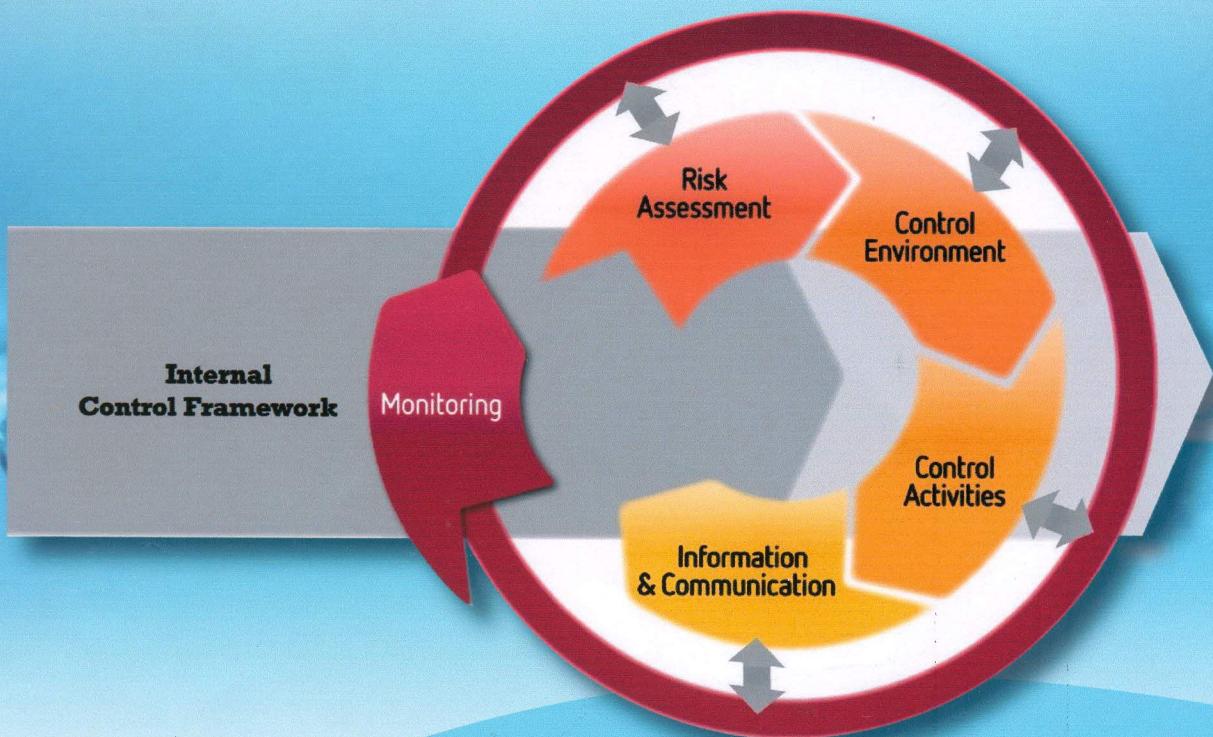


# INTERNAL AUDIT MANUAL

July 2012  
Revised on January 2015



Reviewed by:



**ACNABIN**  
Chartered Accountants



**NGO FORUM**  
FOR PUBLIC HEALTH

4/6, Block-E, Lalmatia, Dhaka-1207, Bangladesh



## PREFACE

NGO Forum for Public Health is a national Non-Government Organization in Bangladesh established in 1982. It is an apex networking service delivery agency of NGOs, CBOs (Community Based Organizations) and private sector actors who implement water and sanitation programs at the unserved & underserved poor communities in Bangladesh. NGO Forum has been implementing a significant number of projects simultaneously throughout the year all over Bangladesh. Activities of those projects' are conducted under the supervision of 14 Regional Offices with the guidance of Central Office in cooperation with more than 850 partner NGOs.

In 2005 the Internal Audit manual was prepared as a part of financial manual. Since then the manual was followed accordingly. During last several years NGO Forum's activities have been increased significantly. During the period NGO Forum has undertaken a number of new projects implemented in different locations of Bangladesh with the funding assistance of different donors. Conditions of donor agreements have also been changed and upgraded in accordance with national and global changes. In pursuance of donors' and other compliances a strong internal audit team along with a proper guideline for internal audit is necessary. In that respect, the management of NGO Forum has decided to revise the Internal Audit Manual.

The revised Internal Audit Manual covers NGO Forum's Auditing systems and procedures in a narrative manner. This manual is a complete structured guideline which is prepared in accordance with the International Standards on Auditing (ISA) as adopted in Bangladesh, applicable local laws and regulations along with the donor's requirements.

Now it becomes a necessity for NGO Forum to incorporate the effect of such changes in the Internal audit Manual. In this context NGO Forum appointed ACNABIN, Chartered Accountants to review the Internal Audit Manual reviewed & approved by the Executive Committee in July 2012. After having the observations since July 2012 it is further reviewed and revised in January 2015.

**First Edition: 2005**

**First Revised Edition: July 2012 (Reviewed by ACNABIN, Chartered Accountants)**

**Second Revised Edition: January 2015**



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## **1.00 Internal Audit and Internal Control**

### **1.01. Internal Audit**

The Institute of Internal Auditors (IIA) defines internal audit as follows:

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

Internal audit is a part of an organization's internal control framework because it is a master control that checks whether all other controls are working effectively. Internal Audit is 'a managerial control which functions by measuring and evaluating the effectiveness of other controls' (The Institute of Internal Auditors, New York). In this sense, internal audit is an overarching control over all other controls. It seeks to find out whether all other controls are satisfactorily working in practice by subjecting them to compliance tests.

### **1.02. Internal Control**

Internal Control is an integral process that is operated by an organization's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of organization's mission, the following general objectives are achieved:

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage

Committee of Sponsoring Organizations (COSO) has developed an internal control framework that has come to be accepted as the standard all over the world. The key concepts of COSO framework include:

- Internal controls are an on-going process, a means to an end, and not an end in themselves;
- Internal controls are affected by people at all levels of an organization and not just policies and their documentation; and
- Internal Controls will never eliminate risks but can provide a reasonable assurance that controls are in place to mitigate risks.

Internal control system exists to help organizations to meet their goals and objectives. They enable management to deal with the changes in internal and external environments. They also promote efficiency, reduce risk of loss, and help ensure financial statement reliability and compliance with laws and regulations (COSO Internal Control Framework). COSO Framework for internal control system consists of five interrelated and equally important components:

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





### **1.03. MISSION**

**NGO Forum's Internal Audit Department's mission is to:**

- a. Provide an independent assurance to the Executive Committee through the organizational management on the effectiveness of the system of risk management and internal control throughout NGO Forum
- b. Identify and share good risk management and internal control practices
- c. Raises awareness of the internal requirements relating to governance, risk management and internal control for effective discharge of responsibilities throughout NGO Forum

### **1.04. GOALS**

**In order to accomplish the goals, the Internal Audit Department must:**

- a. Prepare an Annual Audit Plan to carry out the audit systematically
- b. Carry out the audit as planned and report the results to the Executive Director, after planning inputs and responses from different working set-up of the organization.
- c. Perform risk assessment in conjunction with the audit planning process to determine if there are adequate mitigation actions within NGO Forum. The outcome of these risk assessments will determine areas of risk based audit focus.
- d. Perform the ad-hoc and investigative audits as directed the Executive Director
- e. Perform follow-up reviews on the implementation status of audit recommendations.
- f. Providing advice on governance, risk and control management throughout NGO Forum.

### **1.05. PURPOSE OF INTERNAL AUDIT**

Internal audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance process. In addition, it assists all levels of management in effective discharge of their responsibilities through analysis, evaluations, findings and recommendations provided by internal audit function on a periodic basis.

The purposes of internal audit of NGO Forum are stated as following:

- To set the specific role and scope of auditor for attaining the management goal.
- To determine the efficiency of management and staff as well.
- To observe the overall operational performance of the organization.
- To find out the impact of auditing in the internal control process.
- To find out the major irregularities and necessary recommendations for management decision.
- To develop a proper monitoring system for proper controlling measures.
- To assess the efficiency & effectiveness of every activity to achieve the objective of the organization.
- To provide a good support service to implement the projects by means of proper accounting, costing & financial analysis etc.

## **1.06. PURPOSE OF THE INTERNAL AUDIT MANUAL**

A manual always guides to do things properly and bounds some regulations, rules and procedures. It is a standard of doing things properly. The main objectives to have an internal audit manual are;

- To summarizes the operation of the Internal audit Department in NGO Forum
- Outlines the operating policies and procedures to govern the internal audit activities
- To find out the weaknesses of the existing procedure by setting a common strategy and inform the management.
- Sets out Internal Audit Charter and Policies and procedures which need to be complied with.
- To verify & follow up of Donors compliances & requirement in terms of fund control & project activity,
- To ensure the National level and International Standards in terms of internal control of the organization

## **2.0. FOUNDATIONS FOR NGO FORUM'S INTERNAL AUDIT DEPARTMENT**

### **Overall Objectives:**

- a. To define the objectives, scope, authority, responsibility and accountability of internal audit
- b. To define, implement and maintain an internal audit approach and organization structure that fulfils the management's requirements and supports auditor's independence
- c. To ensure that the identification and sharing of good practice
- d. To facilitate the identification and sharing of good practice.

The key elements below are the foundations for NGO Forum's Internal Audit Department:

### **1. Internal Audit Charter**

- i) To define the objectives, role and scope of Internal Audit and the authority, responsibility and accountability of Manager-Internal Audit
- ii) To ensure that the internal audit activity is independent and objective

### **2. Code of ethics:**

To ensure that the internal auditors adhere and uphold the values of Code of Ethics.

### **3. Professionalism:**

To facilitate the identification and sharing of good practice.

### **4. Internal Audit Structure**

To define, implement and maintain an organizational structure that fulfils the NGO Forum's requirements to support the auditor's independence.

#### **2.1. Internal Audit Charter**

2.1.1 The internal audit charter is a formal document that establishes the nature, role and functioning of the internal audit in the organization. It sets out the Internal Audit's mandate.





2.1.2 The Institute of Internal Auditors suggests:

The charter of the internal audit activity is a formal written document that defines the internal audit's purpose, authority and responsibility. The charter should;

- (a) Establish the internal audit's position;
- (b) Authorize access to records, personnel and physical properties relevant to the performance of engagements;
- (c) Define the scope of internal audit activities.

2.1.3 The mission of the internal audit function is to provide independent assurance that internal controls are functioning effectively so that the organization achieves its objectives and in doing so it also complies with all applicable laws. More specifically, IA's objectives should include ensuring that the Departments are:

- a. carrying out their activities and programs as authorized by appropriate authority which yield results that are consistent with established goals and objectives;
- b. using resources in an economical and efficient manner;
- c. identifying, measuring, classifying and reporting financial and operating events in an accurate and timely manner in accordance with applicable codes, guidelines and local authority's orders; and
- d. Safeguarding assets under their control.

2.1.4 The role to be assigned to internal audit department shall require it to:

- a. Audit all departments of NGO Forum for Public Health on an on-going basis depending on the volume, risk and identified problems;
- b. Conduct post-audit reviews to monitor corrective action taken on the identified weaknesses; and
- c. Respond to request for audit services for specific purposes;

2.1.5 In order to ensure effective functioning of the internal audit, it is absolutely important that it has:

- d. unfettered access to all documents, records, books of accounts, computer systems, files, etc. as necessary for the performance of the audit;
- e. cooperation from all the key personnel and the staff of the Departments in providing the required information and explanations within the reasonable time;

2.1.6 It is also important that the Internal Audit is independent from the departments that it audits. For this purpose, it should directly report to the Executive Director. (A model charter is given in Annexure-1)

#### **2.1.7 Review of Charter**

The charter shall be reviewed, whenever deemed necessary, should there be any opportunities for cost savings or value-adding activities for the internal audit department in NGO Forum. The changes to the charter should be presented to ED of NGO Forum and EC for approval.

#### **2.2. Code of Ethics**

Internal audit should adhere to the standards of best practices developed by the Institute of Internal Auditors. The internal Auditors are expected to apply and uphold the following principles (Code of Ethics and International Standards for Professional Practice of Internal Auditing - Institute of Internal Auditors, U.K. and Ireland):



**a) Integrity**

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

**b) Objectivity**

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

**c) Confidentiality**

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

**d) Competency**

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

**e) Independence**

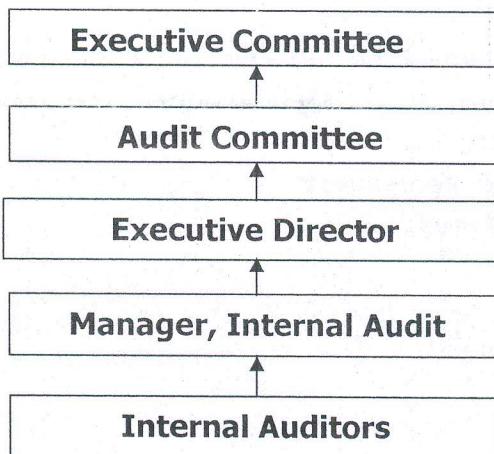
The internal auditor should not only be independent but appear to be independent of the Department under audit review. To ensure independence, the internal audit function should directly report to the Executive Director. Most importantly, internal auditors should not be involved in the regular departmental duties.

**2.3. Professionalism**

The internal audit will be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing. The auditors require specialized skills and competence which are acquired through a combination of general education, technical knowledge obtained through study and practical experience under proper supervision. In addition, the auditors require a continuing awareness of developments including relevant international and national pronouncements on accounting and auditing matters. Internal Audit Department shall ensure the following values at all times:

- a. Independence
- b. Due professional care
- c. Proficiency
- d. Continuing Professional Development
- e. Quality Assurance and Improvement program

**2.4 Structural Chart of Internal Audit Department**





### **3.0. Development of Internal Audit Plan**

Manager-Internal Audit is overall in-charge of developing the strategy for the internal audit function and ensuring adequacy of audit coverage and focus. On an annual basis, NGO Forum internal audit department undertakes a planning process to establish the audit plan. The annual audit plan set out the goals and details of the assignments to be carried out in the period covered by the plan, providing sufficient details for the internal auditors and management to understand the assignments' purpose and scope.

In addition to the annual plan, a quarterly audit plan is also to be prepared to enable the planning for staff resources for the upcoming months.

### **3.1. Audit Plan development Process**

The internal auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Audit plan will be based on knowledge of NGO Forum's style of activities. It involves developing an overall plan for the expected audit and developing an audit program showing the nature, timing and extent of audit procedures.

In the fourth quarter of every financial year, NGO Forum internal audit department commences the planning process to develop a comprehensive annual audit plan for the upcoming financial year. The plan would include identifying the audit universe (audit universe is a list of all the possible audits that could be performed) and subsequently, narrowing it down to specific focus by department, program.

The following should be taken into consideration in developing the annual audit plan:

**a. To commence with a review of :**

- i. Past Internal and external audit Findings
- ii. Financial information (Organization and projects)
- iii. Resources consideration
- iv. Geographical location

**b. Discussion with key stakeholders**

**c. Strategic Direction of NGO Forum**

### **3.2. Frequency of Internal Audit**

There is no fixed or general pattern for the frequency of the internal audit to be conducted for a specific area. Frequency of audit in a particular area depends on a number of factors such as:

- a. Effectiveness of internal control
- b. Risk associated with in the area/projects
- c. Nature of operations/activities
- d. Nature of Transactions
- e. Materiality
- f. Management's Requirements



NGO Forum has many Income Generation Activity (IGA) Centers. These centers would be audited once in a year or at the requirement of the management.

NGO Forum has many Regional Offices & Unit Offices. From these offices, the regional managers supervise the projects implemented by Partner NGOs in different parts of the country. The Regional Offices/Unit Offices make financial transactions independently. Therefore, every regional office would be audited minimum twice in a year. But in central office, internal audit would be completed in every month.

### **3.3. Audit plan approval process**

The internal audit plan of NGO Forum is prepared annually. The annual internal audit plan covers the names of the auditee, period of audit and by whom the audit would be performed. After completion of the audit plan, Manager, Internal Audit submits the draft annual audit plan to ED for approval and to further discuss/ incorporate his concern such as potential areas/ program to be audited. Prior to the start of a new financial year, Manager-Internal Audit presents the audit plan to the ED for review and approval. Once approved, a final audit plan is then prepared and sent to the ED.

### **3.4. Changes to the audit plan.**

If there are any new projects launched on emergency basis or the situation permits (say, departure of the auditor, discontinuation of the projects etc.) the audit plan may be changed in consultation with the management. Changes to audit plan may relate to:

- a. Scope changes which are defined as changes to the process or projects that will be subject to audit.
- b. Cancellation of audits, which are defined as deferrals to the following year or outright cancellation of an audit.

### **4.0. Types of audit to be conducted**

There is a review of operations carried out, sometimes continuously, by specially assigned staff within the NGO Forum's business. By definition it is "an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization". In NGO Forum for Public Health, Internal Auditors have to perform this task. There is an internal audit department established to perform the overall internal financial i.e. accounting control. NGO Forum's internal audit will be mainly continuous basis.

In preparing the Annual Internal Audit Plan, the Internal Auditor shall determine the type of audit to be performed for each auditee. The following is a summary of the various types of audits which will generally be conducted:

#### **1) Departmental Audits**

Departmental audits are designed to review and evaluate the activities and operations of NGO Forum's function, activity, Cell/ Sections/CTC/RTC, or unit under review. Departmental audits will evaluate accounting controls, ensure compliance with NGO Forum's policies and procedures, applicable laws and regulations, and validate the records and account balances of the auditee. Departmental audits will utilize a complete battery of audit tests and procedures, including, but not limited to, functional tests, transaction reviews, substantive tests, and analytical reviews.



## **2) Financial Audits**

Financial audits are designed to validate the accuracy and completeness of records and account balances. Financial audits will utilize substantive tests, analytical reviews, and other validation procedures which may or may not include functional tests or transaction reviews.

Financial audits determine whether the financial information of the NGO Forum's function, activity, department, or unit under audit fairly represents the financial position, results of operations, and cash flows or changes in financial position of the auditee in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted in Bangladesh and applicable regulatory rules and regulations.

## **3) Operational Audits**

Operational audits are designed to evaluate procedures and controls which impact the attainment of the NGO Forum's organizational goals and objectives. Operational audits also measure compliance with NGO Forum's policies and procedures as well as applicable laws and regulations.

## **4) Grants and Contract Audits**

Grants and contract audits are designed to evaluate the contracting process, compliance with the provisions of grants and contracts, and third-party contractual performance. These audits may be performed with respect to any function, activity, department, or unit of the NGO Forum and shall include all types of contracts.

## **5) Fraud and Financial Irregularity Audits**

Fraud and financial irregularity audits are designed to verify the existence and magnitude of suspected fraud and financial irregularities. Fraud and financial irregularity audits may be conducted at the request of the NGO Forum management. The Internal Auditor shall utilize the highest level of discretion when undertaking a fraud or financial irregularity audit. The Internal Auditor shall promptly notify the management which may be appropriate, of any significant findings which result from a fraud or financial irregularity audit.

## **6) Follow-up Audits**

Follow-up audits are designed to determine whether corrective action has been taken on previous audit recommendations. These audits are usually conducted within a reasonable time after the Final Audit Report (Internal/External) was issued and usually include only the deficiencies reported in the Final Audit Report. The follow-up audit shall include such functional or substantive tests that are necessary to verify that necessary and appropriate corrective actions have been taken.

## **7) Special Audit:**

Special audit is an audit upon special request by the management or based on irregularities as identified for specific focus in routine audits, with emphasis for focus on certain process/projects. The objective of carrying out special audit is to provide an independent appraisal and to address the specific concern/ key issues. In such cases, reports are issued within specified shorter timeframe.

## **8) Performance (Value for Money) Audit**

Efficiency-cum-Performance Audit (ECPA) or Value for Money (VFM) audit is a comprehensive review of the projects, programmes, schemes, organizations, etc. in terms of their goals and



objectives aimed at ascertaining the extent to which the expected results have been achieved from the use of available resources of money, men and materials. It is a technique of audit adopted to assess and evaluate the economy, efficiency and effectiveness of development schemes, projects or organizations and hence this branch of audit is also known as Economy, Efficiency and Effectiveness Audit or the Three E's Audit. Economy relates to incurring expenditure which is keeping with the requirement, while efficiency means that the output is commensurate with the input. For any expenditure to be considered effective, it should have resulted in achievement of the intended objective.

Performance audits consider whether the organization has;

- a. followed sound procurement practices;
- b. acquired the appropriate type, quality, and amount of resources at an appropriate cost;
- c. properly protected and maintained resources;
- d. avoided duplication of effort by employees and work that serves little or no purpose;
- e. avoided idleness and overstaffing;
- f. adopted efficient operating procedures;
- g. adopted adequate management control system for measuring, reporting, and monitoring a program's economy and efficiency.

Normally detailed guidelines are prepared for conducting performance audits based on desk review of related documents. To illustrate, in case of performance audit, Auditor should study all the contracts, rules and regulations they would then prepare a list of instances whose existence / achievement would be examined in audit by gathering supporting information or evidence. Internal Audit is not normally expected to undertake such performance reviews; but, should it be required in some special cases, it can start with examination of controls in place for achievement of scheme's objectives and gather relevant evidence.

## 5.0 Internal Audit Process & Approach

The audit process is broken down to following 2 (Two) categories:

### 5.1 Audit at Central Office level

The audit of central office would be planned at the time of preparation of Annual Audit plan which may be changed time to time of the requirement and approval of the management.

On the basis of Management approval, Internal Audit Department should conduct audit at Central Office on monthly basis and should cover, but not limited to the following areas:

- 5.1.1 All financial transactions held at Central level regarding the projects' and NGO Forum's own fund and internal control of Finance & Accounts Department;
- 5.1.2 Compliance with the annual budget of NGO Forum and Grant contracts of Donors';
- 5.1.3 Financial transactions and profit analysis of Generation Activity (IGA) Centers i.e. at present, the IGA centers are: Water Quality Testing Lab, Training Centers, Dev. Com. Cell., National Resource Centers, etc.
- 5.1.4 Audit of Human Resource Department regarding the recruitment, personal files maintenance, payroll, data preservation of staffs, vehicle management etc..

Entry meeting would be done before starting the audit and inform the objective of the audit and requirement of documents. The techniques of audit may vary on the requirement of



circumstance. Internal Auditor would share the findings and recommendations with the Auditee at the time of Exit meeting.

## **5.2 Audit at field level**

Audit of field level would be done on the basis of following phases;

Phase 01: Audit Planning

Phase 02: Audit Execution

Phase 03: Audit Wrap – Up

### **Phase 01: Audit Planning:**

Prior to the audit engagement's commencement, the internal auditor should prepare and engagement plan. This plan should cover, but not limited to the following areas:

- a. Assign the Internal Auditor
- b. Determine the objectives and scope of the audit engagement
- c. Preparation of plan and planning meeting with Executive Director
- d. Preparation of audit Work Program
- e. Managing Relationship
  - i. Relationship with Central Office Management
  - ii. Relationship with other internal auditors
  - iii. Relationship with Regional Office and PNGOs' Management
  - iv. Co-ordination with external auditors (if any)
  - v. Relationship with other review units (If any)

### **Phase 02: Audit Execution**

Internal auditors will follow the steps as mentioned below:

#### **a. Entry meeting with auditee**

- i. Outline the objective and scope of the audit
- ii. The timing schedule for the audit
- iii. Discuss auditee's concerns in the area under audit and determine if there are any major issues currently faced which may affect the audit process
- iv. Agree on a focal point from the auditee, who is responsible for handling audit queries, administrative and logistical matters, and established formal and informal lines of communication between the team and the auditee.

#### **b. Carry out audit fieldwork**

- i. Conduct interview with auditee
- ii. Review Transaction and activity flow chart
- iii. Review and analysis of data
- iv. Obtain samples to perform testing in accordance with the audit work program



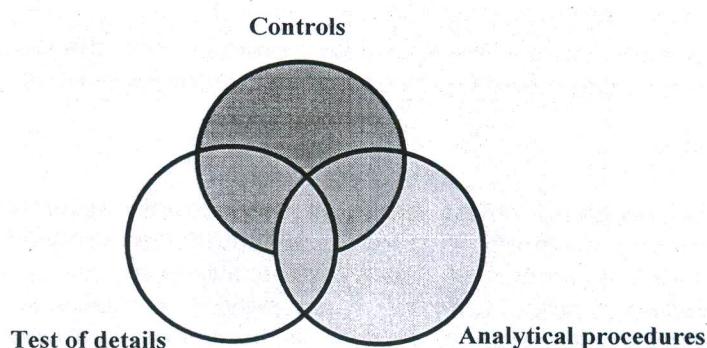
- v. Regular communication with auditee
- vi. Review the audit results

**vii. Audit techniques:**

- a. Observation and inquiry
- b. Analysis and review
- c. Inspection
- d. Vouching
- e. Re-computation
- f. Retracing of Bookkeeping procedures (audit trails)
- g. Physical Inspection and count

**c. Audit Approach**

To reduce the level of risk that the financial statements might be wrong, the auditors have to build up audit confidence based on sufficient appropriate audit evidence. In summary there are three sources of audit confidence.



Substantive procedure constitute tests of details and/or analytical procedure. Test of detail rather than analytical procedures are likely to be more appropriate with regard to matters which have been identified as significant risks, but the auditor must determine procedures that are specifically responsive to that risk, which may include analytical procedures.

**d. Sampling Method:**

**i. Non-Statistical sampling**

Some selection methods can be used only with no statistical sampling plans.

**Haphazard Selection**

In this method, the auditor selects the sample items without intentional bias to include or exclude certain items in the population. It represents the auditor's best estimate of a representative sample--and may, in fact, be representative. Defined probability concepts are not employed. As a result, such a sample may not be used for statistical inferences.



Haphazard selection is permitted for no statistical samples when the auditor believes it produces a fairly representative sample.

### **Block Selection**

Block selection is performed by applying audit procedures to items, such as accounts, all of which occurred in the same "block" of time or sequence of accounts. For example, all remittances in the month of November. Alternatively, remittances 300-350 may be examined in their entirety. Block selection should be used with caution because valid references cannot be made beyond the period or block examined. If block sampling is used, many blocks should be selected to help minimize sampling risk.

### **Judgment Selection**

Judgment sample selection is based on the auditor's sound and seasoned judgment. Three basic issues determine which items are selected:

1. Value of items. A sufficient number of extensively worked or older accounts should be included to provide adequate audit coverage.
2. Relative risk. Items prone to error due to their nature or age should be given special attention.
3. Representativeness. Besides value and risk considerations, the auditor should be satisfied that the sample provides breadth and coverage over all types of items in the population.

## **ii. Statistical sampling**

Accounts to be reviewed during an audit are normally selected through one of the probability sampling methods -- random, systematic or stratified. Probability sampling provides an objective method of determining sample size and selecting the items to be examined. Unlike no statistical sampling, it also provides a means of quantitatively assessing precision (how closely the sample represents the population) and reliability (confidence level, the percentage of times the sample will reflect the population).

### **Simple Random Sampling**

In auditing, this method uses sampling without replacement; that is, once an item has been selected for testing it is removed from the population and is not subject to re-selection. An auditor can implement simple random sampling in one of two ways: computer programs or random number tables.

### **Systematic (Interval) Sampling**

This method provides for the selection of sample items in such a way that there is a uniform interval between each sample item. Under this method of sampling, every "Nth" item is selected with a random start.

### **Stratified (Cluster) Sampling**

This method provides for the selection of sample items by breaking the population down into strata's, or clusters. Each strata is then treated separately. For this plan to be effective, dispersion within clusters should be greater than dispersion among clusters. An example of



cluster sampling is the inclusion in the sample of all remittances or cash disbursements for a particular month. If blocks of homogeneous samples are selected, the sample will be biased.

#### **Monetary Unit Sampling:**

This technique is used to select records according to monetary units rather than physical attributes. To illustrate, in audit of purchases where all purchase orders are listed with their individual value and cumulative value, auditor may select PO falling at the interval of every Tk. 50,000. The advantage of monetary unit sampling are smaller sample sizes and an almost infinite degree of stratification.

#### **Attribute sampling**

This is a sampling technique used to select items from a population for audit testing purposes based on selecting all those items that have certain attributes or characteristics. This type of sampling will help the auditor evaluate internal controls over a large number of similarly characterized transactions. It is more objective in nature and depending upon the compliance (yes) or non-compliance (no) of the transactions with policy and procedures and set standards the item can be chosen.

For example, a transaction can be chosen when it complies with the parameters set – does the VSC loan recipients using the application form have the bank account number field filled: Yes or No. This allows the auditor to evaluate the existing control mechanism and examine the extent of it.

#### **Variable Sampling:**

This is a technique used to estimate the total value of the population based on the sample total and is used to project quantitative characteristic. For example, review of the account balances, testing detailed items that support the account total. It is used in the substantive testing that details the adequacy, completeness and existence of those activities during audit period.

#### **e. Sample Size:**

Determination of the sample size and selection of the sampling technique are two important issues during statistical sampling. Sample size is perhaps, the most important issue in the sampling. The sample size is influenced by various factors including the purpose of the study, population size and allowable sampling error in addition to, the level of precision, level of confidence and the degree of variability in attributes (distribution of attributes or characteristics of the population) being measured. For example, greater the heterogeneity of the population larger should be the sample size, to allow the inclusion of the differences of attributes and attain greater level of precision.

#### **f. Assertions:**

Assertions or management assertions in audit or auditing simply means what management claims. For example, if a management states that internal controls are effective then it is a claim or assertion made by management.

Similarly, it is primarily the responsibility of the management of the entity to prepare financial statements in which all the assets, liabilities, incomes, expenses etc. are recognized, measured, presented and disclosed in accordance with the applicable financial reporting framework (for example, international accounting standards) or in other words it is the

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responsibility of the management to prepare such financial statements that give true and fair view of the business.

When such financial statements are prepared, published and made available to the users of the financial statements then it means management has taken care of recognition and measurement principle and information has been presented and disclosed appropriately so that financial statements are giving true and fair view of the business.

**These claims of management which are automatically understood as a result of publication of financial statements are known as management's assertions.**

#### **Example**

When an investor holds published financial statements in his hands and looks at the inventory with its monetary value given against it, then it relies on such value because he assumes that as it is the responsibility of the management to prepare true and fair view therefore, management has done the correct valuation of the year ended inventory. And by publishing the financial statements management has made the assertion that the value of inventory is correct! This is management's assertion or simply assertion.

#### **Assertions and International Standard on Auditing (ISA) 315:**

ISA 315 points out that in preparing financial statements make direct or indirect assertions regarding the recognition, measurement, presentation of elements of financial statements and disclosures made in the financial statements. If these assertions are correct then financial statements will automatically be reliable.

ISA 315 categorizes the different assertions in three categories which are further classified as follows:

##### **1. Assertions about classes of transactions and events:**

- a. **Occurrence:** transactions and events so recorded in the financial statements actually occurred and relates to the same period.
- b. **Completeness:** all such transactions and events that required recording have been recorded
- c. **Accuracy:** transactions and ancillary information have been recorded with accurate amounts
- d. **Cutoff:** only those transactions and events have been recorded that pertains to the accounting period under consideration
- e. **Classification:** transactions and events have been recorded in the related accounts properly

##### **2. Assertions about account balances at the period end:**

- a. **Existence:** all the assets, liabilities and other interests that appear in the financial statements actually exist.
- b. **Rights and obligations:** the assets presented in the financial statements are actually assets for which entity holds the ownership right or has all the necessary controls the right to use the asset. Similarly, the liabilities recorded are actually the obligations of the entity.
- c. **Completeness:** all the assets, interests and obligations of the entity that required recording have been recorded in the financial statements
- d. **Valuation and allocation:** all the assets, obligations and equity interests have been valued appropriately and if any allocation was need than it has been done already.



**3. Assertions about presentation and disclosure:**

- a. **Occurrence and rights and obligations:** transactions, events and the related or other matters disclosed in the financial statements actually occurred.
- b. **Completeness:** all the necessary disclosures that required recording have been recorded.
- c. **Classification and understandability:** financial information in the financial statement has been presented appropriately with clear expression of disclosures to the extent possible to help users of financial statements.
- d. **Accuracy and valuation:** financial or non-financial information is disclosed in the financial statements fairly.

**g. Exit meeting with the auditee;**

**Phase 03: Audit Wrap-Up**

Audit wrap-up will be completed by issuing final audit report to ED. Audit wrap-up includes:

- A. Preparation and Finalization Audit Report
- B. Engagement Supervision

**A. Preparation and Finalization Audit Report:**

i) Preparation of draft audit report which encompasses:

- a) Forwarding
- b) Audit Cover/ Title Page
- c) Table of Contents
- d) Basic Information
- e) Financial Information
- f) Audit Findings and Recommendations
- g) Follow-up review reporting

ii) Review of draft audit report by Manager-Internal Audit.

Review of the draft audit report should include the following areas:

- a) Audit Findings
- b) Content and wording
- c) Recommendations

ii) Review of working paper files

iv) Finalization of Audit Report encompasses:

- a) Obtaining feedback from auditee
- b) Issuance of Final Draft Audit Report
- c) Finalization of the report by the Executive Director on the basis of considering the feedback from the Audit Committee.



**B. Engagement supervision**

In order to provide appropriate supervision, this includes but not limited to the following:

- a) Ensuring compliance with applicable standards and audit manuals
- b) Providing directions and guidance to the auditors
- c) Ensuring that audit engagements objectives are met
- d) Ensuring audits are conducted as planned and variations if any, are both justified and approved
- e) Ensuring that audit findings, conclusions and recommendations are adequately supported by relevant and sufficient evidence
- f) Ensuring that the engagement communications such as reports are accurate, objectives, clear, concise, constructive and timely
- g) Ensuring that work is achieved within timeline, or variations, if any, are approved
- h) Discuss on the internal auditors' performance in order to identify and provide opportunities for developing internal auditor's knowledge, skills, and other competencies.

**5.3 More area of concentration of internal audit in NGO Forum:**

**A. Pre- Audit:**

In case of any special project and if the management requires only in those cases transactions will be booked and payments will be made only after they are passed by internal audit. Pre-Audit shall pass it after verifying that all control procedures and checking have been effectively applied.

The procedure of checking should be as per the Financial Manual of NGO Forum for PH. There is stipulation of purchase requisition (PR), approval of PR, work order or purchase order (PO) then bill be raised and eligible for payment.

**B. Post Audit:**

Checking of transactions will be made after they are entered in the books of accounts.

All payments are not supposed to be checked by the internal auditors at the time of bill payment i.e. post audit will be done. But in case of some specific payment or contract payment pre audit should be done.

**C. Payroll:**

After preparation of the payroll sheet following procedure should be followed

- i) Attendance of the staff/worker (provided by the concerned department) and source document.
- ii) Time keeping (Entrance and Exit).
- iii) Performance record.
- iv) Necessary deductions from salary (salary advance, unauthorized leave, tax, others).

**D. Payment of Bills (Local purchase):**

Following procedure should be followed to check the bills for local purchase:



- i. Whether the purchase requisitions, quotations, purchase/work order, delivery Challan, MRR are enclosed with the bills.
- ii.
- iii. VAT and IT should be calculated and deducted at source as per govt. rules.
- iv. Deduct any advance given earlier from the bills.
- v. Whether the payment in Cash or Bank (Cheque, Pay Order and DD).
- vi. Whether the respective authority approved the bills for payment.

**E. Program Bills:**

1. Vouching techniques should be applied.
2. Expenditure break up with budget limit should be checked.
3. Ample evidences would be attached against the transactions.
4. Donor's stipulation will be followed properly to verify the payments of the bills.

**F. Income Generation Activities Centers:**

NGO Forum has many Income Generation Activity (IGA) Centers. These centers would be audited once in a year.

At present, the IGA centers are: Water Quality Testing Lab, Training Centers, Dev. Com. Cell., National Resource Centers, Training Centers etc..

These would be analyzed on the basis of income and expenditure statements. Whether all incomes are received & accounted for and all valid and related expenditures are booked would be checked and examined.

**G. Audit of Partner NGOs.**

Generally, NGO Forum is getting the work done by the partner NGOs. Every NGO has its own organizational set up and operating mechanism. So, only the proportionate activities, a Partner NGO performs in favor of NGO Forum, would be audited.

**6. Use of annexed formats and areas:**

On the basis of annual work plan and audit check list internal audit is conducted. NGO Forum has many cost centers in the central office as well as field offices. Field offices are divided in two statuses. 1<sup>st</sup> is regional offices and 2<sup>nd</sup> is project intervention areas (including Partner NGO offices in case of projects). Internal Audit department shall use the annexed formats i.e. Annexure 1 to Annexure 14 during the audit. Annexure-13 which is related to the ICQ should be set as per the audit requirement.

**7. Documentation & Retention of Working Papers:**

Internal audit is conducted on the basis of ample evidences. Internal audit report will be prepared based on workings. Working papers are the connecting link between records. These include all the evidence gathered by the auditor indicating what work has been done by him and the procedure



he has followed in verifying income & expenditure as well as assets and liabilities. All evidences, supporting, workings, reports will be preserved for future references.

In the performance of audit work, the Standards for the Professional Practice of Internal Auditing state that "Internal auditors should collect, analyze, interpret, and document information to support audit results." The Internal Auditor's work papers will provide the principal evidence that these standards were met, and the audit was performed professionally.

The term "work papers" includes all documents and papers collected or prepared during a given audit. Work papers provide the basis and support for the conclusions reached by the Internal Auditor. All relevant work papers prepared during a review will be preserved and included in the work paper files maintained by the Internal Auditor.

#### **A. Characteristics of Work papers**

Work papers include the evidential matter that links fieldwork and the Final Audit Report. Work papers will contain the necessary evidence to support the findings, judgments, and conclusions in the Final Audit Report.

##### **1) Sufficiency**

Work papers will always be complete and accurate, and include adequate data to precisely indicate the audit work performed. Work papers will also provide support for findings, judgments, and the conclusions reached by the Internal Auditor as a result of the internal audit process. Work papers will delineate sufficient data so that management can easily verify that:

- The audit assignment has been properly planned;
- The auditee's system of internal control has been reviewed and evaluated in determining the extent of the audit tests undertaken; and
- Appropriate audit tests were performed, and the appropriate auditing procedures were followed.

##### **2) Competency**

Work papers will include only high quality information and evidence. Accordingly, the Internal Auditor will take all necessary steps to help ensure that the information contained therein is reliable.

##### **3) Relevance**

The information contained in the work papers will be restricted to matters that are materially important and relevant to the audit objectives.

##### **4) Usefulness**

The evidence retained in the work papers must be useful in helping the NGO Forum meet its goals.

### **5) Clarity and Understandability**

Work papers will be understandable without detailed supplementary oral explanations. Work papers should be complete and concise.

### **6) Principles of Documentation**

- Work papers will substantiate everything included in the Final Audit Report.
- A work paper or series of work papers will be prepared for each step in the audit program.
- Work papers will clearly identify the documents or series of documents examined. It is not necessary to include a copy of each document examined, although in some cases, efficiency may result by utilizing copies of documents.

### **B. Indexing and Cross-Referencing Work papers**

The Internal Auditor shall use a standard numbering and indexing system for all work papers. It is specifically noted that this standard numbering and indexing system may change from time to time.

### **C. Standards for Work papers**

All work papers prepared by the Internal Auditor shall be prepared in good form with proper attention to layout, design, and legibility, with complete headings, explanations of sources, and verification of work performed. The Internal Auditor will generally observe the following rules when preparing work papers:

- Every work paper will be properly identified. The work paper heading will include the name of the auditee, a description of the information presented, and the period covered or applicable date.
- A separate work paper will be used for each audit program step.
- All work papers will be linked to the audit program
- The source of the data presented on each work paper will be clearly stated so as to leave no doubt as to the source of the information.
- The nature of verification work performed by the Internal Auditor will be indicated on each work paper. A review of paid invoices, for example, might be supplemented by the testing of related purchase orders to substantiate the authenticity of the invoices examined; a description of this verification procedure will be included in the work papers.
- The use of audit tick mark symbols may aid in identifying the procedures followed in preparing a working paper and avoid lengthy explanations. Whenever symbols are employed, they will be accompanied by a legend explaining their significance. Symbols will never be recorded until the procedures which they signify have actually been executed.
- The extent and scope of sampling will be clearly stated at every phase of the audit to which it is applied; accordingly, the work papers will disclose the character and extent of all sampling methods utilized.

### **D. Audit Evidence**

In performing internal audits the Internal Auditor generally gathers evidence from internal sources,





which may require verification from external sources. Some of the internal sources of audit evidence include books of account, ledgers and records, memoranda, minutes of meetings, documents that support transactions, and management letters. Information gathered from these sources may be verified from external sources that include confirmations of bank balances, accounts receivable, investment balances, asset held by third-parties, long-term debt, and other assets and liabilities.

All of the information gathered to support the internal audit effort, and the conclusions drawn there from, should be considered audit evidence which may be categorized as analytical, documentary, physical, or testimonial.

#### **1) Analytical Evidence**

Analytical evidence includes computations, comparisons, reasoning, and the separation of information into components.

#### **2) Documentary Evidence**

Documentary evidence consists of letters, contracts, accounting records, invoices, etc.

#### **3) Physical Evidence**

Physical evidence is obtained by direct inspection or observation of (1) activities, (2) property, or (3) events. It may take the form of memoranda, photographs, charts, or other summary documentation which recapitulates the subject matter of the inspection.

#### **4) Testimonial Evidence**

Testimonial evidence is obtained from others through statements received in response to inquiries or through interviews. The statements critical to the audit will be corroborated through independent verification when feasible.

### **8. Principles of Reporting**

Auditing task ends with the submission of reports to the proper authority. When audit has been conducted for any purpose then a report in writing is necessary for proper documentation instead of verbal discussion. This practice also exists in NGO Forum for Public Health. The internal auditors visit the different cells, sections in Central Office as well as regional offices, NGO Forum unit Offices and examine thoroughly all the vouchers, cash book, ledger, fixed assets register, stock of store register, etc. After the proper examination, auditors have to submit a detail report to the management. The management asks the local management to clarify the audit reports and request for compliance report. The Internal audit will adopt the clarifications from the local management and finalize the report for ED. So, the local management is directly liable for their work to the management of NGO Forum and the internal auditors monitor this.

The auditor on completion of the audit of the respective unit will have a preliminary discussion with the local authority about the findings that s/he noted.



This discussion will be held on the nominal irregularities with which the unit in charge is not related. If auditor feels that there are some aspects which need not to be discussed with the line Chief he will not discuss. On completion of all the activities the auditor will return to the central office with all the information, documents and evidence so far obtained and will proceed for drafting of the audit report. The aspects which will be followed in drafting the audit report are:

- The language of the audit report will have to be reasonable which reflects properly the information obtained.
- Report should be in brief and materially sound.
- The irregularities/weak points of the unit become visible.
- Special care should be taken to make the opinion and specific to the point.

### **8.1 Reporting to Executive Director**

The manager, Internal Audit along with individual report (assignment basis) should place following reports to the Executive Director on a quarterly basis. The achievement of the approved annual audit plan

- a) Changes to the approved internal audit plan, if any
- b) A summary report highlighting audit findings resulting from the internal audits conducted during the period
- c) Summary of outstanding audit findings based on follow up of audit findings.
- d) Summary of follow-up on external/internal audit reports

It is a good practice is to categorize Audit Findings by Risk Severity. A priority designation (High, Medium and Low) may be assigned to each of the key areas of focus detailed in the report based on auditors' assessment of the severity of the issue. The rating (High, Medium and Low) indicate the need for auditee to put priority focus which is as follows:

- a. **High –** Issue is high priority and should be given immediate attention and considered imperative to ensure that auditee is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).
- b. **Medium –** Issue is medium priority and considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).
- c. **Low –** Issue is not critical and considered desirable and should result in enhanced control or better value for money.

Another good practice is to classify possible causes of audit findings so that the auditee may address the causes of audit findings as follows:

- a. **Compliance-** Failure to comply with prescribed regulations, rules and procedures.
- b. **Guidelines-** Absence of written procedures to guide staff in the performance of their functions
- c. **Guidance-** Inadequate or lack of supervision by supervisors.
- d. **Human error-** Mistakes committed by staff entrusted to perform assigned functions.
- e. **Resources-** Lack of or inadequate resources (funds, skills, staff, etc.) to carry out an activity or function.



The audit report will contain a clear written expression of opinion. The audit report would be dated. This informs the management that the auditor considered the effect on the financial statements and on his report of events and transactions about which he became aware that occurred up to that audit.

## **9. Detection of Fraud**

### **9.1 Fraud & Error**

There are far differences between fraud and error. Generally "Error" indicates an unwillingly action done. But the fraud is executed by fraudulent practices relating to financial transactions in different cases. Few instances are given below:

- Fictitious purchases.
- Personal expenses are charged as official expenses.
- Unrecorded receivables.
- Wages amount paid and shown against dummy names.
- Vouchers once approved and paid may be used in support of further reimbursements.
- Theft of unusual cash receipts, e.g., sale of waste etc.
- Inflation or suppression of sales and purchases.
- Over valuation and undervaluation of assets and liabilities.
- Not providing any depreciation or providing less or more depreciation.

### **9.2 Process of detecting Fraud**

A thorough vouching and the existence of a sound and effective system of internal control would assist in bringing such frauds to light. The auditors must carry out the routine checking, vouching and verification and make searching enquiries intelligently to detect the above fraudulent manipulations.

### **9.3 Notification of Fraud**

When a fraudulent activity is detected, the internal auditors must notify such incident to the management and submit a special audit report with regards to the said incident immediately.

### **9.4 Responsibilities**

The results of preliminary investigations by the Manager-Internal Audit shall not disclose to anyone except the ED or other members of the senior management who have legitimate need to know such result in order to perform their assigned duties and responsibilities. This is to protect NGO Forum from potential civil liability and avoid risk of damaging the reputation of the suspect for the wrongful conduct before the result is finalized and communicated.

The person concern would be responsible for making fraud. It would be clearly identified that the person/s work in which departments (whether accounts/procurement/store or regional offices).



### **9.5 Conducting Investigation**

If fraud is committed, the management wants to get the report investigated. The internal audit department, if assigned, may carry on the investigation regarding the specific frauds. In this situation, routine audit and cut off procedure would be applied.

There are three phases in the fraud program: prevention, detection, and investigation. The Internal Auditor and the NGO Forum's management are responsible for recognizing the exposures, control weaknesses, and situations which foster fraudulent activity.

The Internal Auditor may learn of known or suspected fraudulent activities from many sources, including routine audits. Also, the Internal Auditor may be called upon by the management to conduct investigations of known or suspected fraudulent activities.

Because of the sensitivity and the potential litigation exposure for the NGO Forum, all investigations of known or suspected fraudulent activities shall be conducted carefully and thoroughly.

The planning of an investigation includes determining the following:

- What is the nature of allegations?
- What other investigative units need to be involved?
- What types of evidence is needed to sustain or disprove the allegations?
- What records or other evidence needs to be secured?
- What resources including specialized skill set are likely needed?
- What notifications are required?
- What methodologies should be used to gather, secure and analyze evidence?

The purpose of these audit manual is to establish a standardized methodology for the Internal Auditor to follow when investigating, processing, and reporting findings of known or suspected misappropriation and similar irregularities. The Manual may be used in the investigation of fraudulent activities or financial irregularities at the NGO Forum.

### **9.6 Documentation**

After necessary investigation, the report would be prepared and submitted to the management. It will contain the names of persons in collusion of the respected frauds and indicate the suggestions for administrative action.

### **9.7 Report Distribution**

Investigation report is a highly confidential special audit report. Therefore, due care should be taken to ensure it is handled and addressed to high level management. Standard drafting and distribution of final report policies and practices are still applicable.

The investigation report would be submitted to the management of the NGO Forum. The office copy is preserved by the audit department.



## **10. Outsourcing**

Where the internal audit does not carry specific skills to conduct certain activities (i.e. IT audits or other specialized audits), the Manager-Internal Audit may seek the services of external consultants. Procurement of such services should abide by NGO Forum's procurement policy and would include the following considerations:

- a. Planning of requirements or scope
- b. Sourcing for quotations
- c. Selection of service provider
- d. Execution of work by external party
- e. Review and acceptance of work and report
- f. Finalization and issuance of work or report
- g. Presentations to the ED or specific stakeholders.

## **11. Glossary of terms**

### **11.1 Internal Audit Charter:**

Internal Audit Charter is used to define the objectives, role and scope of Internal Audit and the authority, responsibility and accountability of Internal Auditor as well as to ensure that the internal audit activity is independent and objective oriented.

### **11.2 Code of ethics:**

The Code of Ethics states the principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities.

### **11.3 Professionalism:**

The conduct, aims, or qualities that characterize or mark a profession or a professional person.

### **11.4 Mission**

Mission is the basic function in an organization expressed in terms of how it satisfies its stakeholders.

### **11.5 Goals**

The intentions behind decisions or actions or a desired end result.

### **11.6 The Institute of Internal Auditors**

The Institute of Internal Auditors is the globally recognized institution for internal auditor's certification.

### **11.7 Committee of Sponsoring Organizations (COSO)**

The Committee of Sponsoring Organizations of the Tread way Commission (COSO) is a joint initiative of the five private sector organizations i.e. American Accounting Association, AICPA, Financial Executives International, The Association of Accountants and Financial Professionals in Business and The Institute of Internal Auditors and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

### **11.8 Internal Control Framework**

COSO Framework for internal control system consists of five interrelated and equally important components i.e. Control environment, Risk assessment, Control activities, Information and communication and Monitoring.

### **11.9 Economy**

Economy is reduction or containment of cost; this can be measured against target.



#### **11.10 Effectiveness**

Effectiveness is the measure of achievement and is assessed by reference to objectives, such as whether the target profit is attained.

#### **11.11 Efficiency**

Efficiency means being effective at minimum cost or controlling costs without losing operational effectiveness. Efficiency is therefore a combination of effectiveness and economy.

#### **11.12 Integrity**

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

#### **11.13 Objectivity**

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

#### **11.14 Confidentiality**

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

#### **11.15 Competency**

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

#### **11.16 Independence**

The internal auditor should not only be independent but appear to be independent of the Department under audit review. To ensure independence, the internal audit function should directly report to the Executive Director. Most importantly, internal auditors should not be involved in the regular departmental duties.

#### **11.17 Materiality**

Materiality is a concept or convention within auditing and accounting relating to the importance/significance of an amount, transaction, or discrepancy. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in conformity with an identified financial reporting framework such as Generally Accepted Accounting Principles (GAAP). The assessment of what is material is a matter of professional judgment.

#### **11.18 Inspection**

Critical appraisal involving examination, measurement, testing, gauging, comparison of materials or items. An inspection determines if the material or item is in proper quantity and condition, and if it conforms to the applicable or specified requirements. Inspection is generally divided into three categories:

(1) Receiving inspection, (2) In-process inspection, and (3) Final inspection. In quality control (which is guided by the principle that "Quality cannot be inspected into a product") the role of inspection is to verify and validate the variance data; it does not involve separating the good from the bad.

#### **11.19 Vouching**

Vouching means verification of entries in the books of account by examination of documentary evidence or vouchers, such as invoices, debit and credit notes, statements, receipts, etc. The objective of vouching is to establish that the transactions recorded in the books of accounts (i) are in order, (ii) have been properly authorized, and (iii) are correctly recorded.