. My categorical response to Ethics Confirmation Questions is as under:

Ethics Confirmation Questions

S. NO.	PARTICULARS	Agree	Disagree
1.	I have read and understand NHA's Code of Ethics.	<input type="checkbox"/>	<input type="checkbox"/>
2.	I understand it is my responsibility to comply with NHA's Code of Ethics.	<input type="checkbox"/>	<input type="checkbox"/>
3.	To the best of my knowledge, I am not in violation of NHA's Code of Ethics and have not been since the date of my last confirmation.	<input type="checkbox"/>	<input type="checkbox"/>
4.	I understand I am responsible for reporting actions or behavior that do not comply with NHA's Code of Ethics.	<input type="checkbox"/>	<input type="checkbox"/>

Explain a Disagree response to the ethics declaration questions, if any:

Name: _____ **Designation:** _____

Signature: _____ **Date:** _____

ENGAGEMENT PLAN

1. Auditable Entity

COMPANY INFORMATION: NAME OF THE ENTITY, TYPE OF ORGANIZATION, REGISTERED OFFICE, ADDRESS, CONTACT INFORMATION, AND OTHER RELEVANT DETAILS.

2. Relevant Financial Information

Particulars	Current year to date	Corresponding period last year	Inc / (Dec)
	A	b	c=a-b

3. Key Management of Entity

Name	Designation

4. Audit Objectives

STATEMENT OF THE OBJECTIVES OF THE AUDIT, INCLUDING THE SCOPE, NATURE, AND EXTENT OF THE AUDIT.

5. Audit Scope

STATEMENT OF THE SCOPE OF THE AUDIT, INCLUDING THE PERIOD, ENTITIES, AND ASSETS COVERED.

6. Major Risk Identified

STATEMENT OF THE MAJOR RISKS IDENTIFIED DURING THE AUDIT, INCLUDING THE NATURE AND IMPACT OF EACH RISK.

7. Audit Team

Name	Designation

8. Audit Time Table

Particulars	Date
Start of Audit	
Close out meeting	
Issue of draft report	
Issue of final report	

9. Sign off

Prepared by	Name	Signature
Reviewed by		

AUDIT PROGRAM

Subject:

Period:

Process Owners:

Audit Objectives:

Budgeted and Actual time:

Risk factors at planning stage:

Sub – Process	Control Objectives	Risk	Control Guide	Control Activity (in actual)	Type of Control	Frequency of Control	Gap Description	Audit Procedure	Working Paper Ref.
--------------------------	-------------------------------	-------------	--------------------------	---	----------------------------	---------------------------------	----------------------------	----------------------------	-----------------------------------

AUDIT PLANNING CHECKLIST

Audit Title:

Resource Detail:

Targeted Start Date:

Targeted Completion Date:

Planning Checklist W/P Ref. Done By:

1. Review the annual plan risk assessments, the prior audit report to determine and document any specific follow-up steps required.
2. Review the audit time summary from the prior audit versus the findings and conclusions actually reported. Document your observations regarding scope adjustments, if any, driven by past audit results.
3. Document your current assessment of risks and highlight areas of concern.
4. Contact the independent accountants to determine if they have any specific concerns about this audit or any specific audit tests they want internal auditing to perform.
5. Summarize the audit objectives in writing to focus efforts toward meeting objectives and to later facilitate evaluation of whether or not the audit accomplished the purpose intended. As a guide, audit objectives can generally be summarized regarding the evaluation of:
 - Reliability and integrity of information or recorded transactions.
 - Compliance with policies, directives, procedures, plans, laws, or regulations.
 - Safeguarding of assets.
 - Economic and efficient uses of resources.
 - Accomplishment of established goals and objectives for programs or operations.

6. Develop a staffing plan for the audit, appropriately matching skills and competencies to the identified needs and objectives, and ensuring adequate objectivity.
7. Prepare a Project Time Record
8. Develop a detailed AP and obtain Internal audit management approval before fieldwork begins.
9. Prepare an audit announcement memorandum notice intimating the auditee regarding objective, scope and timing of communicating results.
10. Perform an internal kick off meeting
11. At the entrance conference, communicate the audit objectives to management. Obtain and document their comments and suggestions on how to facilitate positive audit results.
12. Document the detailed AP changes, if any, and obtain the HO-IAW's approval of the revised AP after survey.
13. Prepare a budget revision form, if necessary, to document the revised budget.

SAMPLING MATRIX

1. Auditable Process

2. Relevant Financial Information

Particulars	Current year to date	Corresponding period last year	Inc / (Dec)
	A	B	c=a-b

3. Total Population to be tested

4. Sampling technique used

- a. Systematic Sampling
- b. Random Sampling

Rationale used for sampling:

.....

For systematic sampling

- 5. Total value of population: A:
- 6. Total of high value items: B:
- 7. Percentage of high value items (B / A)
- 8. Basis used for remaining (low/average) value selection:
- 9. Overall breakup of sample against population.....
- 10. Sample representative of population

AUDIT WORK PAPER

Title of the audit: _____

Ref No: _____

Title of the work paper: _____

Preparation date: _____

Source of information: _____

Reviewed by: _____

Preparer: _____

Purpose:

Objectives:

Audit procedures performed :

Conclusion:

Important matter if any:

Work done:

TABLE OF RECOMMENDATION

Audit Name:

Audit Objective:

Activity or Wing Examined:

Observations	Impact	Recommendation	WP Ref.

Prepared By:

Date:

Reviewed By

Date:

EXIT MEETING

Date: _____

Venue: _____

Audit Wing (Process): _____

Participants:

a. Internal Audit Wing:

b. Auditee Wing:

Agenda:

Pending Information (if any):

Findings and comments of the auditee:

Audit Observation	Comments of the Auditee	WP Ref.

Feedback by the Auditee:

Prepared by: _____

Date: _____

Participants:
Name

Signatures

AUDIT COMPLETION CHECKLIST

AUDITEE: _____

PERIOD OF AUDIT: _____

S. NO.	PARTICULARS	YES	NO	N/A	INITIALS AND DATE
1.	The appropriate sections of this checklist should be completed by the Deputy Director / Assistant Director Audit at the end of each stage of the audit fieldwork, prior to Director Audit review.				
2. Location	Has all work planned to be performed at the head office and regional offices been completed or, if incomplete, is the outstanding work clearly summarized in the Audit Summary File?				
3.	Has the continuing accuracy of the information base in the Planning been confirmed by walk through procedures or other means? Have the necessary amendments been made to the information base?				
4.	Is all audit work documented in the Current File, including: Conclusions? AP duly initialled, dated and Cross referenced to working papers?				
5.	Has work of all staff been reviewed in detail by the Deputy Director / Assistant Director Audit?				
6.	Have all matters included in the last report been followed up and the auditee's action recorded?				
7.	Have any significant changes in our audit plan been discussed with the Director Audit and memoranda on post-planning changes in scope been prepared for the HO-IAW's approval?				
8.	Has the permanent file been updated?				
9.	Have all relevant time recording forms been completed? Have significant budget variances been explained?				
10.	If there have been significant changes in the auditee's operations, systems, or financial affairs, have all necessary amendments been made to the information base in the planning file?				
11.	Have points to be considered during the planning of next visit audit been documented on the Planning File?				

Annexure L - Audit Completion Checklist

AUDITEE:

PERIOD OF AUDIT:

S. NO.	PARTICULARS	YES	NO	N/A	INITIALS AND DATE
12.	Post audit Is all our work properly documented on the current file, including lead schedules, conclusions, AP initialled, dated and cross-referenced to our working papers?				
13.	Have the draft internal audit report been checked and cross-referenced to our working paper?				
14.	Have we ensured that: <ul style="list-style-type: none"> • Our internal audit report is appropriately worded? • There is sufficient documentation available in the working papers to support our conclusion? 				
15.	Where instructions have been received from the Audit Committee/ Chairman, have all requirements been carried out?				
16.	Has other audit implications been considered?				
17.	Have working papers been reviewed to ensure that: <ul style="list-style-type: none"> • They include no comments which could be considered misleading or embarrassing? • All outstanding matters and review points have been satisfactorily disposed off The documented results of the work done support our audit?				
18.	Have all relevant time recording been completed and budget variances been explained?				

AUDITEE:

PERIOD OF AUDIT:

S. NO.	PARTICULARS	YES	NO	N/A	INITIALS AND DATE
--------	-------------	-----	----	-----	-------------------

Completed by Deputy Director Audit

(Initials and date)

(Approved by HO-IAW)

(Initials and date)

AUDIT FILE CHECKLIST

Page 1 of 2

AUDITEE:

PERIOD OF AUDIT:

Particulars	Done by Initials and Date)
1. Do all the columns contain appropriate headings and descriptions such as number of units, type of currencies and other particulars?	
2. Have the descriptions of large and unusual items and the methods of performance of the steps, been included in the conclusion of the AP steps for review of large and unusual items?	
3. Is the detailed planning including the areas allocated to the team members, area wise budgeted hours together with initials of team members properly filed?	
4. If there is a situation of scope limitation, has this matter been dealt with, properly filed in the current file?	
5. Are all the respective components of the working papers file been signed along with the respective dates by the preparer and reviewer?	
6. Are all audit memos issued complete in all respect and signed off by the preparer and the reviewer along with the respective dates?	
7. Are the audit memos issued acknowledged by the auditee?	
8. Has the audit files been updated?	
9. Have we highlighted points for attention at the next audit in the planning file?	
10. Are all observations including those not considered for further actions have been discussed with the auditee and appropriate actions taken and properly documented in the working papers?	

AUDITEE:

PERIOD OF AUDIT:

Particulars	Done by Initials and Date)
11. Have we ensured that each observation in the audit report including annexure to such observations are properly referenced and to support working papers and ticked off by the reviewer?	
12. Have we ensured that important miscellaneous papers are properly placed in the working paper files?	
13. Is the planning file and current file signed off by the Director Audit and the head of internal audit before closure of such file?	
14. Are working papers, including schedules given by the auditee management referenced to the AP?	
15. Are casting, calculation and other audit ticks placed properly in the working papers?	
16. Have all figures in the final set of Draft and Final Internal Audit report been referenced to the working papers?	
17. Has copy of the final set of audit report been completely referred and filed in the summary file?	

Prepared by:	Initials	Date
Reviewed by:		

Priority 2 Findings which, although not fundamental to the systems, provide scope for improvements to be made.

Priority 3 Findings concerning issues which are considered to be of minor nature, but nevertheless need to be addressed.

Executive Summary

Process/Sub Process	Observation	Agreed Management Actions	Risk Priority	Page No
---------------------	-------------	---------------------------	---------------	---------

Detailed Findings

Sub process Name

Control Objective

Observations

Implications

Recommendations

.....

Management Actions

.....

Risk Priority

.....

Responsibility

.....

Annexure

.....

FOLLOW UP REPORT

Objective

.....

Scope:

.....

Limitation

.....

Methodology:

.....

Executive Summary

Process / Sub Process	Observation	Initial Management Response as on	Follow up Activities	Status Rating
------------------------------	--------------------	--	-----------------------------	----------------------

Detailed Findings

.....

Observations Raised by Internal Audit

.....

Initial Management Response

Follow up Activities as on

Status as on

Risk Priority

Responsibility

AUDITEE SATISFACTION SURVEY

Audit Title

Head of Internal Audit/Director Audit

Deputy Director / Assistant Director Audit

Audit Team

Thank you for taking the time to complete an Auditee Satisfaction Survey. In order to help us improve the quality of our services, please indicate the importance of each internal audit activity to you and your function/wing as well as the effectiveness of our performance level by placing a check in the appropriate boxes below.

AUDIT PROCESS	Not Important (1)					Poor (1)						
	↳ Essential (5)					↳ Outstanding (5)						
DID THE INTERNAL AUDIT TEAM:	Importance					Performance						
	N	1	2	3	4	5	N	1	2	3	4	5
	A					A						

Clearly communicate the preliminary scope, audit objectives, and anticipated timing of the audit report/testing results?

Keep you informed of observations and the overall status of the project?

Effectively focus our audit efforts on key processes, controls, and business risks?

AUDIT TEAM	Importance					Performance						
	N	1	2	3	4	5	N	1	2	3	4	5
DID THE INTERNAL AUDIT TEAM:	A					A						

Conduct themselves in a professional, courteous, and tactful manner?

Execute the audit in an efficient manner with minimal disruption to operations?

Develop and demonstrate sufficient knowledge of your processes, controls, and business risks?

AUDIT REPORT

Importance

Performance

DID THE INTERNAL AUDIT TEAM:

N 1 2 3 4 5 N 1 2 3 4 5
A

Provide you appropriate opportunity to discuss and validate the content of the audit report/testing results?

Write a report/testing results that is clear, concise, and provides an accurate assessment of internal controls and operations?

Issue the audit report/testing results in a timely manner?

Taking into account your responses above, please rate your overall satisfaction with the audit by placing a check in the appropriate box below:

Very Dissatisfied
↘
 Very Satisfied

Comments/Suggestions:

Your Name and Title: _____ Date: _____

INTERNAL QUALITY ASSURANCE AND IMPROVEMENT PROGRAM CHECKLIST
HEAD OFFICE INTERNAL AUDIT'S QUESTIONNAIRE

Questions		Yes / No / N/A	Reason
1.	Is the internal auditing activity organized in a way that allows for the NHA independence?		
2.	Are you satisfied that the internal auditors are objective in performing audits?		
3.	Are you satisfied with the method and the frequency of reporting to management and the Board?		
4.	Are the technical proficiency and the educational background of each internal auditor appropriate for the audit being performed?		
5.	Does the internal audit activity as a whole possess the knowledge, skills, and disciplines necessary to carry out its audit responsibilities?		
6.	Does the internal auditing activity use consultants where special disciplines are required?		
7.	Are you satisfied with the amount of supervision given to audits?		
8.	Do you consider it necessary for the review team to evaluate this area?		
9.	Do the internal auditors comply with professional standards of conduct?		
10.	Are you aware of exceptions by any person who is a member of the staff?		
11.	Do you believe that each internal auditor possesses the knowledge, skills, and disciplines that are essential in performing internal audits?		
12.	Are the internal auditors skilled in dealing with people and in communicating effectively?		
13.	Do the internal auditors maintain their technical competence through continuing education?		
14.	Do you believe that each internal auditor exercises due professional care in performing audits?		
15.	Do the internal auditors review the reliability and the integrity of financial and operating information and the means used to identify, measure, classify, and support this information?		

Questions	Yes / No / N/A	Reason
16. Do the internal auditors review the systems established to ensure compliance with policies, plans, procedures, laws, and regulations?		
17. Do the internal auditors determine whether the NHA is in compliance?		
18. Do the internal auditors review the means to safeguard assets		
19. Do they test-verify the existence of such assets?		
20. Do the internal auditors appraise the economy and the efficiency with which the NHA's resources are employed?		
Do the internal auditors review operations or programs to ascertain that:		
21. <ul style="list-style-type: none"> • Results are consistent with established objectives and goals? • Operations or programs are carried out as planned? • Controls are in place to contribute to the attainment of objectives? 		
22. Are internal audits planned in advance? Are you involved in the planning process? Are you satisfied with the planning process?		
23. Do the internal auditors adequately collect, analyse, interpret, and document information to support audit results?		
24. Do the internal auditors adequately report the results of their audit work?		
25. Do the internal auditors adequately follow up to ascertain that appropriate action is taken on reported audit findings?		
26. Do you have a statement of purpose, authority, and responsibility (charter) for the internal auditing activity?		
27. Do you have established plans to carry out the responsibility of the internal auditing activity?		
28. Are plans based on the organizations risk management process and criteria such as financial exposure, potential loss, risk, etc.?		
29. Have you provided written policies and procedures to guide the internal audit staff?		
30. Do you have a program for selecting and developing the human resources of the internal auditing activity?		

Questions	Yes / No / N/A	Reason
31. Do you coordinate internal and external audit efforts and with those of other compliance groups within the NHA?		
32. Do you have and maintain a quality assurance program to evaluate the operations of the internal auditing activity?		