

Risk-based internal auditing

Performance manual – The audit process

Version 1.1

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www.internalaudit.biz

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
The manual	Preface	Griffiths	19-Jun-2004	

Introduction to the example manual

- The manual is presented in the form of an actual manual for a fictitious organisation, “Famine Relief for Central Africa (FRCA)”. No connection with any actual organisation is intended or implied.
- The manual incorporates an example of an actual audit file. This example file differs from an actual version in that:
 - Much of a normal file would be hand written. Provided documents can be easily read, there is no need to type them.
 - All pages are numbered in this manual – this is to make assembling the manual easier.
 - The audit file pages are filed chronologically, that is the most recent last in the file section. In practice some documents might be filed with the most recent on top, since this is the latest version.
 - Where there would be many documents, such as meeting notes or test details, only a sample are included.
 - Draft documents are included, to show the audit process in full. In practice some organisations may decide not to do this. I favour keeping important drafts, such as reports, as the reviewers may wish to see how issues were resolved.

Copyright

- This manual is the copyright of David M Griffiths. You may copy and amend it for the purposes of your organisation but not sell it. You should refer to www.internalaudit.biz in your manual.
- Some parts of this manual refer to the Institute of Internal Auditors Standards and the *numbers in brackets* refer to the relevant standard, or Practice Advisory (PA). Copyright of the IIA is acknowledged. The Institute does not endorse this document in any way.

Final manual

- When you change this document remember that “section breaks” are at the end of each page. If you exceed a page length you will need to insert two section breaks to bring the pages into line. I suggest you amend the document with viewing returns and page breaks switched on. You will also need to alter the headers to switch off “Same as previous”.



**Performance Standards
Manual -
The audit process**

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
Introduction	Introduction	Griffiths	19-Jun-2004	

Introduction

Purpose of this manual

- This is the manual which details the standards to be adopted during the audit process. It corresponds to the Institute of Internal Auditors' Performance Standards in the *Professional Practices Framework* as applied to the individual audit.
 - *But* – no-one reads a manual. Instead, they find out what to do by looking at the file from the previous audit, or any similar audit!
 - *But* – suppose that file, and the audit work, could be improved? It won't be if we build on imperfect work.
- So why not create an example file to show the way an audit should be done and documented – this is it.

So the purpose of the file is to:

- **provide guidance on the conduct of an audit, and the documentation required, in order to ensure consistent quality in our work.**
- **use as a basis for training new staff**

When this manual should be used

- For all audits and projects (systems developments) where possible.
- During the reviews, to set the standard to judge audit work against.
- For training new staff.
- For reference at any time.
- It is for guidance only. The underlying principle is to create a file which clearly shows:
 - How the conclusions in any report, or letter, have been reached.
 - That sufficient work has been done to reach these conclusions.
- Even though much of the work done will be recorded on computer, the file should be a complete record of the audit – referring to computer files as necessary.
- The manual should be used in conjunction with the following documents included in part A of the manual: The Code of Ethics; The Attribute Standards; The Performance Standards – audit planning and in part C: Guidance.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
Introduction	Introduction (2)	Griffiths	19-Jun-2004	

How to use the manual

- The manual is an example file, with all the typical documents expected from an audit shown on the right hand side page. On the opposite page are the performance standards applying to the document.
- Thus the manual (how to audit) is on the left page and the audit file (the example) is on the right. I've tried to differentiate the two documents by using different headers and fonts.
- The manual is split into sections, which have a standard format:
 - Output of process – what document the process produces.
 - Standards – what the document should contain.
 - Work plan for achieving output – how to produce the document.
 - Advice for achieving output – hints to make life easier.
 - Further reading (if applicable) – magazine articles, books etc.
- If the manual is to be viewed in Adobe Acrobat, it should be viewed as facing documents (View/Page layout/Continuous).
- If the manual is to be printed, it must be double-sided. Dividers should be inserted before each section.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
Introduction	Blank	Griffiths	19-Jun-2004	

Insert a file divider after this page

Internal Audit

File index



File Index

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
File index	File contents index	Griffiths	19-Jun-2004	

File index

Output of process

- Index showing the sections of the audit file.

Standards for the file structure

- This structure is for guidance only, the sections actually used will depend on the audit documents to be filed.
- Each section should consist of no more than approximately 20 documents.
- Sections should be arranged such that documents are easy to find.
- Each section should be preceded by a labelled divider.
- All pages should be referenced in red on the top right of each page (the reference number is the “handwritten” letter and numbers in the red box).

Work plan for achieving structure

- Set up sections at the start of an audit, so that documents can be filed as they are obtained but be prepared to set up new sections if some get too large.

Advice for achieving structure

- If you need to insert more documents after referencing use letters, for example “D3a”.

Further reading

- There is a monograph, “Guide to Audit Working Papers”, on [AuditNet®](#).

Internal Audit



File index

Audit title		Audit No.
Transport of food to famine relief camps		146
Audit group	Dates	Personnel
K	Dec 03 – Mar 04	J Smith, I Khan
Contents		Section
Planning –Scope		A
Audit management		B
Background Information and notes		C
Meeting notes		D
Processes and flowcharts		E
Inherent risks		F
Residual risks and testing		G
Issues		H
Draft report and comments		I
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Performance Manual – the audit process

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Internal Audit

A Scope



Scope

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
A Planning	Section index	Griffiths	19-Jun-2004	

Section Index A - scope

Purpose of section A

- This section holds the documents which define the scope of the audit.

Standards for section A

- This section must clearly provide the reader with:
 - The reasons for carrying out the audit.
 - The processes involved, and not involved, in the audit.
 - Any special considerations to be included in the work.
 - The timing of the work.
 - The personnel involved.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
A Planning	Draft scope	Griffiths	19-Jun-2004	

A - Draft Scope

Output of process

- Document for approval of the scope of the audit by the Chief Audit Executive (2200).

Standards for output

- The document should list (2210,2220):
 - The reasons for the audit.
 - The objectives, risks and key controls (2200, 2201,2210.A1).
 - The work programme, which should follow the approved methodology (2220.A1,2240).
 - Factors which define the limits of the audit including processes specifically excluded.
 - Any special considerations.
 - The personnel carrying out the audit, including any special responsibilities (2230).
 - The timing of the audit.
 - The recipients of the scope, draft and final report (although these may change, depending on the issues found by the audit).
- The reasons for the audit should include the objectives of the audit, that is, to conclude on whether (PA 2100-1):
 - Risks have been properly identified, evaluated and managed.
 - Internal controls are operating properly to mitigate these risks to levels defined as acceptable by board policy.
 - Action is being taken to improve controls, where risks are not being properly mitigated.
 - More monitoring, by management, is necessary to ensure proper internal controls into the future.

Turnbull Guidance paragraph 31

- The document should be dated. (Automatic dating should not be used, as it will change when viewed and the actual date of preparation will be lost). The author's name(s) should be included.

Transport of food to famine relief camps

Objective of Internal Audit

The principal aim of Internal Audit is to provide evidence for the Audit Committee to make its annual statement to the Trustees that a sound system of internal control is being maintained to safeguard the charity's assets and safeguard the interests of donors and recipients.

Reason for the audit

The Charity's risk analysis has identified significant risks to its operations from the processes involved in transporting food from the ports and warehouses in the Democratic Republic of Congo (DROC) to the famine relief camps. The audit will conclude on whether:

- Risks have been properly identified, evaluated and managed.
- Internal controls are operating properly to mitigate these risks to levels defined as acceptable by board policy (2120).
- Action is being taken to improve controls, where risks are not being properly mitigated.
- More monitoring, by management, is necessary to ensure proper internal controls into the future.

Objectives and risks of the processes being audited

The overall objective is to deliver food to the camps as efficiently as effectively as possible (process 4).

The objectives covered by this audit are:

- to arrange land transport (4.2)
- maintain the lorries (4.3)
- provide drivers (4.4)

The risks to these objectives are:

- Lorries are not available to move food inland
- Fuel is not available for the lorries
- Spares are not available to repair the lorries
- Mechanics are not available to repair and maintain the lorries
- Drivers are not available to drive the lorries

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
A Planning	Draft scope (2)	Griffiths	19-Jun-2004	

Work plan for achieving output

- Start the scoping exercise 4-6 weeks before the commencement of fieldwork to allow time for initial discussions and obtaining agreement.
- Understand the context of, and reason for, the audit, by reviewing the audit plan and business process map (2201).
- Understand the objectives, risks and key controls of the processes (2201). As part of this work, obtain risk assessments carried out by management.
- If the processes being audited are known, or believed, to generate significant errors, include any specific work under “Special Considerations” (2210.A2).
- Define all processes covered, including those at third parties (2220.A1).
- Include any similar, or adjacent processes, which are not being audited.
- Consider if significant improvements can be made to the management of risk (2201).

Advice for achieving output

- To develop an effective audit of controls it is essential to have a clear understanding of:
 - what is the objective/function of the processes being audited.
 - what are the circumstances that could threaten the achievement of these objectives (the risks).
 - what are the necessary controls that manage these risks (2201).
- The draft scope should be used in initial meetings with auditees to discuss the audit. They should be told that the scope is to be approved.
- If there are likely to be any contentious issues, discuss the draft scope with the CAE.

Audit work plan

The work plan will include the following:

- Understanding the detailed processes which deliver the above objectives. This will include walk-through tests where appropriate.
- Determining the risks threatening the objectives, in addition to those risks above, through discussions and risk workshops.
- Testing the controls which mitigate these risks.
- Concluding whether those controls actually operating reduce the risks to levels acceptable to the Charity. Presenting these conclusions to people involved in the processes concerned.
- Agreeing the report with the people directly accountable for the processes audited, before issuing it to those noted on the circulation list below.

The processes examined in the audit will include:

- The arrangement of transport of food from warehouses to the famine relief camps.
- The maintenance of the lorry fleet.
- The hiring and regulation of drivers, including correct completion of time records.

The audit will not include:

- The purchasing of maize and other relief supplies.
- The purchasing and payment for new lorries, spares or fuel.
- The payment of the drivers.

These are covered by processes 3.2, included in audit 144, and 6.4 and 6.5, which are not currently due to be audited.

Special considerations

This section to be completed after discussions on this draft scope.

Timing

Audit planning started on December 16. The visit to Africa will be from February 2 to 11. This audit will be carried out at the lorry compound from Monday 2 February to Wednesday 4 February. (A separate audit of the Kinshasa office will be carried out from February 5 to February 11.) The final report will be circulated by March 1. The budgeted time is 30 days in total. The audit will be carried out by J Smith and I Khan, supervised by the Chief Audit Executive, P Jones.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
A Planning	Draft scope (3)	Griffiths	19-Jun-2004	

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Circulation list

Name	Department	Scope	Draft report	Final report
P Dawson	Finance Director	√		√
F Higson	Logistics Director	√	√	√
J Mulonja	Country Director (DR Congo)	√	√	√
C Mwefu	Country Manager	√	√	√
M Agbaw	Lorry Supervisor	√	√	√

The circulation of reports may change, depending on the issues found. A summary of all reports is sent to the Chairman of the Audit Committee and external auditors. Both may also view the detailed reports.

J Smith and I Khan

18 December 2003

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
A Planning	Memo with draft scope	Griffiths	19-Jun-2004	

A – Memo with draft scope

Output of process

- A letter accompanying the draft scope and agenda for the meeting which will discuss it.

Standards for output

- The letter may be e-mail or paper.
- The letter should be sent with the draft scope and the agenda for the meeting (see section D).

Work plan for achieving output

- Send the letter out with sufficient time for the recipients to read and consider the scope and agenda.

Advice for achieving output

- Don't send out the letter so early that the recipients lose it.

Internal Audit

Memo



Audit of the transport of food to famine relief camps

To: F Higson Logistics Director J Mulonja Country Director (DR Congo)	From: J Smith Auditor Internal Audit Department Head Office Date: 18 December 2003
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Draft scope and agenda for our meeting on the 6 January

Please find attached the agenda for our meeting on January 6 at 2:00 pm. in meeting room 3, and the draft scope of the audit which will form the basis of our discussions.

Following this meeting we will issue a final version of the scope, when it has been approved by P Jones.

Regards

J Smith

18 December 2003

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
A Planning	Final scope (1)	Griffiths	19-Jun-2004	

A - Final Scope

Output of process

- A final version of the scope, which acts as an “engagement record” to define the audit in sufficient detail to ensure all objectives are met (2220).

Standards for output

- The scope is approved by the Chief Audit Executive (2240.A1).
- Standards are as for the draft scope.

Work plan for achieving output

- Scope to be agreed, where possible, and issued before fieldwork commences.

Advice for achieving output

Transport of food to famine relief camps

Objective of Internal Audit

The principal aim of Internal Audit is to provide evidence for the Audit Committee to make its annual statement to the Trustees that a sound system of internal control is being maintained to safeguard the charity's assets and safeguard the interests of donors and recipients.

Reason for the audit

The Charity's risk analysis has identified significant risks to its operations from the processes involved in transporting food from the ports and warehouses in the Democratic Republic of Congo (DROC) to the famine relief camps. The audit will conclude on whether:

- Risks have been properly identified, evaluated and managed.
- Internal controls are operating properly to mitigate these risks to levels defined as acceptable by board policy.
- Action is being taken to improve controls, where risks are not being properly mitigated.
- More monitoring, by management, is necessary to ensure proper internal controls into the future.

Objectives and risks of the processes being audited

The overall objective is to deliver food to the camps as efficiently as effectively as possible (process 4).

The objectives covered by this audit are:

- to arrange land transport (4.2).
- maintain the lorries (4.3).
- provide drivers (4.4).

The risks to these objectives are:

- Lorries are not available to move food inland.
- Fuel is not available for the lorries.
- There is no labour to load the lorries.
- Lorries break down before, or on the journey.
- Spares are not available to repair the lorries.
- Mechanics are not available to repair and maintain the lorries.
- Drivers are not available to drive the lorries.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
Planning	Final scope (2)	Griffiths	19-Jun-2004	

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Audit work plan

The work plan will include the following:

- Understanding the detailed processes which deliver the above objectives. This will include walk-through tests where appropriate
- Determining the risks threatening the objectives, in addition to those risks above, through discussions and risk workshops
- Testing the controls which mitigate these risks
- Concluding whether those controls actually operating reduce the risks to levels acceptable to the Charity. Presenting these conclusions to people involved in the processes concerned
- Agreeing the report with the people directly accountable for the processes audited, before issuing it to those noted on the circulation list below.

The processes examined in the audit will include:

- The arrangement of transport of food from warehouses to the famine relief camps
- The maintenance of the lorry fleet
- The hiring and regulation of drivers, including correct completion of time records

The audit will not include:

- The purchasing of maize and other relief supplies
- The purchasing and payment for new lorries, spares or fuel
- The payment of the drivers

These are covered by processes 3.2, included in audit 144, and 6.4 and 6.5, which are included in the audit of the Kinshasa office.

Special considerations

Consider the impact on risks and controls if transport were to be outsourced to contractors.

Timing

Audit planning started on December 16. The visit to Africa will be from February 2 to 11. This audit will be carried out at the lorry compound from Monday 2 February to Wednesday 4 February. (A separate audit of the Kinshasa office will be carried out from February 5 to February 11.) The final report will be circulated by March 8. The budgeted time is 30 days in total. The audit will be carried out by J Smith and I Khan, supervised by the Chief Audit Executive, P Jones.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
Planning	Final scope (3)	Griffiths	19-Jun-2004	

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Circulation list

Name	Department	Scope	Draft report	Final report
P Dawson	Finance Director	√		√
F Higson	Logistics Director	√	√	√
J Mulonja	Country Director (DR Congo)	√	√	√
C Mwefu	Country Manager	√	√	√
M Agbaw	Lorry Supervisor	√	√	√

The circulation of reports may change, depending on the issues found. A summary of all reports is sent to the Chairman of the Audit Committee and external auditors. Both may also view the detailed reports.

J Smith and I Khan

13 January 2004

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
Planning	Blank	Griffiths	19-Jun-2004	

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Audit management

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
B Audit Management	Section index B	Griffiths	19-Jun-2004	

Section index B – audit management

Purpose of section B

- This section holds the documents which show how the audit was managed and how it delivered the work outlined in the scope.

Standards for section B

- All important matters affecting the operation of the audit should be included, for example, changes to staff, reasons for delays, changes to the scope and the action taken if serious issues (such as fraud) were found.

Work plan for achieving section B

- This section should be updated throughout the audit

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
B Audit Management	Milestones	Griffiths	19-Jun-2004	

B - Milestones

Output of process

- A document showing targets for completing the main stages of an audit, and the dates actually achieved.
- A record of the authorising of the scope and report.

Standards for output

- Dates included in the scope, and other documents sent to auditees should be noted as target dates. The important date being that of the final report circulation.
- Approval signatures for the scope and report should be included
- Target dates should be realistic. If it is obvious they will not be achieved, the CAE must agree new dates and the auditee informed.

Work plan for achieving output

- Set up the document when the audit is included on the quarterly plan, and staff assigned.
- This document should be updated at each review meeting.
- The appraisal process should include a review of target and achieved dates.

Advice for achieving output

- Don't be too optimistic on dates
- Complete it with reference to the Outline Plan **B5**

Transport of food to famine relief camps

Milestones	Resp	Target	Achieved	
Set up audit on quarterly plan	CAE	1-Nov-03	2-Nov-03	
Set up computer directories	Auditor	16-Dec-03	16-Dec-03	
Set up meetings	Auditor	16-Dec-03	16-Dec-03	
Issue draft scope	Auditor	18-Dec-03	18-Dec-03	
Final scope signed off. Authorising signature:	P Jones	CAE	12-Jan-04	26-Jan-04
Final scope issued	Auditor	13-Jan-04	13-Jan-04	
Processes and risks entered onto the database	Auditor	2-Feb-04	2-Feb-04	
Inherent risks scored and agreed	Auditor	2-Feb-04	2-Feb-04	
Controls entered into the database	Auditor	3-Feb-04	3-Feb-04	
Residual risks scored and agreed	Auditor	3-Feb-04	3-Feb-04	
Issues entered into the database	Auditor	4-Feb-04	4-Feb-04	
Mid-audit file review	CAE	16-Feb-04	17-Feb-04	
Issues agreed with business	Auditor	19-Feb-04	19-Feb-04	
Draft report issued	Auditor	20-Feb-04	23-Feb-04	
Final report signed off. Authorising signature:	P Jones	CAE	5-Mar-04	8-Mar-04
Final report circulated	Auditor	8-Mar-04	8-Mar-04	
End audit file review	CAE	12-Mar-04	12-Mar-04	
All staff appraised	CAE	18-Mar-04	19-Mar-04	
Files stored in archives	Auditor	19-Mar-04	19-Mar-04	
Feedback to be obtained from:			date	
Logistics Director –F Higson			15-Mar-04	
Country Director (Congo) J Mulonja			16-Mar-04	
Other Comments:				

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
B Audit Management	Diary	Griffiths	19-Jun-2004	

B - Diary

Output of process

- A record of significant events, including targets, which occurred during the audit.

Standards for output

- Records targets and the achievement of these.
- Records failure(s) to meet targets, delays and the reasons for these.
- Records important stages such as the issue of the scope, draft and final reports.
- Records learning points for this, and other, audits.

Work plan for achieving output

- While the diary does not have to be entered for each day of the audit, it is probably a useful discipline.
- The diary can be used during management reviews to note targets and their achievement.

Advice for achieving output

- One important reason for the diary is that it provides reasons for missing targets and if your salary depends on meeting targets...

Internal Audit



Diary (1)

No.	Title			Timing
146	Transport of food to famine relief camps			Q1 2004
Staff 1	Staff2	Staff 3	Peer	Man
J Smith	I Khan			P Jones
Date	Achieved	Target		Target date
3 Nov	Briefing from CAE. Audit due early Feb. Confirmed we were OK to go.	Check we have all the necessary vaccinations. Arrange meetings with Logistics and Country directors (done on Nov 4)		7 Nov
15 Dec	Briefing from CAE. Confirmed we had vaccinations. In discussions she had with the Logistics director, there is concern we might not be able to transport food to the camps with our own lorries	Meeting Logistics and Country Director on 6 Jan. Book air tickets and hotels. Arrange currency. Set up directories and documentation. Draft scope to be issued 17 Dec		17 Dec
18 Dec	Issued draft scope. (Additional work on audit 143 delayed the issue) and agenda for Jan 6 meeting.	Prepare for Jan 6 meeting		6 Jan
6 Jan	Met Logistics and Country (DRC) directors.	Update draft scope. Obtain approval		Jan 9
Jan 12	Obtained CAE approval.	Issue final scope.		Jan 13
Jan 13	Final scope issued	Prepare for visit		
Feb 2	Flew to Kinshasa Sat/Sun via J'borg. Driven to the lorry compound. Discussed systems with the supervisor and Country Manager	Understand inherent risks and update database by end of day		Feb 2

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Section	Document	Author	Last updated	Reference
B Audit Management	Diary (2)	Griffiths	19-Jun-2004	

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Internal Audit



Diary (2)

date	achieved	target	target date
Feb 3	Input inherent risks yesterday plus many controls.	Finish inputting risks and controls into the database. Start testing	Feb 3
Feb 4 am	Updated risk, controls and scored them	Finish testing. Document issues and discuss with Country Manager and Supervisor.	Feb 4
Feb 4 pm	Close-down meeting. Finished discussion of issues	Write draft report back at HQ. Separate audit of Kinshasa office.	
Feb 16	Back in HQ.	Complete file Write draft report	16 Feb 23 Feb
Feb 17	CAE completed file review. (One day late due to her workload)	Draft report	20 Feb
23 Feb	Draft report issued	Issue final report	8 Mar
3 Mar	All comments received. Draft report updated.	Get CAE approval	5 Mar
8 Mar	CAE approved final report. (She was not available on 5Mar) Final report issued	AUDIT COMPLETED	

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
B Audit Management	Outline plan	Griffiths	19-Jun-2004	

B - Outline plan

Output of process

- A plan showing, for each person involved, their work on this audit and other commitments during the period.

Standards for output

- The period planned should cover the audit from the initial meeting to the issue of the final report.
- Show all staff affecting the progress of the audit, including the CAE and any auditee staff who are important to the progress of the audit.

Work plan for achieving output

- Draw up a table, or spreadsheet, showing dates.
- Determine availability of everyone involved – particularly absences from the office.
- Put details in the plan.
- Complete the “Milestones” schedule from the plan.

Advice for achieving output

- Where managers have full diaries, book meetings at this stage.
- Only include major time commitments which last at least a day (for example, holidays), not individual meetings.

Internal Audit



Outline plan

Date		J Smith	I Khan	P Jones (CAE)	F Higson
15-Dec-03	Monday	Briefing from CAE			
16-Dec-03	Tuesday	Set up files/scope			
17-Dec-03	Wednesday	Issue draft scope			
18-Dec-03	Thursday	Testing	Testing		
19-Dec-03	Friday	audit 142	audit 144		
5-Jan-04	Monday			Holiday	
6-Jan-04	Tuesday	Scope meeting		Holiday	meeting
7-Jan-04	Wednesday	Amend scope		Holiday	
8-Jan-04	Thursday	Testing	Testing	Holiday	
9-Jan-04	Friday	audit 142	audit 144	Holiday	
12-Jan-04	Monday	CAE approves scope			
13-Jan-04	Tuesday	Issue final scope			
14-Jan-04	Wednesday	Complete	Complete	Out of office	
15-Jan-04	Thursday	audit 142	audit 144	Out of office	
16-Jan-04	Friday				
19-Jan-04	Monday	Holiday	Course		
20-Jan-04	Tuesday	Holiday	Course		
21-Jan-04	Wednesday	Holiday	Course		
22-Jan-04	Thursday	Holiday	Course		
23-Jan-04	Friday	Holiday	Course		
26-Jan-04	Monday	Complete	Complete		
27-Jan-04	Tuesday	audit 142	audit 144		
28-Jan-04	Wednesday	Prepare for overseas			
29-Jan-04	Thursday	visit			
30-Jan-04	Friday				

Not all dates are included. For the full plan see the audit database spreadsheet

Performance Manual – the audit process

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B Audit Management	Outline plan	Griffiths	19-Jun-2004	

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Internal Audit



Outline plan (2)

31-Jan-04	Saturday	Fly to Kinshasa			
1-Feb-04	Sunday				
2-Feb-04	Monday	Audit 146			
3-Feb-04	Tuesday				
4-Feb-04	Wednesday				
5-Feb-04	Thursday	Audit of Kinshasa office			
6-Feb-04	Friday				
7-Feb-04	Saturday				
8-Feb-04	Sunday				
9-Feb-04	Monday				
10-Feb-04	Tuesday				
11-Feb-04	Wednesday	Discuss draft report			
12-Feb-04	Thursday	Fly back to UK			
13-Feb-04	Friday				
14-Feb-04	Saturday				
15-Feb-04	Sunday				
16-Feb-04	Monday	Write draft reports			
17-Feb-04	Tuesday	Write draft reports			
18-Feb-04	Wednesday	Write draft reports			
19-Feb-04	Thursday	Write draft reports			
20-Feb-04	Friday	Issue draft report			
28-Feb-04	Saturday				
29-Feb-04	Sunday				
1-Mar-04	Monday			Out of office	
2-Mar-04	Tuesday			Out of office	
3-Mar-04	Wednesday	Receive comments		Out of office	
4-Mar-04	Thursday	Write final report			
5-Mar-04	Friday	Final report sign approval			
6-Mar-04	Saturday				
7-Mar-04	Sunday				
8-Mar-04	Monday	Issue final report			

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
B Audit Management	Blank	Blank	19-Jun-2004	

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Background information

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
C Background	Section index C	Griffiths	19-Jun-2004	

Section index C – background information

Purpose of section C

- The documents which provide details around the processes being audited are filed in this section

Standards for section C

- If this section becomes large, file the papers separately
- Organise the documents logically, splitting the file if necessary, in order for the reader to be able to find documents quickly

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
C Background	Organisation chart	Griffiths	19-Jun-2004	

C - Background information

Output of process

- Documents, pictures, accounts and reports which aid understanding of the context of the audit and the risks hindering the objectives of the processes being audited (2310).

Standards for output

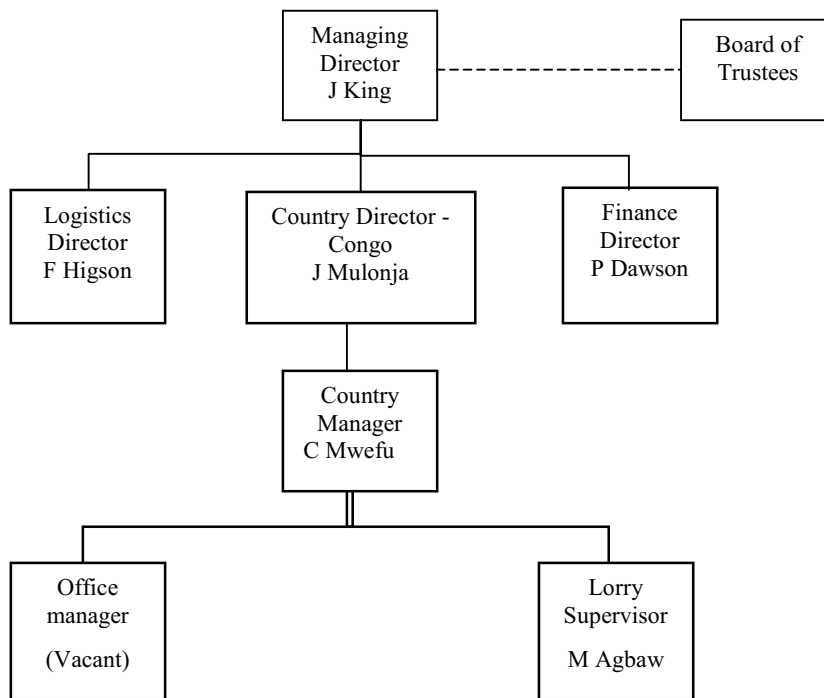
- Documents not easily available, or which change with time, should be filed. Examples are organisation charts, budgets and accounts.
- Documents may be filed in paper form, or reference made to the location of computer files.
- Lengthy manuals should not be photocopied and filed in this section. Either file a few relevant pages, or obtain a computer version. If the manual is readily available there should be no need to file any copies.

Work plan for achieving output

- At the start of an audit obtain:
 - Organisation charts for the departments concerned
 - Budgets for the departments
 - Any operating manuals
- During the audit obtain:
 - Example documents (completed, not blank)
 - Operating instructions people may have prepared for their own use
 - Copies of computer screens
 - Copies of spreadsheets used

Transport of food to famine relief camps

Extract from the organisation chart



Performance Manual – the audit process

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C Background	Blank	Griffiths	19-Jun-2004	

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Internal Audit

D Meeting notes



**Meeting
notes**

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
D Meetings	Section index D	Griffiths	19-Jun-2004	

Section index D – meeting notes

Purpose of section D

- This section holds notes from meetings

Standards for section D

- Notes should generally be filed in chronological order
- The index should show the date of the meeting, and attendees

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
D Meetings	Agenda	Griffiths	19-Jun-2004	

D - Agenda

Output of process

- A document, or e-mail, confirming the details of a meeting in order for the attendees to be fully prepared.

Standards for output

- A document or e-mail should be sent before each meeting because:
 - It confirms any phone call or other contacts that a meeting is to be held.
 - It confirms the date and place of meeting, and attendees.
 - It encourages the attendees to do any necessary preparation. If such preparation is essential, state this.
 - It gives the “chairman” of the meeting the opportunity to prepare and, in particular, consider each attendee and the part they will play in the meeting.
- The document shows:
 - The time and place of the meeting.
 - The attendees.
 - A title for the meeting - probably the audit title.
 - The output from the meeting.
 - Specific topics to be covered.

Work plan for achieving output

- Understand the output required from the meeting.
- Book a room and any equipment required.
- Identify people who can contribute to the output, throughout the meeting.
- Take spare agendas, and any documentation required, just in case anyone forgets their copy.
- Close down the meeting with what has been achieved, any action to be taken and by whom.

Advice for achieving output – the meeting

- **Managing the meeting**
 - Have a chairman – to keep the meeting to the agenda, and ensure everyone has their say.
 - Also have a scribe, if there is much writing to be done (including on flip charts).
 - If you need training on the running of meetings, get it!

Transport of food to famine relief camps

Date & time:	January 6 2004 2:00 p.m.	Place:	Meeting room 3
Participants:	F Higson – Logistics Director J Mulonja (Country Area Director –Congo) I Khan (Auditor) J Smith (Auditor)		
Purpose of meeting:	To agree the scope of the audit to be carried out in February (attached)		

Topics

- Introductions
- Why the audit is being done, what processes it will cover and what it will deliver
- Background to the processes being audited – what are the major risks and controls?
- The audit work plan
- Comments about the proposed scope – including any special considerations
- Information available to assist the audit – including risk registers, process maps, budgets and organisation charts
- Key contacts for the audit
- Timescale of the audit
- Next steps

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
D Meetings	Agenda (2)	Griffiths	19-Jun-2004	

Advice for achieving output – the meeting (cont.)

➤ Introduction

- Carry out introductions, if necessary
- Introduce the agenda, with approximate timings for each of the items

➤ Why the audit is being done, what processes it will cover and what it will deliver

- Remind attendees of the desired output from the meeting. If the meeting is to agree the draft scope - be clear on the information you require to do this (risks they have identified, process maps they have prepared, key contacts, audit timing, special considerations).
- Ensure everyone understands why the audit is being done.
- Understand what the attendees want to take away from the meeting - it may not be what you want.
- Take along an example report to demonstrate what it will look like, who will receive it and what possible conclusions there will be.

➤ Background to the processes

- This is your opportunity to find out the major risks and controls.

➤ The audit work plan

- Provide a copy of the audit database, to demonstrate how the audit will be done.
- Discuss the work plan, do the attendees agree it should enable a proper conclusion to be reached?

➤ Comments from those involved

- How do people *feel* about the audit? Worried, thankful, angry? Why do they feel this way?
- Are there any specific areas the attendees would like us to consider. (But don't be drawn outside the scope, other than for good reasons. Modify the scope if necessary).

➤ Information available

- Ask for any information (risk registers, organisation charts, process maps) which may help the audit.

➤ Key contacts

- Find out who the key contacts are, any times they are not available.

➤ Timescale

- Outline the timetable, asking if it causes any problems and stressing the need to respond promptly to the issue of the draft report.

➤ Next steps

- Before closing the meeting, check the agenda that you have got the output you want.



Transport of food to famine relief camps

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Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
D Meetings	Meeting notes	Griffiths	19-Jun-2004	

D – Meeting notes

Output of process

- Document showing the output from a meeting (2330).

Standards for output

- The notes should contain the date, time, place of the meeting, attendees and any apologies for absence
- Notes should not generally record all the discussions from the meeting, but only the decisions made, action to be taken, by whom and when.
- The date of the next meeting (if any) should be included.
- Circulate the notes to all attendees after the meeting. If appropriate, ask them to confirm they agree with its contents.

Work plan for achieving output

- Ideally, someone other than the chairman of the meeting should take notes.
- At the end of the meeting, confirm the output from the meeting.

Advice for achieving output

- Write, or type, up the notes immediately after the meeting. If you can, book the meeting room for longer than the duration of the meeting and stay to write up the notes.
- The meetings frequently highlight issues. These should be noted immediately on an issues list (H1) which can later be transferred to the audit database. This list is referenced to the document giving rise to the issue and the document recording the issue for reporting, probably the database.

Transport of food to famine relief camps

Date & time:	January 6 2004 2:00 p.m.	Place:	Meeting room 3
Participants:	F Higson – Logistics Director J Mulonja (Country Area Director –Congo) I Khan (Auditor) J Smith (Auditor)		
Purpose of meeting:	To agree the scope of the audit to be carried out in February		

Introduction

- We introduced ourselves and confirmed, in response to a question from J Mulonja, that we both spoke sufficient French to understand and be understood. The common language of DOR is French and everyone in FRCA speaks it, although local languages are normally spoken between staff.

Why the audit is being done, what processes it will cover and what it will deliver

- Both of the directors had requested the audit in a meeting with the CAE and so they understand the reasons for the audit.
- Both were happy with the processes to be covered, but wanted the purchasing and payment for new lorries, spares or fuel, and the payment of the drivers covered. These areas will be audited as part of the Kinshasa Office audit.

Background to the processes

- The major risks were as noted in the main FRCA risk register. No separate risk register had been done for the supply chain. *(noted as an issue).*
- Additional risks include; there is no labour to load the lorries; lorries break down before, or on the journey.
- At present the charity has its own fleet of eight lorries, kept in a compound just outside Kinshasa. There is a supervisor (M Agbaw) in charge of two mechanics and an office clerk.
- Drivers are recruited locally, when they are needed. The supervisor is responsible for this *(see test 1 Q3).*
- The AIDS epidemic has resulted in a shortage of drivers and mechanics.
- The directors have concerns that, when we next need to move food, not enough drivers will be available and some lorries may not be serviceable.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
D Meetings	Meeting notes (2)	Griffiths	19-Jun-2004	

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The audit work plan

- No specific comments about the audit plan. We will need to be aware that it is the rainy season in February but still very warm.

Comments from those involved

- Very glad that the audit is to be held soon. The directors want the results quickly.
- One important factor to be considered is using contractors to carry the food. What risks are there as a result and what controls should exist?

Information available

- Contact the directors' secretary for organisation charts and other information required.

Key contacts

- The main contact during our stay will be C Mwefu, the Country Manager. He will be with us all the time to transport us and ensure our safety. He speaks excellent English and French.
- The main contact during this audit will be the Compound Supervisor. He has been with the charity for 20 years and is a trusted employee, but is near retirement.

Timescale

- The timescale was agreed, with the directors again stressing the need for a report to be produced soon after our return.

Next steps

- We outlined our next steps would be to produce the final scope, get it agreed by the CAE and then send it to the directors.
- The directors confirmed that they would be in Kinshasa for the close-down meeting.
- We confirmed that the CAE would be seeking feedback at the end of the audit.

J Smith and I Khan

7 January 2004

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
D Meetings	Blank	Griffiths	19-Jun-2004	

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Internal Audit

E Processes



Processes

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
E Processes	Section index E	Griffiths	19-Jun-2004	

Section index E - processes

Purpose of section E

- Overview maps of the processes involved, and some of the risks, are filed in this section

Standards for section E

- File the “top level” process map first
- Reference more detailed process maps to this

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
E Processes	Processes (1)	Griffiths	19-Jun-2004	

E - processes

Output of process

- Diagrams (“maps”) and/or descriptions whose aim is to highlight the risks threatening the processes being audited.
- They provide details about the inputs, outputs and processes which achieve the objectives of the area being audited.

Standards for output

- The only processes which should be mapped are those where the audit is intended to provide assurance on the controls mitigating the risks which threaten the processes.
- If the processes followed are unclear and/or the objectives are not those of the charity an issue should be raised (2120.A2).
- The processes recorded should be reviewed to ensure they are in accordance with the objectives of the charity (2120.A3).
- The size and complexity of any map should be minimised. If necessary, several simple maps should be drawn to achieve this. If necessary have a hierarchy of maps, with processes in overview maps being referenced to greater detail.
- All maps should be cross referenced to show how they fit together.
- The process map at the highest level should link with the organisation’s overall process map, thus ensuring an audit trail from the highest to the lowest level processes. (The high level processes are shown in appendix F of the overall risk database in www.internalaudit.biz).
- Risks from the processes should be included beside the map.

Work plan for achieving output

- Obtain details of the high level processes.
- Obtain the organisation chart(s) for the departments who should be operating the processes.
- Meet with the people operating the processes, drawing rough copies of the maps in the meeting and determine some of the risks associated with the processes.
- Draw the maps, preferably using graphics software, or the drawing tools in Excel, with the risks noted alongside. (See example).
- Process maps can be confirmed by following a representative sample of transactions through the processes, known as a “walk through test”.
- Amend the high level process map if necessary.
- A “walkthrough” test should be carried out where processes involve documentation. This involves selecting documents at the start of a process (for example, a requisition) and following it through all the stages (order, receipt, supplier invoice, payment). Such a test should be documented.

Transport of food to famine relief camps

These processes are taken from FRCA's high level processes

Process	Notes
<div style="border: 2px solid green; padding: 10px; width: fit-content; margin: 0 auto;"> <p>4</p> <p>Deliver food</p> </div>	Top level process
<div style="border: 2px dashed green; padding: 10px; width: fit-content; margin: 0 auto;"> <p>4.1</p> <p>Arrange sea transport</p> </div>	Not part of this audit
<div style="border: 2px solid green; padding: 10px; width: fit-content; margin: 0 auto;"> <p>4.2</p> <p>Arrange land transport</p> </div>	See E2 for breakdown of this process
<div style="border: 2px solid green; padding: 10px; width: fit-content; margin: 0 auto;"> <p>4.3</p> <p>Maintain lorries</p> </div>	See E2 for breakdown of this process
<div style="border: 2px solid green; padding: 10px; width: fit-content; margin: 0 auto;"> <p>4.4</p> <p>Recruit drivers</p> </div>	Not a level 2 process – include as part of 4.2. Amend the high level processes. Note as an issue H5.
<div style="border: 2px solid green; padding: 10px; width: fit-content; margin: 0 auto;"> <p>4.5</p> <p>Plan passable routes</p> </div>	Audit 138 covered the HQ procedures for this – but the local office ignores the routes as HQ does not know the situation on the ground. Note as an issue H5.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
E Processes	Processes (2)	Griffiths	19-Jun-2004	

Advice for achieving output

- Processes can be mapped from two points of view:
 - The logical processes, that is those processes which are necessary to achieve the objectives. The process map illustrated is a logical process map.
 - The actual processes. Ideally they should be the same as the logical processes, but they could include unnecessary processes or additional processes required because of additional legislation, or that the logical process does not include some processes important in practice. For example our actual process map might include the important process, “Distribute food at camp”.

There is no simple answer as to how to map processes but remember, the process map is not a document flow chart, intended to show every document and check in the process, but one which enables the risks to be determined.

- In order to be get ideas of the risks involved, arrange a meeting with other auditors to “brainstorm” what risks might exist. You can keep this list of risks in your “back pocket” to help as a prompt when asking management about risks.
- The high level processes, which should have been mapped, are usually down two levels. Audits may take several processes in level 2 and break them down further. This may lead to a need to revise the level 2 processes – as happens in this audit.
- The task of mapping processes frequently highlights issues. These should be noted immediately on an issues list (section H) which can later be transferred to the audit database. This list is referenced to the document giving rise to the issue and the document recording the issue for reporting, usually the database.
- The detailed processes and risks will not agree exactly with the scope, since that was only an initial evaluation

Transport of food to famine relief camps

Process	Preliminary evaluation of risks
4.2.1 Receive instructions from country office	Instructions not received Instructions are late
4.2.2 Hire drivers	Drivers not available Drivers not properly qualified
4.2.3 Plan route	Route is blocked Route is dangerous
4.2.4 Arrange to collect food	No food available!
4.2.5 Load food	No loaders
4.2.6 Deliver to camp	Route is blocked Food is stolen
4.3.1 Check lorries	Check is not complete Action is not taken on faults
4.3.2 Carry out maintenance checks as per the lorry manual	Maintenance checks not carried out
4.3.3 Repair lorries as necessary	Repairs not satisfactory Repairs not necessary

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
E Processes	Blank	Griffiths	19-Jun-2004	

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F Inherent risks



**Inherent
risks**

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
F inherent risks	Section index F	Griffiths	19-Jun-2004	

Section index F – inherent risks

Purpose of section F

- Details of the inherent risks affecting the processes are filed in this section.

Standards for section F

- Since risks are filed in the database, this section can include a print out of the database or just refer to it.
- This section should also include notes from risk workshops.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
F Inherent risks	Risks	Griffiths	19-Jun-2004	

F – inherent risks

Output of process

- A comprehensive list of risks, held in a database, which hinder the achievement of the objectives noted in the scope. (The example Excel database is available from http://www.internalaudit.biz/supporting_pages/download_manual.htm).

Standards for output

- The first three processes in the database should be: risk identification; risk evaluation; risk management (2110, 2110.A1 and 2120.A4).
- The structure of the risk documentation should then follow the process maps.
- Risks should be linked to the processes they might hinder. One risk might hinder several processes, or one process might be hindered by several risks.
- Risks are measured at two points:
 - Inherent (absolute/gross) - risk exposure before controls are taken into account.
 - Residual (controlled/net) - risk exposure after mitigating controls are taken into account.
- At these points, risks should be scored for consequence and likelihood, according to the scale:

If the consequence when the risk occurs is:	OR the likelihood of the risk occurring is:	Then the measure is defined to be:
To prevent the organisation achieving all, or a major part, of its objectives for a long time. Cash at risk > £100,000	Almost certain	High (3)
To stop the organisation achieving its objectives for a limited period. Cash at risk <£100,000 >£5,000	Possible	Medium (2)
To cause minor inconvenience, not affecting the achievement of objectives Cash at risk <£5,000	Unlikely	Low (1)

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Inherent risks (1)

146 Transport of food to famine relief camps - Audit Database							
Level 2 process	Risk on register	Level 3 process		Risk for this audit	Inherent risks		
	(appendix H)				Cons.	Like.	Sig.
Identify risks	Risks are not known			Risks are not known	3	3	9
Evaluate risks	Significant risks are not understood			Significant risks are not understood	3	3	9
Manage risks	Significant risks are not controlled			Significant risks are not controlled	3	3	9
4.2 Arrange land transport		4.2.1	Receive instructions from country office	Instructions not received	3	3	9
4.2 Arrange land transport		4.2.1	Receive instructions from country office	Instructions are late	3	3	9
4.4 Recruit drivers	Drivers not available	4.2.2	Hire drivers	Drivers not available	3	3	9
4.2 Arrange land transport		4.2.1	Hire drivers	Drivers not properly qualified	2	3	6
4.2 Arrange land transport		4.2.2	Plan route	Route is blocked	3	2	6
4.2 Arrange land transport		4.2.3	Plan route	Route is dangerous	3	2	6
4.2 Arrange land transport		4.2.4	Arrange to collect food	No food available!	3	1	3
4.2 Arrange land transport	Fuel not available for lorries		Load fuel	Fuel not available for lorries	3	3	9
4.2 Arrange land transport		4.2.5	Load food	No loaders	3	1	3
4.2 Arrange land transport		4.2.6	Deliver to camp	Food is stolen	2	2	4

This document is only part of the complete process and inherent risk list which can be found at (reference to the path of the excel document on the system. For example s:\internal audit\2003_04\audits\146 transport of food\database\146 database.xls).

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
F Inherent risks	Risks (2)	Griffiths	19-Jun-2004	

Standards for output (cont)

- Certain risks should always be considered, depending on the scope of the audit (2110.A2 and 2120.A1)
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations, including competencies and contingency.
 - Safeguarding of assets, including fraud.
 - Compliance with laws, regulations, and contracts.
- The list of risks should be reviewed by the CAE, or another, suitably skilled, person (2240.A1, 2340).

Work plan for achieving output

- Start the database by copying in the processes and risks from the high level database, the risk register (appendix H in www.internalaudit.biz).
- Update this from what you have learnt in meetings and walk-through tests.
- Risks can be determined by several means (2310).
 - Risk registers from the departments involved, if available.
 - Risk workshops with people from the departments involved.
 - The auditor using their experience and “common sense”.
 - “Brainstorming” meetings with colleagues.
 - External sources such as web sites, books and magazines covering the subjects involved.
- Risks should be noted in an Excel database to which the related controls can be added (2300).
- Ideally a database should be used, allowing tests, issues and action to also be recorded (see the example).

Advice for achieving output

- Be alert to the significant risks that might affect objectives, operations, or resources. However, bear in mind that assurance procedures alone do not guarantee that all significant risks will be identified (1220.A3).
- In an ideal world, the inherent risk scores would come from the organisation's risk register, and the residual risk scores from a risk workshop held, with all departments concerned, at the start of the audit. Internal audit would update these during the audit, as a result of tests carried out.
-

Internal Audit



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Inherent risks (2)

4.3	Arrange land transport	Lorries not available to move food inland	4.3.1	Check lorries are working	Lorries are found to be unsuitable for the journey	3	2	6
4.2	Arrange land transport		4.3.1	Check lorries	Check is not complete	2	2	4
4.2	Arrange land transport		4.3.1	Check lorries	Action is not taken on faults	2	2	4
4.3	Maintain lorries	Mechanics not available	4.3.1	Check lorries	Lack of mechanics	3	3	9
4.3	Maintain lorries		4.3.2	Carry out maintenance checks as per the lorry manual	Maintenance checks not carried out thoroughly	2	2	4
4.3	Maintain lorries		4.3.3	Repair lorries as necessary	Repairs not satisfactory	2	2	4
4.3	Maintain lorries		4.3.3	Repair lorries as necessary	Repairs not necessary	2	2	4
4.3	Maintain lorries	Spares not available	4.3.3	Repair lorries as necessary	Spares not available	2	3	6
6.6	Provide information technology		6.6.1	Maintain systems	Data lost through computer failure	2	3	6
6.7	Provide human resources	Staff are not competent	6.7.1	Establish job descriptions	Staff competencies required have not been identified	1	3	3
6.7	Provide human resources		6.7.2	Carry out regular appraisals	Actual competencies of the staff have not been matched with required competencies	1	3	3
6.7	Provide human resources		6.7.3	Training of staff	Training is not provided	2	3	6
6.7	Provide human resources		6.7.3	Training of staff	Staff not allowed to attend training	2	3	6
6.8	Provide security	Loss of the Charity's assets	6.8.1	Provide security	Loss of the Charity's assets	3	2	6
6.9	Provide continuity	Office destroyed	6.9.1	Identify documents required to achieve the objective of these processes	Documents may not be recorded	1	2	2
6.9	Provide continuity	Office destroyed	6.9.2	Decide on arrangements to safeguard these	Level of protection may not be sufficient	1	2	2

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
F Inherent risks	Risks (3)	Griffiths	19-Jun-2004	

Advice for achieving output (cont)

- In practice the risk register might not be sufficiently detailed to have all the inherent risks and their scores. A risk workshop, or interviews, would be held to document all the risks, and score the residual risks, since auditees can usually only understand the concept of residual risks. Internal audit can then score the inherent risks, the purpose being to highlight those where controls are considered important.
- Speak to people in the business about their risks. They understand them and it will involve them in the audit and get better “buy-in” to your conclusions.
- The absence of a control should not be considered a risk. “Invoices may not be authorised” is not a risk. The real risk is, “Payment may be made for goods or services not received”. One control over this risk is that invoices should be authorised
- It will only be possible to assess residual risk levels after the controls have been determined (next stage)
- You will find, on the first audit of any area, that the high level processes and risks (in appendix H) don’t match up with the detail you find. It’s frustrating, but if you update appendix H, you shouldn’t have any problems when the processes are next audited.
- Scoring the consequence and likelihood of inherent risks is not easy but remember it doesn’t have to be accurate, the aim is to assess the need for a control to mitigate the risk.
- In scoring consequence ask, “If this risk occurs, in the absence of any controls, does it stop our objective (to deliver food) being achieved?”
 - Definitely/probably – score 3
 - Maybe – score 2
 - Unlikely – score 1
- In scoring likelihood ask, “In the absence of any controls, how likely is the risk to occur?”. In most cases the answer will be, “Definitely/probably”, unless there are controls external to the organisation, for example other aid agencies also supplying food.
- This copy of part of the database can be linked to the Excel database, so that changes to the database are automatically reflected in the copy. To set up this link, copy the relevant part of the database in Excel and use Edit/paste special with the paste link button “on”, in this Word document. To break this link go into Edit/Links.

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Residual risks

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
G Residual risks	Section index G	Griffiths	19-Jun-2004	

Section index G – residual risks

Purpose of section G

- This section contains:
 - The updated audit database.
 - Details of the tests that check the proper operation of controls.
 - The preliminary conclusions for each risk.

Standards for section G

- This section should clearly show, for each risk:
 - The control(s) mitigating each risk.
 - The tests carried out to check the controls are operating.
 - The residual risk score.
 - Issues arising where the risks are not properly being mitigated by the controls.
 - Conclusions as to whether each risk is being mitigated to an acceptable level (2120.A1).
 - If an issue exists, where it appears in the final report.

Transport of food to famine relief camps

Contents	Ref
Test1 – List of available drivers	G1
Test2 – Drivers qualifications <i>(not included)</i>	G2
Test 3- Route planning <i>(not included)</i>	G3
Test 4 - Food collection <i>(not included)</i>	G4
Test 5 – Check fuel tanks <i>(not included)</i>	G5
Test 6 – Security of food <i>(not included)</i>	G6
Test 7 – Condition of lorries	G7
Test 8 – Maintenance of lorries <i>(not included)</i>	G8
Test 9 – Qualification of mechanics <i>(not included)</i>	G9
Test 10 – Availability of spares <i>(not included)</i>	G10
Audit database	G11

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
G Residual risks	Testing	Griffiths	19-Jun-2004	

G - Testing

Output of process

- A conclusion stating which controls are operating, and are likely to operate in the foreseeable future, and which controls are not operating

Standards for output

- Sufficient tests should be carried out to ensure a conclusion may be reached about the actual mitigation of risks by controls. That is significant risks are being properly managed.
- Tests should be fully documented to the extent that they could be re-performed on the original documentation.
- If the test is simple and the results satisfactory, details need only be recorded on the audit database.
- The test documentation should state:
 - Controls being tested
 - Method of testing, including sample size, if appropriate
 - Results
 - Conclusion
- Evidence required to support issues found should be photocopied.
- A conclusion should be drawn on the results of each test - that controls are, or are not, operating to ensure that the risks are actually being mitigated.
- The final assessment of residual risks should be made after this stage.
- The database of processes, risks, controls and tests should be reviewed by an audit manager.

Transport of food to famine relief camps

Control being tested for proper operation:

A list of drivers available for hire is kept by the supervisor in the lorry compound office.

Method of testing

The list of drivers was obtained from the supervisor.

The drivers were telephoned to check that they were still available.

Results of test

The supervisor took 10 minutes to find the list, while we waited. It was eventually found at the back of a drawer. He indicated that it was last updated “several months ago”. It looked as though it had been in the back of that drawer for considerably longer.

Of the twelve drivers on the list:

- 6 had no contact details, only names. The supervisor said they lived locally and he could call on them.
- 6 had phone numbers. We tried to contact them, but only three numbers were in operation and only one answered. His wife said he had a job with a transport company.

When we talked to the supervisor, he said that he found drivers through local contacts and could let us have a new list in an hour. We declined this, as we had no way to judge their availability, or suitability.

He also said that FRCA was unusual in that it still had its own fleet of lorries. Most relief agencies used local transport companies where most of the drivers now worked. This, together with the AIDS epidemic which was affecting many of the drivers, was reducing the number of drivers he could rely on. He believed we should shut the lorry compound and use contractors.

Conclusions

RED

The list of drivers is useless and therefore the risk that drivers cannot be hired is not mitigated.

We believe the option of closing the lorry compound and using contract transport should be pursued.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
G Residual risks	Testing (2)	Griffiths	19-Jun-2004	

Work plan for achieving output

- Score residual risks, as far as is possible. See the next work plan.
- Decide on the controls which need testing, based on the importance of the risks they mitigate, as measured by:
 - the *inherent* risk score.
 - The *control* risk score (= inherent risk score – residual risk score). This score gives a measure of the importance of the control.
- Decide on:
 - the tests required to ensure you are able to conclude on the mitigation of risks - some tests will cover several controls.
 - the sample (how many months, how many documents, over what period).
 - how to choose the sample (statistical sampling, finger stabbed in pile of invoices).
 - the use of computer-assisted audit tools and other data analysis techniques (1220.A2).
 - Carry out the tests, photocopying evidence as necessary.

Advice for achieving output

- The purpose of tests is to demonstrate whether controls are operating properly. They are not to find errors, which should be detected by management.
- Where issues are found, discuss these with the staff directly involved as soon as possible. If fraud could be involved, follow defined procedures or, if these do not exist, talk to no one except the Chief Audit Executive
- Where you have obtained “anecdotal” evidence of risks not being properly controlled, try and obtain evidence through testing. If you cannot, obtain agreement as to how it is best reported, if at all
- You should carry out sufficient testing in order to come a conclusion about the effectiveness of the control tested. The purpose of the test is not to find mistakes - that is management’s job
- The amount of testing of a control should be related to the importance of the risk which the control is mitigating. So don’t spend much time testing controls over low risks.

Transport of food to famine relief camps

Control being tested for proper operation:

All lorries are working properly and therefore available for immediate use.

Method of testing

Requested a 5 km ride in each lorry. The compound supervisor was the driver.

Results of test

8 lorries are on the fleet.

One was badly damaged at the front and unserviceable – it was waiting for spares.

The supervisor refused to drive two lorries as the brakes were unsafe. Again waiting for spares.

Of the remaining 5 lorries, two were difficult to start but managed the course.

All the lorries had seen better days.

Conclusions

RED

Although 5 out of 8 lorries are working, they are generally in poor condition and it is likely that only half of the fleet can be relied upon.

The risk that lorries are not available is not sufficiently mitigated.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
G Residual risks	Residual risks	Griffiths	19-Jun-2004	

G – Residual risks

Output of process

- The audit database, updated with:
 - The controls mitigating the risks.
 - A summary of the tests checking the proper operation of the controls.
 - Scores for the residual risk.
 - Issues and conclusions against each risk.
- The complete database should be [downloaded](#), as some columns have been omitted to fit the example on the page.

Standards for output

- Mitigating controls should be identified for each of the risks determined in the previous process and entered in the “Control” column.
- Action taken by management to ensure the continued operation of controls, especially key controls (inherent risk score minus residual risk score > 3) should be noted in the “Monitoring” column.
- The control should be specific - what is done, by whom (job title), how often (2330).
- Test conclusions should be noted on the database, with a reference to the test schedule.
- Residual risk scores for consequence and likelihood are based on the risks as mitigated by those controls which testing has shown operate properly. The scoring is the same as for inherent risks.
- Conclusions are required against four criteria, aligning with those in the report
 - Risks have been properly identified, evaluated and managed.
 - Internal controls are operating properly to mitigate these risks to levels defined as acceptable by board policy.
 - Action is being taken to improve controls, where risks are not being properly mitigated.
 - More monitoring, by management, is necessary to ensure proper internal controls into the future.
- Conclusions should be included against each risk. The criteria are noted in the table on the next page. It will probably not be possible to conclude on the action to be taken, and monitoring, until after the issues have been discussed.
- An issue should be reported where the inherent risk score is 4 or more and should be referenced to the final report to confirm its inclusion. If subsequent discussions result in the issue being omitted from the report, a reference should be made to the document which notes the reasons.

Internal Audit



Residual risks and conclusions (1)

Transport of food to famine relief camps

Risk for this audit	Inherent risks			Control	Tests	Ref	Residual risks			Issue	Conclusion	Conclusion
	Cons.	Like.	Sig.				Cons.	Like.	Sig.			
Risks are not known	3	3	9		Examine processes to set up the risk register and examine the register		3	3	9	No register	red	n/a
Significant risks are not understood	3	3	9		Examine the process to score the risks		3	3	9		red	n/a
Significant risks are not controlled	3	3	9		Check controls - below		3	3	9		red	n/a
Instructions not received	3	3	9	Country office confirms receipt. HQ chases if no confirmation received	Checked all instructions and confirmations for 2003. All satisfactory	n/a	3	1	3	None	n/a	green
Instructions are late	3	3	9	No controls at HQ to ensure instructions are sent on time	n/a	n/a	3	1	3	No controls at HQ to ensure instructions are sent on time	n/a	green
Drivers not available	3	3	9	List of drivers available for hire is kept by the compound office	Checked list. It is not regularly updated	G3	3	3	9	Drivers may not be available	n/a	red
Drivers not properly qualified	2	3	6	Drivers documents are checked and copies made	Checked copies exist.	G4	2	1	2	Documents could be forged	n/a	green
Route is blocked	3	2	6	Work with other agencies and the military to plan routes	Check the last plan. Examine dates of collection and delivery	G5	3	1	3	HQ also tries to plan routes	n/a	green

This document is only part of the complete process and inherent risk list which can be found at (reference to the path of the excel document on the FRCA network. For example s:\internal audit\2003_04\audits\146 transport of food\database\146 database.xls).

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
G Residual risks	Residual risks (2)	Griffiths	1-Jul-2004	

Conclusion on:	Criteria		
Risks have been identified, evaluated and managed	Thorough processes have been used and all significant risks should have been identified Score 0,1,2 or 3	Processes have been used, but there are some deficiencies Score: 4	Inadequate, or no, processes have been used Score: 6 or 9
Internal controls reduce risks to acceptable levels	The risk is being mitigated to an acceptable level by the control(s) Score 0,1,2 or 3	The risk is not being mitigated to an acceptable level by the control(s), although the consequence from the risk occurring, or likelihood of the risk occurring, is not considered significant. There is the possibility that some objectives will not be achieved Score: 4	The risk is not being mitigated to an acceptable level by the control(s) and it is probable that some objectives will not be achieved, with significant (material) results (red) or The risk is not being mitigated to an acceptable level by the control(s) and objectives are not being achieved, with significant results Score: 6 or 9
Action being taken to promptly remedy significant failings or weaknesses	The action being taken will result in all risks being mitigated	The action being taken will result in some reduction in risk but not to acceptable levels	No action is being taken, OR Insufficient action is being taken to mitigate risks
The current levels of monitoring are sufficient	No more monitoring is necessary than is done at present	Some additional monitoring is required	Major improvements are required to the monitoring of controls
Colour:	green	amber	red
Grading:	Acceptable	Issues	Unacceptable
Report as	Do not report	Key issue	Key issue

Scores refer to the residual risk “significance” score (= consequence X likelihood)

Internal Audit



Residual risks and conclusions (2)

Route is dangerous	3	2	6	The army escorts convoys	Ask drivers and supervisor about escorts	n/a	3	1	3	None - escorts are provided	n/a	green
No food available!	3	1	3	HQ arrange for food to available in the warehouses	Check loading sheets for the lorries	G6	3	1	3	None - food was available	n/a	green
Fuel not available for lorries	3	3	9	Fuel is stored in the compound	Check fuel tanks	G7	3	3	9	Tanks were empty, although stock records showed they should be full	n/a	red
No loaders	3	1	3	The warehouse provides loaders	Supervisor said no problem in the past	n/a	3	1	3	None	n/a	green
Food is stolen	2	2	4	Army and police provide some protection	Question staff and other agencies about problem		2	2	4	Theft is a problem, but as well controlled as possible	n/a	amber
Lorries are found to be unsuitable for the journey	3	2	6	Lorries are serviced and tested	Request a ride in the lorries		3	2	6	2 lorries were not working due to lack of maintenance (bad brakes)	n/a	red
Check is not complete	2	2	4	Maintenance schedules are signed by the senior mechanic	Check schedules		2	2	4	Scheduled checks not always carried out due to a lack of mechanics	n/a	amber
Action is not taken on faults	2	2	4	Maintenance schedules are signed by the senior mechanic	Check schedules		2	2	4	Repairs not always carried out due to a lack of mechanics	n/a	amber
Lack of mechanics	3	3	9	Two mechanics are on the permanent staff	Talk to mechanics. Examine work sheets		3	3	9	Only one, inexperienced mechanic on the staff	n/a	red
Maintenance checks not carried out thoroughly	2	2	4	Maintenance schedules are signed by the senior mechanic	Check schedules		2	2	4	Scheduled checks not always carried out due to a lack of mechanics	n/a	amber
Repairs not satisfactory	2	2	4	Lorries checked by compound supervisor	Request a ride in the lorries	n/a	2	2	4	1 Lorry was badly damaged	n/a	amber
Repairs not necessary	2	2	4	Request for repairs and spare parts is approved by the compound supervisor	Check request documents		2	2	4	No documents exist for requesting spares	n/a	amber

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
G Residual risks	Residual risks (3)	Griffiths	19-Jun-2004	

Work plan for achieving output

- Ask about controls during the initial discussions to determine the process maps and risks.
- Allocate these controls to the risks they mitigate.
- Add the details about controls, and monitoring, from the walkthrough tests. Score the residual risks, where possible – the control score (inherent risk score minus residual risk score) will automatically be calculated.
- Carry out tests on the key controls.
- Where the control score exceeds three, implying a key control, ensure that testing has been thorough. After all tests have been carried out, re-score the residual risks
- Input the issues (weaknesses) found.
- Decide on the conclusions you are able to come to, at this stage.

Advice for achieving output

- Scoring the consequence and likelihood of residual risks is not easy but it does have to be accurate, since the aim is to decide whether the risks are sufficiently mitigated by controls. This score will help you decide on the overall conclusion for your report. Don't get obsessed by the scores though. The crunch question is, "Are you prepared to put your name against the conclusions in the final report?"
- In scoring consequence ask, "If this risk occurs, taking into account the control(s), does it stop our objective (to deliver food) being achieved?"
 - Definitely/probably – score 3.
 - Maybe – score 2.
 - Unlikely – score 1.
- In scoring likelihood ask, "Taking into account the control(s), how likely is the risk to occur?"
- For most risks, controls will *only* reduce the likelihood of the risk occurring. In other words, if the risk occurs, due to a failure of the control, the consequence will be the same as if the control didn't exist. A control which reduces consequence, as opposed to likelihood, is insurance. In our example, a control which calls in another aid agency to deliver food would reduce the consequence score.
- When assessing the residual risk, *all* controls mitigating it are taken into account thus a score and conclusion is given to each *risk* depending on all the controls mitigating it.
- The need for *four* conclusions seems a bit unnecessary, but these align with the conclusions required in the report, which are driven by the Turnbull Guidance, paragraph 31.

Internal Audit



Residual risks and conclusions (3)

Repairs not necessary	2	2	4	Request for repairs and spare parts is approved by the compound supervisor	Check request documents		2	2	4	No documents exist for requesting spares	n/a	amber
Spares not available	2	3	6	HQ arrange for spares to be shipped out	Talk to supervisor and mechanic. Examine any available documentation		2	3	6	Spares can take months to arrive	n/a	amber
Data lost through computer failure	2	3	6	Not applicable. No computer on site	n/a				0	n/a	n/a	n/a
Staff competencies required have not been identified	1	3	3	Job descriptions are maintained for all jobs	Check for job descriptions of all staff levels		1	3	3	No job descriptions exist.	n/a	green
Actual competencies of the staff have not been matched with required competencies	1	3	3	All staff have two appraisals every year	Check appraisal files		1	3	3	No appraisals are carried out.	n/a	green
Training is not provided	2	3	6	Appraisals identify training needs	Check appraisal files		2	3	6	Mechanics are not trained - but move on too quickly	n/a	red
Staff not allowed to attend training	2	3	6	None	Question staff who have been on courses				0	No courses available	n/a	amber
Loss of the Charity's assets	3	2	6	The compound is surrounded by a high fence	Asked staff about security		3	2	6	The fence is regularly broken down - hence the fuel has been stolen	n/a	red
Documents may not be recorded	1	2	2	None	None				0	Not significant	n/a	Green
Level of protection may not be sufficient	1	2	2	None	None				0	Not significant	n/a	green

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
G Residual risks	Blank	Griffiths	19-Jun-2004	

Advice for achieving output

- The grading of a risk with a score of 3 (that is one with a high likelihood or consequence and low consequence or likelihood) is difficult. In practice, it may not be possible to mitigate and it has to be accepted (green). If there are cost-effective controls which can mitigate it, then it is considered a “supplementary issue” in the report.

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Internal Audit

H Issues



Issues

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
H Issues	Section index H	Griffiths	19-Jun-2004	

Section index H – issues

Purpose of section H

- This section holds documents used for two purposes:
 - Noting issues as they arise, in order to follow them up during the course of the audit
 - Noting down issues for formal discussion, where we consider that the risks are not being properly mitigated by operating controls

Standards for section H

- The referencing of documents in this section is very important. It must be possible to see where an issue arose (meeting, test) and how it was resolved (controls considered satisfactory, or report)

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
H Issues	Issues identified	Griffiths	19-Jun-2004	

H - Potential issues identified

Output of process

A list of issues, made as they arise, with action taken to resolve them.

Standards for output

- The source of the issue (for example, a meeting or phone call) should be noted, although there does not necessarily need to be a formal record of the source.
- How the issue was resolved must be completed before the final issues list is discussed at the close down meeting.
- Where the issue was not resolved, a reference should be included to the document which carries it forward.

Work plan for achieving output

- The document is intended to be used as soon as a potential issue arises. It is therefore always close by the auditors, and hand-written.
- Resolve issues as soon as possible, but when convenient.
- Each auditor needs a list.

Advice for achieving output

- Each auditor should check the other auditor's list to ensure all issues have been resolved.

Internal Audit

Potential issues identified



Transport of food to famine relief camps

Date	Source reference	Issue	Resolution	Destination reference
15 Dec	CAE meeting	Heard that AIDS is bad in this area. What effect is it having?	Covered in test 1	Test 1 and report point 1
16 Dec	EBC news Country profile (on internet)	How safe is DROC to transport food?	Covered in test 6 <i>98</i>	<i>98</i> Ok No action required
6 Jan	Meeting with directors <i>D2</i>	No risk register available for logistics	Report as an issue	Report point 2
2 Feb	Process maps <i>E1</i>	Local office ignores route plans drawn up by <i>H2</i>	Report as an issue	Report point 5
2 Feb	Process maps <i>E1</i>	High level process map requires amending. 4.4 should be included in 4.2	Note as an action for internal audit	
2 Feb	Tour round compound	Compound fence had gaps in it. Possibility of theft. Fuel theft had occurred <i>97</i>	Report as an issue	Report point 1
2 Feb	Tour round compound	One lorry badly damaged	See test 7	Report point 1

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
H Issues	Issues for discussion	Griffiths	19-Jun-2004	

H – Issues for discussion

Output of process

- A list of those risks which we do not consider sufficiently mitigated by controls - known as findings, or issues.
- An updated “Action” column on the database.

Standards for output

- Any risk in the database with an amber or red conclusion should be included (2320).
- Any other important issues arising, which were not necessarily in the original scope, should also be included.
- Each issue should be supported by hard evidence, if possible (2330).
- Issues concerning the same subject, such as the lack of mechanics, should be combined.
- Each issue should be identified with a possible “owner”, that is the person who is able to instigate actions to mitigate the risk to an acceptable level. This owner will be confirmed at the closedown meeting.
- Risks should be identified by owner and significance, as measured by the residual risk.

Work plan for achieving output

- From the audit database, extract the issues, combining them as necessary.
- If separate close-down meetings are required with different auditees, set up a separate issues sheet for each.
- The implications of the finding should be determined, ideally a monetary amount - this will give the significance of the finding.
- Any recommendations to be made can be noted, however it is management’s prime responsibility to decide on the action to mitigate the risk.
- If appropriate, discuss the issues with the people handling the transactions, to ensure they understand that the issue will be raised with their manager.
- Arrange a working a working paper [review](#) before finalising issues.
- Update the database conclusions, including the “Action” column.

Advice for achieving output

- If the issue is anecdotal, that is you only know about it through conversations, present it as such (or not at all).

Internal Audit

Issues for discussion (1)



Transport of food to famine relief camps

Discussed with: F Higson, J Mulonja, C Mwefu, M Agbaw

Date: Feb 4, 2004

Ref	Grade	Issue	Implication	Recommendation	Comment/Action	Action by	Report ref
Audit dbase	red	No detailed risk assessment carried out	Cannot ensure all necessary controls are present, with potential failure to deliver food	Risk assessment exercise should be carried out	A risk assessment will be carried out as part of the contracting process (see below)	Logistics Director	2
Audit dbase (4.2.1)	green	No controls at HQ to ensure instructions are sent on time	The country may not be informed promptly about delivering food aid. In practice this is unlikely, since HO and the Country Office are in constant communication.	Country Director to assume responsibility for notifying the country office	Agreed	Country Director	3
G3	red	List of drivers is not maintained	Drivers may not be available	Keep list up-to-date	Not practical as drivers come and go so rapidly. See recommendation about using contractors	N/a	1
G5	green	HQ plans routes to famine relief areas but these are not used	Inefficient	Local office to plan routes	Agreed	Country Director	4

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
H Issues	Issues for discussion (2)	Griffiths	19-Jun-2004	

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Internal Audit



Issues for discussion (2)

Ref	Grade	Issue	Implication	Recommendation	Comment/Action	Action by	Report ref
G7	red	Fuel tanks were empty due to theft from compound	Aid may be delayed due to finding fuel	Make site secure	Only possible using a full time guard – and then not guaranteed. Contractors will be used	N/A	1
Audit dbase (4.2.6)	amber	Theft of food is a problem, but as well controlled as possible	Some food will not reach the relief camps	None	N/A	N/A	N/A
Audit dbase (4.3.1)	red	2 lorries were not working due to lack of maintenance (bad brakes)	Some food may not be delivered to the camps	Use contactors	The use of contractors is to be considered	Logistics Director	1
Audit dbase (4.3.1)	amber	Scheduled checks not always carried out due to a lack of mechanics	Lorries may not be available to deliver food				
Audit dbase (4.3.1)	amber	Repairs not always carried out due to a lack of mechanics					

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
H Issues	Issues for discussion (3)	Griffiths	19-Jun-2004	

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Issues for discussion (3)

Ref	Grade	Issue	Implication	Recommendation	Comment/Action	Action by	Report ref
4.3.1	red	Only one, inexperienced mechanic on the staff	Lorries may not be available when required to deliver food, thus seriously affecting the charity's primary objective of famine relief	Use contractors	The use of contractors is to be considered	Logistics Director	1
4.3.3	amber	1 Lorry was badly damaged					
4.3.3	amber	No documents exist for requesting spares					
4.3.3	amber	Spares can take months to arrive					
6.7.1	green	No job descriptions exist.	Staff do not understand their responsibilities and essential jobs won't get done	Job descriptions should be written	Job descriptions will be written by the end of March 2004	Country Manager	3
6.7.2	green	No appraisals are carried out.	Staff do not work at their maximum potential	Targets should be set and appraisals carried out	Targets will be set by the end of March and staff will be appraised on these by the end of September	Country Manager	3

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
H Issues	Issues for discussion (4)	Griffiths	19-Jun-2004	

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Internal Audit



Issues for discussion (4)

Ref	Grade	Issue	Implication	Recommendation	Comment/Action	Action by	Report ref
6.7.3	green	Mechanics are not trained - but move on too quickly	Insufficient mechanics available to ensure lorries are maintained	Use contractors	As above	As above	1
6.7.3	amber	No courses available to train staff	Staff are not able to carry out their jobs efficiently and effectively	Staff managing the contractors should be properly trained, using in-house, or European courses, if necessary	We will ensure staff are trained as part of the introduction of contractors	Country Manager	3
6.8.1	red	The security fence is regularly broken down - hence the fuel has been stolen	Lack of fuel may hinder delivery of food	Use contractors	As above	As above	1

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
H Issues	Blank	Griffiths	19-Jun-2004	

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Internal Audit

I Draft report



**Draft
report**

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Section index I	Griffiths	19-Jun-2004	

Section index I – draft report

Purpose of section I

- Versions of the draft report, together with related covering notes and comments received are filed in this section

Standards for section I

- The section should contain the original draft report circulated, together with all the documents commenting on the report
- Where comments have resulted in changes to the report, these should be referenced to ensure the reasons for changes can be substantiated

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Draft report (1)	Griffiths	19-Jun-2004	

I – Draft report

Output of process

- A report, giving a conclusion on whether the risks threatening the objectives are being mitigated to acceptable levels (2410.A1).

Standards for output

Report layout and content

- The report to follow the standard layout, unless the CAE agrees that a different layout is more appropriate.
- When sending draft reports which have been updated, show the amendments made (use “revision marking”).
- If the audit does not comply with the standards, the report should state (2430):
 - Standards where full compliance was not achieved.
 - Reasons for non-compliance.
 - The effect on the audit.
- The version of the draft report circulated should be protected to prevent amendments, and a copy placed in the audit file. Use File/Save as/tools to set a password, or recommend as “read only”.
- Save another version of the draft report to form the final report.



Transport of food to famine relief camps

Draft Report
23 February 2004

J Smith
I Khan

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Draft report (2)	Griffiths	19-Jun-2004	

Standards for output (cont)

Summary of conclusions

- The first page should show:
 - The significance of the processes to the charity. This is based on the inherent risk score in the Risk Register.
 - The conclusions reached on each of opinions required (see below)

Grading:	ACCEPTABLE	ISSUES	UNACCEPTABLE
Colour:	green	amber	red
Conclusion on:	Wording		
Risks have been identified, evaluated and managed	Thorough processes have been used	Processes have been used, but there are some deficiencies	Inadequate, or no, processes have been used
Internal controls reduce risks to acceptable levels	Risks are being mitigated to acceptable levels (although some action may be required – note in “Supplementary issues”).	Risks are being mitigated to acceptable levels, except for the significant risks noted and there is therefore the possibility that some objectives will not be achieved	Risks are not being mitigated to acceptable levels and it is probable that some objectives will not be, OR are not being achieved
Action being taken to promptly remedy significant failings or weaknesses	The action being taken will result in all risks being mitigated to acceptable levels	The action being taken will result in only some risks being mitigated to acceptable levels	No action is being taken, OR Insufficient action is being taken to mitigate risks
The current levels of monitoring are sufficient	No more monitoring is necessary than is done at present	Some additional monitoring is required	Major improvements are required to the monitoring of controls

Conclusions

Significance of the processes to the organisation	HIGH
Risks have been identified, evaluated and managed	UNACCEPTABLE
Internal controls reduce risks to acceptable levels	UNACCEPTABLE
Action is being taken to promptly remedy significant failings or weaknesses	ACCEPTABLE
The current levels of monitoring are sufficient	ISSUES
Overall conclusion: a sound system of internal control is being maintained	UNACCEPTABLE

Contents

Executive summary	1
Key issues	2
Supplementary issues	5
Circulation list	5

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Draft report (3)	Griffiths	19-Jun-2004	

Standards for output (cont)

Introduction

- If the audit was requested by the auditee, the introduction should note this.

Report conclusion

- The conclusion should provide, for the processes audited, an opinion on whether:
 - Risks have been properly identified, evaluated and managed.
 - Internal controls are operating properly to mitigate these risks to levels defined as acceptable by board policy.
 - Action is being taken to improve controls, where risks are not being properly mitigated.
 - More monitoring, by management, is necessary to ensure proper internal controls into the future.
- An overall conclusion should be given as to whether a sound system of internal control is maintained for the processes audited (2410.A1).
- The wording and scoring of conclusions is shown on the previous page.
- An “amber” or “red” conclusion must be supported by a summary of the key issues which cause it. Details should be reported in the later section.
- If any key issues are being reported, the report should usually be graded “amber” or “red”. A key issue is one which affects the achievement of any objective noted in the scope.
- For the conclusion on internal controls, where the conclusion is “amber” or “red”, specify which objectives are not being met, or are being threatened by risks which are not properly controlled.

Report distribution

- If any conclusion is “red”, or “amber”, the entire report should be sent to all on the circulation list. If all conclusions are “green”, only the executive summary is sent to directors – “Supplementary issues” need not be sent.
- The report should be approved by the CAE before issue.
- The audit database should be sent with the report, but only to managers directly involved with the processes, unless requested by directors.
- The report must be proof read directly before distribution by someone who has not been associated with the audit.



1-Executive Summary

Introduction

The Charity's risk analysis has identified significant risks to its operations from the processes involved in transporting food from the ports and warehouses in the Democratic Republic of Congo (DROC) to the famine relief camps. Since delivery of food is vital to the primary objectives of the charity, it is essential that this element of the supply chain operates properly.

This audit was therefore carried out to examine the controls mitigating the risks threatening the objectives below. The scope for the audit is attached to this report.

Objectives of the processes

The processes examined are detailed in the attached scope and are those which deliver the following objectives:

- To arrange land transport for transport of food to the relief camps.
- To maintain the lorries required to deliver the food.

Issues

The following significant issues were discovered during the course of the audit:

- Risks threatening the above objectives were not identified.
- Lorries and drivers are not available, at short notice, to deliver food.
- Staff management procedures were not followed.

Full details of these, and other issues, are included in section 2.

Conclusions

- Risks affecting the supply chain have not been properly identified. This is partially due to the security situation in DROC. Risks will be evaluated as part of the changes to the supply chain. (Grading: unacceptable).
- The issues found indicate that internal controls are not operating properly and the objectives noted above may not be achieved. (Grading: unacceptable).
- Action is being taken by the Logistics Director to change the supply chain which, together with ensuring controls exist in the new processes, will reduce risks to acceptable levels. (Grading: acceptable).
- As part of the new systems, the monitoring of controls by management will be introduced. (Grading: Issues – because the monitoring needs to be defined).

Based on the above findings, our overall conclusion is that a sound system of internal control is not being maintained for the processes audited and that urgent action is required to ensure this essential operation does not jeopardise the charity's main objective of relieving famine.

The full list of risks, controls, tests and issues is attached to the managers' copies of this report. This shows that of 29 risks, 20% are properly controlled.

A follow-up audit of the actions noted in this report will be carried out in July 2004.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Draft report (4)	Griffiths	19-Jun-2004	

Standards for output (cont)

Report distribution (cont)

- The draft report should be agreed with the managers directly involved, before giving it a wider circulation. Indicate in the circulation list who is to receive the draft and final reports.
- If the report is extensively amended as a result of comments received, re-circulate it as a second draft.

Follow up

Where action has been agreed to address issues raised, the date of the audit to check this action should be noted in the executive summary.

Issues

- Where possible individual issues from the database should be combined, and put in order of priority.
- Issues should contain:
 - Observation – what we found
 - Implication – what risks could occur and which objectives are affected. Include a monetary measure, if possible
 - Options – what can be done to reduce the risk to acceptable levels. (Include only if there are options).
 - Recommendations to ensure risks are mitigated to acceptable levels (not necessary if the action has been agreed).
 - The action to be taken, by whom (job title) and when it will be complete. This should include additional monitoring of controls, if necessary.
- Issues should be split into *Key* and *Supplementary* issues. *Key* issues are those which significantly affect the achievement of the objectives. They will have been graded “red” or “amber” on the database. *Supplementary* issues will have residual risk scores of 3 and have been graded “green”. These issues should only be included where it is clearly cost-effective to reduce risks.
- Recommendations should be brief. Any justification for the recommendation should be included in the “implication” paragraph above.
- Action on key issues is essential to reduce risks, action on supplementary issues is not essential but will improve control and efficiency.
- *On the file copy*, all issues should be referenced back to the supporting working papers to provide evidence, if challenged.



2-Key issues

A key issue is a significant risk which is not sufficiently mitigated by controls and therefore prevents some objectives being achieved

1 – The full fleet of lorries is not available for the transport of food *Risks 4.2.2, 4.2.6, 4.3.1|2|3, 6.7.3, 6.8.1*

Observation

The charity operates eight lorries but one was badly damaged and two were not road-worthy. The audit found several issues which prevented the full fleet being available:

- There is a shortage of available drivers in DR Congo
- There is a lack of suitably trained mechanics
- Spare parts take months to arrive
- Fuel is stolen from the compound
- The lorries are old

Implication

These issues affect both the objectives covered by this audit. If sufficient lorries are not road-worthy, and drivers not available to drive them, there is a significant risk that the charity will be unable to deliver food to the starving, and people may die. It is therefore vital that well maintained lorries are available, at all times, with drivers.

Options

Two options are available:

- Improve the existing processes by taking action to recruit, train and keep drivers and mechanics.
- Contract out delivery of food

Discussions with the Lorry Supervisor indicate the first option would be difficult and expensive. Both drivers and mechanics are not easily recruited. He advises the second option and we agree with this. All other charities operating in the region use contractors and we can learn from their experience. The impact on staff would not be great; the Lorry Supervisor wishes to join his brother's business and the Administration Assistant will move to the main office. All other staff have left.

We were asked to consider the risks and controls required if contractors were used and have carried out a risk workshop and distributed the results.

Action being taken

The Logistics and Country Director (DR Congo) will appoint a contractor by the end of March.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Draft report (5)	Griffiths	19-Jun-2004	

Standards for output - issues(cont)

- Where you receive comments on a draft report, either in writing or verbally, and decide not to make any changes, ensure your reasons are given to the person making the comments.

Work plan for achieving output

- The draft report should be written from the closedown meeting and list of issues.
- If the report contents are likely to be contentious, arrange a meeting to discuss the report when it is circulated.

Advice for achieving output

Before writing

- Consider your readers:
 - Why should they bother to read the report? Make this clear in the first paragraph. Include figures at risk where possible.
 - What impression do we wish to leave them with when they have read the report:
 - Everything's fine, except possibly for a few minor issues.
 - Everything's OK but there are one or two issues which you, the reader, should address.
 - You're in trouble. There are significant issues and the processes are not operating properly, or may fail in the near future.
 - What action is the reader expected to take, and by when?
- If you could sum up the impression we want the report to give in one sentence, what would it be? Make sure it's in the conclusion (2420)!

Issues

- The issues included in the summary need only be in brief and sufficient to support the conclusions. The details should be included in section 2.
- Where issues are found which were mentioned by managers or staff, or are not within the original scope – make this clear.
- If any issues are controversial, or were discussed some time ago, discuss the wording of the draft report with interested parties before generally circulating it.
- Consider putting anecdotal evidence, and minor points, in a letter to the manager concerned.
- Where recommendations are directed towards the organisation, and represent part of a larger problem, this needs to be clearly stated in the conclusion, in order to have impact at board level.
- As with the closedown meeting, suggest that key issues are discussed with senior management before the issue of the final report.



2 – Risks have not been identified *Risks: identify/evaluate/manage*

Observation

Risks in the supply chain were not identified.

There was no monitoring to ensure a risk register existed.

Implication

Risks cannot be controlled if they are not evaluated. Unforeseen risks could occur which could jeopardise the entire supply chain for DR Congo.

Action being taken

Risk workshops have already been held to identify the risks resulting from the move to using transport contractors. These risks have been entered in a register, which is being updated every two weeks in meetings between the Logistics Director, Country Director and Country Manager. The controls required have been identified and agreed with Internal Audit, and are being implemented as they are required.

Internal Audit has been charged, by the Audit Committee, to ensure the risks register is kept up-to-date for all processes and that this is confirmed to them at each quarter's meeting.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Draft report (6)	Griffiths	19-Jun-2004	

Advice for achieving output (cont)

Conclusion

- See “Before writing” above. Have you said this?
- Remember that your report may be printed on a monochrome (black and white) printer. If you have used colour, for example in charts, check they can be understood in greyscale.

Further reading

- Reports need to be understood. Plain English is important. Try their web site at <http://www.plainenglish.co.uk/index.html>
- *Turnbull Guidance paragraph 30 (London Stock Exchange Combined Code)*: The reports from management to the board should, in relation to the areas covered by them, provide a balanced assessment of the significant risks and the effectiveness of the system of internal control in managing those risks. Any significant control failings or weaknesses identified should be discussed in the reports, including the impact that they have had, could have had, or may have, on the company and the actions being taken to rectify them. It is essential that there be openness of communication by management with the board on matters relating to risk and control.
- *Turnbull Guidance paragraph 31*: When reviewing reports during the year, the board should:
 - consider what are the significant risks and assess how they have been identified, evaluated and managed.
 - assess the effectiveness of the related system of internal control in managing the significant risks, having regard, in particular, to any significant failings or weaknesses in internal control that have been reported.
 - consider whether necessary actions are being taken promptly to remedy any significant failings or weaknesses.
 - consider whether the findings indicate a need for more extensive monitoring of the system of internal control.



3 – Staff management procedures were not followed

Risks: 6.7.1/2/3

Observation

Procedures for managing staff have not been followed. In particular:

- Staff do not have job descriptions
- Staff have not been trained
- Staff have not been appraised

The lack of staff procedures indicates that management have not been monitoring their existence.

Implication

While we appreciate that staff management is very difficult in the environment in which the charity operates, staff need to clearly understand their responsibilities, be trained how to carry them out and be appraised on their performance. Failure to do this could result in essential jobs not being completed, or not being carried out with the highest degree of competence. Staff morale will suffer and the Charity's operation in DR Congo will be run inefficiently, affecting both objectives.

Options

The closure of the lorry compound will result in staff having to manage the contractors. These staff must clearly understand their responsibilities and be properly trained.

Action being taken

- All staff in DROC will have job descriptions and targets by the end of March 2004, written by the Country Manager.
- All staff will be appraised at the end of September 2004 by the Country Manager.
- Training will be arranged by the Country Manager as part of the move to contract transport.
- The Country Director will monitor that all staff have job descriptions, targets and appraisals from April 1, 2004.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Draft report (7)	Griffiths	19-Jun-2004	

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3-Supplementary issues

These arise from inherent risks which are within the risk appetite, as defined by the Trustees, and therefore do not affect the achievement of the key objectives. Action on these issues would improve control and efficiency.

Observation	Implication	Action
4) There are no controls at HQ to ensure that instructions to distribute food are sent on time <i>Risk 4.2.1</i>	The country may not be informed promptly about delivering food aid. In practice this is unlikely, since HO and the Country Office are in constant communication.	The Country Director to immediately assume responsibility for formally notifying the country office
5) HQ plans routes to famine relief areas but these are not used <i>Risk 4.2.2</i>	This is an inefficient use of resources, costing approximately £5,000 p.a.	The local office to plan routes, with immediate effect

Circulation

Name	Job title	Draft	Final
P Dawson	Finance Director	-	✓
F Higson	Logistics Director*	✓	✓
J Mulonja	Country Director (DR Congo)*	✓	✓
C Mwefu	Country Manager*	✓	✓
M Agbaw	Lorry Supervisor*	✓	✓

A copy of the audit database, showing the full processes, risks and controls audited, is being sent to the managers(*) directly involved, with this report.

A summary of this report will be sent to the Audit Committee. The Audit Committee and external auditors have the opportunity to review the complete report.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Letter	Griffiths	19-Jun-2004	

I – Letter with draft report

Output of process

A letter, or e-mail, which is sent with the draft report.

Standards for output

- The contents of the letter should:
 - Summarise the conclusions.
 - Note that an executive summary is included in the first pages of the report.
 - Give the date by which comments should be made, usually two weeks after the circulation.
 - Indicate who is to receive the draft report.
 - Thank the people involved for their help during the audit, if appropriate.
- The letter is sent from the auditor in charge.

Work plan for achieving output

- The letter is written when the report is ready for sending.
- If the report is likely to be controversial, consider asking the CAE to review the letter.

Advice for achieving output

- Ensure the date set for receiving comments is reasonable. Take into account holidays and periods out of the office.

Internal Audit



Memo

To: F Higson	Logistics Director	From: J Smith
J Mulonja	Country Director (DR Congo)	Auditor
C Mwefu	Country Manager	Internal Audit Department
M Agbaw	Lorry Supervisor	Head Office
		Date: 23 February 2004

Draft report on Transport of food to the camps

Please find attached the draft report on the audit of “Transport of food to the camps”. We are also sending a copy of our risk and control database, should you wish to see how we reached our conclusions.

As we confirmed in our discussions with you, the overall conclusion is that a sound system of internal control is not being maintained. We are satisfied that action is being taken to correct the weaknesses found.

An executive summary is included in the first page of the report.

We would like comments on the report by March 8. Please let me know if this likely to cause problems.

The draft report is being sent to the staff listed above. The final report will also be sent to the finance director, and will also be available to the external auditors and audit committee.

Would you please pass onto your staff our thanks for all the help and hospitality they provided during this audit.

Regards

J Smith

I Khan

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
I Draft report	Blank	Griffiths	19-Jun-2004	

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Internal Audit

J Final report



**Final
report**

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
J Final report	Section index J	Griffiths	19-Jun-2004	

Section index J – final report

Purpose of section J

- To hold the final report, covering letters sent with the report, and comments received as a result of the report.

Standards for section J

- A paper copy of the report circulated must be filed, in case the electronic version should be lost or altered.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
J Final report	Final report (1)	Griffiths	19-Jun-2004	

J - Final report

Output of process

- A report, giving a conclusion on whether the objectives of the processes audited are being, and will be achieved.
- Where appropriate, details of the action to be taken, with times, to reduce risks to acceptable levels.

Standards for output

- The report to be approved by an audit manager or the chief audit executive before issue, to ensure the actions agreed are satisfactory (2440).
- The report to be proof read directly before distribution by someone who has not been associated with the audit.
- If the report is scored as “amber” or “red”, consider setting up a meeting to deliver the report and discuss the issues.
- If the final report contains a significant error or omission, the CAE should communicate the corrected information to all recipients of the final report (2421).
- If reports are to be sent outside the charity, they should be marked “Confidential”, and a covering letter sent stressing the report should not be distributed further without the charities permission (2410.A3). Except where distribution is required by law, the CAE should assess the risk to the charity and consult as appropriate (2440.A2).
- Audits requiring follow-up to ensure the implementation of recommendations should be noted on the audit database (2500).
- Where the CAE believes management have accepted a residual risk which is greater than the risk appetite of the organisation, the CAE should discuss the matter with the relevant senior management. If the matter is not resolved, it should be referred to the Board and/or Audit Committee, as appropriate (2600).
- Where relevant, bind and issue final reports with a covering letter.

Internal Audit



Final report

As the final report is very similar to the draft report, it is not repeated here to save space.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
J Final report	Final Report (2)	Griffiths	19-Jun-2004	

Work plan for achieving output

- Just before comments are due on the draft report, phone the people who haven't responded to check that they are on target to reply.
- Chase for replies not received on time.

Advice for achieving output

- If people are late in replying, and do not respond to reminders, tell them that the final report will be distributed on a particular date, so if they haven't replied by then, this will be noted.
- If e-mailing the report, remember that lovely coloured charts may not be clear if the recipient prints them in "greyscale". So print them in "greyscale" yourself to check.

Internal Audit

Final report

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Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
J Final report	Letter with final Report	Griffiths	19-Jun-2004	

J – Letter with final report

Output of process

A letter, or e-mail, which is sent with the final report.

Standards for output

- A covering letter should be sent with the report:
 - Indicating the overall conclusion.
 - Noting the action which is being taken on any issues (2440.A1).
 - Where action is not being taken, noting that senior management have accepted the risks (2500.A1).
 - Noting any special action the recipient should take.
 - Specifying who they should contact in the event of a query.
- The letter is sent from the CAE.

Work plan for achieving output

- The letter is written when the report is ready for sending.
- If the report contains serious issues and/or proper action is not being taken, consider briefing the finance director.

Internal Audit



Memo

To: P Dawson	Finance Director	From: P Jones
F Higson	Logistics Director	Chief Audit Executive
J Mulonja	Country Director (DR Congo)	Internal Audit Department
C Mwefu	Country Manager	Head Office
M Agbaw	Lorry Supervisor	Date: 8 March 2004

Final report on Transport of food to the camps

Please find attached the Final report on the audit of “Transport of food to the camps”.

The overall conclusion is that a sound system of internal control is not being maintained. We are satisfied that action is being taken to correct the weaknesses found.

An executive summary is included in the first page of the report.

A summary of this report will be sent to the audit committee and the full version will be available to the external auditors and audit committee.

If you have any queries on the report, please contact me

Regards

P Jones

Chief Audit Executive

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
J Final report	Blank	Griffiths	19-Jun-2004	

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Internal Audit

Quality control



**Quality
control**

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Section index K	Griffiths	19-Jun-2004	

Section index K – quality control

Purpose of section K

- To file those documents used to record the quality control checks carried out during the audit (1311).

Standards for section K

- Review notes and proof reading checklists are filed in the audit file.
- Feedback, targets and appraisal documents are filed in the respective auditors' personnel files. (They are included in this file for convenience).

Internal Audit

Section index K –Quality Control



Transport of food to famine relief camps

Contents	Ref
Review notes – after risks scored (<i>not included</i>)	K1
Review notes - prior to closedown meeting	K2
Review notes – draft report (<i>not included</i>)	K3
Review notes – final report (<i>not included</i>)	K4
Review notes – file before filing (<i>not included</i>)	K5
Proof reading	K6
Feedback - J Mulonja	Personnel file
Feedback - F Higson (<i>not included</i>)	Personnel file
Individual targets – J Smith	Personnel file
Individual targets – I Khan (<i>not included</i>)	Personnel file
Individual appraisal – J Smith	Personnel file
Individual appraisal – I Khan (<i>not included</i>)	Personnel file

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Review notes	Griffiths	19-Jun-2004	

K - Review notes

Output of process

- Document noting comments from the reviews carried out on the audit documentation.

Standards for output

- The document must always be used by a reviewer to ensure action is taken on the points raised.
- The name of the reviewer, and date the review takes place, should be noted.
- The point in the audit at which the review takes place should be noted. The CAE must carry out a review (2340):
 - After the risks have been scored.
 - After the issues have been included on the database.
 - After the issue of the final report.
- The reference number where the point arose should be noted.
- The action taken should be noted and, where necessary, the source document should be corrected and its reference shown.
- The auditor is responsible for noting the action taken.
- All points should be cleared before the approval of the final report.
- The nature of the comments made will influence the appraisal of the auditor.
- Reports should be accurate, objective, clear, concise, constructive, complete, and timely (2420).

Work plan for achieving output

- Gives sufficient notice to the reviewer that a file review is required.
- Reviews, other than those noted above, may be carried out at any time during the audit. The table on the next page gives details.
- Other than the CAE, reviews can be carried out by auditors not involved in the audit (“colleagues”), staff with specialist skills or anyone who has the appropriate skills!

Advice for achieving output

- Reviewing files can be so boring. Set yourself a target to do so many sections in 30 minutes, before having a break and doing other work.

Internal Audit

Review notes



Transport of food to famine relief camps

Review stage: *End of Audit Review* date *12-Mar-04* Review by: *P Jones*

Source reference	Review point	Action on point	Action reference
<i>71</i>	<i>Load fuel not noted as a process on E2</i>	<i>Noted – but E2 will not be amended as it will change, due to contractors to be used</i>	<i>OK</i>
<i>#1</i>	<i>Insert destination references</i>	<i>Done</i>	<i>#1</i>
<i>Audit database</i>	<i>Complete the conclusion columns on the database. The "Action" and "Monitor" columns are blank</i>	<i>Done</i>	<i>Audit database</i>
<i>Risk database</i>	<i>Update this database to reflect the changes to the use of contractors.</i>	<i>To be done!</i>	

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Review notes (2)	Griffiths	19-Jun-2004	

Possible audit stages for review

When	Purpose	Who
Sign off of scope	Confirm scope clearly sets out the aim and boundaries of the audit	CAE
Processes documented	To decide on the direction for the rest of the audit To identify absolute risks and score them	Colleague
Throughout audit	Audit is in accordance with the scope (or scope needs amending), diary being written, meetings being documented and referenced, and “stakeholders” being informed of progress	Auditor in charge
Processes, risks and proposed tests documented	Ensure all risks have been identified and testing covers all key controls	CAE
Prior to the close down meeting	File review to ensure: The work outlined in the scope has been carried out Sufficient work has been carried out to justify the conclusions made Issues are raised: where risks are not properly mitigated by controls; or controls have been tested and found to be ineffective Issues raised in the report can be easily traced back to supporting evidence (tests, interviews) The documentation is complete and follows standards set out in the manual, amended as appropriate	Colleague CAE
Draft report ready for circulation	Check to ensure that the report properly represents the conclusions of the audit work and that the presentation and English are to the standards expected	CAE
Proof read draft and final reports	Sign off to ensure that the report adheres to layout standards, no errors, spelling mistakes	Colleague
Final report ready for circulation	Sign off to ensure that the report is suitable for circulation	CAE
End of audit	File conforms to “model file”, in particular all issues are referenced	CAE

Internal Audit

Review notes (2)

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Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Proof reading	Griffiths	19-Jun-2004	

K - Proof reading

Output of process

- A checklist showing that the document has no errors.

Standards for output

- All important documents, including the final scope, draft and final reports, must be proof read immediately prior to sending.
- A document should be proof read by someone totally unconnected with it, but who understands the standards it must be judged against.
- A black-and-white printed version of the document should be used.
- If a document only requires minor amendments, only these amendments need be checked in the final document.
- If a document has many amendments, it must be proof read again
- If the document, such as accounts, contains totals, they must be checked with a calculator. Spreadsheet formulas must not be relied on, as they can introduce rounding errors. If calculations are too complex to repeat with a calculator, the spreadsheet formulas should be independently checked. The degree of checking will depend on how the results are used.
- Required amendments should be clearly marked, preferably in red or another clearly visible colour.

Work plan for delivery

- Request a suitably knowledgeable person to proof read the document. Give them the checklist and, if necessary make sure they understand it.
- It is probably better to proof read the document several times, looking for particular aspects each time, such as layout, then page numbers, then punctuation, and so on.

Advice for achieving delivery

- The purpose of proof reading is to check the layout of the report and accuracy, with regard to punctuation, spelling (including accents in some languages such as French and Spanish) and grammar.
- The purpose of reviews is to ensure the document is technically correct and understandable. They will not necessarily detect errors found by proof reading.
- The audit report is our audit department's "product". If it is faulty in any way, it removes credibility from the department. Some managers will take the view that, if we can't get our apostrophes (or accents) correct, the conclusion in the report cannot be correct either!

Transport of food to famine relief camps

Document: *Final report* Proof read*H Bradshaw*

Layout	Checked
Follows standards in the manual	√
Page breaks to ensure titles not at bottom of page	√
Page numbers start on first narrative page	√
Page numbers correct on Contents page	√
Headers and footers correct throughout	√
Dated, author's name included	√
If numbering used for sections, these are all consecutive	√
Titles, paragraphs, diagrams are all correctly aligned	√
Font sizes and type are consistent	√
Reading	
No spelling mistakes (don't rely on the spell checker!)	√
Punctuation correct, including apostrophes	√
No initials or acronyms used without explanation	√
Circulation list – names spelt correctly	√
All appendices are referred to in the report	√
All totals, and any other calculations, checked (if appropriate)	N/A

A tick in the “Checked” column shows that the document has been checked for the requirement noted, **not** that no errors were found.

Where errors are found, clearly mark the report and refer them to the author for correction.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Feedback (1)	Griffiths	19-Jun-2004	

K - Feedback

Output of process

- A document recording the opinions of auditees on the conduct and conclusions of the audit which is used to:
 - Improve audit procedures
 - Act as a basis for the auditors' appraisals

Standards for output

- The document is completed by the CAE during a discussion, preferably face-to-face if possible, with individual auditees affected by the audit.
- Auditees should generally be seen individually.
- The feedback document is for guidance only during the meeting.
- The document should record the auditees views, and **not** any excuses from the audit department where the work did not meet the auditee's expectations.
- Improvements to the audit process ("learnings"), necessary as a result of the feedback should be noted on the form, together with the action taken.
- The completed document should be sent back to the auditee to confirm the record of their views.

Work plan for delivery

- Arrange a meeting with the auditee in a location where you will not be overheard.
- Send a note:
 - confirming the meeting
 - giving reasons for the meeting
 - asking the auditee to consult with colleagues affected by the audit for any comments they may have
- Hold the meeting, noting comments on the form.
- Type comments into the form, send it to the auditee requesting confirmation that it represents their opinions.
- Use the agreed comments for the staff project appraisals.

Internal Audit



Feedback (1)

Transport of food to famine relief camps

Feedback from:

J Mulonja

Date: 16-Mar-04

Did we:	What we did well	What we could do better
Planning		
Clearly explain the reasons for the audit?	The audit was requested by F Higson and J Mulonja	We did not explain this was the case in the report
Explain how the audit was to be done?	Care was taken to explain the full audit process	
Include your wishes, priorities and concerns in the Scope?	The scope was good	
Fieldwork		
Keep you informed of progress throughout the audit?	The directors were kept informed	
Involve you, and your staff, to ensure the audit was carried out efficiently and effectively?		We assured the directors that the auditors were fluent in French but it was poor at the start of the audit
Reporting		
Discuss issues with you at the appropriate time?	Issues were discussed when they arose	
Make recommendations, and agree actions, which improved control and were appropriate to the situation	Recommendations were practical. The auditors understood the difficulties faced in DR Congo	The director considered that they had already suggested the action proposed in the report
Produce a report which completely fulfilled the objectives noted in the scope?	The report achieved the objectives noted in the scope. We agreed with the conclusions	The report should have given the directors credit for requesting the audit and suggesting the action necessary
Carry out the audit within your expected timeframe?	Report was received when expected	

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Feedback (2)	Griffiths	19-Jun-2004	

Advice for achieving delivery

- As noted above, the form is for guidance only. In practice you will find most of the discussion goes under “Other comments”!
- Always have a discussion, even if over the phone. If you just send the document, you may not get a full, honest, response, even if you get a reply.
- Record the comments accurately, even if you disagree with them. Remember:
 - He/she could be right!
 - Whether they are right, or wrong, they are probably passing these comments to their staff and managers/directors. It is vital you know their views so that you are in a position to correct them.
- Don’t use the meeting to argue against their views or make excuses. You may need to stress that you don’t agree with them, but that you will record their views.
- Make sure you extract the learnings and act on them. Even if mistakes were made in the audit, showing that you are taking action to correct them will improve your status. Don’t forget to learn from what the audit did well!
- Remember to obtain auditees, views about how well the auditors worked, as well as the audit process.

Internal Audit



Feedback (2)

Other comments:

Both auditors worked well with all staff, despite the fact that their French was very “rusty” at the start of the audit.

The above notes should be an accurate reflection of the comments made during our meeting. If you disagree with them, please let me know. (The inclusion of comments doesn't necessarily mean we agree with them, but we will learn from them, as noted below)

P Jones, Chief Audit Executive (phone 2316)

Learnings going forward:

Action

Staff were not fluent in French

Send staff on language courses before foreign-language audits

The report did not clearly state that the audit had been requested by the auditees

The manual has been amended to note that the introduction should include a comment if an audit was requested by an auditee

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Targets	Griffiths	19-Jun-2004	

K - Targets

Output of process

- A document showing the targets which an individual auditor should aim to reach during the course of an audit and which will form the basis of his/her appraisal.

Standards for output

- Targets must be SMART:
 - **Specific:** a clear outcome (“deliverable”) from the work.
 - **Measurable:** it must be possible to know, without doubt, that the target has been achieved.
 - **Achievable:** it must be possible to achieve the target, by the auditor concerned.
 - **Realistic/relevant:** the target should be related to the work and objectives of the auditor.
 - **Time-related:** a time should be set by which the target should be completed.
- Targets set for an audit should be related to those set for the annual appraisal, so that the audit appraisals can build up to the annual appraisal.
- The standard form, based on the targets for the year, should be used. This should be amended by any specific targets required, which might arise from previous audits, for example, fewer changes required to the draft report.
- A written version of the targets should be given to the auditor within a week of the initial briefing session.

Work plan for achieving output

- The targets are discussed with the auditor just after the initial briefing session.
- If, during the course of an audit, it becomes obvious that an auditor will not meet a target, he/she should be informed immediately. This provides an opportunity for improvement.

Advice for achieving output

- The measurements are a bit negative, since there is reliance on the absence of bad points, as opposed to the presence of compliments!
- The feedback from managers should look for compliments, as well as criticism.
- The targets such as, “Improve relations with the auditees” are not included. Such targets would not be easy to measure and, in most cases, the auditor would not achieve the other targets without good relations. It is also possible for relations to be poor with an incompetent manager who receives a “red” report, or for good relations with a manager where the audit was not sufficiently thorough.

Transport of food to famine relief camps

Auditor: J Smith

Target	Measurement for “competent”
The audit scope will include the work necessary to fulfil the appropriate part of the audit plan	Audit scope agreed by the CAE and management, without significant alteration
The audit will achieve the work detailed in the scope	The CAE review, pre close-down meeting, does not require any further work to complete the objectives set out in the scope
Sufficient work will be done to reach the conclusions required	The CAE reviews do not require additional work in order to ensure the conclusions are backed-up by sufficient evidence Feedback from management shows they are satisfied with the work done, including the auditor’s understanding of the constraints involved
All necessary issues will be raised	Reviews of the risks/controls/tests database do not highlight omissions which might miss issues Feedback indicates that management consider the issues raised to be relevant and have been given the right priority
Action will be agreed on all the issues raised	Management have agreed to undertake action on all the issues raised, within a reasonable time Feedback indicates management are satisfied that recommendations for action were achievable and in the best interests of the charity
The audit will be completed on time	The audit was completed within the budgeted time and the report issued by the date given in the scope Feedback indicates that management were satisfied with the pace of the audit
The audit documentation will comply with the manual	The reviews of the audit working papers did not require extensive additions, changes or removal of unnecessary detail
Staff are managed properly to assist in meeting the above targets	Measurements as above, applied to the work of staff under the control of the auditor

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Appraisal (1)	Griffiths	19-Jun-2004	

K - Appraisal

Output of process

- A document showing the achievements against his/her targets, agreed by the auditor (appraisee) and CAE (appraisor).

Standards for output

- The achievement against the target must relate to the measurement listed on the Target Form.
- The appraisal should be held no later than 10 working days after the distribution of the final report.
- The appraisal must take into account the feedback from the auditees. Quotes, in italics, should be used from the feedback.
- The appraisal is scored as follows:
 - E = exceeded the target. This might be by: persuading a reluctant manager to accept some essential action; showing exceptional initiative in the recommendations made; detecting a well-hidden fraud.
 - M = met the target. Achieved the performance expected for an auditor at his/her grading
 - F = fell short. Did not achieve the target.
- An overall appraisal grade is given.

Work plan for achieving output

- Read the review notes and feedback form on the audit file.
- Complete the Appraisal Form.
- Discuss the achievements gradings with the auditor.
- Both sign the form, which is filed in the auditor's personnel file.

Advice for achieving output

- You may wish to leave giving grades until the discussion with the auditor, since it is important to get agreement if possible.
- If you cannot get agreement, consider adjourning the meeting so that both can reconsider the facts supporting the conclusion.

Internal Audit



Appraisal (1)

Transport of food to famine relief camps

Auditor: J Smith Appraiser: P Jones Date: 19-Mar-04

Target	Achieved	Rating
The audit scope will include the work necessary to fulfil the appropriate part of the audit plan	The draft audit scope was well written and needed few changes before being issued as a final version	M
The audit will achieve the work detailed in the scope	My review of the documentation and database did not highlight any significant omissions	M
Sufficient work will be done to reach the conclusions required	No additional work was required <i>“The auditors understood the difficulties faced in DR Congo”</i> J Mulonja <i>“Considering the difficulties in the Congo, the audit was carried out well”</i> F Higson	M E
All necessary issues will be raised	The database review showed all issues were raised <i>The director considered that they had already suggested the action proposed in the report.</i> J Mulonja . The report should have acknowledged the contribution from the directors	M F
Action will be agreed on all the issues raised	Action agreed on all points <i>“Recommendations were practical”.</i> <i>“The report achieved the objectives noted in the scope. We agreed with the conclusions”,</i> J Mulonja	M M
The audit will be completed on time	The audit was completed within the budgeted time and the report issued by the date given in the scope <i>“Report was received when expected”</i> J Mulonja	M M

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Appraisal (2)	Griffiths	19-Jun-2004	

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Target	Achieved	Rating
The audit documentation will comply with the manual	Excellent audit documentation	E
Staff are managed properly to assist in meeting the above targets	Measurements as above, applied to the work of staff under the control of the auditor	Not applicable

Overall rating: Met targets

Agreed by (auditor) *J Smith*

Date: *19 March 04*

Appraiser *P Jones*

Date: *19 March 04*

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Appraisal	Griffiths	19-Jun-2004	

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Internal Audit

Computer files



Computer files

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
J Computer files	Computer files	Griffiths	19-Jun-2004	

J - Computer files

Output of process

- A list of documents, held as files on the computer

Standards for output

- Where documents are held only as computer files, they should be referenced from the appropriate index. For example see “Background information”.
- The directory structure must follow the departments’ guidelines. These are:
 - Audits are filed in a sub-directory for the year the audit is planned. This makes archiving computer files easier.
 - Files for each audit are held in a directory called: *audit number audit title*. For example: 146 Transport of food.
 - With the audit directory, there are subdirectories for:
 - Audit management (diary, milestones, outline plan).
 - Background information.
 - Planning (scope).
 - Meeting notes.
 - Risks (risk workshop results).
 - Database (excel database).
 - Tests.
 - Reports (issues, draft report, final report).
 - Follow-up.
 - All file titles should be preceded by the audit number (for example: 146 final scope).
 - Where several versions of a document exist, for example draft reports, attach a version number – 146 draft report v1.

Work plan for achieving output

- Complete the document just prior to filing the audit files.

Advice for achieving output

- A strict naming convention for files hasn’t been adopted – the important principle is that files can be found quickly.

Internal Audit

Computer files



Transport of food to famine relief camps

Year directory: 2003_2004	Audit directory: 146 Transport of food	
Document	File	Ref
Budget 2003_2004	.../Background information/146 budget.xls	C

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
L Computer files	Computer files	Griffiths	19-Jun-2004	

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Internal Audit

Follow-up



**Follow
up**

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
M Follow-up	Section index M	Griffiths	19-Jun-2004	

M – Follow-up section index

Purpose of section M

- To file those documents which report on the action taken as a result of the audit report issued (2500.A1).

Standards for section M

- Follow-up audits must be carried out where there are “red” or “amber” conclusions.
- Audits should be carried out until all conclusions are “green”, or the CAE is satisfied that management may accept the risks of not taking action (2500.A1).
- If, subsequent to action having been agreed in the report, management later decide not to act but to accept a residual risk which is greater than the risk appetite of the organisation, the CAE should discuss the matter with the relevant senior management. If the matter is not resolved, it should be referred to the Board and/or Audit Committee, as appropriate (2600).
- The audit committee should be informed of follow-up audits carried out and their last conclusions.

Work plan for achieving output

- Use the date for the follow-up audit noted in the final audit report as the target date for commencing the audit. If this is not possible, inform all those affected, giving reasons for the delay.
- Send a letter to all those involved, about two weeks prior to commencing the follow-up audit.
- Update the annual plan with the progress of the follow-up audit (http://www.internalaudit.biz/6_appendices/H_annual_plan.htm) in the “last audit” column.

Advice for achieving output

- Where a management team has regular meetings, encourage them to put the progress of the action which has been agreed on the agenda. In this way they will be constantly reminded of the report until all issues are cleared.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
M Follow-up	Follow-up report	Griffiths	19-Jun-2004	

M – Follow-up report

Output of process

- A letter showing action taken as a result of issues raised and giving an update on the conclusions.

Standards for output

- Sufficient enquiries and tests should be carried out to ensure action has been taken and the risk is now mitigated.
- The conclusions in the original report, and the conclusions from the follow-up audit should be shown alongside each other.
- Explanations should be provided for the conclusions.
- A separate summary should show the action taken on each of the issues included in the original report.
- Follow-up reports should state a date for the next follow-up, if all conclusions are not “green”.
- Where no action is being taken on “red” issues but was promised in the original report the CAE should be immediately informed.
- The CAE should issue the report with a covering letter.
- If any issues are found, which were not in the original report, they should be included in the follow-up report, with an appropriate note.

Work plan for achieving output

- Telephone the staff affected by the follow-up audit to inform them it is about to take place, unless there is an element of surprise required.
- Issue a letter confirming this.
- Have meetings with all those people who should be taking action as a result of the original audit report.
- Determine the action taken and confirm this by testing, as far as possible.
- Document the meetings and tests carried out.
- Have the work reviewed by the CAE.
- Write and issue the report.
- Update the audit database with the results of the follow-up audit.

Advice for achieving output

- The format of the follow-up report is not rigid, you may have to modify it in order to present the results in a clear, concise manner.

Transport of food to famine relief camps

Introduction

This audit is the first follow-up to the report issued on March 8, 2004. Since the audit was carried out, the transport of food has been contracted out to three local companies. At the time of this audit, these companies had not been required to deliver any food, and are therefore untried.

Conclusions

	<i>Original report</i>	<i>This audit</i>
Significance of the processes to the organisation	HIGH	HIGH
Risks have been identified, evaluated and managed	UNACCEPTABLE	ACCEPTABLE
Internal controls reduce risks to acceptable levels	UNACCEPTABLE	ACCEPTABLE
Action being taken to promptly remedy significant failings or weaknesses	ACCEPTABLE	ACCEPTABLE
The current levels of monitoring are sufficient	ISSUES	ISSUES
Overall conclusion: a sound system of internal control is being maintained	UNACCEPTABLE	ISSUES

We have been assured that satisfactory action has been taken on all issues. Although we have not been able to visit DR Congo to confirm the suitability of the contractors, we have contacted some of the other charities using them, and received satisfactory reports.

Our overall conclusion is amber because the contractors have not yet been required to deliver food and the system for monitoring their performance is therefore untried. A further follow-up audit, to confirm that monitoring is working, will take place in December 2004.

The summary of action taken is shown on the next page.

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
M Follow-up	Follow-up report	Griffiths	19-Jun-2004	

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Summary of action taken

<i>Issue</i>	<i>Action promised</i>	<i>Action taken to date</i>	Grade
The full fleet of lorries is not available for the transport of food	The Logistics and Country Director (DR Congo) will appoint a contactor by the end of March.	Three contractors appointed but not tried. Monitoring not therefore confirmed.	Yellow
Risks have not been identified	Internal Audit has been charged, by the Audit Committee, to ensure the risks register is kept up-to-date for all processes and that this is confirmed to them at each quarter's meeting.	Risks identified Internal Audit are keeping the risks register	Green
Staff management procedures were not followed	All staff in DROC will have job descriptions and targets by the end of March 2004, written by the Country Manager.	Job descriptions written and checked by auditors	Green
	All staff will be appraised at the end of September 2004 by the Country Manager.	To be done	Yellow
	Training will be arranged by the Country Manager as part of the move to contract transport.	Training has taken place	Green
	The Country Director will monitor that all staff have job descriptions, targets and appraisals from April 1, 2004.	Director has checked job descriptions are written and targets have been set	Green
There are no controls at HQ to ensure that instructions to distribute food are sent on time	The Country Director to immediately assume responsibility for formally notifying the country office	Action complete	Green
HQ plans routes to famine relief areas but these are not used	The local office to plan routes, with immediate effect	Action complete	Green

Performance Manual – the audit process

Section	Document	Author	Last updated	Reference
K Quality control	Appraisal	Griffiths	19-Jun-2004	

Internal Audit

Follow-up



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