**INTERNAL AUDIT DEPARTMENT**

Ref: SHAMS/2023/IAD-**001**

March 30th, 2023

**Dr. Khalid AlMidfa**

Chairman

Sharjah Media City FZA (the “SHAMS”)

Dear Dr. Khalid,

We have completed our audit of the ***Procurement Department***. The audit was conducted during the months of **March 2023** covering the period from January 2022 to December 2022.

The objective of our audit was to review the adequacy and effectiveness of internal controls system and procedures; and to ensure compliance with operating policies, procedures, laws and regulations.

We have discussed the contents of our report, including our recommendations, with the respective process’s owners and where relevant we have incorporated their comments and action plans to remediate the related findings.

I would like to draw your attention to the findings highlighted in the summary of observations, where the key observations that requires Management focus, are addressed.

Yours Sincerely,

**Sahar Hussein**

**Manager – Internal Audit**

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**INTERNAL AUDIT REPORT**

**Review of Purchasing**

**Procurement Department**

**Audit Report: April 2023**

**DISTRIPUTION**

**Audit Committee Sharjah Media City FZA**

**Dr. Khalid Al Midfa Chairman**

**Rashid Alobad General Manager**

**XXXXXXXXX Procurement Department**

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**Section 1: Executive Summary:**

We have completed the audit of the ***Purchasing*** Processes. Our work was carried out in accordance with the **2023** Internal Audit plan approved by the Audit Committee.

Based on our Internal Audit review, our assessment of the overall control environment with respect to ***Purchasing*** processes is considered “***Unsatisfactory***”. We have indicated a summary of our key findings in the report to facilitate a quick overview of the internal audit results. In order to enhance the ***Purchasing*** processes, we advise the management to consider our recommendations and to take the necessary steps to remediate the findings noted by the Audit Team - within ***three months*** - to avoid any negative impact on operations and on the organization as a whole.

***1.1 Objectives and Audit Approach***

The objective of the Audit is to ensure the following:

* Overall adequacy and effectiveness of internal controls within the processes.
* Alignment of the area objectives to the organizational strategy and Targets.
* Compliance with the Policies, Procedures, Contracts, laws and regulations.

Our approach started with an overview of activities through a walkthrough and documentation of the existing systems and procedures. We have assessed the specific risks identified within each area of scope, evaluated the associated mitigating controls, and commented on the results of our audit procedures.

The recommendations incorporated in the body of this report are intended to improve the existing controls over risks and to improve the efficiency of the current procedures. Our report is based on information provided to us during the review.

***1.2 Scope of Work***

The scope of our work was to review and assess the ***Purchasing*** processes for the period from **January 2022 to December 202023**. The focus will be mainly on the results of the **Risk assessment** performed by the Audit Function at the beginning of the year (**Appendix A**). The following activities were covered in the scope of work:

* ***Governance & Administration:***

Review the Adequacy, Effectiveness and Completion of:

* Policies & Procedures
* Organizational Structure
* Key Performance Indicators
* Roles and Responsibilities undertaken by the ***Purchasing*** employees.
* ***Purchasing Planning:***

Review the Adequacy, Effectiveness and Efficiency of:

* Overall ***Purchasing***planning process and link to the Strategical Plans.
* Annual Purchasing Plan and integration with other functions annual plans.
* Monitoring of Plan Implementation and analysis deviations.

* ***Committees’ Formation:***

Review the Adequacy, Effectiveness and Efficiency of:

* Purchasing and Commercial (Bidding Opening) Committees.
* ***Supplier Management:***

Review the Adequacy, Effectiveness and Efficiency of:

* Controls over vendors’ Masterfile.
* Vendor list Updates.
* Pre-qualification process for Suppliers.
* Critical Suppliers’ Development plans.
* ***Purchase Requisition:***

Review the Effectiveness, Efficiency and Completion of:

* Purchase Requisitions and System used.
* Purchase Requisitions Closure.
* Purchase Requisitions Cancellation.
* ***Purchasing and Tender Cycle:***

Review the Effectiveness, Efficiency and Completion of:

* Purchasing methodologies and Criteria used.
* Bidding Process and Vendor Selection.
* Purchase Order/Contract issuance and approvals.
* ***Cash Purchases:***

Review the Adequacy, Effectiveness and Completion of:

* Petty Cash Purchases and process controls.
* ***Contracts Management:***

Review the Adequacy, Effectiveness and Completion of:

* Issuance of contracts/Agreements and approvals.
* Monitoring of Contracts implementation.
* Contracts Retention.
* ***Suppliers’ Performance Evaluation:***

Review the Adequacy, Effectiveness and Efficiency of:

* Assessment methodology.
* Performance evaluation reports.
* Action Plans and Supplier charge back.
  + ***Reporting:***

Review the Adequacy, Efficiency and Completion of:

* Management and Departmental Reports and Communication.

**Section 2: Summary of Observations and Audit Conclusion**

***2.1 Observation Classifications and Audit Rating***

We have prioritized the observations based on their significance and impact on the business. Detailed observations and suggestions for improvement are included in the following sections of this report. Our observations are reported in, four categories (i.e. High, Medium, Low and Advisory). For additional details please refer to (**Appendix B**).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Report Classification & Rating** | **Total Number of Findings** | | | | |
| **UNSATISFACTORY** | **Category** | **HIGH** | **MEDIUM** | **LOW** | **ADVISORY** |
| STRATEGIC | **3** | **-** | **-** | **-** |
| FINANCIAL | **4** | **-** | **-** | **-** |
| OPERATIONAL | **34** | **9** | **3** | **-** |
| COMPLIANCE | **8** | **3** | **-** | **-** |
| **Total** | **49** | **12** | **3** | **-** |

Controls need to be enhanced for **76%** of the observations. Balance of **24%** is within the Medium, Low and Advisory range which needs to be monitored and prevented from entering the high risk category.

Below is a graphical representation of our findings that shows the distribution of the total **64** observations in accordance with their risk classifications and ratings.

***2.2 Significant Observations:***

The significant findings raised during the audit are summarized below. However, to gain a complete understanding of the issues involved, it would be necessary to go through the entire report as set out in the body ofthe report. It should be noted that we have reported only on the exceptions that were detected during the course of our review.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ser** | **Audit Findings** | **Ref** | **Significance** | **Category** |
| **01** | **ABSENCE OF** | **01** | **HIGH** | **STRATEGIC** |
| **03** | **INADEQUATE AND INCOMPLETE** | **03** | **HIGH** | **OPERATIONAL** |
| **04** | **POOR** | **11** | **HIGH** | **COMPLIANCE** |
| **05** | **IMPROPER** | **50** | **HIGH** | **FINANCIAL** |
| **06** | **LACK OF BASES** | **14** | **HIGH** | **COMPLIANCE** |
| **08** | **OVERRIDING** | **41** | **HIGH** | **OPERATIONAL** |
| **09** | **THE PROCUREMENT CYCLE** | **21** | **HIGH** | **OPERATIONAL** |
| **11** | **INEFFICIENT** | **35** | **HIGH** | **OPERATIONAL** |
| **13** | **UNAUTHORIZED** | **17** | **HIGH** | **OPERATIONAL** |
| **14** | **OPERATING DEFICIENCIES** | **30** | **HIGH** | **OPERATIONAL** |
| **16** | **EXCESSIVE** | **20** | **HIGH** | **FINANCIAL** |
| **19** | **INAPPROPRIATE SCOPE OF WORK AND CHANGES TO PURCHASE REQUISITION** | **39** | **HIGH** | **OPERATIONAL** |

# Section 3: Audit Comments:

***3.1 Summary of Findings:***

Based on our audit and our assessment of the overall control environment within ***Purchasing*** Processes, the following weaknesses were identified which individually, or collectively, represent significant weaknesses in Internal Controls that requires Management attention.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **#** | **Audit Comment** | **Management Response** | **Responsibility** | **Due Date** |
| **01** | **ABSENCE OF**  We noted lack of | As per the Recommendations | Manager |  |
| **02** | **ABSENCE OF ANNUAL**  We noted the absence of | As per the Recommendations  (*This is a repetitive Audit Comment)* | Purchasing Section Head |  |
| **03** | **INADEQUATE AND INCOMPLETE** | As per the Recommendations  (*This is a repetitive Audit Comment)* | Purchasing Section Head |  |
| **04** | **INCOMPLIANCE WITH**  We reviewed related to purchasing designation. | As per the Recommendations | Purchasing Section Head |  |
| **05** | **LACK OF OBJECTIVES**  We noted the absence | As per the Recommendations  (*This is a repetitive Audit Comment)* | Purchasing Section Head |  |
| **06** | **INAPPROPRIATE**   * There was no | As per the Recommendations | Purchasing Section Head |  |
| **07** | **INCOMPATIBILITY OF THE** | As per the Recommendations |  |  |

***3.2 Detailed Audit Comments and Recommendations:***

**3.2.1 GOVERNANCE AND PLANNING**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **01. ABSENCE OF** | **SIGNIFICANCE** | | | **HIGH** |
| **OBSERVATION** | | | | |
| A Purchasing strategy is the foundation of Manufacturing organisation's strategic plan. It sets out how the organisation plans to supply its production and overall operations to meet its objectives. It defines the milestones, and steps needed to drive the business forward. Typically a strategy is lined out for a 5 years period, with specific phases rolled out in the Business Plan. Benchmarks are often set in six month and yearly increments to allow time to plan, execute, and gain traction between milestones. As part of this process, the company should also include commentary on its business risks and how the company is seeking to mitigate those risks. Such risks presently facing the company include over-reliance on **one key supplier**, **foreign currency** exposure in paying suppliers, ***cash flow*** *problems****,*** and **high levels of inventory**, etc. Purchasing strategy should be ***discussed and shared*** with company stakeholders, executives and employees, so everyone is on the same page strategically.  During the Audit, we came to know that | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **STRATEGIC** |
|  | | | | |
| **RECOMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  **Completion Date:** | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **02. LACK OF** | **SIGNIFICANCE** | | | **HIGH** |
| **OBSERVATION** | | | | **REPETITIVE** |
| As per the Purchasing Policies and Procedure Manual, (**Paragraph 5.2.1**), “*Before the beginning of each year, the Purchasing Section Head requests the* ***Annual Sales Plan*** *and* ***Annual Production plans*** *from their respective Departments….The Purchasing Section draws up the annual purchasing plan based on the information gathered from the above exercise.”* The Annual Purchasing plan should consider the annual growth in the targets in alignment with the company business plan and Strategy.  During the Audit, we noted Lack of | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **OPERATIONAL** |
|  | | | | |
| **RECOMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  **Responsible Entity:**  **Completion Date:** | |

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| **03. INADEQUATE AND INCOMPLETE \** | **SIGNIFICANCE** | | | **HIGH** |
| **OBSERVATION** | | | | **REPETITIVE** |
| Policies and Procedures as part of Governance, establish ownership, controls and responsibilities over operations. They are used as a reference guide by employees and management to perform their tasks in a proper and unified manner. They also, ensure the continuity of operations in case of changes in personnel and helps in having the employees liable for their actions. The Policies and Procedures Manual should be formally approved and subject to periodic review to ensure uniform implementation and compliance with the directives and mandate of senior management.  During the Audit, we reviewed | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **OPERATIONAL** |
|  | | | | |
| **RECOMENDATIONS** | |  | | |
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| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  **Completion Date:** | |

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| **04. INCOMPLIANCE WITH POLICY** | **SIGNIFICANCE** | | | **HIGH** |
| **OBSERVATION** | | | | |
| Solid Internal Controls dictate that only Purchasing officers (Buyers) are authorized to negotiate, create, execute (sign), amend, or terminate Purchase orders (PO’s) on behalf of the UPP. In some instances, purchasing activities are delegated to other departments (i.e. **Insurance companies** “Medical, Property and Workers’ Compensation”, **Agencies** “Recruiting, Advertising and PR”, **Consultants** “Financial and Training”, **Audit and Legal Firms** …etc). Each delegated Department has a specific area of responsibility.  Personnel in those departments should be knowledgeable of the Purchasing policies and procedures to perform their roles.  During the audit, we reviewed | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **COMPLIANCE** |
|  | | | | |
| **RECOMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  **Completion Date:** | |

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| **06. INAPPROPRIATE** | **SIGNIFICANCE** | | | **MEDIUM** |
| **OBSERVATION** | | | | |
| Job description (JD) is designed based on the performance of job analysis for each activity in the process. It is generally includes, Scope, Objective, Functional Duties, Responsibilities, Job Specifications and reporting lines. Since the JD support the employee performance assessment, help in rotations plans and redistributions of workloads, it is important for Management to revise the JD at least every two years (or earlier if an update is required).  During the Audit, we reviewed | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **OPERATIONAL** |
|  | | | | |
| **RECOMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  Purchasing Section Head  **Completion Date:**  August 31st, 2018 | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **07. INCOMPATIBILITY OF THE ORGNAIZATIONAL STRUCTURE** | **SIGNIFICANCE** | | | **LOW** |
| **OBSERVATION** | | | | |
| A solid Organizational Structure (OS) is vital to make planning easier and defining the organizational culture and style while showing clearly the line of authority and of responsibility of each individual in the organization. The efficiency in designing the OS depend on process analysis and assessment of resources. Accordingly, healthy OS would require periodic updates to match planned against actual headcount and reassess the adequacy of reporting lines and functional hierarchy.  In addition, as per the Purchasing Policies and Procedures Manual (**Paragraph 1.3)** states that *“If there are any changes to the business operations and / or organization structure of UPP that warrant a corresponding change to the policies & procedures”*  During the Audit, we verified the | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **OPERATIONAL** |
|  | | | | |
| **RECOMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  **Completion Date:** | |

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| **18. LACK OF CONTROLS OVER BUSINESS EXPENSES** | **SIGNIFICANCE** | | | **HIGH** |
| **OBSERVATION** | | | | |
| The Purchasing Petty Cash (PC) Fund is initiated to cover small amount miscellaneous irregular purchases. The UPP Business Expenses Policies are addressed in: 1. Finance policies and Procedures Manual (**Paragraph 11.1.2**) “(*Expense Reimbursement claim) form along with supporting documents shall be filled in by the employee with details of expenses,* ***approved by the Head of Department. HR and submitted to payroll accountant for processing within 20th of each month****. In case of travel advance, employee shall submit the Expense Claim form within 1 week from the end of travel along with supporting documents”.*  2. HR Policy Manual (**Paragraph 5.5**) (*Dispatching in official mission within UAE): The employee may be assigned to perform an official mission within the UAE with the approval of competent manager”.*  During the Audit, we reviewed the business | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **FINANCIAL** |
|  | | | | |
| **RECOMMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  **Completion Date:** | |

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| **59. ABSENCE OF MONTHLY** | **SIGNIFICANCE** | | | **HIGH** |
| **OBSERVATION** | | | | |
| Management Reports are the process of providing important information to the management team regarding the status and progress of operations and the business as a whole. The information in the reports will help leaders, associates, and managers to reach evidenced-based conclusions and make rational decisions. The Information on the reports should show the achievements and the progress of targets in addition to the encountered problems to achieve those targets. Reports are not only a part of the Governance process but also a tool that help in boosting the employee performance.  During the audit, we noted lack of | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **OPERATIONAL** |
|  | | | | |
| **RECOMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations. | | | **Management Acceptance:**  **Responsible Entity:**  **Completion Date:** | |

**3.2.3 SUPPLIERS MANAGEMENT**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **60. INADEQUATE MANAGEMENT** | **SIGNIFICANCE** | | | **LOW** |
| **OBSERVATION** | | | | |
| As per the Purchasing Policies and Procedures Manual (**Paragraph 2**), “*Positive Relationship with Suppliers: Implement a proactive supplier relationship development program, wherever possible; Keep the supplier / service provider informed with any changes over the company’s contracts & purchasing terms and conditions; Communicate with the suppliers / service providers for issues (if any) with delivery / quality on a timely basis; … and Meet suppliers regularly to discuss issues and opportunities and to jointly define performance measures and targets, when needed.”*  During the Audit, we reviewed | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **OPERATIONAL** |
|  | | | | |
| **RECOMMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  **Completion Date:** | |

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| **61. INADEQUATE EVALUATION** | **SIGNIFICANCE** | | | **MEDIUM** |
| **OBSERVATION** | | | | |
|  | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **OPERATIONAL** |
|  | | | | |
| **RECOMMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  **Responsible Entity:**  **Completion Date:** | |

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| --- | --- | --- | --- | --- | --- |
| **62. INSUFFICIENT PROCESS** | **SIGNIFICANCE** | | | **HIGH** | |
| **OBSERVATION** | | | | | | |
| Production is inspected by Quality Control to detect any defect in the product before being released to customers. The product defect could result from defected raw material or fault during production cycle. Companies choose to have defective product reworked or replaced at the supplier’s expense. In either cases chargebacks and/or other penalties are an alternative approach to address and overcome quality defects.   |  | | --- | | During the Audit, we | | | | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | | **OPERATIONAL** | |
|  | | | | | | |
| **RECOMMENDATIONS** | |  | | | | |
|  | | | | | | |
| **MANAGEMENT ACTION PLAN** | | | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  **Completion Date:** | | | |

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| **63. NO DISTRIBUTION OF** | **SIGNIFICANCE** | | | **MEDIUM** |
| **OBSERVATION** | | | | |
| All suppliers are required to adhere to the UPP policy on gifts and gratuities and refrain from offering purchasing officers and/or other UPP employees any material gifts and gratitude. It is the Purchasing Section responsibility to increase the awareness of the UPP suppliers on gifts and gratuities policy through an annual letter sent to all listed suppliers and/or potential suppliers. The letter should explain to the supplier what is considered acceptable (i.e. new year calendars,…etc.) and what is considered  During the Audit, we performed assessment of | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **OPERATIONAL** |
|  | | | | |
| **RECOMMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  **Completion Date:** | |

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| --- | --- | --- | --- | --- |
| **64. ABSCENCE OF** | **SIGNIFICANCE** | | | **HIGH** |
| **OBSERVATION** | | | | |
| Business contingency plan involves, the identification of critical activities and key functions in the process before setting a blueprints to overcome any interruptions in Business. These interruptions could result from shortage in resources (default of suppliers). One of the alternatives to resolve such shortage is creating suppliers Backups and establish a process for continued identification of sourcing opportunities.  During the Audit, we interviewed the Purchasing team on number of qualified suppliers and plans to overcome business contingencies where we noted that, | | | | |
| **POTENTIAL RISK / IMPACT** | | **CATEGORY** | | **STRATEGIC** |
|  | | | | |
| **RECOMENDATIONS** | |  | | |
|  | | | | |
| **MANAGEMENT ACTION PLAN** | | | | |
| * As per the Recommendations | | | **Management Acceptance:**  Agree  **Responsible Entity:**  Purchasing Section Head  **Completion Date:**  September 30th, 2023 | |

**Section 4: Appendices**

**Appendix A: Risk Assessment Results**

**Appendix B: Audit Rating and Classification Methodologies**

***Finding Criticality Rating***

|  |
| --- |
| In our report, we have rated the observations according to their impact on the day-to-day operations. The criteria for rating the observations are detailed below: |

|  |  |
| --- | --- |
| **Rating of Observation** | **Definition** |
| **HIGH** | **The finding is critical and deserves immediate attention by the Process Manager. Management’s action plan and related corrective action should be implemented as a matter of urgency. The finding is also reported to the Audit Committee at least quarterly.** |
| **MEDIUM** | **The finding impacts the accomplishment of process objectives. Management’s action plan and related corrective action should be implemented as a matter of priority. If not resolved, the finding could result in an inefficient use of entity resources and or potentially disrupt business processes.** |
| **LOW** | **The finding is reported to the Process Manager but is of a minor risk to the Subject Entity. Management action should be taken to address the weakness within a reasonable agreed time-frame. The finding will not be reported to the Audit Committee unless the finding remains open after the follow up audit.** |
| **ADVISORY** | **The lost opportunity to achieve process improvements or enhancements to systems and operations.** |

***Audit Report Ratings***

**UNSATISFACTORY**

|  |  |  |  |
| --- | --- | --- | --- |
| **Importance of the Observation** | **Rating** | **Number of Observation** | **Results** |
| **HIGH** | **5** | **49** | **245** |
| **MEDIUM** | **3** | **12** | **36** |
| **LOW** | **1** | **3** | **3** |
| **Overall Rating** | | | **4.44** |

|  |  |  |
| --- | --- | --- |
| **Audit Report Rating** | **Assessment Results** | **Explanations** |
| **GOOD** | **From 1 to 2** | **Many of the controls are functioning as intended; controls are functioning as intended and no additional actions are necessary at this time. Some minor changes might be implemented to make the control environment more effective and efficient.** |
| **AVERAGE** | **From 2 to 3** | **Some controls are in place and functioning; however, several major observations were noted that could jeopardize the accomplishment of business objectives.** |
| **NEED IMPROVEMENT** | **From 3 to 4** | **The control environment is lacking or has degraded since the last audit and is a contributing factor to non-achievement of business objectives. Immediate management actions need to be taken to address the control deficiencies noted.** |
| **UNSATISFACTORY** | **4 and Above** | **Controls are not functioning and likelihood of fraudulent activities to be prevalent due to lack of effective control environment, which will or have a significant impact on the company operations.** |

**Appendix C: Evidential Samples**

**C.1 Purchasing Organizational Chart**

**C.2 Segregation of Duties**

**C.3 Purchase Requisition**

**C.4 Petty Cash**

**Limitations and Audit Responsibilities**

***4.1 Limitations inherent to the internal auditor’s work***

This Audit Review is subject to the limitations outlined below:

**1.3.1 Internal Control**

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organization's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances

**1.3.2 Responsibilities of Management and Internal Auditors**

It is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for Management’s responsibilities for the design and operation of these systems.

We endeavor to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

**1.3.3 Scope of Service and Selected Sample**

This report contains the findings and recommendations arising from the subject internal audit review.

The internal audit review included inquiries and extensive testing, based on a selected sample of the audited function/processes. Our work was limited to the processes mentioned in the scope here in and was based on the information made available. Accordingly, any changes in circumstances after the closing meetings performed could affect the findings attached in this report.

**1.3.4 Report Distribution**

This report has been prepared solely for the information of the Audit Committee and Management of the concerned departments for their internal use and benefit and is not intended to nor may it be relied upon by any other party. We do not accept responsibility to any other party to whom it may be shown or into whose hands it may come.

**1.3.5 Future Periods**

Our assessment of controls relating to the audited processes is for the period mentioned in the audit scope. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

* The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
* The degree of compliance with policies and procedures may deteriorate.

Thank You