

UNITED REPUBLIC OF TANZANIA



PRESIDENT'S OFFICE, REGIONAL ADMINISTRATION
AND LOCAL GOVERNMENT

LOCAL GOVERNMENT AUTHORITIES INTERNAL AUDIT MANUAL

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TABLE OF ABBREVIATIONS

| | Abbreviations | Meaning |
|-----|----------------------|---|
| 1. | AO | Accounting Officer |
| 2. | AP | Audit Program |
| 3. | AR | Audit Risk |
| 4. | AR | Audit Questionnaire |
| 5. | C & AG | Controller and Auditor General |
| 6. | CAATS | Computer Assisted Audit Technique |
| 7. | CD | Council Director |
| 8. | GAAP | Generally Accepted Accounting Practice |
| 9. | IA | Internal Audit |
| 10. | ICQ | Internal Control Questionnaire |
| 11. | IS | Information Systems |
| 12. | LGA | Local Government Authority |
| 13. | MTEF | Medium Term Expenditure Framework |
| 14. | NBAA | National Board of Accountants and Auditors |
| 15. | NAO | National Audit Office |
| 16. | PPF | Public Finance Act |
| 17. | PPR | Public Finance Regulations |
| 18. | PPA | Public Procurement Act |
| 19. | SBA | Systems Based Audit |
| 20. | TSRAP | Tanzania Statement of Recommended Accounting Practice |
| 21. | VFM | Value for Money |
| 22. | LAFM | Local Authorities Financial Memorandum |
| 23. | URT | United Republic of Tanzania |

IMPORTANT TERMS

| | <i>Terms</i> | <i>Meaning</i> |
|---|-----------------------------|---|
| 1 | “Accounting Officer” | Any of the accounting officers appointed under Section 33 of the Local Government Finance Act 1982 which states that ‘Every Director of an urban authority and every Director of a District Council shall be the accounting officer for the LGA of which he/ she is the chief executive officer and shall for that purpose, be responsible for accounting for any service in respect of which moneys have been appropriated by the authority and for issues made to the LGA from the exchequer account’ |
| 2 | “Audit risk” | The risk that audit procedures will fail to detect an absence of, inappropriately designed, or ineffectively implemented internal control or management arrangement, which could result in an unacceptable level of risk to the LGA |
| 3 | “Control” | A procedure designed to ensure that transactions or other information processed through system have done so in a complete, orderly, accurate and timely manner, and in accordance with the LGA’s rules and regulations |
| 4 | “Director” | The District, Town, Municipal or City Director, appointed to the LGA as classified under the above acts |
| 5 | “Finance Committee” | The Standing Committee of the Council responsible for finance, which in urban councils is represented by the Finance and Administration Committee, and in district councils by the Finance, Administration and Planning Committee |
| 6 | “Internal Control” | A set of systems operated by the Council or Unit to ensure that financial and other records are reliable and complete, and that they adhere to management policies, are orderly and efficient in the conduct of the Councils or Unit’s business, and ensures proper recording and safeguarding of assets and resources |
| 7 | “Internal Audit” | An independent appraisal activity established within the unit involved, and which controls its activity functions by examining and evaluating the adequacy and effectiveness of internal controls in the Council or unit and for conducting operational or value for money audits throughout the Council or unit. |

| | | |
|----|---|---|
| 8 | “Materiality” | The degree of relevance or significance of an absent, inappropriately designed or ineffective control or management arrangement, in relation to the business risk of the LGA |
| 9 | “Minister” | The Minister for the time being responsible for Local Government. |
| 10 | “Regional Commissioner” | The Regional Commissioner for the region in which the LGA is established. |
| 11 | “Systems” | The procedures and operations by means of which an LGA’s transactions and events are affected and recorded. |
| 12 | “System based auditing” | Evaluation of the design and operation of an LGA’s systems of internal control |
| 13 | “Treasurer” | The head of the Finance Department. |
| 14 | “Value for Money” | The economy, efficiency and effectiveness of an LGA’s operations |
| 15 | “Generally accepted accounting practice” | Accounting practices and procedures recognized by accounting professional authorities as appropriate for reporting financial information relating to government, a ministry or department, a Fund, an Agency or other reporting unit, being practices and procedures that are consistent with the Local Government Finances Act, 1982 and any relevant regulations or instructions prepared thereunder. |
| 16 | “Public property” | Resources owned by the LGA or in the custody or care of the LGA. |
| 17 | “Resources” | Includes moneys, stores, property, fixed assets, loans and investments. |
| 18 | “Controller and Auditor General” | The person appointed or deemed to have been appointed as such under Article 143 of the Constitution of the United Republic of Tanzania |

LOCAL GOVERNMENT AUTHORITIES INTERNAL AUDIT MANUAL

INTRODUCTION

PURPOSE OF THE MANUAL

This Audit Manual has been prepared for the guidance of internal audit staff of the Local Government Authorities. The prime purpose of the manual is to bring together general information relevant to the work of the audit section and all instructions issued to internal audit staff, so that the aims and policies of internal audit function are clearly laid down, and a uniform and consistent approach can be achieved.

The manual has been designed as a handbook to be referenced to by all internal audit staff in Local Government Authorities whilst conducting their duties. Additional notes and amendments will be issued as required. Every member of staff in the Internal Audit Department is required to keep his/her copy up to date.

All audit staff must be aware of the strict confidentiality of audit work. Information arising from audit work must under no circumstance form part of any discussions outside the internal audit office.

The manual does not include reference of procedures that are common to all staff working in the finance department, e.g. making payments, writing and issuing receipts, recording stores ledger or registers, etc. Financial Memoranda/Regulations and Accounting manuals will provide such particulars, and in the case of difficulties the Internal Auditor (where present) or the Treasurer should be consulted .

INTERNAL AUDIT MANUAL

This manual has three parts. Part One is introductory, Part Two describes internal audit techniques while part Three sets out detailed guidelines on how the internal audit work in Local Government Authorities should be conducted.

1. BACKGROUND TO INTERNAL AUDIT

1.1 INTERNAL AUDIT:

The Local Government Finances Act No. 9 of 1982 requires the accounts of every District and Urban Council to be audited internally by an internal auditor employed by the authority concerned. Internal audit is part of the internal control system established by the Council management.

By definition, internal audit is an independent appraisal function within a LGA, for the review of activities as a service to all levels of management. It is a control that measures, evaluates and reports upon the effectiveness of internal controls, financial and others, as a contribution to the efficient use of resources within an LGA.

Regulation 33 of the Public Finance Regulations 2001 further defines internal audit, “as an independent appraisal activity established within a Ministry, department or Agency or any other reporting unit which operates as a service to the Head of the unit involved, of which it controls activity functions by examining and evaluating the adequacy and effectiveness of internal controls in the unit reviewed and for conducting operational/value for money audits throughout the unit in order to ensure that proper systems of internal control and accounting systems exist throughout the unit.”

1.2 INTERNAL CONTROL

Management has the responsibility of establishing internal controls so that its activities are conducted in an efficient and well ordered manner. Internal control comprises of the whole system of controls and methods, both financial and otherwise, which are established by management to: -

- (a) safeguard its assets;
- (b) ensure reliability of records;
- (c) promote operational efficiency; and
- (d) monitor adherence to policies and directives.

1.3 RESPONSIBILITY OF INTERNAL AUDIT

It is the responsibility of internal audit to review, appraise and report upon:

- (a) the soundness, adequacy and application of internal controls within the Local Government Authority;
- (b) the extent to which the LGA's assets and interests are accounted for and safeguarded from losses of all kinds arising there from:
 - (i) fraud and other offences,
 - (ii) waste, extravagance and inefficient administration, poor value for money or other causes, and
- (c) the suitability and reliability of financial and other management data developed within the LGA.

1.4 LGA VISION AND MISSION

Chapter eight (8) of the Constitution of the United Republic of Tanzania of 1977 stipulates on the Establishment of Local Government Authorities, including their visions and missions as detailed below:

- (a) There shall be established local government authorities in each region, district, urban area and village in the United Republic, which shall be of such types and designations as shall be prescribed by legislation enacted by the National Assembly or the House of Representatives of Zanzibar.
- (b) Local government authorities exist for the purposes of consolidating and giving more power to the people. The local government authorities shall be entitled and competent to participate, and to involve the people, in the planning and implementation of development programmes within their respective areas of authority and generally throughout the country.
- (c) Without prejudice to the generality of the provisions of subsection (1) of this section, every LGA shall, subject to the provisions of legislation establishing it, be concerned with the following functions:-
 - (i) to discharge the functions of a LGA within the areas of its administrative jurisdiction;
 - (ii) to secure the execution of law and order and the safety and security of the people; and
 - (iii) to enhance the democratic process within its area of jurisdiction and to apply the democracy for facilitating the expeditious and faster development of the people’.

These requirements of the Constitution are further amplified by the laws enacted by Parliament as explained in Chapter Two of this manual.

1.5 INTERNAL AUDIT MISSION AND METHODOLOGY

The internal audit mission involves the carrying out of an independent appraisal activity within the LGA for the review of accounting, financial and other operations as a basis for service to management. It is a managerial control tool which functions by measuring and evaluating the effectiveness of other controls.

In short, the Internal Audit approach and methods include ascertaining, assessing and testing control systems, considering the possible effects of any shortcomings or deviations discovered, and reporting the results of audit to management. This involves the use of internal controls, questionnaires, flow charts, audit programmes, sample testing and other audit techniques.

2. LEGAL BASIS OF AUDIT

2.1 INTERNAL AUDIT

2.1.1 Local Government Act 1982

In accordance with Section 45(1) of Local Authority Finances Act No. 9 of 1982 each urban and district LGA shall employ its own Internal Auditor who shall audit its accounts.

2.1.2 Local Authority Financial Memorandum - Revised Edition June 2004

The LAFM states that 'the responsible Accounting Officer (AO) of a LGA whose accounts are required to be audited under Section 45(1) of Local Government Finance Act No. 9 of 1982 shall establish and operate an effective internal control system and employ an Internal Auditor who shall have the right of access at all times to such documents of the LGA relating to the accounts of the body, as appears to him/her to be necessary for the purpose of such audit and shall be entitled to require from any officer of the LGA such information and explanation as he/she will think necessary for that purpose'.

The Internal Auditor, under the control and direction of the Council Director (CD), shall be responsible for carrying out a review of financial and related systems of the council to ensure that the interests of the Council are protected. Review precludes the auditor from being involved in any line management functions such as the checking of payment vouchers prior to payment. However an independent pre-audit section or unit under the Treasurer may be established.

The Internal Auditor will prepare Internal Audit Annual Work Plans for the approval of the CD and in collaboration with the CD, have the annual work plans, activity schedules, and audit reports sent to the Finance Committee and the National Audit Office.

The LAFM deals in detail with the responsibilities of the Internal Auditor in a LGA including the following: -

- (a) Review and report on the controls over revenues, custody of receipts, and utilization of financial resources of the Council
- (b) Assess the conformity with financial and operational policies and procedures laid down in statutes related to the management of Local Government Authorities
- (c) Review the reliability and integrity of financial and operating data so that the information provided allows for the preparation of accurate financial statements, performance reports, and other reports for the Council.
- (d) Review and report on the systems in place for the safeguard of assets, including verification of physical existence of such assets
- (e) Review and report on the operations and programmes of the Council to ascertain whether physical achievements are consistent with approved targets
- (f) Review and report on the adequacy of action taken by heads of departments in response to internal audit reports, and advise them on the effective ways of

implementing the recommendations made in the auditors' reports

- (g) Review and report on the adequacy and effectiveness of controls installed in computerised operations
- (h) Carry any other duties and functions as may be assigned by the Council Director.

2.1.3 The Public Finance Regulations 2001

Part v of the Public Finance Regulations deals with the topic of Audit Committees and Internal Audit.

Regulation 28 requires every Accounting Officer to establish an effective Internal Audit unit throughout the Ministry, Department or Agency or other reporting unit as the case may be.

2.2 EXTERNAL AUDIT

2.2.1 The Constitution of URT of 1977

Article 143 of the constitution of the United Republic of Tanzania of 1977 establishes the office of the Controller and Auditor General whose responsibilities are clearly stated as: -

- (a) To ensure that the use of any moneys proposed to be paid out of the Consolidated Fund has been authorized
- (b) To ensure that all the moneys the payment of which has been authorized to be charged on the Consolidated Fund, or the moneys the use of which has been authorized by a law enacted by Parliament and which has been spent, have been applied to the purposes connected with the use of such moneys and that such expenditure has been incurred in accordance with the authorization for such expenditure;
- (c) At least once every year to audit and give an audit report in respect of the accounts of the Government of the URT, the accounts managed by all officers of the URT and the accounts of all courts of the URT and the accounts managed by the Clerk of the National Assembly.

The words, "accounts of government" and "all officers of the government of the URT" includes all the Local Government Authorities in the country. Therefore the external audit function in the Local Government Authorities is a legal requirement enshrined in the constitution of the country.]

2.2.2 Local Government Finances Act No. 9 of 1982

The powers, duties and responsibilities relating to external audit are contained between Sections 45 and 48 of the Local Government Finances Act, 1982. The LGAs are required to be audited by the Controller and Auditor General or other public officers or LGAs as detailed below.

- (a) The accounts of every district council, and of every urban authority; shall be

audited internally by an internal auditor employed by the authority concerned, and the external auditor for each of those authorities shall be the National Audit Office.

- (b) The accounts of a township authority shall be audited by such auditor as may be appointed in that behalf by the Minister, or by a public officer or LGA authorized by the Minister.
- (c) The accounts of a village council shall be audited by such public officers or organisations as the district council or as the case may be, an urban council may, in writing direct.
- (d) As soon as possible after the close of the financial year of a LGA the authority shall submit its accounts for audit to the auditors, who shall complete the audit not later than six months after the close of the financial year.
- (e) Every authority shall permit the auditor to check any cash, investments or other assets in its possession or over which it has control and to have access at all times to all its accounts and all books, vouchers and papers relating to them.

2.3 OTHER LAWS REGULATIONS AND ACCOUNTING INSTRUCTIONS

2.3.1 INTRODUCTION

The internal audit function in LGAs is further guided by legal and statutory documents which will form the main reference documents for the Internal Auditor. These will include: -

- (a) Local Authorities Accounting Manual (LAAM)
- (b) Public Procurement Act together with the attendant Regulations, and the Manuals
- (c) Financial Management proceduress prepared by the LGA under the LAFM
- (d) Guidance and instructions issued by the Minister

As well as this statutory guidance the following must also be referred to:

- (a) Guidance and instructions issued by the Finance Committee or the Council Director.
- (b) Local Authority Strategic and Operational Plans
- (c) Tanzania Auditing Standard No. 9 - Guidance for Internal Auditors
- (d) Tanzania Statement of Recommended Accounting Practice No. 3 - Governance in the Public Sector

3. PROFESSIONAL STANDARDS ON INTERNAL AUDITING

3.1 INTRODUCTION

3.1.1 The scope and objectives of internal audit vary widely and they depend on the responsibilities assigned to it by management, the size and structure of the entity, and the skills and experience of the internal auditor. Normally internal audit operates in the following broad areas:

- (a) Review of accounting systems and related internal controls;
- (b) Examination of financial and operating information for management, including detailed testing of transactions and balances;
- (c) Review of the economy, efficiency, and effectiveness of operations and of the functioning of non-financial controls;
- (d) Review of the implementation of governance issues in the Council including corporate policies, plans and procedures;
- (e) Special investigations.

3.1.2 In order to comply with best practices and adoption of common standards throughout the country, it is essential that the internal audit uses the professional standards of internal auditing issued by the professional body in Tanzania. In July 2001 the National Board of Accountants and Auditors issued the Tanzania Auditing Standard No. 9 on Guidance for Internal Auditors. This standard complies with the International Standards on Auditing No. 610 on Considering the Work of Internal Auditing.

3.2 SCOPE OF THE STANDARD AND CLASSIFICATION

3.2.1 The purpose of Standard No. 9 on Internal Auditing is to provide guidance to internal auditors about the essential attributes that they must observe. These essential attributes are:

- (a) *Independence:* The internal auditor should have the independence in terms of organisational status and personal objectivity that permits the proper performance of her/his duties. Independence is achieved through the organisational status of the internal audit and the objectivity of the internal auditors.
- (b) *Staffing and training:* The internal audit unit should be appropriately staffed in terms of numbers, qualifications and experience, having regard to its responsibilities and objectives. The internal auditor should be properly trained to fulfill all her/his responsibilities.

Training should be a planned and continuing process at all levels and should cover:

- (i) Basic training - providing the knowledge of basic auditing principles and practices;
- (ii) Development training - imparting audit skills in general and inter-personal skills to improve the effectiveness of those currently employed in internal audit; and

- (iii) Specialised training - for those responsible for the internal audit activities which require special skills or knowledge such skills or knowledge should be imparted to them.

Other forms of staff development like attachment to other parts of the LGA or secondment to other LGAs should be considered according to particular needs. The internal auditor should keep abreast of current developments, improvements, new techniques and practices in auditing. He/she should maintain technical competence through professional development which may include:

- (i) private reading and study, and
- (ii) participation in professional activities.
- (c) *Relationships:* The internal auditor should seek to foster constructive working relationships and mutual understanding with management, the external auditors, with any other review agencies, and where one exists, with the Council's audit committee.

The relationship between the internal and external auditors needs to take account of their differing roles and responsibilities. Internal audit is an independent appraisal function within the Council and internal auditors are employees of the Council. The external auditor usually has a statutory responsibility to express an independent opinion on the financial statements of the Council and is in no way an employee of the Council.

- (d) *Due care:* The internal auditor should exercise due care in fulfilling her/his responsibilities. The internal auditor should not be expected to give total assurance that weaknesses or irregularities do not exist. In order to demonstrate that due care has been exercised, the internal auditor should be able to show that her/his work has been performed in such a way which is consistent with this guideline. The internal auditor should possess a thorough knowledge of the objectives of the LGA and the aims of the internal control system. He/she should also be aware of the relevant laws and the requirements of relevant professional and regulatory bodies.
- (e) *Evaluation of internal control system:* The internal auditor should identify and evaluate the Council's internal control system as the basis for reporting upon its adequacy and effectiveness. This is well covered under paragraphs 11 to 15 of the Local Authority Finance Memorandum where it is clearly stated that each Council shall establish and operate an effective internal control system. The manual further defines the responsibilities of the various players involved with internal control systems in the Council including the Council, Finance Committee, Council Director, Treasurer etc
- (f) *Planning, controlling and recording:* The internal auditor should adequately plan, control and record her/his work.
- (g) *Evidence:* The internal auditor should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.
- (h) *Reporting and follow up:* The internal auditor should ensure that findings, conclusions and recommendations arising from each internal audit assignment are communicated promptly to the appropriate level of management and he/she should

actively seek a response. He/she should ensure that arrangements are made to follow up audit recommendations and to monitor on what action has been taken on them.

3.3 INDEPENDENCE AND DUE CARE

3.3.1 The NBAA 'Statement on the Role and Objectives of Internal Audit in the Public Sector' defines the need for independence. In particular, it deals with the scope, authority and objectivity of internal audit. The role of internal audit depends upon formal recognition by the Council Director and the various levels of management of the value of the independence of the internal audit function.

3.3.2 The principle elements of independence which should be present for internal audit to operate effectively are:

- (a) Internal Audit should have direct access to all departmental heads and the Council Director.
- (b) Internal audit should be independent of personnel directly responsible for the operations under review.
- (c) Internal audit should be completely independent of all financial systems operating within the LGA. Involvement in routine departmental procedures will inevitably impair the work of the internal audit department.
- (d) The internal auditor should have the right of reporting without editing by management, under her/his own name.
- (e) The internal auditor should have the right of reporting on any aspect of the financial work, including that of the finance department.

3.3.3 The Internal audit activity should not be restricted. Internal auditors should have full access to all records and to the LGA assets. Internal audit personnel should receive information and explanations necessary for the performance of their duties.

3.3.4 Internal audit should be informed and consulted about any proposed changes in systems of internal control and may make recommendations on the standards of control to be applied in the development of systems and procedures under review. For example, advice should be given on the controls to be incorporated in new or revised systems before implementation. This should not prejudice the internal audit's objectivity in reviewing that system.

3.3.5 Internal audit should not be directly responsible for the development or implementation of new systems, or engage in any other activity which they would normally review and appraise since this could compromise their independence.

3.3.6 If the auditor cannot, for any reason, produce unbiased judgements, opinions, and recommendations, then he/she should declare her/his position prominently in the audit report. The internal auditor should have an objective attitude of mind and be in a sufficiently independent position to enable him to exercise her/his judgements, express her/his opinions and present her/his recommendations with impartiality.

3.3.7 The following are examples of the circumstances which may impair the auditor's independence: -

- (a) Professional or personal relationships, the nature of which might cause the auditor to limit the extent or character of her/his audit.
- (b) Previous involvement in a decision-making or management capacity in the operations under audit.
- (c) Any pecuniary interest, direct or indirect, in an organisation or activity which is subject to audit.
- (d) Any internal/external influences which seek to restrict or modify the scope or conduct of the audit.
- (e) Any means employed to overrule or significantly influence the auditor's judgement as to the content of the audit report.

3.3.8 The internal auditor is required to perform her/his duties with reasonable skill, care and caution (due professional care). Due professional care is defined as the application of that measure of skill and care which might reasonably be expected of a competent auditor relative to the specific duties undertaken.

3.3.9 In order to demonstrate that he/she has exercised due professional care, the auditor must be able to show that in her/his work, he/she has reached an acceptable level of performance as illustrated by these statements. This requires him to ensure in particular that:

- (a) audits are properly planned;
- (b) audits are supervised and performed by auditors of appropriate experience;
- (c) relevant tests are devised and properly applied in sufficient depth; and
- (d) conclusions are soundly based on relevant and properly documented facts.

3.3.10 The quality of an audit depends to a large extent on the exercise of proper judgement by an auditor in planning the audit work and choosing audit tests. In order to do this, he/she must:

- (a) have a satisfactory understanding of relevant laws, recommendations made by professional accountancy bodies and internal financial regulations;
- (b) know the aims of the LGA under audit, the way in which it is structured, its system of internal control, and what management information is provided; and
- (c) be particularly aware of unit costs and other measures produced both internally and externally which would enable him to form a view as to the level of performance in the LGA.

3.3.11 In addition to the normal day to day supervision of internal audit work, formal reviews of performance, carried out by the head of internal audit will promote a high level of achievement.

3.3.12 Maintenance of the standard of due professional care in the internal audit department's work is the responsibility of the head of the internal audit unit. In order to ensure a high level of achievement, he/she must be assisted by sufficient staff both in quality and number.

3.4 EFFECTIVE INTERNAL CONTROLS

3.4.1 The internal audit unit shall review the soundness, adequacy and application of internal controls for both financial, management, and the use of resources. Review of internal control is a useful exercise as it provides quality information to management on:

- (a) safeguard of assets;
- (b) reliability of records;
- (c) promotion of operational efficiency; and
- (d) monitor adherence to policies and directives.

3.4.2 The main areas of internal control can be more closely defined as follows.

3.4.2.1 Financial Control

- (a) *Budgetary Control:* The LGA should plan and control its expenditure and income to meet its predetermined objectives.
- (b) *Legitimacy of Income and Expenditure:* All income and expenditure should be in accordance with the policies of the LGA, should be properly authorized and should be within the law.
- (c) *Security of Assets:* Assets of the LGA should be kept in proper custody and not wrongly applied, either by error or intent.
- (d) *Accounting Controls:* All transactions should be correctly recorded and accurately processed and control accounts maintained.

3.4.2.2 Management Control

The nature of management control will vary widely according to the type of activity which is under review. However, there are several basic control areas which should always be in evidence:

- (a) *Objectives:* The LGA should regularly review its objectives relating to any operational activity and determine the methods needed to achieve them. Management has the responsibility for determining objectives, policies and plans, and the auditor should not intervene in such processes. An audit may however show inadequate controls on the supply of information to management for decision making and these aspects are legitimate areas of audit concern, and may well require comments on the correctness of the decisions themselves.
- (b) *Procedures:* Staff at all levels need to be regularly informed both of their overall objectives and the organisational procedures which are to be followed in order to ensure the achievement of the operational activity.
- (c) *Organisation:* The organisational structure should be clearly defined and be adequate

to ensure that staff appreciate their role, responsibilities and obligations.

- (d) *Management Information:* Management needs to be continually informed, with relevant and up-to-date data, of the financial and operational performance of any activity under its control.
- (e) *Supervision:* Systems of supervision and internal check (e.g. division of duties, independent checking of work, quality control, etc.) should be maintained to ensure that breakdowns, including irregularities and fraud, or weaknesses within the operation are revealed at an early stage.
- (f) *Reviews of Operational Effectiveness:* Management should regularly review the effectiveness and sufficiency of operations under its control, and consider their continued relevance in the light of changing circumstances.

3.4.2.3 Economic Use of Resources

Primarily the responsibility of internal audit is to examine systems of control. Nevertheless, the auditor should look beyond controls to the relationship of expenditure to the objectives of the LGA, e.g. cost effectiveness, utilization of resources.

One of the audit requirements in the Local Authority Financial Memorandum is that the auditor will carry out performance and/or value for money audits including review of operational programmes to ascertain whether results are consistent with agreed Council objectives and goals and report thereon.

- (f) The objective of the internal auditor's examination of the system is to arrive at an opinion which can form the basis of a constructive report to management. In conducting the examination, the auditor should:
- (g) Identify the purpose of the operation/activity under review.
- (h) Ascertain, record and test the system of internal control.
- (i) Assess the system for its strength and weaknesses.
- (j) Evaluate the possible effects of any shortcomings or deviations.
- (k) Report.

INTERNAL AUDIT OBSERVATIONS REGISTER

Working Paper Ref. _____ Subject _____

Audited area

Head of Audited area

Date/Time of Audit _____ Date of 1st. Review _____

2nd. Review

3rd. Review

| Ref. | Observation/Comment | Reply/Action by Auditee | Remarks |
|------|---------------------|-------------------------|---------|
| | | | |

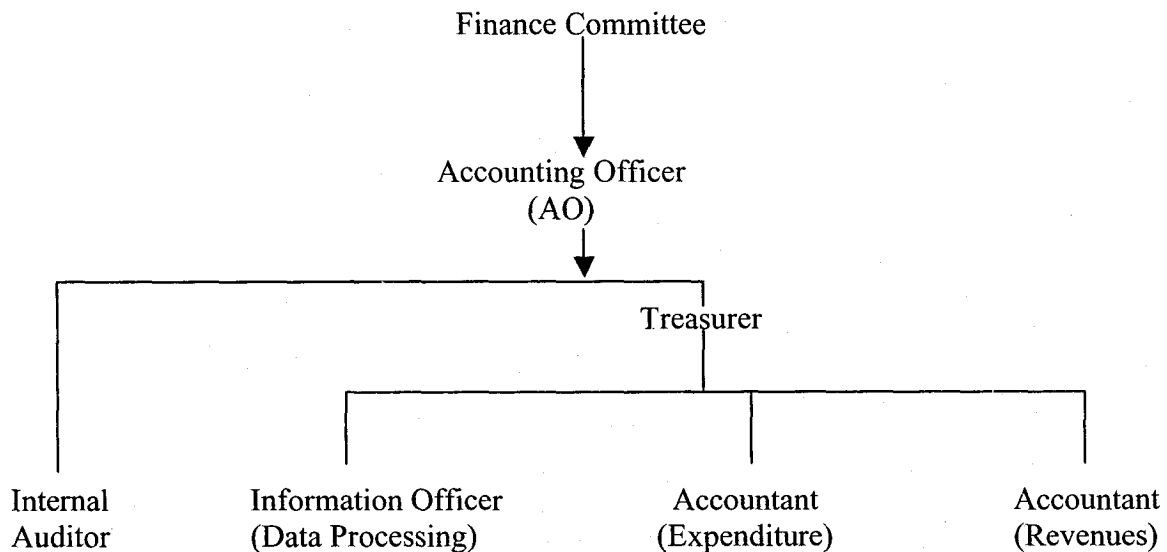
4. ORGANISATIONAL STRUCTURE

4.1 POSITION WITHIN THE LGA

The LAFM stipulates that the Council Director is responsible for the establishment of an effective internal audit for the appraisal of the internal control system and examination of value for money and ensure that the internal audit has full independence for the execution of its functions within the Council and that its activities are conducted in an efficient and well coordinated manner.

The Internal Auditor, under the control and direction of the Council Director (CD), is responsible for the reviewing of financial and related systems of the council to ensure that the interests of the Council are protected. Review precludes the auditor from being involved in any line management functions such as the checking of payment vouchers prior to payment.

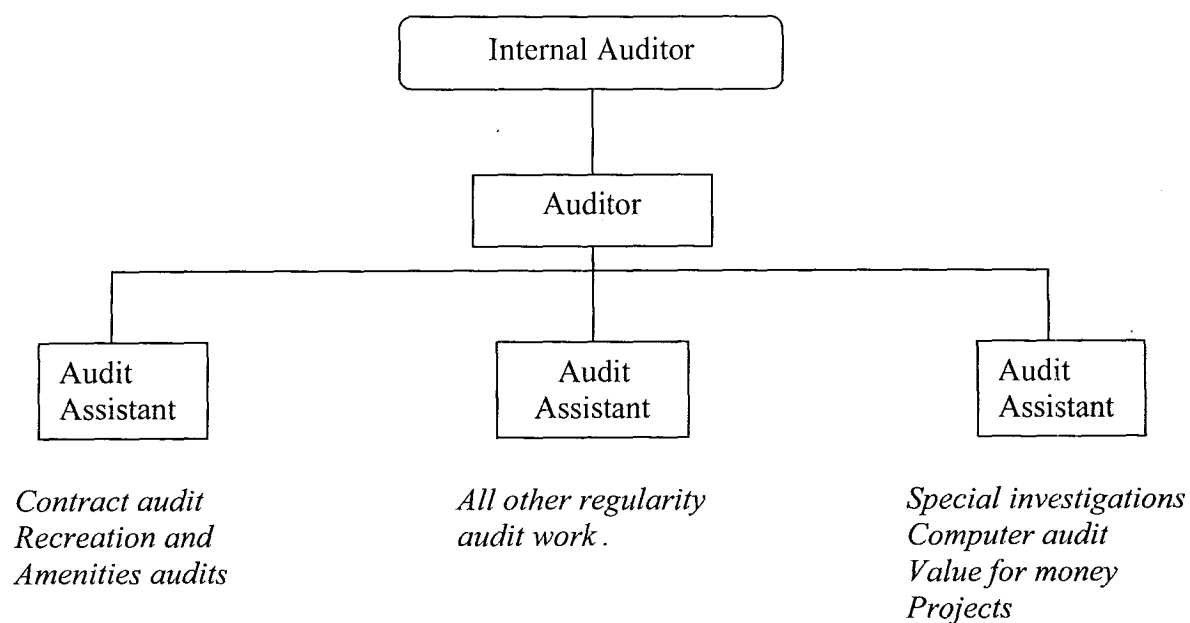
In order to maintain the role of the Internal Audit function it should occupy the following position in the LGA's organisation structure: -



4.2 INTERNAL AUDIT

The IA section should be staffed and organised in an appropriate manner to allow its functions under the law and the LAFM to be effectively performed. The structure will however vary from LGA to LGA depending on the size of the LGA, the resources available, and the number of transactions.

The following chart sets out a likely structure in a large well resourced council.



In a less well resourced council the numbers may be smaller but the minimum establishment should be two - The Internal Auditor and an Assistant.

5. RELATIONSHIP WITH EXTERNAL AUDITORS AND OTHERS

5.1 INTERNAL AUDIT RELATIONSHIPS

The statements in this section are concerned with the relationships between the internal auditor and other parties.

5.2 EXTERNAL AUDIT

The relationship with the external auditor should be based on an understanding of her/ his role and on a degree of co-operation including the exchange of relevant information sufficient to maximize the performance of each.

5.2.1 Role of External and Internal Audit

Co-operation between external and internal audit needs to take account of their differing roles and responsibilities.

The external auditor has the duty to report to Parliament on the accuracy and legality of the accounts and this responsibility cannot be delegated. He/she will need to take account of statutory requirements and will normally report on any significant weaknesses discovered during the audit.

Since internal audit is part of an LGA's control structure, its effectiveness will need to be reviewed by external audit. This review needs to be seen by both parties as a necessary part of the working relationship and the findings of Internal Audit regarded as an input into the external audit process.

Regular meetings between the external and internal auditors at which audit priorities, coverage generally, financial irregularities, fraud and other matters are discussed, should be held. All internal audit reports are required to be submitted to the external auditor by the Council Director.

The participation of both external and internal auditors in training assignments and the formulation of joint training programmes should help to improve working relationship.

5.3 COUNCIL DEPARTMENTS

5.3.1 General rule

The relationship between the internal auditor and the management and staff of the departments subject to audit must be based on mutual confidence and understanding.

5.3.2 The Need for Good Relationships

It is the nature of internal audit to make searching enquiries, to carry out thorough tests and checks and, on occasion, to submit critical or controversial reports. It is therefore vital that management and staff at all levels have complete confidence in the integrity and independence of internal audit and that this should be reflected and maintained in good working relationships between auditors and client departments.

5.3.3 Obligations of the Internal Auditor

The auditor must be aware of the need for good relationships with staff at all levels in the department he/she is auditing. He/she should understand that there may be different

reactions to her/his work at varying levels and that management styles may have an effect on the way the task is approached. The desired relationship is most likely to be achieved through full understanding of the role of audit generally and of the particular audit task being undertaken. It is the auditor's duty to seek such understanding by open and friendly discussion and by calm and courteous persuasion. It should not normally be necessary to rely on the formal terms of reference and status of the audit department nor is an aggressive stance appropriate.

5.3.4 Planning the audit

The statement on planning and control of the audit emphasizes the need for the Internal Auditor to work in consultation with senior management in setting the audit plan. In arranging any audit, the auditor should bear in mind the need to advise and consult with management, both centrally and in the departments. This may well lead to the identification of areas of activity or topics on which audit coverage would be of particular value to management. Subject to any special factors requiring the audit visit to take place as planned, the internal audit department should be prepared to be responsive to management's requests or suggestions for alternative arrangements. Except on those occasions where an unannounced visit is part of the audit approach, audits should always be carried out by arrangement.

5.3.5 Conduct during an audit:

The nature of an auditor's work means that he/she must be particularly careful to observe proper rules of behaviour. The auditor should remember that he/she is a visitor at each of the locations at which an audit is being conducted and should be particularly aware of local protocol and such matters as punctuality, application to duty and general bearing.

5.3.6 The Privileged Nature of Audit

Audit is a privileged relationship between management and the auditors. Matters that arise during the course of an audit should not be discussed with third parties and attributable references must be avoided. If it is necessary at one location to refer to an occurrence at another, e.g. for purposes of illustration, this must be done on an anonymous basis.

5.3.7 Discussion of the Audit Report

The Statement of Reporting refers to the need for discussion with management when drafting and finalising the audit report. This requirement is not only to ensure that the report is factually based and takes account of comments expressed by management but is also an essential feature of the good relationship between the department and the auditor. It is axiomatic that no report should be submitted formally without the knowledge of the department concerned.

5.4 OTHER REVIEW AGENCIES

5.4.1 General Rule

The internal auditor's relationship with other review agencies must be based on mutual confidence and understanding but must not compromise the relationship between the internal auditor and the Council's departments.

5.4.2 The Need For Co-Operation

Work is undertaken by review agencies such as donor project auditors to improve and develop sound management and operations and is therefore to some extent

complementary to that of the auditor. In planning and conducting audits the auditor will need to take account of the review agencies' work.

Certain information obtained during audits can be of considerable benefit to other review agencies and it will be in all parties' interest to make available information in order to avoid duplication of effort.

5.4.3 Scope And Operation Of The Relationship

Whilst it is to the benefit of both the auditor and the review agencies to exchange information, this must not be to the detriment of auditor/client department relationships. Review agencies' reports should be made available to the auditor both for information and review and comment particularly where proposed systems changes may affect existing internal control arrangements.

Where audit reports draw attention to systems weaknesses it may be appropriate for review agencies to review and recommend detailed improvements. However before any audit is released to a review agency the client department's formal approval should be obtained.

Regular meetings between the auditor and review agencies should take place to discuss present and future assignments and also any points arising from review agencies' and audit reports.

6. PLANNING AND CONTROL

6.1 PLANNING, CONTROLLING AND RECORDING

TAS No. 1 on Auditor's Operational Standard requires that the auditor's work should be planned, controlled and recorded. Internal audit work should be planned, controlled and recorded in order to determine priorities, establish and achieve objectives and ensure the effective and efficient use of audit resources.

6.2 AUDIT PLANNING

The main purposes of internal audit planning are:

- (a) to determine priorities and to establish the most cost effective means of achieving the audit objectives;
- (b) to assist in the direction and control of audit work;
- (c) to help ensure that attention is devoted to critical aspects of audit work; and
- (d) to help ensure that work is completed in accordance with predetermined targets. The Internal Audit Department should prepare strategic, periodic and operational work plans. The strategic plan should usually cover a period of between two to five years during which all major systems and areas of activity will be audited. It should set out the audit objectives, audit areas, type of activity for a financial or calendar year, translates the strategic plan into a schedule of audit assignment and allocate staff and other resources accordingly and should be formally approved by the Council Director.

6.2.1 The Strategic Plan

A strategic plan is a framework for the work of the audit unit for a long term covering the planned services and allocation of resources matching planned work with available resources.

The Internal Auditor is responsible for the preparation of the strategic plan which contains the following information:

- (a) All departments which are subject to audit.
- (b) The types, volumes and total values of transactions of audit interest at each departments.
- (c) The required frequency of visits to each departments analysed over the types of audit to be undertaken.
- (d) The estimated person days per visit analysed over the types of audit and the areas of activity to be examined.
- (e) Total estimated person days required to achieve full control, coverage and the period over which the Council Director has approved its achievement.

- (f) The actual person days spent in total and on each item in the strategic plan.
- (g) The expired period of the current strategic plan cycle and the estimated period required to achieve full coverage.

The data required for the strategic plan will be provided by the appropriate members of staff as determined by the Internal Auditor. The Council Director will require all variations from the approved strategic plan timetable to be accounted for by the Internal Auditor and it is, therefore, essential that detailed and accurate information is supplied by the audit staff.

6.2.2 The Tactical Plan

At the beginning of each year, the Internal Auditor will determine the priority order of all outstanding items within the strategic plan and notify her/his assistants accordingly. The Internal Auditor will then prepare a tactical plan showing:

- (a) The total manpower resources available within the planning period.
 - (i) The areas of the strategic plan to be audited using available resources.
 - (ii) Detailed definitions of the objectives for each audit listed.
 - (iii) The staff to be used on each audit and an estimated staff costing.
 - (iv) The listed audits which will be deleted if unforeseen contingencies arise during the period (i.e. reverse priority listing).
 - (v) The strategic plan areas still outstanding.

The Internal Auditor will, if necessary reallocate staff resources between audit groups to ensure a balanced coverage of strategic plan priorities. Senior auditors will then prepare timetables for approved tactical plans.

6.2.3 The Operational Plan

At least 14 days before the commencement of an audit on the approved tactical plan, the relevant senior auditor will prepare an operational plan showing:

- (a) The type of audit and the audit tasks to be carried out.
- (b) The types and levels of tests required for each task and the acceptable levels of error.
- (c) Detailed instructions upon tasks assigned to staff with little experience of the area in question.
- (d) Any unusual features or special aspects to be reviewed during the audit.
- (e) Sources of information held on files other than the working paper file.

Operational work plans should be prepared for each audit assignment as it is arranged, covering:

- (a) Objectives and scope of audit;
- (b) Time budget and staff allocation;
- (c) Methods, procedures and reporting arrangements including supervision and allocation of responsibilities.

All internal audit plans should be sufficiently flexible to respond to changing priorities.

All operational plans must be approved by the Internal auditor before the audit commences to ensure that resources are being utilized efficiently and only upon areas of priority within the overall strategic plan.

6.3 AUDIT CONTROL

6.3.1 Quantity Control

Effective implementation of the audit plan requires control over both the quantity and quality of the work produced by the audit staff. There is little point in the meticulous preparation of a plan if staff will subsequently be allowed to exceed target times without adequate explanation or to produce poor quality work because of the time constraints or inexperience.

The auditor-in-charge of each audit task should submit regular reports to her/his superior showing actual progress against targeted time and inform the latter immediately of any audit findings warranting a further allocation of time.

Details of all approvals to extend the planned time on each task should be fully recorded and, to facilitate this, the use of a standard 'progress report' form should be considered. Subsequently, the Internal Auditor should monitor the actual person days spent upon each audit area against the annual plan and obtain a full explanation of all variances from the senior auditor(s) concerned. Where these are satisfactory, the Internal Auditor should consider the need to adjust the audit plan for similar work in the future. However, where inadequate explanations are given, the reasons for poor performance must be discussed with the appropriate member(s) of staff to prevent any further occurrence.

The senior officer on each audit will be responsible for ensuring that budgeted times are not exceeded. To facilitate this, regular progress reports will be submitted to the Internal Auditor showing the actual time against targeted time for each audit task. These will indicate any audit findings which require a further allocation of time and the Internal Auditor will maintain a detailed record of the reasons for all approvals to extend planned times.

6.3.2 Quality Control

It is the duty of the Internal Auditor to provide the IA staff with the motivation and experience required to fulfil their duties effectively. Whilst the means by which this is achieved will vary with the individuals involved, the extent of achievement will inevitably be reflected in the quality of the work produced. The Internal Auditor can, therefore, both identify staff problems and ensure effective audit planning by introducing quality control procedures along the following lines:

- (a) Detailed working papers should be prepared for all audit tasks showing the purpose of the working paper, the work carried out, the results of the work and the field auditors' conclusions.

- (b) Working papers should be clearly referenced to the relevant part of the operational plan and matters of importance summarized in one section of the audit file.
- (c) The completed audit file should be reviewed by the field auditors' superior who should certify that the correct approach was adopted, no matters have been overlooked and that the correct conclusions have been drawn.
- (d) The Internal Auditor should receive all audit reports and certified files and undertake test-checks of the quality of working papers himself.
- (e) Regular visits should be made to staff in the field both to uphold morale and to offer guidance where required.

The senior officer on each audit will be responsible for ensuring that:

- (a) Proper working papers are prepared by all staff showing the purpose of the working paper, the work carried out, the matters arising and the audit conclusions drawn.
- (b) All working papers are clearly referenced to the audit tasks in the operational plan.

All matters of importance are clearly summarized on the opening section of the working papers file together with a note of any action taken.

- (c) A draft report for submission to the head of department being audited has been prepared.

At the conclusion of each audit, the relevant auditor will review both the report and working papers to ensure that the correct audit approach was adopted upon each task, no matters have been overlooked and that the correct conclusions have been drawn and properly presented in the report. The Internal Auditor will then clear the report for dispatch to the head of department being audited, for comment before submission to the Council Director.

6.3.3 Resource, Mobilisation and Utilisation

The allocation of resources both in total and to individual tasks should be cost-effective. This requires the setting of realistic objectives, the allocation of the minimum time required to achieve the desired results and the use of the lowest grade of staff commensurate with the complexity of the task. To facilitate this, a number of techniques are available to the Internal Auditor but the following are particularly relevant:

- (a) Risk analysis as an aid to the setting of audit priorities (i.e. a weighted index of the risk at each work area is compiled having regard to the amount and nature of the income and expenditure, known weaknesses in systems or at specific locations and the experience of the auditor himself). This is described in the relevant chapter on Statistical Sampling in this manual.
- (b) Statistical sampling as a means of reducing audit workload (i.e. a small but mathematically representative sample of total transactions is tested by the field auditor in order to form a judgement upon the validity of all transactions. Further testing is required only if the error level of the sample exceeds a predetermined level of acceptability).

- (c) The use of audit programmes, checklists and internal control questionnaires to enable junior staff to handle complex audit tasks (i.e. the experience of senior audit staff is incorporated in these documents to ensure that the attention of the field auditor is directed to the important audit points within each work area). These are described in the relevant chapters on planning and audit procedures in this manual.

6.1.4 Audit Review

At the conclusion of every audit, the Internal Auditor will undertake a review with the staff involved to identify problems encountered, additional audit areas discovered and any other lessons to be learned therefrom. Matters of importance arising from the review and details of excess time spent on audits will be noted by the Internal Auditor to enable suitable amendments to be made to audit plans or, where necessary, additional staff training to be undertaken.

7. REVIEW OF SYSTEMS AND DEVELOPMENT OF AUDIT TESTS

7.1 PROCEDURES FOR THE FIRST AUDIT

When auditing a department or establishment for the first time, the following matters must be attended to: -

- (a) The Internal Auditor will issue a timetable and appoint an audit team.
- (b) An Audit Questionnaire will be completed by the Internal Auditor.
- (c) The following files will be opened: -
 - (i) Permanent
 - (ii) Report
 - (iii) Current
 - (iv) Correspondence

7.2 OFFICE PREPARATIONS

The Auditor appointed for a particular audit will: -

- (a) Review matters raised in the previous audit, if any, which have not been cleared;
- (b) Identity any significant change in accounting or administrative procedures e.g. the introduction of a computer;
- (c) Ascertain whether there have been any changes or additions to legislation or the Financial Regulations affecting the LGA to be audited;
- (d) Update the Permanent File if this is not the first audit with any relevant changes since the previous audit, taking into account (a) to (c) above;
- (e) Amend the Standard Audit Programme in accordance with the directions of the Head, Internal Audit Department;
- (f) Prepare a Time Budget (See Annex 2 - A).
- (g) Brief her/his team, if applicable, to acquaint them of their responsibilities during the planned audit.

7.3 COMMENCEMENT OF AN AUDIT

When commencing an audit, the team leader or Auditor should, as a matter of courtesy, make her/his presence known to the Head of Department being audited. If hostility is shown, the Auditor must remain calm and tactful. However, it is expected that the importance of the internal audit function will be communicated by the CD to all heads of departments and units of the Administration and a ready acquiescence and cooperation will be afforded to the visiting auditor(s).

7.4 REQUEST FOR RECORDS

Requests for information, books of accounts and records should always be made to the officer in charge of the LGA under review, not to junior clerks directly, since the latter may not know their whereabouts or may attempt to retain them to complete their own work. Having obtained the records, every effort must be made to use and return them as quickly as possible. They should be returned to the person from whom they were taken and a receipt obtained if necessary, otherwise the auditors get blamed when such documents go missing.

7.5 TESTS AND ERROR DETECTION

7.5.1 Types Of Audit Tests

Audit tests generally fall into three categories: -

- Walk Through Tests, used to complete the Audit Questionnaire.
- Compliance Tests, used to provide evidence that internal control procedures are being applied as prescribed.
- Substantive Tests, which are tests of transactions and balances, and analytical reviews used to provide evidence as to the completeness, accuracy and validity of the information contained in the accounting records and financial statements.

7.5.2 Walk Through Tests

A recent example of each type of transaction is followed right through the accounting system to confirm by observation and discussion the existence of procedures as prescribed by the Financial Regulations and the Local Authority Accounting Manual or as stated elsewhere. The result of the test has an important part to play in completing the Audit Questionnaire.

7.5.3 Compliance Tests

These tests are designed to establish that the key internal controls have been functioning and have been consistently applied during the audit period, in order to provide reasonable assurance that the accounting control procedures have been complied with and have been effective. This type of test is only to be used where a key internal control has been identified. Satisfactory compliance testing permits a reduction in substantive testing thus saving audit time. The identification of key control areas is established by the use of the Audit Questionnaire.

7.5.4 Substantive Tests

These type of tests are designed to obtain evidence as to the validity and propriety of the account balances in the Revenue, Expenditure, Capital and Below-the-Line ledgers and in the accounts in general. The practical purposes of substantive tests are to:

- (a) Provide evidence of the existence and value of balances in the accounts;
- (b) Review figures in the accounts at an overall level, e.g.:
 - By analysis of significant ratios and trends;
 - By comparison with last year's relative figures and current year's budget;

- By scrutiny of the records and investigation of questionable items. In cases where compliance tests have not been applied or have led to unsatisfactory results, then substantive tests will be extended;
- (c) Evaluate the likely effect of relevant control weaknesses on the accounts;
- (d) Substantiate details of transactions (by vouching procedures).

7.6 EXECUTION OF THE TESTS

Audit tests are not to be carried out until the Audit Programme has been approved and issued. The tests used are recorded on working papers for inclusion in the Current Audit file (see Annex 2 - B) and carry the following information:

- Audit Programme reference, with brief details of the objective and form of the actual test;
- Who carried out the tests, and when;
- How the sample of tests was chosen;
- Details of items tested;
- Details of all errors found;
- Cross-reference of errors to the Error Summary Form and the return should be recorded appropriate;
- Conclusions drawn from the results of the test to be shown on the Error Summary Form.

Evidence for the audit tests performed on the books of account and supporting documentation is to be in the form of authorized audit ticks.

All points arising during the audit are to be noted in the appropriate section of the Current Audit file; it is essential that these notes are legible and self-explanatory, clearly indicate what action has been taken or is required and cross referenced to relevant schedules. These notes are to be cleared at the earliest opportunity with a full record annotated as to the method or disposal, together with a note of evidence, etc. Where the Auditor cannot clear points outstanding at the end of the audit, they are to be noted in the appropriate section of the Current Audit file.

It is particularly important that audit staff remain alert to the possibility of fraud or misfeasance and resolutely follow up matters that give grounds for suspicion of irregularities.

7.7 EVALUATION OF ERRORS

Evaluation of errors should only be carried out by the Internal Auditor. Minor errors without fraud may be discussed with the officer in charge of the relevant accounts so that he/she has an opportunity to correct the records and the accounts if he/she so wishes. An error may be

evaluated by finding the reason for it and then by answering the following questions:

- Is the error material?
- Should the error be corrected - consider the effect on revenue and expenditure and the vote analysis?
- Could other similar errors have arisen and should additional testing be carried out to ascertain this possibility?
- Is there any indication of fraudulent intent?
- Is there any implication for the evaluation of key controls?

7.8 RECORDING ERRORS

Errors, however small, found in the course of audit work are not to be disregarded, because at the point of discovery, materiality cannot be assessed. All errors are therefore to be recorded.

Materiality

- (a) The decision of materiality or otherwise rests with the Internal Auditor.
- (b) In general terms a matter should be judged material if knowledge of the matter would likely to influence the user of the financial statements. Materiality may be considered the context of the financial statements as a whole or individual items within the financial statements. In addition, depending on the nature of the matter, materiality may be considered in relative or absolute terms;
- (c) If the Internal Auditor concludes that, judged against the criteria he/she believes to be the most appropriate in the circumstances, the matter does not materially affect the view given by the financial statements, or indicate a lack of internal control, he/she may omit such matters from the Internal Audit Report.

(Note: In this context, financial statements covers: revenue, expenditure, capital and below the line estimates, accounts, records and departmental reports).

7.9 REACTION TO ERRORS

- (a) When fraud or other serious irregularity is suspected, the matter is to be raised with the Internal Auditor for direction. Audit staff are forbidden to discuss their suspicions with members of any other department;
- (b) Before any extra work, beyond that specified in the Audit Programme, on either compliance or substantive tests, or a switch from compliance to substantive tests is carried out, the approval of the Internal Auditor must be obtained;
- (c) Where the Internal Auditor cannot satisfy himself that the suspicion of fraud or serious irregularity is groundless, he/she must immediately report the matter to the

Council Director in writing and, at the same time, remind the appropriate head of department that a responsible officer should take charge of all books and records which might be required for an investigation.

- (d) Material errors, except for fraud or other serious irregularity, will be enumerated in the Internal Audit Report.

7.10 AUDIT QUESTIONNAIRES

7.10.1 Purpose

The purpose of the Audit Questionnaire (AQ) is to standardize, as far as possible, the basis for identifying the existence and evaluation of key controls or, conversely, for identifying weaknesses and assessing their significance through substantive testing. (See Annex 2 - D.

7.10.2 Key Controls

In relation to any aspect of financial activity, the key internal control is a form of control by which, with reasonable certainty, material error or fraud will be prevented or detected.

Attention has to be concentrated on the key internal controls in a system so that once identified, they may be confirmed by compliance tests. Similarly, those weaknesses where material errors may occur have to be pinpointed. Where compliance tests results are unsatisfactory, this is to be noted on the AQ form for reference in the succeeding audit.

7.10.3 Importance of the AQ Form

In cases where internal control is well developed, the AQ form is an important aspect of the audit, since attention can be focused on the major areas where things go wrong. Should a department have minimal internal control, the use of key control questions helps to identify what internal control exists. The AQ form is normally intended to be valid for three consecutive audits, which indicates a period of three years, unless audits are arranged to cover shorter periods.

The objectives of AQ form are: -

- (a) To ascertain the important controls within a system so that audit tests can be properly directed (cross reference to the audit programme is to be made);
- (b) To bring to light weaknesses which are to be assessed for their audit significance;
- (c) To provide a permanent record of the process of evaluation of internal control within the system. For this reason it is essential to give details of the reasoning behind conclusions concerning strengths and weaknesses.

7.10.4 Key Control Questions

For each financial system under review, a number of key control questions are set, the answers to which evaluate the adequacy of the internal control in operation. In each area the focus is on:

- What is the worst thing that can happen?

- What procedures exist to stop it happening?
- What needs to be done?

7.10.5 Criteria for Answering Key Control Questions

These should be set out on the AQ form below the various key control questions. They cover the following matters: -

- (a) Staff - segregation of duties, separation of physical control of assets from recording, competence, definition of procedures, lines of authority, etc;
- (b) Authorisation of transactions;
- (c) Completeness of documents;
- (d) Completeness and accuracy of processing and recording;
- (e) Supervision.

7.10.6 Answering Key Control Questions

- (a) It is important to read the key control questions carefully and literally so that they are not misunderstood;
- (b) Close supervision must be arranged if the answering of the questions is delegated to junior staff who have had little previous experience with the AQ form;
- (c) It is important to remember that the criteria are not in themselves key questions. The criteria should be considered, with flowchart references being noted, so that in the light of the strengths and weaknesses evident for those criteria the key question can be answered "YES" if weak, "NO" if satisfactory. In every case, the major reasons for the answer are to be noted so that the thought process is clear.

7.10.7 When to Complete the AQ Form

The AQ form is completed after the department system as laid down in the Accounting Manual or elsewhere has been confirmed by Walk Through tests after initial completion of the AQ form.

- (a) Audit tests are designed on the basis of a preliminary evaluation of the system:
 - Compliance tests where key controls are thought to be present;
 - Substantive tests where weaker aspects are thought to prevail.
- (b) The Audit Programme is prepared.

In Subsequent periods:

1. Before the first audit of a department is carried out, the completion of the AQ form in full should be reviewed by the Internal Auditor before the execution of the audit programme resulting from its completion

After the completion of the audit tests, the AQ form must be annotated to indicate any key internal controls that were ineffective. Prior to any subsequent audit, the key questions are reviewed and any major departures from previous assessments, as indicated on the AQ form are to be referred to the Internal Auditor for approval before consequential action is taken in the audit programme and up-date of the AQ form.

JOB-BUDGET/ACTUAL TIME SUMMARY**JOB****NO.....****DEPT/ESTABLISHMENT.....**

| | Budget Time | b/f | Week Ending | c/f | Total | Variance +/-/= |
|--------------------------------|------------------------|------------|--------------------|------------|--------------|---------------------------|
| PROCEDURAL WORK | | | | | | |
| Control of Stat./Receipt Books | | | | | | |
| Revenue Registers | | | | | | |
| Cash Receipts | | | | | | |
| Safes/Strong Rooms/Cash-boxes | | | | | | |
| Procurement/Ordering/Contracts | | | | | | |
| Payment Procedures | | | | | | |
| Cash Payments/Imprests | | | | | | |
| Payroll/Personal Records | | | | | | |
| Stores | | | | | | |
| Assets Registers/Inventories | | | | | | |
| Vote Books | | | | | | |
| Bank Reconciliations | | | | | | |
| Stock Reconciliations | | | | | | |
| ARREARS OF REVENUE | | | | | | |
| COMMITMENTS | | | | | | |
| | | | | | | |
| OTHER WORK | | | | | | |
| Monthly Returns | | | | | | |
| Capital Expenditure | | | | | | |
| Below-the-line Accounts | | | | | | |
| Other (as under) | | | | | | |
| | | | | | | |
| | | | | | | |
| REVIEW | | | | | | |
| TRAVELLING | | | | | | |
| GRANT TOTALS | | | | | | |
| Prepared by (initials) | | | | | | |

Checked by: Date:

.....

DETAILED NOTES

DEPT/ESTB..... SHEET..... OF
.....

AUDIT PERIOD..... PREPARED BY.....

REVIEWED BY

| PROG. REF. | NOTES | DISPOSAL |
|------------|-------|----------|
| | | |

DETAILED NOTES

DEPT/ESTB..... SHEET..... OF
.....

AUDIT PERIOD..... PREPARED BY.....

REVIEWED BY

| PROG. REF. | DETAILED NOTES REF. | DETAIL | DISPOSAL |
|---------------|------------------------|--------|----------|
| | | | |

DEPARTMENT/ESTB..... SHEET..... OF

AUDIT QUESTIONNAIRE

| DATE | EVALUATED BY | REVIEWED BY |
|------|--------------|-------------|
| | | |
| | | |
| | | |

SECTION

REVENUE RECORDS

| KEY QUESTIONS AND CONTROL POINTS | Flow Chart Ref | Audit Plan Ref | ANSWER TO KEY QUESTIONS DETAILED REASON FOR "YES" ANSWER | COULD ERROR BE MATERIAL | SUBSEQUENT EVALUATIONS |
|--|----------------|----------------|--|-------------------------|------------------------|
| 1. Is there inadequate segregation of duties? Consider assessor, register clerk, revenue collector, accounting dept, etc | | | YES/NO | | |
| 2. Can revenue be overlooked? (a) Are registers maintained? (b) Who controls registers, receipt books, licences, tax tickets, deposit registers, assessment file, etc? (c) Who ensures that disposal or sale of admin. Property or goods is properly invoiced & how is it notified to Accounts Dept? | | | YES/NO | | |
| 3. Can revenue be understated? (a) Who checks assessments, price of goods services or works, or value of assets being disposed of? (b) Who authorizes credit notes, refunds, etc and what checks are made? (c) Is arithmetical accuracy of registers, demands, invoices, etc. checked? (d) Who follows up arrears of revenue and are arrears of revenue, returns properly prepared? (e) Could revenue be credited to the wrong a/c? | | | YES/NO | | |
| | | | | | |

DEPARTMENT /ESTB..... SHEET..... OF

AUDIT QUESTIONNAIRE

| DATE | EVALUATED BY | REVIEWED BY |
|------|--------------|-------------|
| | | |
| | | |
| | | |

SECTION

REVENUE COLLECTION

| KEY QUESTIONS AND CONTROL POINTS | Flow Chart Ref | Audit Plan Ref | ANSWER TO KEY QUESTIONS DETAILED REASON FOR "YES" ANSWER | COULD ERROR BE MATERIAL | SUBSEQUENT EVALUATIONS |
|--|----------------|----------------|--|-------------------------|------------------------|
| 1. Is there inadequate segregation of duties? Consider cashier, receipt book custody, licences, registers, opening of post, etc., | | | YES/NO | | |
| 2. Can monies be received but not banked or handed over to Treasury/Sub-Treasury? (a) issue of official receipts, licences, tax tickets, etc. (b) revenue cash book (c) cash book reconciliation to bankings (d) are handing over certificates used? (e) cancelled receipts retained in books? (f) security of accountable stationery? (g) carbon paper properly used? (h) has every collector and collection point been checked? | | | YES/NO | | |
| 3. Is there any delay in banking cash? (a) action taken on postdated cheques? (b) safeguards against "teeming & lading"? (c) are payments made from revenue received? | | | YES/NO | | |
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SECTION**PROCUREMENT AND PAYMENTS**

| KEY QUESTIONS AND CONTROL POINTS | Flow Chart Ref | Audit Plan Ref | ANSWER TO KEY QUESTIONS DETAILED REASON FOR "YES" ANSWER | COULD ERROR BE MATERIAL | SUBSEQUENT EVALUATIONS |
|--|----------------|----------------|--|-------------------------|------------------------|
| 1. Is there inadequate segregation of duties? Ordering, receiving, inventory and accounting functions to be considered. | | | YES/NO | | |
| 2. Are Tender Board requirements ignored? Per Financial Regulations | | | YES/NO | | |
| 3. Can unauthorized purchases be made? (a) Who are the buyers? (b) Are suppliers on the authorized list? (c) who authorizes LPOs? Does he/she keep within her/his limits? (d) who accepts delivery? Are LPOs properly certified? (e) are stored goods properly recorded in ledger/on tally cards? (f) are there unmatched invoices? Why? (g) are goods ordered on several LPOs to avoid authorization restrictions? (h) is there evidence of pilfering? | | | YES/NO | | |
| 4. Can returns be overlooked? (a) Who checks credit notes are received for goods returned to suppliers? (b) Who is involved in the return of goods? | | | YES/NO | | |
| 5. Are there weaknesses in checking of contract payments? (a) are contracts register entered? (b) are bulk supply contractors fulfilling their obligations? | | | YES/NO | | |
| 6. Can rent payments be improperly made? Are leases and other documents checked? | | | YES/NO | | |
| 7. Can payments be improperly made? (a) are all PVs properly prepared, checked and certified? (b) Are all correct supporting vouchers attached to PVs? (c) Can payments be charged to the wrong budget code? (d) Is Vote Book correctly entered and initialed? (e) Are payments within authorized budget allocations? (f) Are only crossed cheque payments made for goods, services and works? (g) Who collects and signs for cheques? (h) Are discharged PVs and supporting documents dated, stamped "PAID" and properly filed? | | | YES/NO | | |

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SECTION**PAYROLL AND PERSONAL
RECORDS**

| KEY QUESTIONS AND CONTROL POINTS | Flow Chart Ref | Audit Plan Ref | ANSWER TO KEY QUESTIONS DETAILED REASON FOR "YES" ANSWER | COULD ERROR BE MATERIAL | SUBSEQUENT EVALUATIONS |
|--|----------------------|----------------------|---|-------------------------------|---------------------------|
| 1. Is there inadequate segregation of duties? Consider both payments to established and unestablished employees | | | YES/NO | | |
| 2. Are personal records & registers improperly kept? (a) Is Establishment Register maintained up-to-date for all staff? (b) Is a Register kept for unestablished employees and does it correspond with returns sent to Int. audit Unit? (c) Are time books or time sheets kept for all staff & employees? | | | YES/NO | | |
| 3. Can "dummy" names appear on the payroll? (a) Who hires and discharges employees? (b) Who checks pensioners? (c) Who controls the documentation and payroll records? (d) What happens to unclaimed wages? (e) Are employees identified on pay day? (f) Do employees give a receipt for pay? (g) Reconciliation of attendance records with payroll. (h) Are bank lists checked against personal records and time records? | | | YES/NO | | |
| 4. Could cash get stolen? (a) Cash security & control when drawn and made up into packets. (b) Security for cash-in-transit? (c) Security at pay points? (d) Security for unclaimed wages? | | | YES/NO | | |
| 5. Could employees be overpaid or paid for work not done? (a) who controls overtime, attendance, sickness records & other deductions? (b) Who authorizes holiday pay? (c) Who authorizes, and what check is made of the Payment Voucher? | | | YES/NO | | |
| 6. Can payroll be inflated in any other ways? (a) how are advances of pay treated? (b) Controls on allowances, rent, mileage, etc? (c) Effective system of notification to Payroll Section of changes? (d) Independent cross-checks to personal records? (e) Are control accounts effectively used (f) Monthly checks with Budget? | | | YES/NO | | |
| 7. Is Payroll accounting not correctly done? (a) reconciliation's with control accounts? (b) Treatment of gross pay and deductions? (c) Departmental Vote Books with central records? | | | YES/NO | | |

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SECTION**CASH PAYMENTS (IMPRESTS)**

| KEY QUESTIONS AND CONTROL POINTS | Flow Chart Ref | Audit Plan Ref | ANSWER TO KEY QUESTIONS DETAILED REASON FOR "YES" ANSWER | COULD ERROR BE MATERIAL | SUBSEQUENT EVALUATIONS |
|--|----------------------|----------------------|---|-------------------------------|---------------------------|
| 1. Is there inadequate segregation of duties? Separation of authorization and payment procedures | | | YES/NO | | |
| 2. Are approved imprest procedures contravened? (a) Imprest drawn against properly authorized warrant & not exceeded? (b) Replenishment & Retirement procedures correctly carried out? (c) Cash book, vouchers, supporting documents submitted for replenishment and retirement? (d) Imprest Cash Book posted daily and regular balanced. (e) Regular departmental cash checks carried out? | | | YES/NO | | |
| 3. Can unauthorized or improperly supported payments be made? (a) Imprest Cash Vouchers properly authorized & supported by receipts, invoices, etc. (b) Is Vote Book entered and initialed? (c) Correct budget codes shown? (d) Payments made within authorized budget allocations? | | | YES/NO | | |
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SECTION**STORES (ALLOCATED & UNALLOCATED)**

| KEY QUESTIONS AND CONTROL POINTS | Flow Chart Ref | Audit Plan Ref | ANSWER TO KEY QUESTIONS DETAILED REASON FOR "YES" ANSWER | COULD ERROR BE MATERIAL | SUBSEQUENT EVALUATIONS |
|--|----------------|----------------|--|-------------------------|------------------------|
| NOTE: See definitions of "Allocated" and "Unallocated" Stores in Audit Manual, Section 3602. Control points are similar and should be adapted as necessary for each class of Stores. | | | | | |
| 1. Is there inadequate segregation of duties? Consider, storekeeper, stores accounting staff, gatekeeper, financial accounting staff, etc. | | | YES/NO | | |
| 2. Can stock be lost or pilfered? (a) Is there clearly defined responsibility of the custody of all categories of store? (b) Security at all locations where a significant value of goods is kept? (c) Satisfactory inventory records incl. Adequate procedures for recording: - receipt of goods into store, - prenumbered requisition/issue notes - returns, write-offs, disposals, etc? (d) Is recording of inventory segregated from handling of goods? (e) Independent physical counts and proper reporting and investigation of differences? (f) Controls over stocks at external locations? (g) Effective supervision? | | | YES/NO | | |
| 3. Can stocks be consumed or wasted without proper recording? (a) Proper authorization for issue? (b) Control over stock levels, wastage, redundant items, damage to goods? (c) Effective records, supervision and investigation into variances? | | | YES/NO | | |
| 4. Are re-ordering procedures ineffective? Consider procedures for controlling re-ordering levels, minimum/maximum stock levels, prevention of stock-outs or excess stocks. | | | YES/NO | | |
| 5. Is there inadequate security & safety? (a) Are stores buildings/locations suitable for security & protection if stocks? (b) Are particularly marketable items kept under strict security and checked frequently? (c) Are stores kept in an orderly manner suitably indexed? (d) Are inflammable and combustible materials stored in safe conditions? (e) Are keys to stores, lockers, etc., held by authorized persons only? | | | YES/NO | | |

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SECTION**DEPARTMENTAL VOTE BOOKS**

| KEY QUESTIONS AND CONTROL POINTS | Flow Chart Ref | Audit Plan Ref | ANSWER TO KEY QUESTIONS DETAILED REASON FOR "YES" ANSWER | COULD ERROR BE MATERIAL | SUBSEQUENT EVALUATIONS |
|--|----------------------|----------------------|---|-------------------------------|---------------------------|
| 1. Is there inadequate segregation of duties? Officer who posts Vote Book should not prepare vouchers or action them. | | | YES/NO | | |
| 2. Can unauthorized or incorrect entries be made? (a) are folios opened for all budgeted items? (b) Are folios opened for all departmental warrants? (c) Are authorized budget allocations, virements, etc, recorded? (d) Who enters/has custody of Vote Book? (e) Are vouchers properly authorized before entry? (f) Are commitments properly recorded? (g) Are entries initialed by head of Department? | | | YES/NO | | |
| 3. Can posting or addition errors occur? (a) satisfactory checks to ensure accuracy of posting from subsidiary records? (b) Regular reconciliation with Treasury records? (c) Effective supervision including scrutiny of balances and control consolidations? | | | YES/NO | | |
| 4. Are there unauthorized or unrecorded Below-the-line accounts? (a) are there any advance, deposit, agency, project, imprest or other accounts opened without appropriate warrant or authority? (b) Are BTL accounts regularly balance with Treasury records? | | | YES/NO | | |
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SECTION**CAPITAL EXPENDITURE AND ASSETS**

| KEY QUESTIONS AND CONTROL POINTS | Flow Chart Ref | Audit Plan Ref | ANSWER TO KEY QUESTIONS DETAILED REASON FOR "YES" ANSWER | COULD ERROR BE MATERIAL | SUBSEQUENT EVALUATIONS |
|--|----------------|----------------|--|-------------------------|------------------------|
| 1. Has unauthorized expenditure been incurred? (a) Have all approvals been received from central government? (b) Local planning permission received. (c) Committee and Council approvals received? (d) Tender Board procedures adhered to for contracts and asset purchases? (e) What controls operate over development expenditure by lower councils? | | | YES/NO | | |
| 2. Are documents of title insecurely kept? (a) Who is responsible for safe custody of documents of title? (b) Are registers kept of valuable documents? Where are the documents kept? | | | YES/NO | | |
| 3. Have grant claims and donor findings been overlooked or improperly handled? (a) Who is responsible for claims? (b) Who certifies and submits claims? | | | | | |
| 4. Is there any failure in the control of fixed assets? (a) Are fixed asset registers and inventories properly kept? (b) Who checks them with the assets? (c) Is information such as date of acquisition, cost, location clearly shown? (d) Are the assets themselves suitably marked with identification symbols? (e) Are assets properly insured? | | | YES/NO | | |
| 5. Are controls over official vehicles lacking? (a) All vehicles entered in V & H.P Register? (b) Security over tyres, spare wheels, tools? (c) Is usage of vehicles & fuel properly controlled by authorizations/logbooks? (d) Is private use recharged & income there from collected? | | | YES/NO | | |
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SECTION

TREASURY CASH BOOKS & BANK ACCOUNTS

| KEY QUESTIONS AND CONTROL POINTS | Flow Chart Ref | Audit Plan Ref | ANSWER TO KEY QUESTIONS DETAILED REASON FOR "YES" ANSWER | COULD ERROR BE MATERIAL | SUBSEQUENT EVALUATIONS |
|---|----------------|----------------|--|-------------------------|------------------------|
| 1. Is there inadequate segregation of duties? Cashiers should not make out revenue and payment vouchers | | | YES/NO | | |
| 2. Are accounting and banking arrangements inadequately controlled and managed? (a) Is Revenue Cash Book entered daily? (b) Are venue vouchers and supporting documents passed daily to Accounting Section? (c) Is Revenue Cash Book reconciled with bank statements at least monthly? (d) Are cheque books controlled and kept under lock and key? (e) Are new cheque books issued only on completion of old ones? (f) Are cheque stubs properly completed and stored securely? (g) Is Payments (chques) Cash Book posted daily? (h) Are payment vouchers and supporting documents passed daily to Accounting Sections (i) Is Payments Cash Book reconciled with bank statements at least monthly? (j) Is Payments Cash Book reconciled with bank statements at least monthly? (k) Is Accounting Section Cash Book (for direct Bank debits/credits posted regularly and reconciled with bank statement at least monthly? (l) Are outstanding bank reconciliation items auctioned on a continuous basis? (m) Security over canceled and dishonoured cheques? Latter cleared regularly? | | | YES/NO | | |
| | | | | | |

8. CONDUCT OF AUDITS

8.1 AUDIT PROTOCOL

Local authorities carry on various activities at different sites outside the LGA headquarters. Notice will normally be given of intended audit visits by way of telephone to the appropriate officer detailed on the particular audit files. Travelling arrangements should take into account other auditors in the same area to avoid unnecessary cost.

The Internal Auditor will be responsible for arranging visits, normally through a letter explaining the date of any visit and the related audit activities.

8.2 ON LOCATION

On commencing an audit, the Internal Auditor should report her/his presence and introduce her/his staff to the head of the department visited. The internal audit identity/authorization card should always be carried by audit staff and produced if required.

After reporting the audit presence, the head of the department being audited should be given a brief outline of the intended scope of the audit exercise. Enquiries should be made of this officer as to whether there have been changes in staff or organisation since the last audit visit, whether he/she has any problems and if audit staff can help in any way.

8.2.1 Working Papers

Working papers are to be regarded as an integral part of audit documentation. The working papers should be both concise and comprehensive. Whenever possible they should be kept in the following manner:

- (a) Standard audit stationery should be used.
- (b) The date and name of the audit must be shown.
- (c) Each sheet should be numbered sequentially, fastened and filed together.
- (d) When working papers are being used in conjunction with an audit programme or ICQ, appropriate cross referencing should appear in the notes.
- (e) Working papers should be completed in a tidy manner, and in pen (not pencil) and signed by the officers involved.
- (f) The details to be shown should include all relevant findings of an audit, notes on questions put to staff and their answers and notes on matters requiring further consideration or subsequent action.

8.2.2 Questions

As far as possible, the questions determined at the outset of the audit should be noted down on the appropriate forms and the answers given should be noted alongside.

8.2.3 Queries

In the course of any audit work queries will arise. These must be noted and the appropriate officer asked for an explanation, which must also be noted. In cases of suspected irregularity the procedure to be adopted is set out in Chapter 9.

8.2.4 Records Borrowed

Records borrowed from the audit filing system must be recorded on the card provided and returned as soon as possible. Records borrowed from other filing system, i.e. the finance department's system or items maintained in the departments involved, must be treated with care and in accordance with their own borrowing procedures.

8.3 DISCUSSION WITH AUDITEE

At the conclusion of an audit exercise, the head of department should be seen to be informed that the audit has been completed and also acquaint her/him with the audit findings. Where relevant, her/his agreement to rectify any shortcomings verbally reported should be recorded in the audit report.

9. SAMPLING TECHNIQUES

9.1 INTRODUCTION

The chapter discusses the approaches to an audit and the strategies to be adopted to achieve the internal audit objectives. There are many possible strategies and an internal auditor needs to select the most appropriate strategy of combination of approaches which best fits the particular circumstances of the LGA activity being audited. The objective of this chapter is to give guidance to LGA internal auditors in their judgment about how large a sample to select in both systems based auditing (SBA) and direct substantive testing (DST) in order to obtain a reasonable degree of assurance that the existing system of internal controls within the LGA is operating as intended.

9.2 AUDIT RISK

Audit risk is defined as the risk that the internal auditor may come to the wrong conclusion in his/her report on the soundness and application of accounting financial and operational controls of the LGA.

Under the audit risk approach, high risk items should be audited in detail using traditional methods (systems and/or substantive tests and/or analytical procedures) but low risk items will be given only cursory attention. This approach has the advantage of getting the internal auditor of the LGA to spend her/his time and energy on those issues, items or procedures that are critical to the well being of the LGA.

9.2.1 Components of Audit Risk

The audit risk approach involves analysing over-all audit risk involving three components of audit risk namely:

- (a) Inherent risk (IR) which refers to the possibility of material errors occurring regardless of the internal controls in existence e.g. significant amounts of a LGA property taxes not be invoiced and hence LGA revenue and debtors being understated.
- (b) Control risk (CR) which refers to the situation whereby the risk of errors or misstatements in either accounting, financial or operational undertakings in a LGA are reduced but never quite eliminated by internal controls in the LGA system. Under the control risk there is a risk that once a misstatement has occurred, existing internal controls will not be able to find and correct it.
- (c) Detection risk (DR) - refers to the situation whereby audit procedures carried by the internal auditor will fail to detect material errors in the LGA system. The audit procedures could be either substantive or analytical procedures.

Assuming that the above three risks are independent of each other, the overall audit risk model can be stated as follows: -

$$AR = IR \times CR \times DR$$

| | |
|-------------|----------------|
| Where: AR = | Audit risk |
| IR = | Inherent risk |
| CR = | Control risk |
| DR = | Detection risk |

9.2.2 Sampling as a Source of Information

The purpose of audit sampling is to reduce the audit risk to an acceptable and standard level on all audits conducted by the LGA internal auditor. Sampling enables the LGA internal auditor to obtain information about a population characteristic that is of interest, without examining every item in the population.

Irrespective of the sampling techniques used, the information obtained from the sample is likely to differ from the actual population characteristic but it is possible, by setting the size of the sample to be examined, to control the maximum amount by which the sample information may differ from the true state or value of the population. It is also possible to control the likelihood that the population by more than the maximum difference that one is willing to tolerate.

These two controllable factors are referred to as the precision of the estimate of the population characteristic derived from the sample and the reliability of that sample estimate (also referred to as the confidence in the estimate). The fact that the sample is likely to differ from the true state of the population is a consequence of the particular items that happen to be selected from the various sample items that constitute the population. The resulting variability of the sample information referred to as sampling error must be considered in designing the audit sample.

9.2.3 Sampling Parameters

Sampling involves making decisions about each of the following as a means of controlling sampling error: -

- (a) Selection of items - i.e. determining how the sample is to be selected.
- (b) Size of the sample - i.e. how many items are to be selected from the total population.
- (c) Precision of the sample - i.e. how much the sample statistic may vary as a result of sampling error from the true value of the population parameter that is of interest.
- (d) Reliability of the sample statistics - i.e. the likelihood or confidence that the sample estimate of the population statistic will be within the precision limits set for the sample.

9.2.4 Auditor Risk Estimation

The purpose of audit sampling is to reduce the audit risk to an acceptable and standard level on all audits of LGA. For LGA internal audits an overall risk of 5% should be considered an acceptable risk.

9.2.5 Illustration

Suppose that the IR of material misstatement of a LGA property tax total is 80% (meaning that there is a 80% chance of it occurring), but that the internal control in the LGA is strong and the risk of non-detection by controls (CR) is low e.g. 20%.

At this stage the risk is $80\% \times 20\% = 16\%$ i.e. there is a 16% risk that the material error in sales will occur and that the internal controls will not find it.

Suppose further, we have a detection risk (DR) of 30% i.e. there is a 30% chance that the misstatement of property tax will not be detected by the audit rests, the overall audit risk shall then be: -

$$\begin{aligned}
 AR &= IR \times CR \times DR \\
 &= 80\% \times 20\% \times 30\% \\
 &= 4.8\%
 \end{aligned}$$

Therefore, the over-all audit risk in this circumstance will be 4.8% which is below the acceptable risk of 5%.

If the audit risk had turned out to be un-acceptable, then the internal auditor will have to plan and execute further substantive tests, typically by increasing the sample size.

9.2.6 Assessment of Inherent Risk

The following issues need to be considered when assessing the level of inherent risk in the internal audit of LGAs;

- The financial position of the LGA e.g. size and turnover.
- Type of activities the LGA is involved in.
- History of the LGA and cumulative auditing knowledge and experience including the history of external audit opinions received.
- Amount of pressure on the LGA as a result of the need to have good results to live up to expectations of the public being served.
- Nature of the LGA's assets and liabilities.

9.2.7 Benefits of the Audit Risk Model

The audit risk model has the following benefits: -

- It focuses the auditor's attention on factors that are more likely to result in misstatement.
- Reduces the possibility of under or over-auditing.
- Results in a more effective and efficient audit.
- Saves audit time and costs.
- Facilitates the use of sampling and therefore enjoys the benefits deriving there from.
- The approach lends itself to the use of IT and CAATs.
- Allows senior staff to evaluate risks and then delegate less risky areas to more junior members of staff.
- Leads to audit conclusions which are more easily justified.

9.2.8 Limitations of Audit Risk Model

The audit risk model suffers from the following limitations: -

- Subjective values have to be placed on the inherent and control risks.

- The internal auditor may spend more time on the mechanics of the process and assessment at the expense of time spent obtaining audit evidence.
- Could result in a mechanical approach which may lead to a loss of the internal auditors judgment.

9.2.9 Use of Poisson's Distribution

Table 1.0 shows the implications of accepting data based on the number of errors disclosed by the Auditor's sample.

Table 1.0: Application of Poisson Distribution

| Sample Size | Number of Errors Disclosed | Number of Times in 100 that the Auditor will be justified in Deciding that the Actual Error Rate is Less than | | | | |
|-------------|----------------------------|---|----|----|-----|-----|
| | | 5% | 1% | 2% | 5% | 10% |
| 25 | 0 | 12 | 22 | 39 | 72 | 92 |
| 25 | 1 | 1 | 3 | 9 | 36 | 71 |
| 25 | 2 | 0 | 0 | 1 | 13 | 46 |
| 25 | 3 | | | 0 | 4 | 24 |
| 25 | 4 | | | | 1 | 11 |
| 25 | 5 | | | | 0 | 4 |
| 25 | 6 | | | | | 1 |
| 25 | 7 | | | | | 0 |
| 50 | 0 | 22 | 39 | 63 | 92 | 99 |
| 50 | 1 | 3 | 9 | 26 | 71 | 96 |
| 50 | 2 | 0 | 1 | 8 | 46 | 87 |
| 50 | 3 | | 0 | 2 | 24 | 73 |
| 50 | 4 | | | 0 | 11 | 56 |
| 50 | 5 | | | | 4 | 38 |
| 50 | 6 | | | | 1 | 24 |
| 50 | 7 | | | | 0 | 13 |
| 50 | 8 | | | | | 7 |
| 50 | 9 | | | | | 3 |
| 50 | 10 | | | | | 1 |
| 100 | 0 | 39 | 63 | 86 | 99 | 100 |
| 100 | 1 | 9 | 26 | 59 | 96 | 100 |
| 100 | 2 | 1 | 8 | 32 | 87 | 100 |
| 100 | 3 | 0 | 2 | 14 | 73 | 99 |
| 100 | 4 | | 0 | 5 | 56 | 97 |
| 100 | 5 | | | 2 | 38 | 93 |
| 100 | 6 | | | 0 | 24 | 87 |
| 100 | 7 | | | | 13 | 78 |
| 100 | 8 | | | | 7 | 67 |
| 100 | 9 | | | | 3 | 54 |
| 100 | 10 | | | | 1 | 42 |
| 150 | 0 | 53 | 78 | 95 | 100 | 100 |
| 150 | 1 | 17 | 44 | 80 | 100 | 100 |
| 150 | 2 | 4 | 19 | 58 | 98 | 100 |
| 150 | 3 | 1 | 7 | 35 | 94 | 100 |
| 150 | 4 | 0 | 2 | 18 | 87 | 100 |
| 150 | 5 | | 0 | 8 | 76 | 100 |
| 150 | 6 | | | 3 | 62 | 99 |
| 150 | 7 | | | 1 | 48 | 98 |

| | | Number of Times in 100 that the Auditor will be justified in Deciding that the Actual Error Rate is Less than | | | | |
|-------------|----------------------------|---|----|-----|-----|-----|
| Sample Size | Number of Errors Disclosed | 5% | 1% | 2% | 5% | 10% |
| 150 | 8 | | | 0 | 34 | 96 |
| 150 | 9 | | | | 22 | 93 |
| 150 | 10 | | | | 14 | 88 |
| 200 | 0 | 63 | 86 | 98 | 100 | 100 |
| 200 | 1 | 26 | 59 | 91 | 100 | 100 |
| 200 | 2 | 8 | 32 | 76 | 100 | 100 |
| 200 | 3 | 2 | 14 | 57 | 99 | 100 |
| 200 | 4 | 0 | 5 | 37 | 97 | 100 |
| 200 | 5 | | 2 | 21 | 93 | 100 |
| 200 | 6 | | 0 | 11 | 87 | 100 |
| 200 | 7 | | | 5 | 78 | 100 |
| 200 | 8 | | | 2 | 67 | 100 |
| 200 | 9 | | | 1 | 54 | 99 |
| 200 | 10 | | | 0 | 42 | 99 |
| 300 | 0 | 78 | 95 | 100 | 100 | 100 |
| 300 | 1 | 44 | 80 | 98 | 100 | 100 |
| 300 | 2 | 19 | 58 | 94 | 100 | 100 |
| 300 | 3 | 7 | 35 | 85 | 100 | 100 |
| 300 | 4 | 2 | 18 | 71 | 100 | 100 |
| 300 | 5 | 0 | 8 | 55 | 100 | 100 |
| 300 | 6 | | 3 | 39 | 99 | 100 |
| 300 | 7 | 26 | 98 | 100 | 300 | 8 |
| 300 | 8 | | 0 | 15 | 96 | 100 |
| 300 | 9 | | | 8 | 93 | 100 |
| 300 | 10 | | | 4 | 88 | 100 |
| 300 | 11 | | | 2 | 81 | 100 |
| 300 | 12 | | | 1 | 73 | 100 |
| 300 | 13 | | | 0 | 64 | 100 |
| 300 | 14 | | | | 53 | 100 |
| 300 | 15 | | | | 43 | 100 |

*This table is developed from Poisson's distribution as follows: -

x = average number of occurrences of a given event.

T = number of times in 1,000 that X or fewer occurrences can be expected in a sample under the conditions of

Thus, if a sample of 100 is drawn from a series of data that has an average of 2 percent errors, X is 2, and the values of X and T are: -

| | | | | | |
|---|---|-----|---|---|-------|
| 0 | = | 135 | 5 | = | 983 |
| 1 | = | 406 | 6 | = | 995 |
| 2 | = | 677 | 7 | = | 999 |
| 3 | = | 857 | 8 | = | 1,000 |
| 4 | = | 947 | | | |

In turn, when an average error of 2 percent is present, a sample of 100 will reveal one error or less 406 times in 1,000. The auditor may therefore conclude that the probability of finding more than one error is 594 (the complement of 406) and that, in accepting a sample of 100 showing one error as coming from a population that must have contained less than 2 percent errors, the probability of being correct is 59.4 percent.

The value indicated in the previous example is found on the line of this table showing sample size 100 and one error; under the 2 percent column, the figure 59 appears. All probabilities less than 1/2 are shown in the table as 0.

All probabilities greater than 99 1/2 are shown in the table as 100.

This table covers only the sample sizes and maximum allowable rates of error that are most likely to be needed. Values not shown can be derived by using a table of the Poisson distribution as described above.

Table 1.1 - Factor Values for Evaluation of Attribute Samples as Derived from the Poisson Distribution

| No. of Occurrences in Sample | Factor Values For Confidence Levels | | | |
|---------------------------------|--|------|------|-------|
| | 80% | 90% | 95% | 99% |
| 0 | 1.61 | 2.31 | 3.00 | 4.61 |
| 1 | 3.00 | 3.89 | 4.75 | 6.64 |
| 2 | 4.28 | 5.33 | 6.30 | 8.41 |
| 3 | 5.52 | 6.69 | 7.76 | 10.05 |

Maximum probable error rate = $\frac{\text{Factor Value for Desired Confidence}}{\text{Sample size}}$

Minimum sample size* = $\frac{\text{Factor Value for Desired Confidence}}{\text{Maximum Tolerable Error Rate.}}$

*Minimum sample size assumes that no occurrences will appear in the sample. If occurrences appear in the sample, the sample can be evaluated for a revised maximum probable error rate, or attentively an upward revised sample size must be calculated.

9.2.10 Adjustment for Population Size

Calculation of the Poisson distribution is based on populations of infinite size, and as a consequence the confidence levels shown will actually be higher when samples are drawn from finite populations. The larger the sample size in proportion to the population, the greater will be the information content of the sample.

If the population is relatively small, such that the sample exceeds 10% of the population, it may be considered advantageous to apply a finite correction factor to calculate the smaller sample size that will satisfy the LGA internal auditor's requirements. The formula is: -

$$n^1 = \frac{n}{1 + \frac{n}{N}}$$

Where n^1 = revised sample size for finite population.

n = sample size for infinite population

N = population size

9.2.11 Illustration

Assume a population size of 1,000 items and an indicate sample size of 100, what would be the revised sample size?

The revised sample size would be: -

$$\begin{aligned}n^1 &= \frac{n}{1 + \frac{n}{N}} \\&= \frac{100}{1 + \frac{100}{1000}} \\&= 90.9 = 91\end{aligned}$$

9.3 SYSTEMS AUDIT APPROACH

The volume of transactions in a LGA and the cost of auditing precludes the examination and verification of every transaction followed by the summarization of the transactions into the financial statements. The systems based audit depends on reliance on systems which prevent or detect any variation from correct processing of documents into entries in the financial records, and hence their inclusion in the financial statements. It is the duty of the LGA internal auditor to understand the internal control system existing in the LGA and ensure that such controls are operative and effective throughout the year.

10. FLOW CHARTING

10.1 PURPOSE OF FLOW CHARTS

- (a) Flow charts are used to record the creation and movement of documents within a system, or in the case of computer procedures, creation and movement of information within a system. The focus of interest is the control over documents and information.
- (a) Flow charts demand a disciplined approach to systems recording and with a little practice are easy to prepare and easy for others to follow. They should be used for all but the very simplest systems and exceptions to systems, when narrative notes will suffice.
- (b) Flow charts, manual systems specifications, etc. prepared by departmental staff are often useful as a guide to the existing system which is to be recorded, but personal observation and enquiry are essential in order to ensure that the information being used is up-to-date and not misleading.
- (c) Flow charts are used to record the system not as it is currently meant to operate at the time of the audit, but the system as it does actually operate. Unauthorized deviations are to be reported to management so that corrective action may be taken.
- (d) Once flow charts have been prepared to record the system, in subsequent audits they are to be reviewed so that any changes can be recorded. A record of the date of alteration and the person making it are essential. A major change is best effected by photocopying the original chart for filing on the Current Audit file before revision of the chart. The flow chart records the details of the system, together with its associated controls, on which the evaluation and audit opinion is based. Therefore correct and clear recording of the facts is extremely important.

10.2 FLOWCHARTING

10.2.1 Tools For Flow Charts

Specially printed paper may be obtained for flow charting but small charts can easily be drawn on graph or ordinary lined paper.

A sharp pencil improves the neatness and clarity of the chart.

Templates may be purchased to provide the means of drawing all the standard symbols that may be required. Again, simple charts can be drawn without templates, but they are seldom as neat.

10.2.3 Simplicity

The chart is to be kept as simple as possible and is to include the minimum detail compatible with properly recording the system under review, and identifying the controls. Exclude details that are not of audit interest. Sufficient detail is required to show whether or not there is adequate segregation of duties, indication of authorizations and the nature of the evidence, e.g. signature, initials, GRN number, etc.

10.2.4 References And Numbering

All charts are to carry reference numbers and cross-references to other charts. A chart, or set of charts, is to cover a complete sequence of operations, e.g. from purchase order to settlement of the creditor's account. Each operation, including filing, is to be numbered, so that other audit documentation can be cross-referenced as appropriate.

10.2.5 Narrative

The operation column is used for narrative to explain each operation briefly and clearly, unless it is obvious from the chart. It is important to place any narrative and operation number directly opposite the symbol to which it relates.

10.2.6 Departments

Vertical lines, preferably in coloured ink, are used to separate each of the departments involved in operations. In the case of very small departments, or sections, separate columns may be allocated to each person active in the system.

10.2.7 Flow lines

The general direction of flow is down the page, operations being shown strictly according to the sequence of events. Lines may flow horizontally, either to the right or to the left, but never up the page. Diagonal flow lines are not to be used.

Horizontal lines indicate movement in space, while vertical lines indicate movement in time.

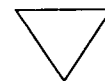
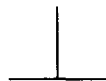
Arrows are only required where an alternative flow is indicated.

Continuous lines denote movement of documents while broken lines denote movement of information.

Where two unrelated document lines cross, a "hump-bridge" is used to avoid confusion.



The destination of every document is to be shown - as a transfer to another chart, a dead end (with explanation), or filed.



10.2.8 Documents

The name of the document is to be shown inside the document symbol. If it is lengthy, the initials (e.g. GRN) are to be used, with explanation in the narrative column.

Transfers of documents from one chart to another are indicated by connector symbols.



When a document has been brought forward from another chart, the document is restated in “ghost” form by means of a dotted outline.



10.2.9 Sequential Numbering Of Documents

Controls to ensure completeness often required sequential numbering of documents. Where this is done by the printers (pre-numbering) it is signified by placing the letter “N” in the top left hand corner of the document symbol. Clerical numbering of documents is to be treated as an operation in the system. Where a sequence check is undertaken on a file of documents, this is to be clearly shown as it may well be an important feature of the system as regards internal control.

10.3 MERGING OF FLOWLINES

The chart is to reflect as closely as possible what actually happens. If one document becomes attached to another, then the two flow lines are to be joined, otherwise they are to remain separate, even if one flows alongside the other through the system.

10.4 HIGHLIGHTING CONTROL FEATURES

The chart must highlight the control features in the system:

Separation of functions is signified by:

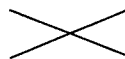


Vertical lines are drawn to separate the different functions or departments.

System checks and operations signified by



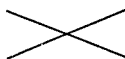
or



10.5 CHECKS AND OPERATIONS

Uncertainty sometimes arises as to the difference between:

(a) an operation



and, (b) a check

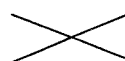


as even a check is in itself an operation. The difficulty can be resolved by considering, each time an operation is charted, whether the operation also constitutes a check.

If it does, then



should be used in preference to



10.6 COMPUTER APPLICATIONS



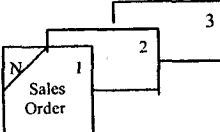
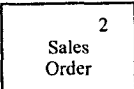

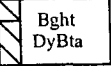
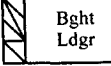


















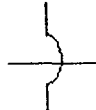

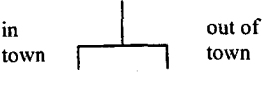




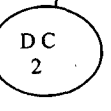
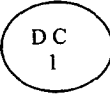

Where some procedures are carried out by computer, one chart is to be used to cover both manual and computer procedures. Special symbols are used to denote computer files, etc. The procedures carried out by significant computer programs are to be listed in the narrative column alongside a symbol denoting that program.



In the case of computer processing, information flows as well as document flows are indicated.

10.7 STANDARD SYMBOLS AND FLOWCHARTS

Some of the most common flowchart symbols are set out on the following pages. A specimen flowchart of a departmental stock re-ordering system is also shown.

| Description | Symbol | Examples |
|---------------------------------|---|--|
| 1. Document |  |    <p>Pre-numbered 3-part document "ghost"</p> |
| 2. Accounting and other records |  |    <p>Bght DyBta Bght Ldgr Stock Reds</p> |
| 3. File: - Order of filing |  |    <p>Alphabetical Numerical Date</p> |
| Temporary filing |  |    <p>TA TN TD</p> |
| 4. Operation |  |  <p>E.g. Enters daily; costs Day Book; posts to Ledger</p> |
| 5. Check, inspection |  |  <p>E.g. Checks prices, calculations; checks authority</p> |
| 6. Flowlines - time |  |  <p>Shows timing of operations</p> |
| - Space |  |  <p>Movement between Depts, etc in either direction</p> |
| information flow |  | <p>Information transferred, compared</p> |
| crossing lines |  | |
| Alternative flow or branching |  |  <p>in town out of town</p> |
| 7. Arrowheads |  |   <p>used to show direction of flow</p> |
| 8. Connector |  | <p>On chart DC 1 - Continued on DC 2</p>  <p>On chart DC 2 Continued from DC 1</p>  <p>DC 2 DC 1</p> |
| 9. Dead end |  | |

| OPERATION | NO. | DEPARTMENTAL STORE | DEPARTMENT - BUYING SECTION |
|---|-----|--------------------|-----------------------------|
| Re-order levels, standard order quantities noted on tally cards | 1 | | |
| When stocks fall to re-order level | 2 | | |
| Under stock items | 3 | | |
| Signed by Chief Storekeeper | 4 | | |
| Authority checked | 5 | | |
| Quotations sought from 3 suppliers on approved list | 6 | | |
| Quotations received from suppliers | 7 | | |
| Prices examined - if within Dept. ordering authority, or Tender Board approval required | 8 | | |
| Tender Board approval sought | 9 | | |
| Tender Board approval received | 10 | | |
| Local Purchase Order prepared. LPO number noted on requisition | 11 | | |
| File scanned for overdue orders | 12 | | |
| | 13 | | |
| | 14 | | |

11. AUDIT OF COMPUTERISED ACCOUNTS

11.1 INTRODUCTION

A computerised accounting system is being introduced in the LGAs using the Epicor Integrated Financial Management System software

Where the Epicor based Integrated Financial Management System has been introduced the Internal Auditor must be sure that the system is operating according to the LAFM, accounting regulations and instructions just as with manual systems. To this end the Audit Questionnaires must still be used to measure the key controls in the system and similar audit tests carried out.

Computerised systems however also require the auditor to carry out additional tests in the areas of data security, procedural compliance, and integrity.

11.3 ASSESSING THE SECURITY OF THE DATA, USER AND USER NETWORK

11.3.1 Procedural Tests

- (i) Inquire whether all users of the system have individually been trained on the security aspects and are familiar with them.
- (ii) Ascertain that users do not share passwords among themselves and that passwords are changed occasionally.
- (iii) Obtain a list of all key actors namely
 - The systems administrator
 - Authorizing officer
 - Operators
 - Certifying officers
 - Cheque signatories

11.3.2 Audit Procedures

- (i) Detect instances of actors sharing password and note frequency.
- (ii) Ascertain that there is formal handing over among staff when absence is approved.
- (iii) Review the manual and systems logs to ensure that the logged on person actually carried out the work.

11.4 SYSTEM AUDITING TESTS

11.4.1 Procedural Tests

- (i) Inquire into instance of key actors violating don'ts in system e.g.
- (ii) Systems administrator never enters or approves a transactions.
- (iii) Operators never approve transactions
- (iv) Inquire whether all actors know the division of work among them.

11.4.2 Audit Procedures

- (a) Investigate and list cases where key actors have acted excess fully.

- (b) Ensure that transactions data is entered into the system and cleared on daily basis.
- (c) Ascertain that computer equipment, media and security documentation are properly secured and that all data bases are backed on a daily basis.
- (d) Ensure cleaning/maintenance schedule for all equipment is strictly adhered to and that all faults are reported.
- (e) Ensure that a ready stock of consumables is available at all time.

11.5 SYSTEMS INTEGRITY

The Internal Auditor must ensure that the system is working as designed and that it has not been corrupted or interfered with. To that end the use of walk through tests to ensure that the laid down procedures are being followed. Other important tests that should be used in auditing computer systems to ensure that they are operating as designed include:

- Ensuring that control totals for transactions processed agree to lists of transactions and data capture logs
- Checking that computer generated lists actually add up, especially those relating to payroll and bank transactions
- Make manual checks of computer calculations (payroll etc.)

12.AUDIT REPORTING

12.1 PRINCIPLES OF AUDIT REPORTING

It is the responsibility of the Internal Auditor to determine the type of an internal audit report to be issued, provided that such a report meets the intended objectives of reporting. Such reports will inevitably cover a variety of subjects reflecting the many activities and the ever increasing ramifications of the internal audit department. The reports will generally fall under the following broad categories:

- (a) Periodic reports prepared to cover a summary of the performance of the internal audit department or to summarise the audit findings and recommendations for the period under view;
- (b) Reports on the results of individual audits, special investigations or enquiries; and
- (c) Annual reports assessing the effectiveness of internal controls in the Council throughout the year of operation.

12.1.1 Objectives of Audit Reporting

The primary purposes of internal audit reports are to provide management with an opinion on the adequacy of the internal control system and to inform management of significant audit findings, conclusions and recommendations. The aim of every internal audit report should be:

- (a) to prompt management action to implement recommendations for change leading to improvement in performance and control; and
- (b) to provide a formal record of points arising from the internal audit assignment and; agreements reached with management.

The 'Statements of Internal Audit Practice - Public Sector' define the principle objectives of reporting as:

- (i) to alert management as soon as possible to matters of significance arising from the audit;
- (ii) to persuade management to implement recommendations for changes leading to improvements in the system and its performance; and
- (iii) to provide a formal record of points raised by the audit and, where appropriate, agreements reached with management.'

12.1.2 Attainment of Objectives

In order to achieve these objectives the report must: -

- (a) be written in a language that is easily understood by the recipient;
- (b) state the scope, purpose and areas of audit undertaken;

- (c) be prepared in a manner that allows management to assess its value in the minimum of time;
- (d) be based only on relevant facts and information which are documented in working papers;
- (e) draw conclusions from the factual information presented;
- (f) in making recommendations, reflect the materiality of each point and take account of views and practical comments expressed by management during the audit and final discussions; and
- (g) indicate whether the system is operating satisfactorily.

12.1.3 Responsibility of Preparation

Reports should always be prepared by the auditor who carried out the work. A senior auditor should review the work file noting matters for inclusion in the report and ensuring that:

- (a) Working papers show the name of the auditor responsible, the area of work under review and the date undertaken.
- (b) Working papers have been numbered and cross referenced to the audit report and audit programme where applicable.
- (c) Working papers have been prepared in such a manner that they can be easily understood by other staff having access to the audit file.
- (d) Working papers have been filed in a logical order and indexed as necessary.

The senior auditor should then review the report. All amendments should be fully discussed with the auditor concerned to ensure that the report remains factually correct and fairly worded.

The Local Authority Memorandum provides that officers engaged in internal audit will prepare and submit dated reports direct to the Director for action and onward transmission to the Finance Committee.

12.2 PRACTICAL ASPECTS OF AUDIT REPORTING

12.2.1 Introduction

The principles set out in Section 12.1 will form the basis of all written communications from the audit section.

12.2.2 Forms of Audit Reports

Reports may take the form of letters, memoranda or a more formalized document. Letters and memoranda will be used to report all matters of a relatively minor nature. Formal reports will only be in cases of financial irregularity, maladministration and in connection with value for money/cost reduction exercises carried out by the audit section. Formal reports will be identified by a reference number provided by the Internal Auditor and will be printed on paper of a distinctive colour (currently green) so that management is able to

immediately recognize the report and give it the attention it deserves.

12.2.3 Contents and Layout

(a) Reports will be prepared in a uniform style and laid out as follows:

- (i) Use LGA letter-head - indicate the subject and period of the audit report.
 - (ii) Table of Contents
 - (iii) Executive Summary in case of long reports - the summary highlights the main issues covered.
 - (iv) The Main Report.
 - Title or heading
 - The Addressee
 - Introduction / Background
 - The legislation under which the audit has been undertaken
 - Scope of the Audit
 - Statement on responsibility for establishment and maintaining on effective ICS
 - Statement on the responsibility of the auditor
 - The basis of the auditor's conclusion
 - Auditor's conclusion
 - Annexes
 - Review and follow up of previous recommendations and acknowledgement of responses
 - Matters arising from current audit.
 - (v) Recommendations
 - (vi) General Conclusions.
- (b) The following information will be given:
- (i) Date of Report
 - (ii) Reference number (formal reports only)
 - (iii) Subject of audit
 - (iv) Signature of auditor responsible (formal reports only)
 - (v) Distribution list.
- (c) The report should be as brief as possible commensurate with necessary facts and should be prepared on the 'exception' principle. In those instances where the audit does not reveal errors, discrepancies or systems weaknesses it is sufficient to issue a brief report to that effect. Management does not want to waste time reading a lengthy document when everything is satisfactory.

- (d) To ensure easy reading for the recipient, schedules and tables of relevant information are to be included as appendices. Appendices must be prepared in the most effective manner and graphic presentations are to be used when appropriate. Where a number of appendices are attached it is advisable to prepare a list of appendices.
- (e) All information detailed under 'Observations' must be factual and capable of verification. Differentiate facts from opinion - If it is a fact says so; if it is an opinion, assess its value.
- (f) Matters arising during the audit that have been dealt with immediately by LGA management must be included in the report.
- (g) The report must be grammatically and arithmetically correct.

The internal auditor should normally meet with management to discuss the audit findings at the completion of field work for each internal audit assignment and the formal written report should be presented to the Accounting Officer as soon as possible thereafter. Before issuing the final report, the internal auditor should normally discuss the findings with the appropriate levels of management for confirmation of factual accuracy.

If the internal auditor and appropriate level of management disagree about the relevance of the factual content of her/his findings the internal auditor should consider whether reference should be made to this in the final report.

12.2.4 Further Considerations In Report Writing

- Busy people may read only the conclusions and recommendations; therefore they should be simple, concise and complete.
- The conclusions should be clear statements derived logically from the main body of the report and supported by relevant evidence. They should be arranged in order of importance and should relate to the purpose of the report and may appear at the end of each major heading or at the end of the Report overall.
- Recommendations for future action should be stated simply and concisely. They should be positive, practical and cost effective and should be numbered in order of importance or logic.
- It is important to indicate the reference source of any information used in the report e.g. a textbook law, regulations etc.
- Try to keep sentences short, vary their length, but let the average be around 20 words.
- Use familiar words; avoid jargon unless one is sure of it being familiar to readers who will know what it means.
- Keep every item of the report relevant to the purpose.
- Ensure that the contents include all the points necessary to the purpose.

- Keep a proper balance, giving space and emphasis to each item according to its importance.
- Keep a serious “tone” as benefits a serious purpose, do not tempt the reader to read between the lines, if you do you are at the mercy of his or her imagination.
- Be careful in the use of numbers, figures tend to draw attention to themselves; decide whether absolute values have more significance than percentages and ratios and vice versa; when quoting figures from other sources be exact, when estimating, consider the order of accuracy and round off.

12.2.6 Covering Letters and Memoranda

Letters and memoranda are to clearly indicate a date by which comments should be received. Formal reports are to be accompanied by a covering memorandum or letter to the same effect.

Copies of reports sent to senior management staff are to be accompanied by a memorandum or letter indicating areas for action and highlighting areas of particular concern.

12.2.6 Distribution of Reports

Reports should be issued as soon as possible after completion of the audit. Any delay will weaken the impact of the report, which may, as a result, not receive the attention it demands, and postpone the taking of corrective action in respect of areas of deficiency mentioned in the report. To be effective reports must be distributed to the appropriate management staff and, whilst distribution will depend upon the nature of the report, the head of department responsible for the account or activity under audit should always receive a copy. Ideally, the initial draft report should be made to the Department with a copy to the Director.

The Local Authority Financial Memorandum directs that the Internal Auditor should submit a report to the Council Director who will transmit the same to the Finance Committee and the National Audit Office.

12.2.7 Follow-up Procedures

It is the Council Director’s responsibility to ensure that proper consideration is given to internal audit reports. The internal auditor should ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action.

- (a) The date by which replies to reports should be received is to be entered in the office diary maintained specifically for that purpose. The normal period allowed is one month.
- (b) Internal Audit staff are to examine the diary weekly and send reminder letters as necessary. Verbal reminders should be given at the same time. A further period of two weeks from the date of the reminder letter is to be allowed and the diary should be noted accordingly. If a reply is still not received within the allotted time the matter is to be referred to the Council Director.
- (c) On receipt of a reply the Internal Auditor must:
 - (i) note it in the diary;

- (ii) annotate the audit file to show recommendations accepted and changes in procedures agreed;
- (iii) pursue any matters which require further action; and
- (iv) note any action required at the next audit.

12.3 SPECIFIC REPORTS

These include, but not necessarily restricted to:

- (a) Audit Queries
- (b) Management Report or Schedule of Observations.
- (c) Irregularity Report.
- (d) Annual Report.

12.3.1 Audit Queries

Audit queries are raised during the examination of accounts and records and are intended to advise management well in advance to carry out adjustments or corrections in the accounts as the case may be before the closure of the accounts. If all the advices given through the queries are implemented prior to the closure of the accounts, the final accounts will be free from unnecessary errors and the level of accuracy will be high. Annex 3 - A is module of an Audit Query for illustration purposes. It is usually addressed to the Supervising Officers or Officer i/c as the case may be, and copied to the Accounting Officer i.e. the Council Director. The rest of the instructions are clear from the Audit Query form.

12.3.2 Irregularity Report(s)

Irregularity report summarizes irregular events like theft, fraud etc. and is addressed to the Accounting Officer.

It is intended to inform the Accounting Officer at an early opportunity time to put him in the picture of the State of Affairs in order for him to decide on the next step.

A specimen of an Irregularity Report appears in Annex 3 - B.

12.3.3 Management Reports

A management report on the other hand is raised in the course of inspection of departments and/or sector stores. It points out anomalies observed during the inspection and summarized points of:

- (a) Agreement whereby corrective action was taken.
- (b) Disagreement requiring the decision of the Council Director.

12.3.4 Monthly, Quarterly And Annual Reports

Audit procedures in respect of monthly, quarterly and annual accounts follow logically from principles of sound financial management which provide for:

- (a) A financial plan.

- (b) Short term, medium and long term plans with varying details.
- (c) Budgeting and follow up-feed back.
- (d) Short control periods so corrective action can be taken.
- (e) Accounting taking place at the same level of detail as the budget.

12.3.5 Reports By Junior Staff

Junior Officers on completion of an assignment will usually complete a report as formatted in Annex 3 - C and 3 - D for the attention of the Internal Auditor.

AUDIT QUERY FORM

Internal Audit Query No.....of 20

FROM:

*INTERNAL AUDITOR
KILOSA DISTRICT COUCIL
KILOSA*

| | |
|--|---|
| <i>TO: Mention Departmental Division Head </i> | FOR AUDIT USE ONLY REMARKS ON REPLIES, - REISSUES/QUERY CLOSED ETC |
|--|---|

Example 1:

P.V. NO.OF SEPT, 30, YEAR.....: Tshs. 145,000 Being payment forbags of cement for the construction of a classroom at ward. The relevant GRN in support of receipt of the item was not made available for audit scrutiny.

Please submit and avail utilization particulars of the stores item concerned.

Signed

KDC, internal Audit

Example 2

Receipt No.....of 1 Sept.....2001 Tshs. 5000.00 Being collection in respect of business licences No..... issued to The revenue was allocated to Revenue Head Instead of Revenue head.....

Please adjust or explain.

Signed Council Internal Auditor

**PLEASE RETURN THE ORIGINAL FORM WITH YOUR REPLY ENCLOSED
THEREIN TOGETHER WITH ANY DOCUMENTS ATTACHED. THE DUPLICATE
OF THE QUERY FORM SHOULD BE RETAINED FOR YOUR OFFICE RECORD.**

**IRREGULARITY REPORT
CONFIDENTIAL**
STRICTLY
Office:

Department:

Brief Details of Event

Grading(s)

Officer occasioning the event

Amount involved

T.shs:.....

Date Commenced:.....

Date Discovered:.....

How Discovered

By whom discovered

.....

Defects in Record and Control

Should the Irregularity have been discovered earlier if so how?

Steps taken to Improve system(s)

 Action taken against the Officer
concerned court Proceedings?

Insurance action taken

Recovery Action taken

Name of Reporting Officer:

.....

Signature:

.....

Date:

.....

FINAL AUDIT POINTS

DEPARTMENT/ESTABLISHMENT.....SHEET.....OF.....

TO: INTERNAL AUDITOR

1. I confirm that I have carried out a review of the above- mentioned audit and that it has been carried out in accordance with the instructions and policies of the Internal Audit Manual.
2. I confirm that the audit Permanent File has been reviewed and all sections have been brought up- to- date.
3. I confirm that I have examined the Audit programme, recorded such amendments as necessary and reviewed all the working papers.
4. I have satisfied myself that:
 - (a) All items recorded on form(Error summary). Form (Detailed Notes), Form.....(Missing vouchers) and Form (Matters B/F) have been satisfactorily disposed of except as stated below:
 - (b) All unusual and important items are referred to below:
5. After reviewing the audit I am of the opinion that except as stated below: -
 - (a) Proper books of account and records have been kept in accordance with the financial regulations, Accounting Manual and other current authorized instructions.
 - (b) Monthly Revenue and Expenditure returns and Vote Books have been properly kept and agreed with Treasury Records:
 - (a) The draft Internal Audit report is accurate.

.....
INTERNAL AUDIT STAFF.....
DATE

DEPARTMENT/ESTABLISHMENT:..... SHEET:.....
OF:.....

| POINT NO. | CROSS REF. | FINAL AUDIT POINTS | INSTRUCTIONS AND COMMENTS | DISPOSAL DATED AND INITIALLED |
|--------------|---------------|--------------------|------------------------------|----------------------------------|
| | | | | |

13. FINANCIAL AUDITS IN LGAs

13.1 OBJECTIVE

The objective of carrying out financial audits in Local Government Authorities is to assess whether the internal controls and financial systems that are in place are adequate to provide effective control over the operations of the council, and comply with laid down procedures and best practice. The exercise consists of the examination of the LGA accounting, financial and related records to ascertain that there was compliance with the requirements of the law, regulations and procedures responsible for the control and management of the LGA functions. The management of the LGA is responsible for ensuring that best practices are adopted in running the affairs of the LGA and that there is effectiveness of the management's function of custody, recording and authorization with a view of safeguarding the LGA's assets in general.

The exercise shall cover but not be limited to scrutiny of all sectional/departmental and overall council budgets and resource mobilization, deployment and implementation procedures, communication and reporting. It shall also involve the review of existing internal controls and self evaluation measures, the Council's reactions to external audit reports, the Council's relationship with its stakeholders.

13.2 LEGAL FRAMEWORK OF THE INTERNAL AUDIT FUNCTION

The legal framework of the internal audit function in LGAs is set out in Chapter 2 of this manual but it is useful at this stage to remind ourselves of some definitions and roles.

Part VI of the Public Finance Regulations GN No 132 of 2001. Regulation 33 of the Public Finance Regulations 2001 defines internal audit and internal control for the public sector.

Internal Audit

Internal audit is defined as an independent appraisal activity established within a Ministry, department or Agency or other reporting unit which operates as a service to the Head of the unit involved, of which it controls activity functions by examining and evaluating the adequacy and effectiveness of internal controls in the unit being reviewed.

Internal Control

Internal control on the other hand is defined as a set of systems operated by an LGA to ensure that financial and other records in an LGA are reliable and complete, and they adhere to management's policies of orderly and efficiently conducting of the business, and the proper recording and safeguarding of the assets and resources of the LGA.

Duties of the Internal Auditor

Reg. 34 of the Public Finance Regulations 2001 dwells on the duties of the Internal Auditor in the Public Sector. The regulation stipulates that it is the duty of the Internal Auditor to appraise the soundness and application of accounting, financial and operational controls and in particular to: -

- {a} review and report on controls over the receipt, custody and utilization of all financial resources;

- {b} review and report on conformity with financial and operational procedures laid down in any legislation or any regulation or in instructions issued on good accounting practice to ensure effective control over the expenditure;
- {c} review and report on the correct classification and allocation of revenue and expenditure accounts;
- {d} review and report on the reliability and integrity of financial and operating data so that information provided allows for the preparation of accurate financial statements;
- {e} review and report on the systems in place used to safeguard assets and as appropriate, the verification of the existence of such assets;
- {f} review and report on operations and programs to ascertain whether results are consistent with established objectives and goals;
- {g} review and report on the adequacy of action by management in response to internal audit reports and assisting management in the implementation of recommendations made by those reports and also, where appropriate, recommendations made by the Controller and Auditor General; and
- {h} review and report on the adequacy of controls built into computerized systems in place in the Unit.

It must be emphasised however that the responsibility of the Internal Audit function for checking and reporting shortcomings in connection with the accounts, finances and related operations shall not absolve officers from responsibility for complying or securing compliance with instructions within the scope of his/her own authority.

It is management's responsibility to prevent, detect and investigate internal fraud, although in conducting audit assignments, the internal auditor shall be alert to opportunities such as control weaknesses that could allow fraud and where fraud is suspected the appropriate authorities should be notified.

13.3 GUIDING PRINCIPLES

The guiding internal audit principles to be used by the Internal Auditor in fulfilling the objectives of financial audit in LGA's are the management's assertions regarding the financial information of a LGA. These principles are: -

{a} Internal Control Systems

This principle calls for the Internal Auditor to continuously review the existing internal controls in place at the LGA in order to facilitate smooth operations of the LGA. This is the primary task of the Internal Auditor and the credibility of all other activities is based on the assessment of the internal control system in place.

{b} Presentation

This assertion requires the Internal Auditor to ascertain that the financial statement items of the LGA are properly classified and presented.

{c} Disclosure

This principle requires the Internal Auditor to ensure that the LGA's financial statements are described and disclosed in accordance with generally accepted accounting principles.

{d} Existence

This assertion requires that the Internal Auditor ensures that the existence of the LGA's assets and liabilities are backed up by relevant documentary evidence.

{e} Occurrence

This principle calls for the Internal Auditor to verify the occurrence of all items being reflected in the LGA's financial statements. This will include all items of assets, liabilities, revenues and expenditure.

{f} Ownership

The ownership principle aims at the Internal Auditor being able to confirm the ownership of the LGA's assets and liabilities. In reality it is for the Internal Auditor to assure himself/ herself that the assets and liabilities reported in the LGA's financial statements truly belong to the LGA.

{g} Competence of Reporting

The principle aims at ensuring that all transactions and the LGA accounts are reported in full in the LGA's financial statements.

{h} Valuation/Allocation

This principle calls for the Internal Auditor to ascertain that the LGA assets, liabilities, revenues and expenses have been reported in the LGA's financial statements at appropriate amounts.

13.4 AUDIT TECHNIQUES

In conducting financial audits, the Internal Auditor shall use his/her professional knowledge, skills and exposure. When applying personal judgment in his/her audit function, the Internal Auditor shall be guided by prudential principles to the extent practicable. The following standard techniques shall be used when carrying out financial audits in LGA's.

{a} Observation

Observation as an audit technique consists of looking at the process or procedures being performed in the LGA. Such processes and procedures should aim at facilitating the LGA to achieve its vision and mission statement. The Internal Auditor will carefully study the processes and procedures in place to ascertain whether in reality they are functional and effective.

{b} Inspection

This aspect of technique entails the Internal Auditor of the LGA to physically look at and inspect documents, records in regard to the LGA's assets with a physical substance. The inspection technique could involve the following steps:

- (i) physical examination of the LGA's assets
- (ii) vouching of source documents
- (ii) inspection of documents and records e.g. lease agreements

- (iv) stock - taking and verification etc.

{c} Inquiry

As an audit technique, inquiry consists of seeking appropriate information and explanations from knowledgeable employees within the LGA. The degree of reliability of an inquiry shall be influenced by: -

- (i) objectivity of the staff giving the information
- (ii) knowledge and experience of the staff
- (iii) seniority of the employee in the Council
- (iv) consistency with information obtained from other sources etc.

{d} Confirmation

This audit technique assists the Internal Auditor to assure himself/herself that the data and information given both in LGA's financial statements and supporting documents like ledgers and journals are correct.

14. CONTROLS OVER LOCAL GOVERNMENT AUTHORITY REVENUE

14.1 SOURCES OF LGA REVENUES

The LGA's revenues usually consist of:

| Type of Revenue | Examples |
|--|---|
| Government Grants for recurrent expenditure | Grants for Education, Health, Roads, Water and Agriculture Local Administration and General Purpose Grants |
| Government and donor funding of recurrent and development activities | PEDP, and Health Basket Funds Road Fund Local government Capital Development Grant |
| Grants in kind | Medical Supplies |
| Shared Revenues | Land Rent, National Park Fees |
| Local Government Taxes | Property Taxes, Produce Cess, Hotel Levy |
| Licences | Business Licences, Liquor Licences |
| Permits | Market Fees |
| User Fees | Hire of Council Hall, Forestry Fees |
| Miscellaneous | Fines, Bank Interest |

The list is not exhaustive and individual councils will have additional examples within the headings set out above.

14.2 INTERNAL AUDIT OBJECTIVES

The objectives for the internal audit of LGA revenues is to ensure that the internal control systems are in place and in such a manner as to ensure that:

- All amounts due to the LGA are identified and, where appropriate, billed
- All amounts owing to the LGA are collected
- All amounts collected are banked in the appropriate account
- All amounts billed and collected are properly recorded in the LGA's books and thereafter in the financial statements

14.3 INTERNAL AUDIT TESTS

Prior to the carrying out of substantial audit tests the systems in place and their weaknesses will have been established and recorded in the Permanent File using the tests and tools set out in Chapters 7 and 10. These tests will identify the level of testing to be carried out to assess the compliance with the laid down systems.

The following paragraphs will identify against each of the audit objectives some generic tests that will be applicable to most sources of revenue. Later we will describe procedures that address specific revenue sources.

14.3.1 All Amounts Due Are Identified And Billed

There are a number of components that can be included in this objective and may be better stated as questions:

Are all the potential payers identified and recorded?

The administration of the revenue system is as important as the controls over collection. It is important to ensure that all potential payers of taxes especially are recorded in registers.

It is the task of the internal auditor to identify whether or not the registers are complete and the tests that will be used will include:

| Type of Test | Example |
|--|--|
| Physical Verification | <ul style="list-style-type: none">• Spend a day recording taxis that are seen in the town and check to the register for plying fees.• Record properties and check to the valuation roll.• Record the number of bars in a ward and check to the licences register |
| Review against previous years | Check payers of a particular tax last year from receipts to ensure they are included on this year's register. Note that this will only ensure there is no reduction from last year not whether the full potential is being met. |
| Reasonableness checks against third party evidence | Identify tonnes of export produced shipped from the LGA from agricultural statistics and compare to amount of cess being received. Check Service Levy records of businesses with TRA VAT and company Tax records. |

Have they all been billed?

Not all income sources are billed in LGAs. Generally it is only property tax, user fees and some licences that will normally be billed. Where they are billed however we should carry out test to ensure that:

- All properties on the valuation register have had bills raised for property tax
- For Service Levy ensure that all businesses on the registers have been billed.
- Check plant use vehicles to ensure that any hire of council plant has been billed.
- Where there are user fees agreements ensure from registers that these have been properly billed

In some cases, market fees, cesses, plying fees etc. bills are not normally raised and income is collected on a cash basis. In these cases it is difficult to be sure that all amounts due are raised. In such cases the auditor has to rely on reasonableness checks that will give her/him an assurance that the amounts collected look reasonable and that the appropriate controls are in place.

Examples of these may be:

- Spend a few days working with the collector. Check the takings when you are working together with the normal daily takings.
- Check whether the collectors are rotated and see whether there are significant differences between the collectors.
- Check that all those paying plying fees or produce cess last year have paid this year, investigate differences.

Have they been billed for the correct amount?

This will be included in the normal tests on revenue registers in the next section.

14.3.3 Further Tests From The Revenue Registers

The following checks will be applied to any revenue or bill registers maintained by the Council.

1. (a) Verify the details entered in the registers/bills with the appropriate authorities for instance applications and/or assessments.

(b) Check that the calculations of the amounts shown in the registers/bills are in accordance with the relevant legislation or other authorities for at least one month from the date of the last audit inspection.
2. (a) Where bills have been issued, check with the register from the office copies of the bills - two months a year.

(b) Check from the receipts quoted in the registers with the book copies of the receipts - for at least one month from the date of the last audit.
3. Check that the registers are written up to date.

14.3.4 All Amounts Owning To The LGA Are Collected - Arrears Of Revenue

In respect of arrears of revenue, the following minimum checks will be carried out;

1. (a) Ensure that the ledger shows both bills and receipts and the balance outstanding for each debtor. We should also be sure that those responsible for credit control bring out an aged list of debtors each month showing the amount owing and its age.

(b) Where such an aged list exists test the list to the underlying ledgers for accuracy and test that all outstanding balances on the ledger are listed.

(c) Test the outstanding balances and obtain explanations for those outstanding for more than 60 days including inspection of correspondence/legal steps taken.
2. (a) Where such a list does not exist, sample and list 25% of the items of revenue arising since the previous inspection up to the end of the last completed month, still outstanding at the date of the inspection.

(b) Bring forward to your list all arrears of revenue on the previous audit list or check with the book copies of receipts quoted in the revenue register or check to the LGA's for waiver.

- (c) By reference to the original of the last arrears of revenue statement and the revenue register ascertain the total arrears still outstanding at the date of inspection and include this total analysed by financial years in your report.

14.3.5 All Amounts Collected Are Banked In The Appropriate Account- Receipts

The purpose of the following procedures are to ensure that all amounts collected from the public are properly received into the accounts of the LGA. This involves a further three steps:

- *Are council receipts issued for all amounts collected?*
- *Are all amounts receipted banked?*
- *Are receipt books properly controlled?*
- *Is the division of duties appropriate to maximise controls?*

PROCEDURAL TESTS

- 1 Select a period of three months from the date of the last audit for detail examination or audit in depth of which one month should be from the most recent period.
- 2 Obtain a sample of the receipts to be tested ensuring a wide coverage of types of transaction and collection points and methods.

AUDIT PROCEDURES

- 3 Receipts by Mail
 - (a) Confirm that the procedures laid down for opening the post, crossing cheques and recording remittances are being observed.
 - (b) Trace items from the Inward Mails/Cheques Register of remittances received to the Cash Book.
 - (c) Check that the records have been initialed as evidence that this comparison has been made by the Treasurer or her/his nominee.
- 4 Checks on the Sample Receipts
 - (a) Check any computations or assessments on the receipts.
 - (b) Ensure that the date, payee, amount and purpose of the receipt are clearly marked and that any alterations are initialled
 - (c) Check that the receipt and the receipt vouchers have been allocated correctly by reference to the Revenue Head as per the Approved Budget (Estimates).
 - (d) Ensure that the receipt has been entered in the revenue register or debtors ledger.
 - (e) Verify that the amounts in words and figures agree on each receipt.
 - (f) Where receipts have been cancelled, verify that the original and the duplicate of the cancelled receipts are filed with the account.
 - (g) Where the receipt is from the Head Office Cashier for collections by the collectors then it must be supported by the receipts issued to the payers by the collectors.

14.3.6 All Amounts Received Banked

Having ascertained in the previous test that receipts have been properly controlled we must now ensure that the amounts received have been banked in the proper bank account.

Using the same receipts that were selected before we should now:

- (a) Check that the receipt is listed in a paying in slip and there is a written reconciliation of the paying in slip to a totalled list of receipts. The receipts should where possible be attached to the office copy of the paying in slip.
- (b) Ensure the paying in slips being banked are sequential and investigate any missing numbers.
- (c) Check that the amount on the paying in slip is correctly entered in the cash book and the analysis correctly reflects the receipts attached.
- (d) Ensure that the funds are banked in the correct bank account. This will normally be the General Fund but in some cases the funds may be required to be banked in sectoral or project bank accounts.

14.3.7 All Amounts Collected Are Banked In The Appropriate Account -Register Of Counterfoil Books And Unused Receipts Returns

REGISTER OF COUNTERFOILS

- (a) Check from the Supplier of these documents. Issue Notes to the main stock register in detail.
- (b) Check from the main stock register to the receipted issue notes in details.
- (c) Survey stocks of all unused receipts from the date of the previous audit.

UNUSED RECEIPTS RETURNS

- (a) Check from the main stock issue notes to the relevant unused receipts returns in details.
- (b) Verify that all receipts on hand at the end of the previous month have been accounted for by reference to the receipts checklist or are included in the Unused Receipts Return by reference to the progress register that returns from all departmental revenue collectors have been examined.

14.3.8 All Amounts Collected Are Banked In The Appropriate Account - Appropriate Division of Duties

An essential control for any accounting function is that there is an appropriate division of duties. In the case of revenues and banking the following are generally accepted divisions:

- (a) The person raising bills should not collect money
- (b) The person collecting and banking cash should not record it in the cash book.
- (c) The person controlling accountable documents should not be involved in their day to day use.

14.5 Example Audit Test Check List

Fieldwork Ref.....

Date:

| Audit task | Yes/No (V/X) | Remarks* | Initials |
|--|-----------------|----------|----------|
| <p>To carry out audit procedures to verify that:</p> <p>(a) Control over cash sales/receipts</p> <ol style="list-style-type: none"> 1. All cash received over the counter is immediately receipted with the LGA official receipt and copies distributed as per the Regulations. 2. All mail receipts are immediately endorsed "for deposit only", and a list prepared on a multi-copy prelist by the mail clerk. 3. All cash receipted is banked intact not later than the following business day. 4. Agreement between the daily cash summary and the bank pay –in –slips is verified by a responsible officer against a daily collections journal prepared (from receipt counterfoils) 5. Summary of the daily collections journal (Receipts day Book) are taken and postings made in the Cash book daily; 6. Debtor's records are properly updated at the time. 7. The daily cash journal and bank pay–in-slips are filed sequentially and chronologically. <p>(b) Control over credit transactions</p> <ol style="list-style-type: none"> 8. Receipts are recorded only on the basis of receipts invoices issued by the LGA on services 9. All invoices issued are pre-numbered and correctly signed and recorded. 10. Postings to the Debtor Control Account are done promptly and correctly. 11. The computer-programmed checks are in agreement with established controls for invoices processed and recorded. 12. There is adequate segregation of duties in respect | | | |

| Audit task | Yes/No (V/X) | Remarks* | Initials |
|---|-----------------|----------|----------|
| <p>of the receipts transactions and recording of those transactions including restriction to authorized access to records and computer programme.</p> <p>13. There are independent checks on the agreement between accounts receivable subsidiary records with Debtor Control Account;</p> <p>14. There is sound mailing of statements to debtors with specific instructions of settlement of outstanding balances.</p> | | | |

* The remarks should focus on the following question:

- (a) How was the control applied?
- (b) Was it applied consistently during the period?
- (c) Who applied it?
- (d) What were the implementation problems encountered?

| | | | |
|----------------------------|-------|----------------------------|-------|
| Agreed Action Plan: | | | |
| Signed by Client | | Signed by Internal Auditor | |
| | | | |
| Signature | Date | Signature | Date |

15. CONTROLS OVER EXPENDITURES

15.1 SOURCES OF LGA'S EXPENDITURE

Payments are made to suppliers for cash or credit purchases, to employees for salaries, wages, loans and allowances, honoraria and fees for consulting services provided, traveling expenses, statutory expenses, and for other office running expenses, subscriptions and contributions made to affiliates etc. The control functions over payments include recognition of liabilities, authorization, documentation and custody of security documents, and recording the transactions.

15.2 AUDIT OBJECTIVES

The overall objective for the internal audit of the LGA expenditure cycle is to ensure that the control systems are in place to ensure that LGA expenditure is carried out in line with the law, regulations and instructions.

The specific audit objectives are to ensure that the systems of control are in place and operating to ensure that:

- (a) payments are only made on account of activities approved by the Council through the annual budget;
- (b) payments are only made on account of properly authorised transactions for which all the required documentation has been prepared;
- (c) the LGA actually receives the goods or services for which payment is being made;
- (d) all liabilities and payments are correctly recorded in the appropriate books of account;
- (e) assets purchased are held in safe custody;
- (f) funds received from Government or other third parties are used for the purposes for which they are intended;

The detailed audit work to be undertaken by the Internal Auditor are covered under paragraph 15.4 below.

15.3 PAYMENTS FOR GOODS AND SERVICES

15.3.1 PROCEDURAL TESTS

1. The examination of the system of internal control for payments is to be carried out by selecting one month for detailed examination (audit in depth).
2. Scrutinize all payments less than (say) Tshs.1.0 million.
3. All payments over (say) Tshs.1.0 million should be examined in detail.
4. All payments for capital expenditure should be examined in detail to ascertain the

amounts involved, relate the expenditures with the approved budget, procedures used in procuring authorization process etc.

15.3.2 AUDIT PROCEDURES

5. Select a sample of paid payment vouchers using the techniques set out in Chapter 9 and carry out the following checks on them:
 - (i) All required approvals and authorisations are shown.
 - (ii) All required supporting documents are attached (LPO, quotations, Goods Received Note, etc.).
 - (iii) The appropriate procurement procedures have been carried out, checking into the proceedings of the Council Tender Board.
 - (iv) The expenditure has been appropriately coded.
 - (v) All discounts to which the LGA is entitled to have been taken.
 - (vi) Invoices and other supporting documents have been cancelled and marked "PAID".
 - (vii) Where relevant trace the payment vouchers into the purchase day book and the creditors
 - (viii) Trace the payment voucher to the cash book ensuring that the amount of the payment is the same and the amount has been properly analysed under the appropriate Expenditure Code as per the Approved Budget (Estimates).
 - (ix) Payments are being made from the appropriate bank account.
 - (x) Carry out other tests as appropriate
6. Where appropriate check one month purchase day book totals to the expense and control account in the General Ledger.
7. Where appropriate list creditor's ledger balances and agree the total to the control account.
8. Trace outstanding balances for payment and establish reasons for long outstanding balances.

15.4 SALARIES AND WAGES

15.4.1 PROCEDURAL TESTS

1. Select two months for detailed examination and scrutinize all salary payments in excess of (say) Tshs.200,000 per month.
2. Prepare list from the personnel records relating to dismissals, new engagements, promotions etc. for detail examination.
3. Specifically check on the statutory deductions of employees' salaries and their remittances to the appropriate authorities e.g. TRA, LAPF.

15.4.2 AUDIT PROCEDURES

4. In respect of history records confirm that permanent employees have countersigned authority for appointment and verify that proper written authorities have been

- completed in respect of new engagements and terminations.
5. Verify that gross salaries including bonuses are in accordance with authorized history records or other evidence and confirm that any changes in salaries have been properly authorized.
 6. For overtime work:
 - (i) Confirm that it has been properly authorized;
 - (ii) Ascertain that all daily overtime sheets are certified by the respective Head of Department and that grand totals for both chargeable hours and amounts payable correspond with those written in the pay-roll.
 - (iii) Test check rate calculations and extension of overtime and examine reasons given for overtime work.
 - (iv) Verify that wages of overtime work sheets are attached to pay-rolls.
 7. Make a list of all employees who have been given staff loans and verify that correct deductions are being made monthly.
 8. Check salaries in advance, other than salary advances and overtime that have been paid out separately and check that the advanced amounts are recorded on the pay-rolls.
 9. Check which staff are renting LGA or public houses and verify that correct deductions in respect of house rent are being deducted from their salaries.
 10. Verify for the selected detail months that the salaries records have been signed or initialed by the persons responsible for:
 - (i) Preparing the payroll/salaries records.
 - (ii) Making up, checking and paying out salaries paid in cash.
 - (iii) Checking the calculations and additions of salary sheets.
 - (iv) Checking or test checking with history cards (records), the names of employees, their rates of pay, deductions and other standard information used in preparing the salaries records.
 - (v) Verify that for the selected detail months, the salaries records have been signed as approved for payment.
 - (vi) Verify for the last selected months that reconciliations of gross salaries with that of the previous pay period has been properly carried out.
 11. Confirm that all statutory deductions have been effected and brought to account.

15.5 VEHICLE REPAIRS AND MAINTENANCE

15.5.1 PROCEDURAL TESTS

1. Make a list of all motor vehicles belonging to the LGA from the Plant or Fixed Assets Register.
2. Confirm that all vehicles are duly registered in the name of the LGA and are accordingly insured.
3. Check the use of such vehicles by scrutinizing the vehicle logbooks.

15.5.2 AUDIT PROCEDURES

4. (i) Analyse cost per mile and fuel consumption per kilometer for all vehicles from monthly Transport Operating Statement and from the Vehicles Services cards kept by the Transport Officer and report on major deviations from normal utilization comment on high maintenance costs and recommend about replacement if necessary.
- (ii) Check purchases of fuel and confirm that satisfactory control exists. Inspect logbooks and verify that they are filled in regularly and according to instructions.
- (iii) Compare details in logbooks with daily transport returns.
- (iv) Select a number of invoices for repair works carried outside and comment on recommendations in work performed and verify that repairs actually were undertaken.

15.6 POSTAGES, FAXES, E-MAIL

15.6.1 PROCEDURAL TESTS

1. Confirm that the Outward Mail Register is completed on a daily basis.
2. Ensure that for any letter posted out, office copies are properly filed and flimsy copies are circulated for general information.

15.6.2 AUDIT PROCEDURES

3. (i) Obtain the Register of Postage Stamps and ensure that all stamps used are for official letters by reference to the flimsy copies of such letters.
- (ii) Count the stamps on hand and report any shortages.
- (iii) Ensure that the stamps used for the period are regularly expensed and posted to the General Ledger under this code.
4. Similarly ensure that faxes sent out are for official duties only by reference to the copies filed in the subject file.

15.7 TELEPHONES

15.7.1 PROCEDURAL TESTS

1. Confirm that the Register of Telephone Trunk Calls is completed on a continuous basis.
2. Confirm that the telephone register is periodically checked by a responsible officer.

15.7.2 AUDIT PROCEDURES

3. (i) Vouch entries in the General Ledger under this code and ascertain that telephone charges relating to telephone in staff houses are recovered from staff members concerned only to the extent of the excess between bill and the telephone subsidy allowed if any per month.
- (ii) Obtain Register of Telephones, examine calls made by staff and ensure that private telephones and trunk calls have been recovered from the staff members concerned.

15.8 FIXED ASSETS

15.8.1 PROCEDURAL TESTS

1. From your examination of purchases, payments and other records linked with the General Ledger, prepare a list of all additions of the councils fixed assets from the beginning of the period under review.
2. From the Register of Fixed Assets, select a few items for physical verification to ascertain that the fixed assets actually do exist.

15.8.2 AUDIT PROCEDURES

3. (i) Review each Fixed Asset Account in the General Ledger from the beginning of the period under review and vouch additions ensuring that vouchers were properly approved and that such expenditure was within the approved Capital Expenditure Budget.
- (ii) Test check physical existence of fixed assets with a selection from the Fixed Assets Register or Inventories and report on deviations.
- (iii) Compare the net values in the Fixed Assets Register with the estimation of the actual value from physical inspection.
- (iv) Report about maintenance and the condition of Fixed Assets.
4. (i) Obtain records of major projects and investigate on their estimated costs and progress and where practicable, physically inspect work in progress.
- (ii) Where projects have been constructed;

- (a) Examine a copy of the contract.
 - (b) Note the conditions and terms of payment.
 - (c) Examine Architects certificates.
- (iii) Ensure that completed works have been transferred to the related Fixed Asset Accounts.
 - (iv) Where capital works have been completed by using the LGA's, Force Account own employees and materials, check that charges for raw materials, wages and appropriate overhead expenses have been capitalized.
 - (v) Determine the adequacy of insurance coverage of all the Council's Fixed Assets.
 - (vi) Ascertain that motor vehicles are registered in the name of the LGA and that title deeds of buildings are in the name of the council.
 - (vii) Analyse the disposal of the Council's assets and ensure that such disposals were approved and that proper adjustments have been carried in the books to disclose the profit or loss on disposal of assets.

15.9 INVESTMENTS

15.9.1 PROCEDURAL TESTS

1. Review each investment account in the General Ledger from the beginning of the period under review and verify acquisitions and disposal if any during the period under review through agreements and contracts and that such acquisitions and disposals have been authorized by the full Council.
2. Examine where applicable, share certificates of all acquired investments during the period under review.

15.9.2 AUDIT PROCEDURES

3. (i) Obtain list of present holdings of investments.
- (ii) Verify purchases and sales of investments during the year.
- (iii) Examine minutes book for proper authorization of purchase or sales.
- (iv) Check on reasonableness to offer or purchase.
- (v) Ensure investment income due is collected and accounted for.

15.10.1 CONTRACTS

PROCEDURAL TESTS

1. Confirm that there is a contract register and that all contracts awarded from the date of the last audit are accordingly recorded in the register.

2. Evaluate the system of calling for tenders and confirm that it is not open for abuse/ in agreement with the provisions of the Public Procurement Act, 2001.

15.10.2 AUDIT PROCEDURES

3.
 - (i) Ensure that all tenders awarded were subjected to invitation in the correct media.
 - (ii) Assess and evaluate the reasonableness of the time allowed for response.
 - (iii) Examine quotations from respondents and ensure that no insertions have been entered by other parties.
 - (iv) Ensure that there was no extra cost to the Council owing to the rejection of the lowest tender for no good reason or owing to delay in accepting the tender.
 - (v) Ascertain that the contract did not provide unwarranted financial aid to the contractor by way of plant advances and/or mobilization expenses and other “on account” payments.
 - (vi) Where appropriate, confirm that all interim payments are supported by certified statements of works completed and material on site.
 - (vi) Ascertain that payments made to the contractor did not exceed the contract sum and where such is the case, the amount in excess is covered by a variation order and the variation order is appropriately recorded and approved.
 - (viii) Confirm that the contract was completed on due date, and where such is not the case, ascertain that the contractor was granted an extension of time on grounds of “force majeure” e.g. exceptionally bad weather and if not liquidation damages were made and/or recovered.
 - (ix) Investigate instances of wasteful and/or unproductive expenditure on account of abandonment of work or due to change in site and ascertain that change in site did not reduce the contractors volume of work e.g. the extent needed.
 - (x) Ascertain that the retention portion of the contract sum was not refunded before the expiry of the retention period, which is normally six months from the date of project handover.
 - (xi) Confirm that there was no delay in handing over in the case of buildings and where such is the case, assess the loss revenue lost through rental opportunities and/or expenditure through continued renting of alternative premises.

15.11 SAFARI IMPRESTS

15.11.1 PROCEDURAL TESTS

1. Confirm that there is in existence an Imprest Register and that the Register is up to date.
2. Ensure that no imprest is approved prior to all retirement of outstanding previous imprests.

15.11.2 AUDIT PROCEDURES

- (i) Ascertain that safari imprests are given to approved safaris only and that the activities to be undertaken are within the Council's approved Annual Budget.
- (ii) Ensure that retirements are made within the approved period.
- (iii) Confirm that expenses covered under the imprest are correctly allocated in the relevant expenditure codes.
- (iv) Note any instances of misallocation of resources.
- (v) Ascertain that imprest retirement is supported by an Approved Safari report by the appropriate Head together with all supporting documentation.
- (vi) Where air tickets have been used, ensure that retirement of air tickets is supported by the appropriate Boarding Pass.

15.12 ADVANCES

1. LGAs issue advances to their employees.. The Auditor should have a checklist of all advances issued during the respective period.

15.12.1 AUDIT PROCEDURES

2.
 - (i) Check all new advances to the Control Cards or Advances Register in detail and check with individual cards for two months from the date of the last audit inspection.
 - (ii) Verify the agreements and check with the relevant records of the individual cards in detail.
 - (iii) Check from the individual cards with the recoveries (which are paid to the authority granting the advance monthly) for one month in detail.

15.13 SITTING ALLOWANCES

15.13.1 PROCEDURAL TESTS

1. Review calendar of council meetings.

2. Prepare a list of council meetings scheduled for a certain number of days that have extended beyond the approved period.

15.13.2 AUDIT PROCEDURES

3.
 - (a) Ascertain that members present have signed an attendance list.
 - (b) Ensure that only members present in the meeting were paid sitting allowances.
 - (c) Where meetings have extended beyond the approved period or circumstances warranting the extension, the necessary approval was granted.
 - (d) Ensure that all scheduled meetings were carried out as approved and where scheduled meetings were omitted or postponed, inquire and evaluate the reasons for omission or postponement.
 - (e) From council minutes and matters arising, ensure that resolutions made by the meeting have been implemented.

15.14 SPECIMEN AUDIT TESTS

15.14.1 Audit Test For Controls Over Expenditure

Fieldwork Ref. _____

Date: _____

| Audit task | Yes/No (v/x) | Remarks* | Initials |
|---|-----------------|----------|----------|
| To carry out audit procedures to verify whether: | | | |
| (a) Control over cash purchase transactions | | | |
| 1. There are sound controls over requisitioning of goods and services (from stores), including authorizations of the appropriate forms as per LGFR. | | | |
| 2. All goods and services consumed in the ordinary course of operation were originally requisitioned (from stores) and was sanctioned. | | | |
| 3. All purchase orders are properly executed and signed including the processing of LPOs; | | | |
| 4. Goods received are properly counted and confirmed with orders as to quality and quantity before being entered into stores. | | | |
| 5. The stores records accounting records and the Creditor's Control Account are timely update; | | | |
| (b) Recording | | | |
| 6. There is full recognition and adequate documentation of claims and liabilities owed and a sound PDB is kept; | | | |
| 7. There is an independent verification of supplier's invoices with internally generated records including footings and extensions; | | | |
| 8. Posting to the Trade Creditors Control Account are promptly and correctly (from the PDB); | | | |
| 9. The computer programmed checks are in agreement with established controls for claims processed and recorded; | | | |
| 10. There is adequate segregation of duties in respect of the purchase transaction and recording of those transactions including restriction to authorized access to record and computer programme; | | | |
| 11. The Creditors' Control Account is regularly checked with the unpaid vouchers and outstanding claims and that the balance is confirmed with the General Ledger | | | |
| 12. Payment vouchers in respect of goods and services ordered are matched with supplier's invoices, delivery notes and goods received notes. | | | |
| 13. All supporting documentation in respect of payments processed are cancelled with a Paid Stamp. | | | |
| 14. All payments to suppliers, creditors, resources persons, staff and all others are made out of the appropriate bank using bank cheques. | | | |
| 15. All payments are made as and when due and that advantage is taken for discounts offered by suppliers. | | | |
| 16. All payment vouchers are pre numbered and correctly signed as per the Regulations. | | | |
| 17. Payment vouchers are filed chronologically in box files along with the relevant | | | |

| | | | |
|--|--|--|--|
| (cancelled) supporting documents. The box files are properly labelled and indexed for easy identification of period of the transactions. | | | |
|--|--|--|--|

Agreed Action Plan:

Signed by Client

Signature

Date

Signed by Internal Auditor

Signature

Date

Fieldwork Ref. _____

Date: _____

| Audit Task | Yes/ No (Y/ X) | Remarks* | |
|--|---------------------------|-----------------|--|
| <p>To carry out audit procedures to verify whether</p> <p>(a) Payroll transactions</p> <ol style="list-style-type: none"> 1. There is a list of employees of the LGA employed on the basis of an approved Scheme of Services of the LGA; 2. In case of temporary staff, there is a list of temporary (or casual labourers) approved by the Council Director; 3. There is a sound attendance register for all employees and that there is compliance as to employee attendance; 4. The payroll has been correctly prepared and amounts correctly computed using correct rates of basic salary; overtime, and other allowances; 5. Amounts written on payment vouchers and bank instructions are correct and in order in all respects; 6. The payroll bill is correctly posted into the payroll records each month; 7. Accrued payroll liability represents the legal obligation payable to the stated employees; <p>(b) Statutory Deductions</p> <ol style="list-style-type: none"> 8. That statutory deductions such as payroll tax pension contribution, payroll/housing levy, and development levy are correctly computed using the applicable rates for each individual staff member 9. That there are sound records for statutory deductions made from the payroll and that remissions are effected promptly; 10. That the amounts recorded as payable in respect of statutory deductions represent the legal claims under the relevant legislations. <p>(c) Other Deductions</p> <ol style="list-style-type: none"> 11. That other deductions such as house rent, loans advances, credit union, etc are correctly computed using the rates and/ or amounts approved; 12. That there are sound records for these deductions made and/or arising from the payroll and that relevant remissions are made promptly; 13. That there are sound records for these deductions made and/or arising from the payroll and that relevant remissions are made promptly; 14. That the amounts recorded as payable in respect of other payroll deductions represent the legal and/or correct claims under the relevant provisions of the Staff Regulations. | | | |

| | |
|---|---|
| Agreed Action Plan: | |
| Signed by Client _____ Signature Date | Signed by Internal Auditor _____ Signature Date |

16.CONTROLS OVER BANK AND CASH BALANCES

16.1 AUDIT OBJECTIVES

To ensure that the procedures are in place and operating effectively to ensure bank and cash balances are properly safeguarded and recorded in the Books of Account.

Controls over receipts of revenue and payments have been covered in the previous chapters. In this chapter we deal with the controls over the balances as well as petty cash payments.

Because of its sensitive nature the controls over cash and bank balances should be audited more frequently than other areas.

16.2 MAINTENANCE OF THE CASH BOOK

1. The Internal Auditor should frequently inspect the cash books to ensure that:
 - They are written up to date (transactions up to the previous evening should be entered).
 - They are appropriately balanced at the end of each month.
 - The analysis has been properly posted into the general ledger.
 - They are mathematically correct.
2. Check the sequence of the cheque numbers in the period selected.
3. Inspect the returned cheques from the bank to ensure that the details on the cheques are the same as those in the cash book, the signatures are correct, the cheques are crossed and they have not been endorsed to third parties.
4. Enquire into any missing numbers and confirm that spoiled cheques have been properly cancelled.
5. Verify by reference to the Register of Cheque Books the cheque number that should have been in current use at the time.
6. Trace transfers to other bank accounts and or petty cash in the period selected into the Cash Book concerned. Investigate transfers to ensure that the LGA is not misusing Government Grants or other funds by transferring funds from the sectoral or project accounts to the General Fund.

16.3 CONTROL OVER CHEQUE BOOKS

Cheque books are accountable documents and must be kept securely. The Internal Auditor should regularly check the accountable documents register to ensure that it is properly maintained to safeguard the unused cheque books, through the recording of those issued and the balance in stock.

The Internal Auditor should also investigate the procedures for storing and accessing issued cheque books to ensure that they cannot be misused.

16.4 CHEQUE SIGNATORIES

The Internal Auditor should ensure that the cheque signatories in operation:

- Conform with Regulations
- Have been approved by Council resolution
- Have provided specimen signatures to the Internal Auditor.

16.5 BANK RECONCILIATION

16.5.1 Procedural Tests

- Scrutinize bank pay-in-slips made on the first day of the week.
- Examine the internal control system for banking of third party cheques.

16.5.2 Audit Procedures

1. Every month the LGA is required to prepare a bank reconciliation to verify the LGA cash book balances with those on the Bank Statements. The following test should be carried out on the bank reconciliations balances with as follows:
 - (i) Ensure that the Bank reconciliation adds up.
 - (ii) Verify the reconciling items that should be listed with the bank reconciliation.
 - (iii) Verify any contra items appearing in the Cash Book or Bank Statement for the month in question.
 - (iv) Test the items in the reconciliation appearing in the month preceding the month in question and check through subsequent months to the end of the month being dealt with to ensure that all items have been cleared and that there are no old reconciling items.
 - (v) Ensure that all stale cheques are written back.
 - (vi) Obtain written confirmation from the bank as to the balances on the accounts to ensure that the bank statements have not been falsified.
2. Verify and confirm that Reconciliation Statements are prepared throughout the period under Audit, within 10 days of the month end to which they relate
3. Verify and confirm that such bank reconciliation statements are properly prepared, and signed as checked by the Treasurer office and are properly filed.

16.6 PETTY CASH

16.6.1 Procedural Tests

1. Examine the system of internal control for petty cash.

2. Scrutinize all petty cash payments exceeding the authorized limits.

16.6.2 Audit Procedures

1. Verify the Petty Cash expenditure for the period selected in 15.3.1 above.
2. See that Petty Cash vouchers inspected have been properly authorized and cancelled "PAID" and that the limit fixed for individual payments has not been exceeded.
3. Ascertain that the Petty Cash book is periodically examined and the balances verified and that this is properly evidenced.
4. Confirm that the Petty Cash Book is signed and/or initialed as examined and approved when the float is reimbursed.
5. See that the Petty Cash float is reasonable having due regard to the level of expenses.
6. Check additions of Petty 'cash and Cash Books for the selected period.
7. Check the postings to the Ledger for the selected months and confirm their correct allocations.

15.5 CASH SURVEY

16.5.1 PROCEDURAL TESTS

1. Scrutinize cash holding balances at the end of week.
2. Verify and reconcile cash banking on the first of the week.

15.5.2 AUDIT PROCEDURES

3. Survey any cash on hand and endorse your findings in the Cash Book.
4. Check one-month receipts issued since the date of the last inspection from the book copies to the Bank Statements via the Cash Books and Paying-in-slips.
5. Check all payments made since the last audit inspection from the Cash Books to the Bank Statements and/or Bank Reconciliation Statement.
6. Post Cash Book to Ledger accounts for three months.
7. Reconcile the bank accounts for the previous month and the current month of audit.
8. Check and balance the Cash Book for the previous month and the current month of audit.

17.CONTROL OVER STORES

17.1 INTRODUCTION

Stores Audit is important in LGAs. This is true considering that at least 40% of council financial resources can be translated into one from of stock or another. Expenditure in stocks represents one of at core areas where waste, pilferage and abuse is usually common. In the paragraphs that follow, the salient features in stock audit have been described albeit briefly.

At the beginning of the assignment, the Internal Auditor will have to address the following issues.

- | | | | |
|-----|-------------------------------------|---|--|
| (a) | Stores | - | It is expected to mention the Store presently being inspected. |
| (b) | Division | - | Under which division of the LGA does the store fall. |
| (c) | Station | - | Where is the Store located? Mention the place. Street number etc. |
| (d) | Officer Responsible responsible for | - | Mention the names of those officers that store. |
| | | - | District Education Officer; District Medical Officers etc. |
| | | - | Storekeepers concerned. |
| (e) | Date of last Inspection | - | Here briefly mention the date of last inspection |
| (f) | Auditor | - | Mention the name of the person doing the audit this time. The sole purpose of mentioning the name is to ensure that at least not the same staff should inspect the same store every time. This will give equal experience opportunities to every Auditor in the LGA. |

17.2 DETAILED WORK

17.2.1 Stores Records

1. Mention briefly the type of ledgers in use, whether cards etc. It should be noted that the quantity of stocks held will always demand relevant ledgers. E.g. Kalamazoo book bound, loose leaves or Roneo cards for that matter. Do not query what sort of ledger should be used. Query on their suitability for the intended purpose.
2. Report on their maintenance and detect, the following: -
 - (i) Mathematical errors due to additions, subtractions.

- (ii) Omissions i.e. entries which ought to have been entered have completely been omitted for any purpose.
- (iii) Mis-postings - i.e. items which ought to have been posted to e.g. rubber tipped pencils folio have been posted to non-rubber-lipped pencils.

N.B. It may be observed frequently that deficiency of one item is balanced by surplus of the other item of similar characteristics but may differ in size, colour etc. Usually Storekeepers jump into concluding that this is correlation. Conditions of correlations are: -

- That the two items are similar in every aspect and the difference cannot be easily identified. E.g. Screws of 1" and 3/4" when placed nearby, a Storekeeper could easily mistake 3/4" for 1" screw when issuing or receiving.
 - That the quantity surplus in one Bin is equal to the quantity deficiency in another. E.g. - Deficiency of 1" screws of 100 kgs is balanced by a surplus of 100 kg of screws of 3/4". Otherwise one is a deficiency and the other a surplus not correlation.
 - A thorough investigation must be made to detect the source of the surplus or deficiency and correlation should be a last resort after exhausting all other efforts of investigation. The proper officer should personally and in writing authorize adjustment of correlation errors otherwise it will be subject to query.
- (iv) Over posting - note any incidences where amount posted to the Ledgers has exceeded in quantity and value of amount in the Delivery Notes.

3. Tally Bin Cards

The purpose of these cards is:

- (i) To help the Storekeeper to identify the stocks needed without much difficulty in efforts to save time.
- (ii) To record the receipts and issues in supplement to the Ledgers.
- (iii) To enable the Storekeeper to recall any discrepancy without looking into the Ledger and hence reconcile where necessary.

It is expected that to have cross-references between the Ledgers and the Tally/Bin Cards, the Ledger should be able to show exact location of the stocks required and the Bin Cards should show the folio or code of the stock concerned. It should not be expected that Cash Invoices shall be recorded in Tally Cards/Bin Cards.

4. Receipts

- (i) Check to ascertain that all the receipts have been properly accounted for.
- (ii) It is important to ensure that receipt vouchers i.e. Consignment Notes, Way

Bills, Purchase Orders, etc. should be filed chronologically for each financial year for ease of reference to Ledgers.

- (iii) Issues - Ensure that all issues are supported by relevant documents and both issuing and receiving officers should accept the responsibility of the issues.
 - (iv) Under posting - note incidences where amount stated in the delivery notes is more than that recorded in the Ledger.
 - (v) Note incidences of unauthorized issues i.e. issues in the Ledger that have not been supported by issue vouchers.
 - (vi) Note receipts which have no supporting documents e.g. Delivery Orders, Way Bills, Local Purchase Orders, Consignment Notes, etc.
 - (vii) Any receipt or issue which cannot be satisfactorily explained should be queried.
5. When one folio of the Ledger is closed, all receipts should be added and form the total issues of that page. The balance should be transferred to the new folio. The purpose is both to check the accuracy of the folio and to reconcile with the records e.g. Tally Bin Cards, Physical Stocks etc. This is how any Ledger folio should be ruled off and at every end of fiscal year. This will enable the Storekeeper to ascertain how much has been consumed during the past period in order to forecast her/his provisions accurately for the coming period.

6. Inventories

In warehouses the Internal Auditor is expected to do exercises of stock control (i.e. regulating inputs and outputs) by ensuring the most economic ordering levels, taking into consideration lead times, etc. A Warehouse Inventory Control can also mean Stock Control. It should be further noted that to order excessive stocks for which the Council is not certain in their consumption is sheer waste of its meagre capital which could be invested more profitably elsewhere. At the same time, ordering too little is uneconomic in the sense that the council will have to spend so much time and money in ordering small quantities. This is again sheer waste of money. But every case should be considered on its own merits.

Issues without Issuing Officer's signature means that the issues have not been authorized. Similarly, issues without recipient's signature could be regarded as fake. All issues should be signed by at least two different persons.

Just like Receipts, Issue Vouchers should equally be chronologically filed, cross-referenced and serially numbered.

Where the Internal Auditor suspects the rate of consumption he/she should make test checks on utilization accounts. Any unaccountability should be queried.

17.2.2 Audit Report On Stocks

Report when last was the audit check conducted and whether queries related to supplies function have been dealt with satisfactorily. Further, ascertain action taken to curb

occurrences of such irregularities in future.

Although it may not be practicable to verify all the stock, efforts should be made to inspect at least 50% in order to get a good sample of the affairs of the stores position. Efforts should be made to verify most of the attractive and big value stocks and fast moving ones.

When auditing stocks it may be necessary to note the following: -

- (i) All items checked.
- (ii) All items on charge.
- (iii) Total number of discrepancies noted.
- (iv) Number of surpluses and their value in monetary terms.
- (vi) Number of deficiencies and their value in monetary terms.

Schedule of discrepancies should bear the signature of both the Storekeeper in charge and the Internal Auditor and form a separate appendix.

17.2.3 Obsolete/Dormant Stock

Report on dormant, slow moving, obsolete stocks. Reasons for dormancy should always be stated e.g. expiry of usage time in case of drugs, films, etc. It should be noted that if dormancy is due to negligence of the officers concerned, then this should be queried. Obsolescence due to change of model cannot be avoided. Obsolescence due to negligence of not disposing off the stocks in required time should equally be queried. Similarly, for redundancy i.e. surplus to normal requirement and unserviceable stock should be taken into account. The internal auditor should be able to recommend the most economical manner of disposal of unwanted stock after consulting respective officers.

Serviceability of stocks - list all unserviceable stocks and value them, compile a separate schedule of such stock and the nature of their unserviceability. If the nature is due to negligence please query.

17.2.4 Layout And Conditions Of Stores

In any Warehouse, it is important to locate the wanted stocks without much difficulty. So, if the system of location is such that it takes unnecessarily long time to locate single items then recommend on improvements.

- (i) Report on accommodation of stocks whether you consider them adequate or not.
- (ii) Cleanliness of the stocks should be reported since dust is in most cases harmful to stocks as it could render them unserviceable. Please query where you consider due care and attention has not been given to the Council's stocks.
- (iii) Report on security arrangements in force, fire precautions and whether you consider them adequate. If inadequate, please recommend a suitable model.

in this paragraph if you consider necessary otherwise, all recommendations should be embodied in respective paragraphs.

17.2.9 After Inspection Of Any Store:

Bring to the attention of those concerned any major observations noted by the internal auditor to the: -

- (i) Council Director
- (ii) Treasurer
- (iii) The In-charge of the Store etc.

- (iv) Report on the buildings as a whole e.g. - ventilation, material handling equipment, storage equipment, safety of workers in the Warehouse, sufficient light and general tidiness of the shed.

17.2.5 Random Purchase

- (i) Check on frequencies of small order quantities as these may be very dear in the long run compared to larger less frequent orders. If you consider the situation unsatisfactory please give sound reasons and recommend a suitable system.
- (ii) It is expected that all purchases will be made after successful quotations have been obtained. Thus, only successful vendors should be awarded Tenders. Care should be taken that the lowest/tender quotation is not necessarily the most economical - in fact it could be the most expensive. So try to weigh on the quality and also the price. Do not be lured by the highest bidder. If you consider the quality is the same with the lowest, do not be attracted by the lowest after all her/his quality may be inferior.

Have in mind that the word quality only means the degree of excellency suitable for intended purposes. This does neither mean the highest nor the lowest quantity is good. The best principle should always be the most reasonable price in consistency with the quality, but if you consider the goods so procured are of inferior quality then the price they warrant or the sample received please query.

- (iii) All purchases which can neither be accounted for in the Ledgers or no utilization account has been maintained in their respect should be queried.
- (iv) Purchases for direct issues should be properly scrutinized to ensure that their utilization is for the purposes intended. Otherwise please query.
- (v) It should be remembered however, that in monopolistic situations i.e. where there is only one Supplier by law or patent rights, the point of seeking quotations should be ruled out since it will never be practicable to secure competitive prices.

Thus, it will be expected that the buyer should play vigorous part in negotiating the correct price without jeopardizing the quality of the Councils products and services.

17.2.6 Handling/Taking Over

Report on the last handing/taking over certificate and ascertain whether there was a proper take over/hand over of the store.

17.2.7 Other Matters

Where the internal auditor considers necessary, include in this paragraph any relevant matter which has not been covered in the proceeding paragraphs. The internal auditor may summarise all the losses and unaccountable stock in this paragraph.

17.2.8 Recommendation

Record the internal auditor's recommendations to effect improvement of supplies function

in this paragraph if you consider necessary otherwise, all recommendations should be embodied in respective paragraphs.

17.2.9 After Inspection Of Any Store:

Bring to the attention of those concerned any major observations noted by the internal auditor to the: -

- (i) Council Director
- (ii) Treasurer
- (iii) The In-charge of the Store etc.

18.AUDIT PROCEDURES WHERE IRREGULARITIES/FRAUD IS SUSPECTED

18.1 INTRODUCTION

Auditors will only have limited opportunity to gain experience in fraud investigation and any such investigation requires specialised knowledge and techniques. There can be no pre-determined rules since each fraud is different, but basic knowledge of the related law is vital.

Fraud investigation needs tact, and a determination to establish the truth as quickly as possible in the interests of both employer and employee. Evidence in the defendant's favour must not be overlooked and there is a great need for flexibility and originality of approach by the auditor in any fraud investigation.

Financial regulations cover the action to be taken when fraudulent circumstances are suspected and every employee of the LGA must be aware of their responsibilities and required actions should a fraud be suspected.

18.2 PROCEDURES

The internal auditor must investigate and establish the extent of fraud. Information may come to light through routine audits or from third parties. If possible, two auditors should be present at all stages of a fraud investigation.

If there are grounds for suspecting a fraud then:

- (a) Check all facts again.
- (b) Retain all records which appear relevant.
- (c) Establish the area of possible fraud given the responsibilities/duties of the suspect.
- (d) Ensure that the Internal Auditor is informed before any action is taken.

A suspected cash deficiency means an immediate 'cashing-up' clearly documented for future reference.

18.3 FRAUD INVESTIGATION

Once the prima facie evidence for a fraud exists, then senior management will be informed and a decision made upon police involvement.

The Council Director will have a link with local police officers and the value of their advice should not be underrated nor their skill in interrogating a person suspected of a fraud. It may well save the Internal Audit a great deal of time and trouble. The Internal Auditor's judgement will determine the time of any police entry into the investigation after consultation with the Council Director but in the majority of cases it should be before any interviewing of possible suspects is made by an auditor.

18.4 PLANNING AND CONDUCTING A FORMAL INTERVIEW

If the police do not take over at an early stage the audit section will be required to interview the suspects. Should this prove to be the case then the matter will be fully discussed with the Internal auditor and the following procedures followed:

- (a) Questions should be written down in advance or at least a written check list of information required.
- (b) The time and place of interview should be carefully considered to avoid interruptions and the chance for the interviewee to 'invent' his/her explanation during a break.
- (c) The interviewee may request union representation but only as an observer since at this stage this is not a disciplinary hearing.
- (d) Notes should be made of all necessary points and the auditor must make it clear that he/she is conducting the interview and not the representative from the suspect's department.
- (e) Care should be taken in framing the questions and no action that could be construed as duress by the interviewee must take place.
- (f) Once the auditors decide that there is a case to answer then the interview must be concluded and the suspect should not be pressed to make a statement.

Audit staff may well encounter suspected frauds or thefts whilst carrying out normal audit duties. If they suspect something of this nature has taken place they must immediately inform the Internal Auditor or in her/his absence the Director who will then decide the procedure to be taken.

18.5 ACTION AFTER THE INTERVIEW WHICH HAS PROVIDED REASONABLE GROUNDS FOR SUSPECTING A FRAUDULENT OFFENCE HAS OCCURRED

Action as follows will normally involve the Internal Auditor or the Director's nominated representative:

- (a) The relevant officer will invoke the LGA's disciplinary procedure, which might include the suspension of the employee.
- (b) The auditor must ensure that access to records that may have a bearing on the case is restricted. Where the employee is suspended the auditor should ensure that he/she is escorted from the building.
- (c) Inform external audit.
- (d) Review system through the Audit Questionnaires and procedures and recommend changes to ensure that the controls are strengthened.
- (e) Record irregularities on files,

- (f) Ensure that the possibility of recovering the loss is not overlooked, e.g. possibly by court order or perhaps voluntarily before the case goes to court.

18.6 AUDITOR PROSECUTION WITNESS

If the fraud is prosecuted in a court of law, the auditor may be called as a prosecution witness. This is rare if the accused pleads guilty or if it is in a magistrates' court where written evidence is usually the manner of working.

The auditor will have made a 'statement of witness' to the police and should retain a copy. Careful thought must be given in answering any questions and the auditor must anticipate efforts to discredit him and her/his evidence by the defence lawyers. Normally the auditor will seek advice of the Council's Legal Adviser and the Council Director.

18.7 RECORDING INFORMATION

Great care must be taken in recording all information when involved in an investigation of a suspected irregularity.

19. PERFORMANCE AUDITS - VALUE FOR MONEY AUDITS

19.1 INTRODUCTION

Performance audits/reviews or Value for Money Audits as it is sometimes referred to is a form of operational auditing where management requires the Internal Auditor to extend her/his traditional function into the three E's - Economy, Efficiency and Effectiveness.

Value for Money Audit is generally taken to mean the pursuit of economy, efficiency and effectiveness but under varying degrees of emphasis. Economy means the achievement of a given result with the lowest input of resources.

Effectiveness on the other hand refers to the degree of success in achieving objectives.

Efficiency refers to the ratio between input and outputs and is therefore a relative rather than an absolute measure.

19.2 ECONOMY, EFFICIENCY AND EFFECTIVENESS

The three E's, Economy, Efficiency and Effectiveness have attracted a great deal of interest in connection with Value for Money Studies as an aspect of stewardship and public accountability.

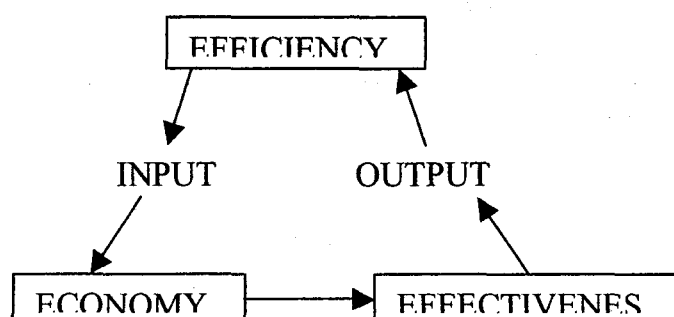
Economy means the achievement of a given level of results with the lowest input of resources, that is to say, obtaining inputs of the right quality at the lowest possible cost.

With regard to efficiency it is more often than not measured by the ratio between inputs and outputs, providing a relative rather than an absolute measure. Efficiency is thus directed towards the production of the greatest useful output from a given level of inputs.

Effectiveness on the other hand, refers to the degree of success in attaining or realizing objectives. Thus effectiveness is primarily concerned with the achievement of programme objectives, both quantitatively and qualitatively.

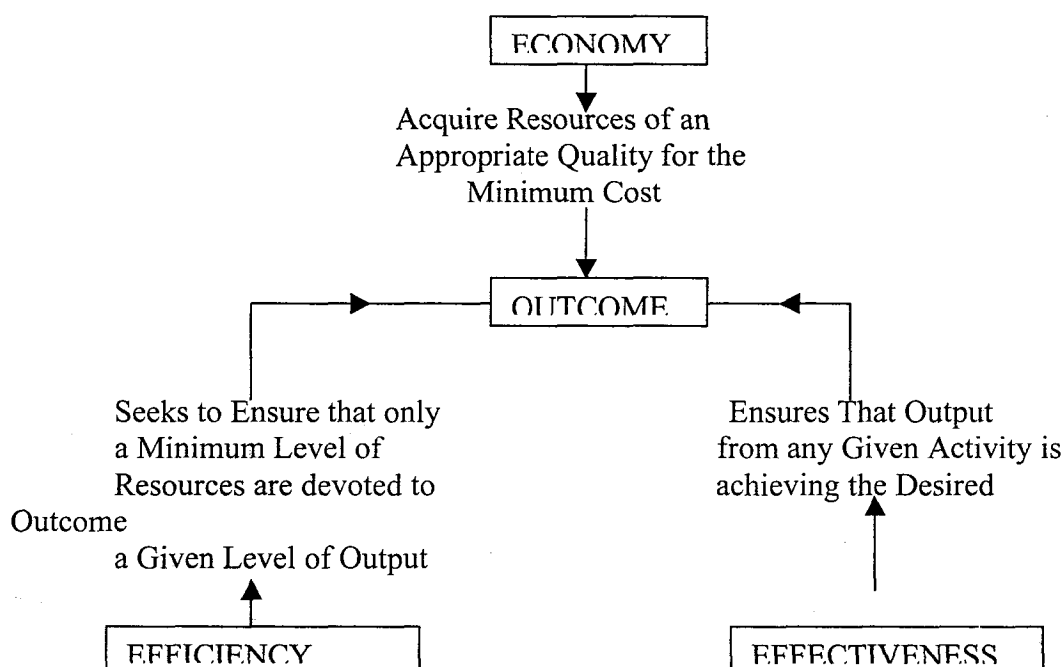
The relationship between the three E's may be illustrated as shown in Figure 8 -A below.

ILLUSTRATION 8 - A
RELATIONSHIPS BETWEEN ECONOMY, EFFICIENCY AND
EFFECTIVENESS



It is generally accepted that Economy, Efficiency and Effectiveness comprise essentially the three key elements when attesting value for money. The three E's interact in a number of ways and in achieving Value for Money (VFM) trade-offs are sometimes accepted as legitimate and unavoidable by management. The interactions and possible trade-offs are illustrated in Illustration 8 - B below.

ILLUSTRATION 8 - B INTERACTONS OF THE THREE E'S AND POSSIBLE TRADE-OFFS BY MANAGEMENT



All the 3 E's embody **relationships** between costs, resources, inputs, outputs and outcomes. In addition, the 3 E's are **processes**, not events, as all the 3 E's contain **assumptions** about values and a desired state of affairs.

19.3 THE LEGAL BACKING OF VALUE FOR MONEY AUDITING

The legal framework of Value For Money auditing emanates from the provisions of Section 33 of the Public Finance Act No. 6 of 2001. That section of the law requires that the Controller and Auditor General for the purposes of establishing the economy, efficiency and effectiveness of any expenditure or use of resources by any Ministry, or Department in respect of which Appropriation Accounts are required to be prepared under this Act to conduct value for money audits.

19.4 IMPLEMENTING VALUE FOR MONEY AUDIT

19.4.1 EVALUATION OF THE BUDGETTING PROCESS

(a) Procedural Tests

- (i) Enquire whether or not the MTEF, planning and budget were received, discussed and understood by all members of the Management.
- (ii) Verify whether departments prepared their Plans and Budgets on the basis of the Guidelines for consolidation by the Council Treasurer.
- (iii) Ensure, that the O&OD participatory budgeting guidelines were transmitted to the lower level of Government units and the lower local government units' priorities were taken into consideration at the Council level.

(b) Audit Procedures

- (i) Obtain original department plans and budgets and compare with the approved Council Budget to ensure that departments were consulted for any cuts/ variations.
- (ii) Review critically the objectives of the council to ensure that they match the national overall objectives as expressed in the National Vision 2025 and the National Strategy for Growth and Reduction of Poverty (NSGRP).
- (iii) Examine the ward and village local priorities submitted to the Council noting the extent to which these were taken into consideration by the Council Management Team.
- (iv) Examine the advice given to the Council by the Regional Secretariat and assess the extent to which the advice was taken into consideration.

19.4.2 ASSESSMENT OF PERFORMANCE INDICATORS

(a) Procedure Tests

- (i) Ascertain that the process for formulation of the indicators demonstrated and supports a high level degree of commitment for all staff.
- (ii) Ensure that the approach adopted allows for staff participation both rank and file.
- (iii) Ascertain that the process of indicator design addresses the relevance of specific tasks performed.

(b) Audit Procedures

- (i) Verify the existence of responsibility of performance at all levels of the LGA.
- (ii) Ensure that indicators focus on key-user related and climate setting objectives

- (iii) Review annual operational plan to assess whether or not targets are sufficiently challenging.
- (iv) Evaluate the reliability of information for assessment of performance.
- (v) Ensure that there are mechanisms for linking feedback to targets.

19.4.3 PERFORMANCE EVALUATION

(a) Procedural Tests

- (i) Ensure that management has in place a designated calendar for periodic review
- (ii) Ascertain the existence of thresholds requiring management for off standard performance

(b) Audit Procedure

- (i) Review all instances of off-budget performance.
- (ii) Verify reasons given by management justifying off-budget performance.
- (iii) Benchmark attained performance with nearby Council Performance.

19.4.4 REPORTING STRUCTURE AND FEEDBACK

(a) Procedural Tests

- (i) Enquire on whether or not performance reports are prepared and circulated and discussed by the Council Management Team.
- (ii) Verify whether recommendations in these reports are routinely acted upon.
- (iii) Note the frequency of such review and reports.

(b) Audit Procedures

- (i) Review the contents of the Report and ensure that reasons for off-standard performance is well and sufficiently articulated.
- (ii) Follow-up to ascertain that recommendations in these reports are taken up by the relevant officials.
- (iii) Confirm that the management team owns recommendations made in these reports.

20. PROCUREMENT AUDITS

20.1 INTRODUCTION

Procurement includes the acquisitions of both goods and services, thus embracing not only purchasing - buying of goods- but also the hiring of contractor or consultants to carry out services.

The functional scope of procurement covers:

- (a) Specification of kind and quality of goods or services to be acquired;
- (b) Investigation of the market for supply, and contracts with potential suppliers;
- (c) Placing the order or contract, including negotiation of terms;
- (d) Supervising delivery and performance;
- (e) Taking necessary action in the event of inadequate performance;
- (f) Payment; and
- (g) Dealing with disputes.

20.2 THE LEGAL FRAMEWORK OF PROCUREMENT AUDIT

The legal framework of procurement audit in the public sector emanates from section 19 (2) of the Public Procurement Act No. 3 of 2001 in which the auditor of every public body shall in her/his annual report state whether or not the procurement in the public body has been done in accordance with the requirements of the law.

20.3 IMPLEMENTING PROCUREMENT AUDIT

20.3.1 PROCEDURAL TESTS

- (1) Review the MTEF to ensure that provision has been provided for procurement to meet requirements of service delivery improvement plan; capacity building and capital investment plan.
- (2) Ascertain that the procurement plan is in agreement with National Vision 2025 and the National Strategy for Growth and Reduction of Poverty (NSGRP).
- (3) Ascertain that all the Council's procurement has complied with the requirements of the Public Procurement Act 2001 together with the relevant regulations i.e. the Local Government (Selection and Employment of Consultants) Regulations (Government Notice No. 48 of 2003) and the Local Government (Procurement of Goods and Works) Regulations (Government Notice No. 49 of 2003).

20.3.2 AUDIT PROCEDURES

- (4) (a) Verify that departmental procurement priorities have been included in the council plan.
- (b) Where department procurement priorities have been varied, ensure that department were consulted in approving the changes;
- (c) Ascertain needs/ requirements item by item to ensure that there is no extravagance.

20.4 PROCUREMENT BUDGETING

20.4.1 PROCEDURAL TESTS

- (1) Ascertain public access of the procurement budget;
- (2) Ensure the existence of adequate disclosure of contents of the procurement budget.
- (3) Verify the extent to which attention is given to procurement budgetary policies.

20.4.2 AUDIT PROCEDURES

- (4) (a) Verify that all procurement budget items are covered in the Procurement Plain
- (b) Verify the pricing system used in order to ascertain that a realistic procurement budget was adhered to.
- (c) Match quarterly procurement budgets cash requirement with council cash flow to ensure that budgets agree with available cash.
- (d) Verify the existence of periodic follow up to ensure that actual expenditure is in agreement with actual expenditure and variations are explained to satisfaction of the policy organ.

20.5 PROCUREMENT PROCESS

20.5.1 PROCEDURAL TESTS

- (1) Verify all procurement is on competitive basis and where other alternatives have been applied, the reasons for departure have been provided.
- (2) Verify that all planned procurement is covered by a budgetary provision.
- (3) Verify that all the Council's procurement has had the appropriate authorization and limits have been observed

20.5.2 AUDIT PROCEDURES

- (4) (a) Ascertain that all invitation for bids have the approval of Council Tender Board;
- (b) Verify that the tender procedures accorded equal opportunity to all prospective suppliers, contractors or consultants as the case may be;
- (c) Establish that there was fairness of treatment to all parties in the processing of the tender documents;
- (d) Establish whether the Council's procurement has lead the Council obtaining the best value for money in terms of price, quality and delivery having regard to set specifications and criteria;
- (e) Verify that invitations to bid have been accorded the minimum period allowed;
- (f) Ensure that tender responses have been evaluated as per regulation and bid opening was regular in all respects;
- (g) Assess final contract award to ensure it is in accordance with regulations.

20.6 PROCUREMENT RECORDS

20.6.1 PROCEDURAL TESTS

- (1) Enquire whether or not procurement records are in place and under the custody of a specified individual;
- (2) Verify whether such records are inspected by a senior official and determine the frequency of such inspections.

20.6.2 AUDIT PROCEDURES

- (3) (a) Ensure that separate registers are maintained to record Council Director's and Head of Department's procurement within their allowed ceilings in respect of works and goods as well as consultancy services.
- (b) Ascertain that ceilings have not been exceeded and that procurement lots have not been broken down to avoid the need for tendering.
- (c) With regard to construction projects, ensure that all variation orders have been booked in a register maintained for that purpose and that necessary approvals have been sought.
- (d) Ensure that all variation orders have been brought to the attention of the Council Tender Board and that the need for these variation orders is justified.

17.7 PROCUREMENT REPORTS AND FEEDBACK

20.7.1 PROCEDURAL TESTS

- (1) Enquire whether or not monthly, quarterly and annual procurement reports are routinely prepared and brought to the attention of the Council Tender Board.
- (2) Verify whether such reports are circulated to appropriate stakeholders .

20.7.2 AUDIT PROCEDURES

- (3)
 - (a) Examine the monthly procurement reports for completeness
 - (b) Review the quarterly procurement reports and ensure they replicates the contents of the monthly procurement reports of the previous three months.
 - (c) In respect of the annual procurement report ensure that it replicates the contents of the four quarterly reports.
 - (d) Ensure that the annual procurement report has been audited by the External Auditors and that her/his recommendations have since been implemented.

21. GOVERNANCE AUDIT

21.1 INTRODUCTION

Over the last decade or so the term “governance” which is applicable to both the private and public sectors has brought about much debate and change. Broadly speaking governance generally refers to the processes by which LGAs are directed, controlled and held to account and is underpinned by the principles of openness, integrity and accountability. The government is concerned with structures and processes for decision-making, accountability, control and behaviour of the LGAs.

21.2 THE ROLE OF THE ACCOUNTING OFFICER

In LGAs, the accounting officer of a council is the Council Director. An accounting officer is authorized by Parliament to spend (within an over-all budget), invest borrow and administer programs in accordance with any laws and regulations that govern the operations of LGAs in the country. An accounting officer is also responsible for authorizing the acquisition and use of financial resources within the authorization of Parliament and for overseeing and monitoring the implementation of the approved budget of the LGA.

The accounting officer of LGA is usually responsible for: -

- Planning, directing and controlling day to day operation.
- Directing operations with due regard to economy and efficiency.
- Maintaining an adequate system of internal controls.
- Ensuring compliance with applicable laws, regulations, circulars, directives etc.
- Use of appropriate accounting standards and policies.
- Safeguarding the assets of the LGA.
- Measuring of the effectiveness of the LGA programs.
- Reporting on the LGA performance to those to whom the LGA is accountable and preparing reports that provide an account of its administration.

21.3 GUIDING PRINCIPLES FOR ACCOUNTING OFFICERS

In order to achieve the objectives of the LGA, the accounting officer has to observe a number of pre-requisites or fundamental principles. These are: -

21.3.1 Integrity

An accounting officer should be straightforward and honest in performing his/her duties and responsibilities.

21.3.2 Objectivity

An accounting officer should be fair and should not allow prejudice or bias, conflict of interest or influence of others to over-ride objectivity.

21.3.3 Competence and Due Care

An accounting officer should perform his/her duties and responsibilities with due care, competence and diligence and has a continuing duty to maintain the pre-requisite knowledge and skills at a level required to ensure that clients/employees receive the advantage of competent service based on up-to-date developments in practice legislation and administrative techniques.

21.3.4 Confidentiality

An accounting officer should respect the confidentiality of information acquired during the course of performing his/her duties and responsibilities and should not use or disclose any such information without using the proper authorized procedures.

21.4 PRINCIPLES OF GOVERNANCE

Governance has been defined as the system by which LGAs are directed and controlled. Governance involves three fundamental principles which are: -

- Openness
- Integrity
- Accountability
- Transparency

The three fundamental principles are explained below: -

21.4.1 Openness

Openness is required to ensure that the stakeholders of the LGA can have confidence in the decision - making processes and actions of the LGA's, and in the individuals within them. Being open through meaningful consultation with stakeholders and communication of full, accurate and clear information leads to effective and timely action and stands up to necessary scrutiny.

21.4.2 Integrity

Integrity comprises of both straightforward dealing and completeness. It is based upon honesty and objectivity and high standards of propriety and probity in the stewardship of public funds and resources and management of an LGA's decision making procedures and in the quality of its financial and performance reporting.

21.4.3 Accountability

Accountability is the process whereby LGA's and the individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. Accountability is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure. In effect accountability is the obligation to answer for a responsibility conferred.

21.4.4 Transparency

Transparency refers to when and where the LGA conducts its business in an open manner being guided by laws, regulations and procedures set in. This is what is referred to as the rule of law.

21.5 DIMENSIONS OF GOVERNANCE IN LGAS

The three fundamental principles of governance can be reflected in each of the following dimensions of good governance in LGAs.

21.5.1 Standard of Behaviour

This refers to how the accounting officer ((CD) and senior management of the LGA exercises

leadership in determining the values and standards of the LGA, which define the culture of the LGA and the behaviour of everyone within it.

21.5.2 LGA Structures and Processes

This refers to how the accounting officer and senior management within the LGA are appointed and organized and how their responsibilities are defined and how they are held to account of controls established by the accounting officer and senior management of the LGA to ensure the following: -

- Achievement of the LGA's objectives.
- Effectiveness and efficiency of the LGA operations.
- Reliability of internal and external reporting of the LGA; and
- Compliance with applicable laws, regulations and internal policies.

21.5.3 External Reporting

This refers to how the Accounting Officer and senior management of the LGA demonstrate their financial accountability for the stewardship of public money and the LGA's use of resources.

21.6 GOOD GOVERNANCE: A CHECKLIST FOR ACCOUNTING OFFICERS

The following listed 26 items could consist a checklist for Accounting Officers within LGAs in regard to good governance in their areas of jurisdiction. It has to be noted that the list broken down into sub-themes is not exhaustive and that the Internal Auditor is free to add to the given list.

This checklist is intended to assist the Accounting Officer to identify potential strengths and weaknesses in governance arrangements. Where the checklist uncovers weaknesses in the governance arrangements, the Accounting Officer will need to give further consideration to the specific areas identified.

21.6.1 STANDARDS OF BEHAVIOUR

| | Audit Task | Yes/No. (Y/X) | Remarks* | Initials |
|--------|---|------------------|----------|----------|
| (i) | Leadership Has the Council Director taken steps to ensure that the LGA's management exercise leadership by conducting themselves in accordance with high standards of behaviour? | | | |
| (ii) | Code of Conduct Has the LGA adopted a formal code of conduct defining the standards of behaviour that all employees of the LGA are required to follow? | | | |
| (iii) | Does the Council Director periodically review adherence to the code of conduct? | | | |
| (iv) | Objectivity, integrity and honesty Has the Council Director established appropriate mechanisms to ensure that senior managers and other employees of the LGA are not influenced by prejudice, bias or conflicts of interest? | | | |
| 21.6.2 | ORGANISATIONAL STRUCTURES AND PROCESSES | | | |
| (v) | Accountability for public money and performance Has the Council Director established appropriate arrangements to ensure that public funds and resources are: - <ul style="list-style-type: none"> • Properly safeguarded? • Used economically, efficiently, effectively, appropriately and with due propriety? | | | |
| (vi) | Communication with stakeholders Has the Council Director made an explicit commitment to openness and transparency in all the activities of the LGA? | | | |
| (vii) | Roles and Responsibilities Is there a clearly defined division of responsibilities at the head of the LGA to ensure a balance of power and responsibility between the Council, PO-RALG and the Council Director | | | |
| (viii) | Does the Council Director effectively lead and exercise control over the LGA? Does the Council Director monitor senior managers and other members of staff? | | | |
| (ix) | Has the Council Director established and maintained an up-to-date framework of delegated or reserved powers that includes a formal schedule of those matters specifically reserved for him or herself? | | | |
| (x) | Has a senior manager been made responsible for ensuring that appropriate advice is given to the Council Director, Council and PO-RALG on all financial matters, for keeping proper financial records and | | | |

| | Audit Task | Yes/No. (Y/X) | Remarks* | Initials |
|---------------|--|------------------|----------|----------|
| | account, and for maintaining an effective system of internal financial control? | | | |
| (xi) | Has the LGA established a formal and transparent procedures for developing policy on the remuneration of senior managers. Are any staff involved in deciding their own remuneration? | | | |
| (xii) | Does the annual report of the LGA contain a statement on its remuneration policy and details of the remuneration of senior managers? | | | |
| 21.6.3 | CONTROL | | | |
| | Internal Control | | | |
| (xiii) | Has the Council Director taken steps to ensure that an effective framework of Internal Control <ul style="list-style-type: none"> Is established? Operates in practice? | | | |
| (xiv) | Does the Council Director include, in the LGA's annual report, a statement on the effectiveness of its framework of internal control? | | | |
| (xv) | Has the Council Director ensured procedures are in place to ensure effective and efficient budgeting and financial management? | | | |
| | Staff Training | | | |
| (xvi) | Has the Council Director established training programs to ensure that staff are competent to perform their work? | | | |
| | Internal Audit | | | |
| (xvii) | Has the Council Director taken steps to ensure that an effective internal audit function is established as part of the framework of internal control? | | | |
| | Audit Committees | | | |
| (xviii) | Has the Council Director established an audit committee comprising members of the management team with responsibility for the independent review of the framework of control and of the internal and external audit processes. | | | |
| | Risk Management | | | |
| (xix) | Has the Council Director taken steps to ensure that effective systems of risk management are established as part of the framework of internal control? | | | |
| | Anti-corruption commission | | | |
| (xx) | Does the Council Director ensure that he or she and all staff support the work of the national anti-corruption commission? | | | |
| (xxi) | Does the LGA have an up to date anti corruption action plan | | | |
| 21.7 | EXTERNAL CONTROL | | | |

| | Audit Task | Yes/No. (Y/X) | Remarks* | Initials |
|---------|--|------------------|----------|----------|
| (xxii) | Annual reporting Does the Council Director publish promptly an objective, balanced and understandable annual report? | | | |
| (xxiii) | Does the annual report contain a statement on whether or not the LGA has adopted specific standards or codes of governance? | | | |
| (xxiv) | Does the Council Director ensure that the LGA's financial statements comply with recognized set of accounting standards? | | | |
| (xxv) | Performance measures Does the Council Director institute and report on relevant performance measures? | | | |
| (xxiv) | External Audit Has the Council Director taken steps to ensure that an objective and professional relationship is maintained with the Controller and Auditor General? | | | |

The remarks should focus on the following questions:

- How was the control applied?
- Was it applied consistently during the period?
- Who applied it?
- Which operational implementation problems were encountered?

| | | | |
|---------------------------|-------------|-----------------------------------|-------------|
| Agreed Action Plan | | | |
| Signed by Client | | Signed by Internal Auditor | |
| _____ | _____ | _____ | _____ |
| Signature | Date | Signature | Date |