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**INTERNAL AUDIT**

**STANDARD OPERATING PROCEDURES**

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| --- | --- | --- | --- |
|  | | **Signature** | **Date** |
| **Prepared by:** | Head of Audit, Risk &  Compliance |  |  |
| **Reviewed by:** | Quality Management Representative |  |  |
| **Approved by:** | Managing Director |  |  |

**AMENDMENT SHEET**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Issue/ Revision Number** | **Subject of amendments** | **Reviewed by:** | | | **Authorized by:** | | |
| **Name:** | **Sign:** | **Date:** | **Name:** | **Sign:** | **Date:** |
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1. **SCOPE**

These procedures provide the Internal audit function with practical guidance, tools and information for managing the internal audit activities.

1. **PURPOSE**

These procedures facilitate the performance of internal audits with the rigor and professional due care (as envisioned in the **InternalAudit** charter and related directives and in the Institute of Internal Auditors (IIA) **International Standards for the ProfessionalPractice of Internal Auditing** (the IIA Standards)).

1. **OBJECTIVES & KEY PERFORMANCE INDICATORS.**

This procedure aims to:

1. Defines the Role and Context of Internal Audit
2. Guide the management of the Internal Audit Function
3. Ensure Strategic, Risk-based Audit Planning and Reporting
4. Guide in the Conducting of Internal Audit Engagements
5. Assists in the use Internal Audit Tools and Techniques
6. Guide the Quality Assurance and Improvement.
7. Ensure adherence to all relevant audit standards.

**The Key Performance Indicators are:**

1. Risk based internal audit plan
2. Achieve the Risk based internal audit plan
3. Completed audit plans per year/period (% of completion)
4. Audit satisfaction ( feedback with relation to each audit).
5. Timely, and accurately Reporting of key issues.
6. Adopt automated Internal Audit Tools and Techniques
7. Prove timely Quality Assurance and Improvements

**REFERENCES**

4.1 Quality System Procedure for Quality System Manual.

ESL-QSP-QSM-001

4.2 Quality System Procedure for Document and Record Control.

ESL-QSP-DC&RC-002

4.3 Quality System Procedure for Management Review Meeting.

ESL-QSP-MRM-003

4.4 Quality System Procedures for Internal Audits.

ESL-QSP-QIA-004

4.5 Quality System Procedures for Non-conforming Products / Services.

ESL-QSP-CNCP&S-005

4.6 Quality System Procedure for Corrective and Preventive Action.

ESL-QSP-CA&PA-006

* 1. Internal Audit Manual ESL – PR – 90.A
  2. International Standards For The Professional Practice Of Internal Auditing (Standards) Issued: October 2008, Revised: October 2012 © 2012 The Institute of Internal Auditors (IIA).

**Abbreviations**

IIA: The Institute of Internal Auditors.

**5 RESPONSIBILITY AND AUTHORITY**

5.1 **Head of Audit Risk and Compliance**

5.1.1 Overall responsible for internal audit function.

5.2 **Internal Audit Assistant**

5.2.1 Assists the Head of Audit in performing internal audit assignments.

**6 MAP OF KEY FUNCTIONS**

* **Initiating the Audits**
* **Notifying the Auditee**
* **Planning**
* **Understanding the Audit**
* **Reporting**
* **Debrief the Auditee**
* **Close the Audit**

Conducting Internal Audits

Internal Audit

Managing internal Audit

* Structure
* Roles and responsibilities
* Training and Development
* **Audit Evidence**
* **Control and Risk Self-Assessments**
* **Working Papers**

Using Audit Tools & Techniques

* **Risk-based Audit Planning**
* **Internal Audit Reports**

**Strategic, Risk-based Audit Planning & Reporting**

Quality assurance % improvement

**7 DETAILS OF THE PROCEDURES**

**7.1 The Role and Context of Internal Audit**

**7.1.1 Definition and Description of Internal Audit**

The IIA Standards describe assurance services as an objective examination of evidence for the purpose of providing an independent assessment on: Risk management, Control and Governance, see internal audit manual.

**7.1.2 Context for Internal Audit**

IIA Standard 1000 – Purpose, Authority, and Responsibility

IIA Standard 1100 – Independence and Objectivity

**Internal Audit charter**

The**Internal Audit Charter** (November 2013, Appendix A) defines the roles and responsibilities of the Audit team, Management, and the board.

**7.1.3 Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing**

**The Professional Practices Framework*,*** developed and maintained by The IIA, offers practitioners a full range of internal audit guidance. The core elements of this Framework are the **Code ofEthics** and a set of professional standards.

**7.1.4The Code of Ethics**

IIA's **Code of Ethics** promotes an ethical culture in the profession of internal auditing.

**7.1.5 The Standards**

**TheInternational Standards for the Professional Practice ofInternal Auditing**(the IIA Standards) provide guidance for the conduct of internal auditing at both the organizational and individual auditor levels.

**7.1.6 Practice Advisories**

The IIA issues Practice Advisories related to specific standards to provide clarification on particular issues. The Practice Advisories deal with most aspects of planning, conducting and reporting the internal auditing engagement, as well as with governance and management aspects of the internal audit activity.

**7.1.7 Integrated Risk Management**

The risk management policy and the [Integrated Risk Management Framework](http://www.tbs-sct.gc.ca/pubs_pol/dcgpubs/RiskManagement/rmf-cgr_e.asp), ensure that departments continuously proactively, and systematically assess and manage risks on an organization-wide basis. Internal audit provides sufficient and timely assurance services on risk management. See the internal audit manual

**7.1.8 Active Monitoring**

The Head of Internal audit actively monitor management practices and controls using a risk-based approach.

**7.2 Managing the Internal Audit Function**

**Standards**

IIA Standard 1210 – Proficiency

IIA Standard 2000 – Managing the Internal Audit Activity

IIA Standard 2030 – Resource Management

IIA Standard 1230 – Continuing Professional Development

**7.2.1 Organizational Structure for the Internal Audit Activity**

The Head of Audit reports to the Board of Directors, Auditor report to the Head of Audit

**7.2.2 Training and Development**

The Head of Audit ensures proficiency in terms of the key knowledge, skills and abilities required to effectively conduct internal audit assurance engagements. In addition, internal audit must stay abreast of recent developments in their profession.

The company fully supports the training and development of staff members. Training is provided formally on-the-job, when a need or opportunity is identified.

The company fully encourages and supports staff members to increase their professionalism and credibility through the acquisition of professional certifications. Among those supported are the Certified Internal Auditor (CIA), the Certified Government Auditing Professional (CGAP), the Certification in Control Self Assessment (CCSA), the Certified Financial Services Auditor (CFSA), the Certified Information Systems Auditor (CISA) and the Certified Fraud Examiner (CFE). The CIA, CGAP, CCSA and CFSA The continuing education requirements associated with these certifications are fully supported.

**7.3 Strategic, Risk-based Audit Planning and Reporting**

**Standards**

IIA Standard 2010 – Planning

IIA Standard 2110 – Risk Management

IIA Standard 2120 – Control

**IIA Standard 2060 – Reporting to the Board and Senior Management**

The annual internal audit plans should "…summarize an annualassessment of the overall materiality and risks associated with the departmental risk management strategy and practices, management control frameworks and practices and financial and performance information, and identify and schedule planned audit engagements or other services to be provided by the internal audit function during the period of the plan."

**7.3.1 The Risk-based Audit Planning Process**

The Head of Internal Audit undertakes an annual risk-based planning process to determine the internal audit priorities for the upcoming year.

**7.3.2 The Internal Audit Annual Report**

Head of Internal Audit prepares after assignment reports, quarterly, half yearly and annual reports. The reports describe the audit activities undertaken, identifies major exposures, and offers a holistic opinion on controls, governance and risk management.

**7.4** **Conducting Internal Audit Engagements**

**Standards**

IIA Standard 1200 - Proficiency and Due Professional Care.

IIA Standard 1220 - Due Professional Care

IIA Standard 2200 – Engagement Planning

IIA Standard 2201 - Planning Considerations

IIA Standard 2210 – Engagement Objectives

IIA Standard 2220 – Engagement Scope

IIA Standard 2240 – Engagement Work Program

IIA Standard 2300 – Performing the Engagement

IIA Standard 2320 – Analysis and Evaluation

IIA Standard 2330 – Recording Information

IIA Standard 2400 – Communicating Results

IIA Standard 2420 – Quality of Communications

**7.4.1 Initiating the Engagement**

**7.4.1.1 Notifying the Auditee**

The initial communication with the auditee is issued by the Head of Audit /audit manager and copied to the CEO/ Managing Director. In the notification, the Head of audit provides details of the audit plan.

For continuous/monthly reviews, notification is in form of items to be reviewed i.e. audit sample. For spot checks no notifications are issued.

**7.4.1.2 The Planning Phase**

The planning consists of three activities, i.e. gaining an understanding of the area being audited, determining and assessing risks, and determining the most appropriate audit objectives, scope and criteria to be employed.

**7.4.1.3  Understanding the Audit Entity**

The Head of Audit develops sound understanding of the program, activity, organization, initiatives, management practices, business processes, policies and procedures, and external and internal environments.

**7.4.1.4 Information Sources**

Some of the key documents and information that the Head of Audit uses include:

1. Acts and related legislation or regulations
2. Policy, procedures and standards manuals and directives
3. Results of previous audits or evaluations.
4. Organization charts
5. Job descriptions and delegation instruments
6. Listings of key personnel
7. Process and system maps or flowcharts
8. Operational and financial data and reports
9. Planning and performance reports (i.e. the Internal Audit Performance Report, the Report on Plans and Priorities)
10. Management meeting reports or minutes
11. Management control frameworks, and risk-based audit frameworks (RBAFs)
12. Risk assessments
13. Management studies or reports
14. Various analysis

**7.4.1.5 Assessing Risks**

The Head of Audit performs a detailed risk assessment during the planning phase of the audit all though the audits and meetings held.

**7.4.1.6 Assessing Internal Control**

The Head of Audit ensure there are appropriate internal controls, (preventive or detective controls). Controls ensure that what happens is what is supposed to happen and that and minimize undesirable results.

**7.4.1.7 Determining Audit Objectives, Scope, Criteria and Approaches**

**7.4.1.7.1 Audit Objectives**

The Head of Audit sets the audit objectives for each assignment. The audit objectives are the question(s) that the audit seeks answers for.

**7.4.1.7.2 Scope**

The Head of Audit sets the scope for each audit assignments. The scope statement clearly describes the areas, processes, activities, or systems that will be audited and the time period covered by the audit.

**7.4.1.7.3 Audit Criteria**

Audit criteria are reasonable and attainable standards of performance and control against which compliance, the adequacy of systems and practices, and the economy, efficiency and cost effectiveness of operations can be evaluated and assessed.

Good audit criteria statements should be relevant, reliable, neutral, and complete.

**7.4.1.7.4 Approach**

The Head of Audit, once the audit objectives, scope and criteria have been clearly established, designs the approach that will be used to carrying out the audit.

The audit approach ensures collection of sufficient, and appropriate audit evidence to enable the drawing of a conclusion with respect to all audit objectives set.

**7.4.1.7.5 Preparing Planning Stage Output Documents**

The Head of Audit, at the end of the planning phase, prepares a Preliminary Survey Report or Terms of Reference to document the results.

**7.4.1.7.6 Suspending Audit Activity**

On occasion, the planning phase may result in a recommendation to suspend additional audit activity.

In such circumstance, the head of audit updates the MD/CEO, with a recommendation to defer or cancel the engagement, or to revisit the objectives later.

**7.4.1.7.7 Developing the Audit Program**

The Head of Audit must prepare audit programs that specifies who, what, why, how each audit activity will be carried out but also allowing some flexibility for the use of initiative and sound judgment in deviating from prescribed procedures or extending the audit work where warranted.

In some instances, where the head of audit has been informed of any misuse of any assets, or action taken that are not inline with company procedures, surprise /spot checks will be done to verify and clear such instances.

**7.4.1.7.8 Conducting the Engagement**

The Head of Audit must conduct audit by gathering sufficient, appropriate audit evidence to reach a conclusion on each of the objectives identified.

**7.4.1.7.9 Hold an Initial Meeting with the Auditee**

The Head of Audit may have entrance meeting on the first day of fieldwork with the audit team or alternatively he may use emails or phone conversations used to provide the auditee with required information.

**7.4.1.7.10 Complete the Audit Program**

Once the entrance meeting has been held, the team members proceed to carry out their assigned parts of the audit program. As activities are completed there will be ongoing processes of analyzing and evaluating evidence (Section 6.1 provides guidance on audit evidence) and formulating, discussing, presenting and refining observations and findings. Appendix K provides a Sample Audit Observation Worksheet to aid in ensuring that each observation is well developed.

NB: in addition to the planned audit, the audit department will conduct spot / surprise checks in finance and operations.

**7.5.1 Reporting the Engagement**

Internal Audit is to "provide …added assurance…on risk management, control and governance processes." In order to accomplish this objective, Auditors must effectively communicate its audit conclusions and recommendations.

**7.5.2  Debrief the Auditee**

The Head of Audit formally discusses about all significant audit findings with the auditee, management and the Managing Director.

**7.5.2.1 Prepare the Draft Report/ Audit letter**

The purpose of the written report is to communicate. The messages must be clear and precise to ensure that the reader will understand what the report is trying to achieve.

**7.5.2.2 Issue Draft Report and Request Management Action Plan**

Once the auditee also has their input to the audit report. The auditee is given reasonable and sufficient time to properly review the report and provide a formal response and action plan, bearing in mind the desirability of finalizing the report in a timely fashion.

**7.5.2.3 Review the Management Action Plan**

Normally, the action plan should indicate where there is:

1. Agreement with the recommendation and a commitment to undertake corrective action or
2. Agreement with the recommendation and an explanation as to why corrective action cannot be taken at this time or
3. Disagreement with the recommendation together with an explanation.

**7.5.2.4 Prepare the Audit Report to the Board of Directors**

The Head of Internal Audit provides the Board with a fair and complete picture that includes the management action plans in the audit report. This integrated report must clearly identify, for each recommendation provided in the report, the action to be taken, the position or person responsible, and the related timing.

**7.5.3 Close the Audit**

Once the final report has been issued, the following steps are taken to close the audit:

1. Finalize and archive working papers (see Section 6.3).
2. Complete project performance discussions
3. Provide input to future audit plans, e.g. update the auditable unit profile, recommend follow-up activity, or identify potential risk areas for consideration for audit. Nb, the internal audit department will perform follow-up review in the subsequent audit as per the annual internal audit plan.

**8 Applying Internal Audit Tools and Techniques**

**Standards**

IIA Standard 1200 – Proficiency and Due Professional Care.

IIA Standard 1220 - Due Professional Care.

IIA Standard 2100 – Nature of Work.

IIA Standard 2300 – Performing the Engagement.

IIA Standard 2310 – Identifying Information.

IIA Standard 2320 – Analysis and Evaluation.

IIA Standard 2330 – Recording Information

**8.1 Audit Evidence**

Audit evidence is the information collected, analyzed and evaluated to support an audit finding or conclusion.

**8.1.1 Concepts**

Attributes of good audit evidence, i.e.:

1. Sufficiency - the measure of the quantity of evidence
2. Reliability – the measure of the appropriateness and trustworthiness of sources and techniques.
3. Relevance – the measure of the pertinence of the evidence

**8.1.2 Types of Audit Evidence**

Evidence used to support audit conclusions may be categorized into **Physical,** **Testimonial,** **Documentary** and **Analytical**

**8.1.3 Methods of Obtaining**

Interviews, Audit Tests, Sampling, Surveys, Inspection, Flowcharting, Modeling, Observation, Confirmation, and Analysis

**8.2  Control and Risk Self-Assessments**

**8.2.1 Control Self-Assessment**

Control self-assessment involves having the members of a working group identify and assess the controls that govern their activities.

**8.2.2 Risk Self Assessment**

Risk self-assessment involves having peer groups or knowledgeable stakeholders identify the risks associated with processes, procedures, programs, activities, or initiatives.

**8.3 Methods of Documenting Audit Evidence – Working Papers**

Working papers are the supporting documentation for the entire audit – they provide a complete audit trail and demonstrate, in detail, how the engagement was performed. Working papers;

1. Justify and provide proof of work carried out
2. Help auditors respond to questions about coverage or results
3. Facilitate supervisory quality assurance reviews and
4. Provide supporting evidence when external auditors or other reviewers want to rely on the results.

A completed set of working papers should be neat and uniform in size and appearance and include:

1. An index to contents
2. A legend of symbols and abbreviations used
3. A statement of the purpose of the working papers
4. Evidence of the application of the audit program
5. The results of the audit, e.g. debriefings, reports, action plans.

**9.0 Quality Assurance and Improvement**

**Standards**

IIA Standard 1300 – Quality Assurance and Improvement Program -

IIA Standard 1310 – Quality Program Assessments

IIA Standard 1311 – Internal Assessments

IIA Standard 1312 – External Assessments

IIA Standard 2340 – Engagement Supervision

**9.1 Quality Assurance**

The Head of Audit must ensure that an effective quality assurance and continuous improvement program is implemented to help internal audit achieve quality internal audits that effectively and consistently result in a value-adding services.

1. The first level of quality assurance is the due professional care to be exercised by the Head of internal audit.
2. The second level of quality assurance is the independence of internal audit reviews.

Quality assurance reviews ensure performance of work in accordance with professional standards and identify opportunities for improvement.

**10.0 LIST OF RECORDS TO SUPPORT IMPLEMENTATION**

**Appendices**

1. The Internal Audit Charter
2. Glossary of Terms
3. Annual Audit Plan Preparation Checklist
4. Template for an Auditable Unit Profile
5. Template for Documenting Engagement Risk Assessment
6. Checklist for Reviewing Audit Objectives and Criteria Statements
7. Considerations re: Objectives Statements
8. Template for an Audit Engagement Plan
9. Template for Presenting an Audit Program
10. Checklist for Reviewing an Audit Program
11. Engagement Planning Checklist
12. Sample Audit Observation Worksheet / Audit letter / Audit report
13. Checklist for Conducting the Engagement
14. Checklist for Reviewing Audit Reports
15. Checklist for Reviewing Audit Observation Worksheets and Supporting Evidence
16. Checklist for Reviewing Working Papers
17. Checklist for Quality Assurance Review
18. Checklist for Reviewing an Audit Program

10.1 REFER SECTION 7.4.1.4 Sources of information

10.2 REFER TO THE APPENDICES: Checklists and other internal audit generated records.