Best Practices for Internal Audit in Government Departments

1. Introduction

Traditionally, people understand internal audit as an activity of self imposed internal check and audit which also supposedly involved the activity of going around telling people what they were doing wrong. However even if one sees it in a narrow sense , the contribution of the activity of internal audit is potentially of major importance as an effective internal audit system leads to improved accountability, ethical and professional practices, effective risk management, improves quality of output and supports decision making and performance tracking.

Historically it was always held that internal auditing is confined to merely ensuring that the accounting and allied records have been properly maintained, the assets management system is in place in order to safeguard the assets and also to see whether policies and procedures are in place and are duly being complied with. With changing times this concept has undergone a sea change with regard to its definition and scope of coverage. Modern approach suggests that it should not be restricted to financial issues alone but also on issues such as cost benefit analysis, resource utilisation and their deployment, matters of propriety, effectiveness of the management, etc.

Internal audit is to be understood as an independent and objective appraisal service within an office/organisation.

The Institute of Internal Auditors of UK and Ireland defines Internal Audit as:
"Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

The Institute of Internal Auditors New York defines Internal Audit as:
"Internal audit is an independent, appraisal activity within an organisation for the review of accounting, financial and other operations on the basis as a basis of service to the organisation. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls".

The above definitions of internal audit call for internal audit, to be an independent function within an organisation placing greater emphasis on its objectivity. Thus internal auditing primarily provides an independent objective opinion to the Head of the Government Department/ Office.

The findings of an independent focused internal audit function also brings to the fore its findings and recommendations which act as a tool to officers in a department to take suitable corrective action and help in plugging the loopholes which would otherwise go undetected for a considerable period of time.

The definitions stress on two aspects of internal audit—assurance and consultancy. It is important that in fulfilling both these roles, internal audit remains independent of the project.

It is the management's responsibility primarily to manage the project and they should therefore make the decisions, but internal audit could act as a facilitator within this process.

For example, management should identify the risks associated with the project and decide how to deal with them with internal audit, acting as a consultant on risk and control matters.

The golden principles that state the Code of Ethics for Internal Auditors in Government are Integrity, Objectivity, Competency, Confidentiality and Independence.

a. **Integrity:** Integrity is expected in aspects of the internal audit work. The principles of honesty and fairness are to be observed. The basic point that is raised here is that his report should bring with it an air of trust, reliance and fairness.

b. **Objectivity:** Professional competency and assessment of facts with utmost care is a pre requisite for a good internal auditor. An internal auditor should refrain from making reckless and irresponsible statements or resorting to expressions without proper evidence.

c. **Competency:** An internal auditor is expected to apply appropriate skill and knowledge combined adequately with experience. An internal auditor should refrain from undertaking works that are outside his scope or beyond the scope of his skill and competence. Performance of the audit and preparation of the report require due professional care by persons possessing adequate training, experience and competence in auditing. The majority of staff development, however, results from on the job training where auditors assist in the training of other, less experienced staff members. Each auditor must be responsible for continuing his/her education in order to maintain their proficiency. This involves keeping abreast of current developments in auditing standards, procedures and techniques.

d. **Confidentiality:** The internal auditor should safeguard all information received by him as most of them may be of confidential nature. There shall be no spill out of possessed information unless there is a statutory, legal and professional requirement to do so.

e. **Independence:** As the definition states, Internal audit is an independent appraisal activity. We need to carefully note here that the word "independent" is important, even though it gets neutralised by the fact that it is within an organisation. Independence stands for an internal auditor being able to report on material facts and figures, uninfluenced by any favor or frown.

   It is to be understood that the International Auditing Guidelines relating to "Using the work of an internal auditor" reads as follows "An internal audit function is part of the entity and irrespective of the degree of its autonomy and objectivity cannot be the prime criterion for independence". This is because the reporting relationship may influence his decisions and reporting patterns.

2. Objective and Scope

As defined above Internal Auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. The objective of internal auditing is therefore to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost. The members of the organisation assisted by internal auditing include those in management and the board.

The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organisation's system of internal control and the quality of performance in carrying out assigned responsibilities.

The Internal auditors should:

1. Determine whether the existing system of controls is in harmony with the structure of the organisation. As far as possible keeping the controls within the operating functions acts as a cost effective measure;

2. Review each control and analyse them in terms of costs and benefits;

3. Review the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information;

4. Review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organisation is in compliance;

5. Review the means of safeguarding assets and, as appropriate, verify the existence of such assets. The objective of the management is to ensure that assets are reasonably and adequately protected against loss and that they are properly managed and accounted for. The safeguard of assets should not be restricted to mere pilferage but physical threats like fire, water, electricity, etc.;

6. Appraise the economy and efficiency with which resources are employed;

7. Review operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

3. Responsibility and Authority

The internal auditing department is an integral part of the organisation and functions under the policies established by management or board. The purpose, authority and responsibility of the internal auditing department need to be defined in a formal written document duly approved by management or the board. The document should spell out in clear terms, the intended purposes of the internal auditing department, scope of its work, and a declaration that auditors have no authority/responsibility for the activities they audit.

Throughout the world, internal auditing is performed in diverse environments and within organisations which vary in purpose, size, and structure. In addition, the laws and customs within various countries/states differ from one another. These differences may affect the practice of internal auditing in each environment. Hence the need to be compliant with prevalent and prescribed standards and best practices becomes all the more essential.

Auditors must take reasonable professional care in specifying evidence required, in gathering and evaluating that evidence, and in reporting findings. This requires auditors to be alert for instances that could indicate errors, fraud, improper or illegal expenditure, unauthorised operation, waste and inefficiency.

In determining which audit tests and procedures achieve reasonable professional care, the internal auditor should consider the following items:

- The requirements to meet audit objectives;
- The relative materiality of matters to be investigated;
- The effectiveness of systems of accounting and administrative internal control;
- The estimates of costs of implementing audit test plans in relation to likely benefits to be derived.

4. Independence

Internal auditors should be independent of the activities they audit. Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organisational status and objectivity. Independence stands for an internal auditor being able to take a stand and report on materiality issues, uninfluenced by any favor or coercion or undue influence.

The organisational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities. The head of the internal auditing department should be responsible to the management/board in the organisation with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

Objectivity is an independent mental attitude which internal auditors should maintain in performing audits. Internal auditors are not to subordinate their judgment on audit matters to that of others. Designing, installing, and operating systems are not audit functions. Also, the drafting of procedures for systems is not an audit function. Performing such activities is presumed to impair audit objectivity.

Therefore the internal auditor must be:

- straightforward, honest and sincere in approaching the audit task;
- fair and not allow prejudice or bias to override objectivity; and
- impartial and free of any interest that might be regarded as being incompatible with integrity and objectivity.

Auditors should inform their supervisor if they consider that personal or external circumstances are likely to impede their ability to form independent and objective judgments.

Internal Audit therefore contributes to the quality of management, by the provision of an independent, objective and ongoing review of management procedures. Proper internal audit ensures review the efficiency and effectiveness of programs, assists development and maintenance of financial and administrative processes; and facilitates the conduct audit examinations on financial information in an independent, contemporary and professional manner to express an objective opinion on the quality and integrity of that information.

5. Steps

5.1   Planning

Adequate planning is necessary for every audit. All material areas bearing on the reliability of the accounts and records must be covered. The audit working papers provide the documentary evidence of audit planning in the form of an audit plan, setting out the objectives and scope of the audit and the techniques and resources to be used by the auditor. The planning process must include the development of an in-depth, well-conceived, overall strategic plan that

clearly defines the desired future state of the internal audit function. In addition, it is essential to create detailed tactical plans that support the overarching strategy, and to clearly describe the specific initiatives required to achieve the transformation. Too often we see internal audit functions diving straight into tactical planning - especially regarding the deployment of technology - without first comprehending how their overall strategic plans and tactical plans fit together.

The following need to be considered while preparing the audit plan:

- the nature, size and operation of the office, entity or business;
- previous audit paras and observations;
- availability and competence of audit staff;
- audit methodology most suited to the operations to be audited; and
- the format and general content of the report to be prepared.

Planning may be revised as may be deemed necessary in the course of the audit in the light of newer findings or situations.

5.2 Delegation, Supervision and Staffing

Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed. The amount of supervision required corresponds to the experience and skill of the auditor. The supervisory role includes:

- providing instructions in creation and approving or recommending approval of the audit programme;
- ensuring that the approved audit program is completed, unless deviations are both justified and authorised;
- determining that the working papers adequately support the audit findings, conclusions and reports;
- making sure that audit reports are accurate, objective, clear, concise, constructive and timely; and
- determining that audit objectives are being met.

Any significant internal audit transformation will involve a large number of specific tasks linked to a fairly complex timeline to ensure that everything comes together to produce the desired result in a timely fashion. It is important to bear in mind that this is more than just a simple scheduling exercise. Therefore, it is recommended that internal audit functions utilise some of the numerous, highly effective project management techniques that can help ensure the successful, timely conclusion of an internal transformation process.

The principles of change management typically are a centrepiece of any successful internal audit transformation. In fact, the more significant the transformation, the more important change management techniques become. Among the change management techniques that have proven particularly successful to transformation initiatives are the deployment of a project management office, the utilisation of project management tools and the development of detailed communication plans. These types of techniques must be built into any internal transformation process right from the start.

Building up a balanced pool of resources is critical to an effective internal audit function. The competencies of internal audit staff must take into account the skills and knowledge base laid down by the profession. This includes personal qualities, standards of education, sound judgement, innovation and operational and auditing/evaluation experience.

The skill requirements for internal audit should be aligned to the nature of the organisation's business, its risk profile and the associated needs of management. The changing role and focus of internal audit activity means there must be a broader range of competencies than required for traditional internal auditing. It needs also to address the composition of its audit teams if it is to undertake a range of activities.

Dedicated staffing is almost always a mandatory element of a successful transformation process. Some well-meaning internal audit functions only demand a part-time focus of their key personnel on the transformation process in order to keep them available for other important projects. However, transformation initiatives are often complex and demanding, and anything less than a full-time commitment from staff is likely to result in an incomplete, non-timely effort, which will ultimately make stakeholder buy-in more difficult. Dedicated staffing can help ensure that the time and effort spent on a transformation will pay dividends.

5.3   Evaluation and Internal Control

Internal auditors must systematically evaluate the nature of the operation and system of internal control in the section being audited, to assess the reliance that can be placed on controls. The assessment determines the nature, extent and timing of the audit procedures.

Internal controls of an organisation comprise the plan of organisation and methods adopted to safeguard assets, comply with laws and regulations, ensure the completeness and correctness of accounting data, promote efficiency and encourage adherence to management policies.

The characteristics of a satisfactory system of internal control include:

- proper segregation of functional responsibilities;
- a system of authorisation, recording and procedures adequate to provide accounting control over assets, liabilities, revenues and expenses;
- sound practices in performance of duties and functions by each of the organisational departments; and
- documented procedures to ensure that persons are aware of all manual and computer requirements, and have capabilities commensurate with responsibilities.

It is important that a review of an internal control system be directed primarily toward the controls that have an important bearing on the reliability of that system, i.e., key controls, to ensure efficient use of resources.

5.4   Evidence

An auditor must obtain all of the evidence considered necessary for the expression of an informed opinion. The evidence required will vary and professional judgment is required to determine the amount and nature of the evidence required. The auditor should consider:

- the nature of the item under examination;
- the materiality of possible errors or irregularities;
- the degree of risk involved, which is largely dependent on the adequacy of internal control; and
- the susceptibility of the given item to conversion, manipulation or misstatement.

5.5 Working papers

The standard for working papers and all documentation relating to an audit is very important as the purpose for the working papers can include any one or all of the following:

- They assist directly in the performance of the audit;
- They provide a historical record of the audit work;
- They contain the basis for the auditor's opinion;
- They provide information for the auditor's report;
- They aid the review and evaluation of the audit work;
- They support legal action against departmental officers or members of the public.

5.6 Quality Reviews

Review of the work of auditors is necessary to ensure the maintenance of professional standards. Such reviews cover the following areas:

- Preparation, review, and approval of field plan;
- Ensuring direction, supervision, and review of work at all levels is adequate;
- Ensuring working papers comply with the standards prescribed;
- Ensuring significant issues are properly documented, pursued to finality and reported appropriately;
- Resolving differences of professional judgment among staff involved in audits;
- On-the-job training of audit staff to assist their development of appropriate skills and competence;
- Overall review of audits to ensure that the quality of each audit meets professional standards.

Where the results of an evaluation are not satisfactory, the reviewer will discuss appropriate corrective action with the auditor. That action is to be recorded on paper and referred back to the auditor.

The review process can involve peer reviews by audit staff. These reviews have the dual effect of improving the standard of work performed and enabling auditors to learn from their peers.

5.7 Management support

It is generally accepted that, to be effective, the internal audit function must have the full support of the organisation's senior management. The support of line management is also critical. The attitude of management towards internal audit can have a significant influence on the behaviour of an organisation's staff - similarly the attitude of management towards internal audit can either strengthen or hamper its role.

The planning of the internal audit section should reflect the organisation's business planning and align the audit effort with the key business objectives and the critical business risks. Internal audit's focus should be on critical business processes and areas of high risk; be relevant; and give due weight to the needs and expectations.

Internal audit's processes should be subject to ongoing monitoring, review and evaluation. The concept of continuous improvement requires internal audit not just to measure its current performance but also to assess it against some standard or target.

It demands the development of balanced indicators of performance, preferably with input from the Audit Committee and line management. By promoting continuous improvement internal audit can also be a powerful sponsor or aid to improving processes within the organisation.

Internal audit has to be subject to performance management review as does other parts of the activity. This can be undertaken by the audit committee with internal and/or external assistance. This process can be facilitated by regular performance reports including appropriate performance measures. Internal audit needs to be pro-active in this respect both to set an example and to indicate better practice. This approach will both enhance its credibility and provide greater assurance to its stakeholders.

Therefore, from the above the following conclusions can be drawn for officials in the government departments on internal audit:

- Internal audit is to be considered as an independent and objective appraisal service within a government office or department;
- This internal audit activity will result in providing an independent and objective opinion to the head of the government office concerned on control failures, risk management, harmony of activities and expenditure in tune with the department's objectives as well as governance related issues;
- The findings and recommendations from the internal audit would greatly benefit the officials in various departments to devise their action plans.

5.8   Internal Controls Questionnaire

The internal auditor along with the audit staff is expected to take the help of an Internal Controls Questionnaire. An internal control questionnaire (ICQ) is a series of 'yes' or 'no' questions about the internal control structure. A 'yes' answer indicates that a needed control or policy is in place but however is to be accepted only after confirmation and testing to satisfy the existence. A 'no' indicates absence of a control and enhances risk or may not be relevant to the business, but requires confirmation to judge the impact of the same.

Most internal auditors use ICQ for undertaking audits. These questionnaires are designed specifically for the department/office being audited. Answering this series of 'yes' or 'no' questions helps in the assessment of internal controls.

A sample generic ICQ is depicted below:

Policies and Procedures

1. Does your department have an up-to-date copy of the department's policy and procedure manual?
2. Are written policies and procedures maintained for all departmental functions?
3. Are these policies and procedures reviewed and updated annually?
4. Does your department have an organisational chart that clearly defines lines of authority and responsibility?
5. Are current job descriptions on file for each employee in the department?

Cash Receipts

1. Are all monies received made payable to department/office?
2. Are the receipts restrictively endorsed immediately upon receipt?

3. Are cash receipts kept in secure storage until deposited?
4. Are deposits made daily to the cashier's office?
5. Are cash receipts deposited intact with no expenditures made from collections?
6. Is cash that has been received and deposited reconciled monthly?
7. Are cash receipts recorded and used only for the purpose for which they were received?
8. Are cash handling responsibilities rotated among two or more employees when possible?
9. Are numerically controlled receipt slips used for all cash receipts received in the department?
10. Are numerically controlled cash-receipt slips accounted for and reconciled on a regular basis?

Petty Cash

1. Are petty cash funds kept in secure storage?
2. Are policies on the use of petty cash funds followed?
3. Do all petty cash disbursements require original receipts for reimbursement?
4. Are surprise cash counts of department petty cash and change funds performed on a regular, random, and unannounced basis?

Travel

1. Is all travel reviewed for benefit to the department versus its cost prior to trip approval being given?
2. Are travel plans made sufficiently in advance to obtain the most favorable transportation rates?
3. Are travelers required to provide original receipts for all travel expenses?
4. Are direct advance payments and use of credit cards encouraged over cash travel advances?
5. Are travel expense reports reviewed in detail prior to being approved for reimbursement?
6. Are travel expense reports required to be completed in the time frames specified by policy?
7. Are unauthorised personal expenses excluded from travel expense reports?
8. Are travelers required to review the travel policy prior to traveling?

Purchasing/Online Requisitioning

1. Are competitive bidding policies followed on all requisitions against standing purchase orders?
2. Are passwords kept secret to preserve approval control over requisitions?
3. Are all requisitions reviewed by the department administrator to assure reasonableness and appropriate delivery address?
4. Are purchases through the department, not for department use, prohibited?
5. Are the department's ordering and receiving processes segregated to the greatest extent possible?
6. Are all purchases and requisitions of goods and services reconciled to the monthly Report of Transactions and Statement of Account?

Payroll

1. Are all staff time records reviewed and electronically authorised by the department administrator?
2. Are copies of timekeeping screens printed and retained on file for agreement to labor reports?
3. Are overtime hours reported verified for reasonableness and proper approval?
4. Are pay checks distributed by someone other than the timekeeper?
5. Are undistributed pay checks returned to the Treasurer's Office after three working days?
6. Are staff distribution and vacation/sick accrual reports reviewed at each pay period by the department administrator for reasonableness?
7. Are staff time cards periodically compared to time keeping screen copies by the department administrator to assure that actual hours are being recorded accurately?

Information System Security

1. Is the need for password security reinforced to department staff?
2. Is the use of software not licensed to the department prohibited on department computers?
3. Are computer applications logged off when the user is away from the terminal or PC?
4. Are all disks brought in from outside sources tested for computer viruses before being used?
5. Are floppy disks secured when not in use?
6. Are back-up disks maintained of all critical information?
7. Is sensitive information protected by password or removed from hard disks daily?
8. Are staff members encouraged to save work frequently?
9. Are electrical surge suppressers used on all computer equipment?

Fraud Indicators

1. Is the work of all staff members double-checked on a random, unannounced basis?
2. Are all staff members required to take one full week of continuous vacation time annually, especially those handling or posting cash receipts?
3. Are duties segregated in all cash handling functions?
4. Are job duties rotated when possible in cash handling functions?
5. Does more than one person have access to every screen or software application in the department?
6. Is employee performance reviewed and documented on a regular basis?
7. Are unusual trends or discrepancies in department accounts identified and reconciled monthly?
8. Are missing numbers in sequences of numerically controlled documents identified and investigated immediately?

6. Role of Internal Audit in Good Governance

The role of internal audit has been ignored in all discussions on governance. The reasons for this needs detailed examination. Is it lack of independence of the audit function? Is it that the audit is conducted by staff members who do not understand modern concepts of auditing?

The quality of audit work is directly correlated with independence and importance accorded to the internal audit function in an organisation. The poor status of the internal auditor is the

main reason why competent staff, are reluctant to take up this work. As a result most departments do not have an efficient and effective internal audit department.

The head of internal audit needs to be elevated in the hierarchy to a level consistent with that of the Chief Accounts Officer or more to minimise discounting of internal audit inputs, and enhance the quality of audit.

Internal auditors also have a special responsibility since no precise set of guidelines exist for best practices in 'Governance'. A few suggested concepts in this regard are:

1. Internal auditors must identify forces that impact governance. They must constantly fine tune their knowledge of these influences; and they must articulate, and recommend to management and audit committee, actions that will help the organisation against both traditional and emerging risks;

2. Management and organisational objectives must be the focus of internal auditing practice, and internal auditing must be fully integrated with organisation;

3. Internal auditing approaches must be flexible and adaptable, mirroring today's changing environment;

4. Internal auditors must be creative and aggressive as they seek strategies to add value, safeguard assets, and promote effective governance.

The internal auditor needs to continuously update himself of the changing times and technologies and sharpen his skills. By applying skills to the most critical points, building personal and professional credibility and recognising and responding to the needs, internal auditors can become indispensable, speeding good governance.

However, recognising the need to sharpen focus for bringing change is the easier but implementing strategic change and measuring the results is by far the greater challenge. Too often internal audit change initiatives fail, and the desired outcomes are never realised. By incorporating proven change management and project management techniques throughout the transformation process, internal audit functions can implement change initiatives quickly and effectively.

One part of internal audit's consultancy work would be to work with the management to improve systems, processes and methods of working. With regard to using Information Technology (IT) tools to simplify processes, internal audit could identify control weaknesses prior to the system going live. Identifying loopholes and strengthening the system during the development of the system is desirable as it is cost effective than trying to change the system at a later date, this will allow for the controls to be fully tested and not delay the implementation of the project.

Internal audit may be able to offer a proactive approach, which may provide advice on a framework for risk management on the project, facilitate risk identification, assessment and mitigation through the implementation of controls.

Successful internal audit transformations involve four key best practices:
a. Good planning at strategic and tactical levels;
b. Project management techniques to ensure that plans are achieved;
c. Change management techniques to facilitate change, improve communications and facilitate stakeholder buy-in;
d. Dedicated staffing for the transformation initiative.

Conclusion

By using best practices, internal audit functions can significantly enhance the probability of a successful transformation. In addition, many of the tools and strategic approaches used in the transformation process (such as detailed communications plans, teambuilding and change management techniques) have applications that go beyond the transformation process, and can be used to enhance basic internal audit strategies. We have seen the value of using these best practices to ensure the most effective transformation possible, and it is well worth the additional time and effort they require.

Appendix 1

(Case study: Government Treasuries, Education and Health Departments)

Current scenario:

The role of internal audit is to evaluate and report on the effectiveness of the internal control system, highlighting any deficiencies and the risks they pose for the achievement of the organisation's objectives.

Internal audit is a relatively new phenomenon in state governments in India. The various codes and manuals list out, quoting various government orders on functions and duties of personnel, which require the establishment of an internal audit function in each government directorate. It is the placement by Directorate of Treasuries and Accounts (DTA), of a Chief Accounts Officer (CAO), in each of these Directorates which enables internal audit to be undertaken. The CAO supervises the internal audits and reports to the Head of Department (HoD).

On specific evaluation it would reveal that *significant weaknesses* exist *in the internal audit arrangements of departments/projects.* It is understood that many, if not all, departments share these weaknesses. Indeed, the features of the internal audit functions are such that the internal audit might be *better described as departmental inspection*. The figure below sets out these key features, highlighting the weaknesses.

Departmental internal audit

Objectivity and independence of auditors: Usually there would be no separate internal audit function in the line departments. Instead, internal audits are undertaken by staff drawn together from different departmental functions, normally the Accounts Wing. This arrangement has a number of implications that potentially compromise the objectivity and independence of auditors in evaluating the adequacy of controls, for example:

- Their accounts duties will habitually lead them to work with district and field accounts staff and undertake accounts work;

- The staff in the name of internal audit would end up only answering AG audit observations on behalf of the department.

Objectivity and independence of management of internal audit: As laid down by the various GOs and Manuals, internal audit is the responsibility of the CAO. The overall audit function thus lacks the required independence, as the CAO is also responsible for the accounts and thus financial control.

Proper understanding of the role of internal audit appears to be lacking in some quarters: For example:

- The various codes and manuals set down the role of internal audit as being "to conduct internal audit of all *monetary transactions* in the department";

- Internal audit reports often start with a statement that the auditors have conducted an audit of the *accounts*;

- Internal audit reports normally state that they *cover a number of years*, i.e. the period from, e.g., 1997-2002. This defeats the objective of internal audit, which is not to cover transactions (and therefore, could cover several years) but to evaluate and report on the

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effectiveness of internal controls. While controls can be evaluated for their effectiveness over time, this period would not normally exceed one year.

Audit approach: The audit teams use an internal audit questionnaire which is normally outdated and would not generally be in a position of being followed. Hence, there would be no audit trail of results and conclusions on which to base the audit reports. This raises considerable risks.

Sufficiency and proficiency: Internal audit holds the last priority on the list of works to be done and the staff are usually cobbled up, which means they are not deployed on internal audit full time. This deployment is thus inadequate. The auditors are usually graduates who have passed the accounts tests of the Treasuries and Accounts Department, but they have neither specific internal audit qualifications nor training.

Inadequate coverage and timeliness: Coverage and timeliness of audits are generally inadequate, as set out below.

- The Directorates generally cover four district offices per year on a general check. Thus, each District office is only audited every 5 years approximately. Units below the district offices are visited much less often of course; some are not audited since a decade. Clearly, the huge number of units below the district offices will make regular audits of them difficult, but the same cannot be said for district offices. The irregularity of the visits undermines the validity of the audit substantially. It will be difficult to determine which rules were in place at the time of the transaction or event, to gather required documentation, and to hold officers accountable.

- *Inadequate responsiveness to internal audit*: Departmental responsiveness to internal audits are generally poor. Even the significantly more valuable internal audits undertaken by certain directorates do not generally generate any responses from districts offices. This is due to a number of factors, but the fact that there are no internal audit committees at the district level may also play a role.

In conclusion, therefore, although the work is known as "internal audit" in many ways it is more akin to inspection visits. Furthermore, its effectiveness has been low.

The *Treasury Departments' departmental inspection system seems to be more effective*, although it also lacks the required independence.

The DTA in-house departmental inspection function undertakes inspections of the District Treasury Offices (DTOs). Each DTO is inspected on a biennial basis either by the Director of Treasury and Accounts or by a nominated Deputy Director, Joint Director or the relevant Regional Joint Directors (RJD). The nominated official is usually assisted during the audit by one junior accounts officer and two senior accountants drawn from the DTA accounts wing. Sub Treasury Offices (STOs) are inspected by the DTOs.

Internal audit has the potential to substantially reduce fiduciary risk; it is imperative that effective internal audit units (staffed by professionals with proven records of integrity) are established across Government, reporting to the HoD to build his accountability for internal controls, and that this initiative receives the requisite resources.

General weaknesses in Government departments that need to be targeted by the Internal Auditors include:

- Absence of receipt books in cases where receipts of monies existed;

- Absence of control registers to ensure receipt of Utilisation Certificates;

- Absence of commitment and arrears control mean that transactions cannot be traced from their inception;

- Internal controls systems, and responsibility for them, are insufficiently well defined;

- Key codes and manuals are generally not updated and not in tune with changing times;

- Asset registers do not contain details of their cost nor the payment transactions, thus preventing assets being traced back to their original purchase documentation;

- Key registers and documents are available for inspection on site. However, supporting documentation and responses are generally tardy, suggesting that supporting documentation was not readily available;

One area that is particularly weak is records management, which together with accounting, is in the process of being computerised in many departments. It is essential that arrangements are in place to back up data and ensure that records can be maintained or recreated to ensure data security and the availability of financial information. However, it was noticed regarding:

- Absence of policies regarding maintenance, backup, movement of data, hardware and software in each department;

- Inadequate back up arrangements, i.e., some offices take backups on hard, floppy and compact discs, and they are stored in the same room as the main data source;

- No Disaster Recovery Plan (DRP) or arrangements for alternative activity continuity facilities have been made;

- Furthermore, staff members do not have necessary training in order to be confident in using technology. This enhances the risk of error in data entry;

- Outdated Internal Control Questionnaires and audit checklists.