



INTERNAL AUDITING MANUAL



FAST RURAL DEVELOPMENT PROGRAM – FRDP PAKISTAN

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1. INTRODUCTION

This Charter provides a framework for the conduct of Internal Audit in FRDP and has been approved by the Chairman , FRDP and the Audit Committee. This Charter primarily aims to define and establish :

- The Role of Internal Audit Department (IAD) of FRDP.
- The objectives and scope of IAD to FRDP.
- The Internal Audit Department's position within FRDP, its access to various records, departments and activities, its responsibility and accountability.

2. ROLE

The Role of the Internal Audit Department is to assist the management of FRDP by providing independent advice on operations and performance and by assessing the effectiveness of internal control. The function aims to add value, improve operational efficiency, economy and effectiveness of management process, risk management and internal control systems.

3. OBJECTIVES

The primary objective of Internal Audit Department is to examine and evaluate whether FRDP's design of risk management, internal control and governance processes, is adequate and functioning properly.

In addition, the objectives of Internal Audit Department include advising and recommending to senior management for improvements in internal control system and risk management systems.

4. SCOPE OF INTERNAL AUDIT

In order to fulfill its roles and objectives, Internal Audit Department's scope of work includes:

- Undertakes routine Internal Audit, Investigation, Physical Verification of Inventory and other assignments required by the management to maintain transparency and accountability.
- Undertakes Annual Audits, Continuous Audits, Special Audits, Surprising Audits and Department Audits. During the time of continuous audit the financial transactions at the Head Office are checked within a week.
- When irregularities are detected in the course of a normal audit, which occurs on a sampling basis, a full audit is carried out.
- The frequency of audit in each of the Field Office, Coordination Office, Head Office is at least once a year but two or more audits are conducted in a year at locations and programs that warrant a close watch. Continuous Audit is conducted in key risk areas of FRDP.
- The examination and evaluation of the adequacy and effectiveness of the internal control systems at various programs and activities of FRDP.

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- The review of the application and effectiveness of risk management procedures and risk assessment methodologies at various programs and activities of FRDP.
- The review of the management and financial information systems, including the electronic information system. The review of the accuracy and reliability of FRDP accounting records and financial reports and other documentation preserved in all Departments and Field Level Offices.
- The testing of both transactions and functioning of specific internal control procedures at various FRDP departments, programs and activities in Field Offices, Coordination Office and Other Offices within the country.
- The evaluation of adherence to legal and regulatory requirements and approved policies and procedures.
- The evaluation of effectiveness of existing policies and procedures and give recommendations for improvements.
- Follow up of External and Internal Audit recommendation of last periods.
- Identifying opportunities for cost savings and making recommendations for improving cost efficiencies.
- Examining that resources are acquired economically, used efficiently and safeguarded adequately.
- Carrying-out of special investigations assigned by the Chairman, Audit Committee, Executive Director.
- Organize Induction meeting to know the overall system of the program and any changes during the period for conducting the audit.
- Arranging exit meeting to share the observations of the audit with management and documented those properly.
- Ensuring all programs and financial activity of FRDP fall within the scope of the internal audit for independent appraisal. The GM Operations and staff of audit department are, however, not allowed to:
 - Initiate or approve accounting transactions external to Internal Audit Department.
 - Direct the activities of any FRDP employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

5. AUTHORITY

The GM operations, Head of Internal Audit, Managers and members of audit staff including Consultants / Specialists from other departments engaged to undertake special review, are authorized to:

- Have full, free and unrestricted access to all FRDP departments, Regional Offices, Area Offices, Field Offices, Head Office & Coordination Office Areas, affiliates, activities, information, properties, personnel, records, books, accounts and files relevant to the performance of audit function at any time.
- Determine scope of audit and apply the techniques required to accomplish audit objectives.

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- Obtain the necessary assistance of personnel in various departments, Field Offices, Head Office & Coordination Office and Other Offices of FRDP where audit team perform audits.
- Obtain assistance of specialists/ professionals/others where considered necessary from within FRDP or outside FRDP.
- Information accessed is to be strictly used for audit purpose only.

6. RESPONSIBILITY

Head of Internal Audit as per instruction of Executive Director has responsibility to:

- Formulate an annual audit plan in consultation with management.
- Implement the annual audit plan, special tasks or projects requested by the Executive Director, Chairman-FRDP and the Audit Committee.
- Maintain a requisite professional audit staff strength with sufficient knowledge, skills, experience, and professional qualifications to meet the requirements of this Charter.
- Issue periodic reports on a timely basis to the Audit Committee, the Executive Director and Managing Director summarizing results of audit activities.
- Keep the Audit committee informed of emerging trends and developments in internal auditing practices and give recommendations for necessary revisions in Internal Audit Charter and Internal Audit Manual, Provide a list of significant measurement goals and results to the Audit Committee.
- Assist in the investigations and examination of significant suspected fraudulent activities and notify the Executive Director, and the Audit Committee of the results.
- Ensure control improvements are identified and corrective action recommended to the management based on an acceptable and practicable time frame.
- Ensure management is made aware of such improvements through the reporting process.
- Ensure through tracking that management implements the agreed control improvements on a timely basis, performing such follow-up work as Internal Audit deems necessary to ensure the improvements are adequate, effective and timely.
- Ensure appropriate and adequate controls are introduced into new areas of activity through major system, development work and other major process changes.
- Ensure that the department complies with sound internal auditing principles and best practices; seek guidance from the International Standards on Auditing.

The Director and staff of Internal Audit Department have responsibility to :

- Follow the guidelines and methodology given in the Internal Audit Manual.
- Exercise due professional care in carrying out audit assignments
- Maintain integrity and objectivity.

The internal audit process, however, does not relieve departmental heads/ managers of their responsibility for the maintenance and improvement of controls in their respective areas.

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7. ACCOUNTABILITY

The Internal Audit Department shall be accountable to the Executive Director, and the Audit Committee and shall:

- Submit Audit Plan to Audit Committee to take approval.
- Submit an assessment on the adequacy and effectiveness of FRDP's processes for controlling its activities and managing its risks in all the core areas of FRDP Programs.
- Report significant issues related to the processes for controlling the activities of FRDP together with recommendations for improvements to those processes.
- Provide information on the status and results of the annual audit plan on a quarterly basis.

8. INDEPENDENCE

Independence is essential to the effectiveness of Internal auditing. This independence is obtained primarily through organization status and objectivity.

- To maintain the independence of Internal Audit Department from other FRDP departments and offices, its personnel shall report to the GM Operations, who shall report to the Executive Director -FRDP and Audit Committee.
- Internal Audit Department shall be independent of the activities audited. The department must also be independent from the every day internal control process.
- Internal Audit Department shall exercise its assignment on its own initiative in all departments, programs, Offices and activities of FRDP.
- GM Operations shall be authorized to communicate directly, and on his own initiative, to the Chairman-FRDP, the members of Audit Committee and the board.
- The internal audit function should be subject to an independent review as and when required. This review can be carried out by independent professionals e.g. practicing firm of Chartered Accountants.
- Internal Auditors will report to the Executive Director for any situation in which a conflict of interest or bias is present or may be reasonably inferred.

9. REPORTING

Draft observation and recommendation will be discussed with the departments and program management. Internal Audit Department will send the final reports to:

- Executive Director
- GM Operations
- Concerned Program Manager
- Concerned Manager

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Internal Audit Department also submits the following Special Reports:

- Quarterly Presentation on summary of Internal Audit Observation (Financial and Policy issues) to the Audit Committee, the Executive Director and other top Executives.
- Reporting to Chairman/ Executive Director on Core issues (as and when it requires).
- Reporting to Executive Director and other high officials on fraud related issues (as and when it requires).
- Quarterly Reporting to Audit Committee, Executive Director and Other High Officials on unsettled issues of Audit Review Committee's Decision.
- Quarterly Reporting to Senior Management for non-compliance of reply on Internal Audit Report from Local Office.
- Summary of Follow up Report on external audit observation.

Internal Audit Department will send letters to management for reply on Internal Audit Report presented to the management. Timing of reply: within stipulated time.

The objective for sending reply is to know the action taken by the management after getting Internal Audit Report.

An Audit Review Committee has been formed with a view to taking prompt action and for the sake of greater transparency.

After going through the internal audit report and reply, Internal Audit Department selects report for Audit Review meeting and organize Audit Review Meeting.

Audit Review Committee review the major findings brought by Internal Audit Department and settle them through discussion with program management.

10. LIAISON WITH EXTERNAL AUDITOR

- Internal and external audit activities will be coordinated to ensure adequate audit coverage and to minimize duplication of effort.
- Meeting between internal and external auditor shall be held to discuss matters of mutual interest.
- Access to Internal Audit Programs, Working papers and reports shall be made available for review by external auditors.

11. PEOPLE

- The appointment, dismissal or replacement of top executives of Internal Audit Department will be done by the Executive Director in consultation with the Chairman.
- Audit Committee may review the responsibilities and staffing of the Internal Audit Department and also the quality control procedure of the department.

12. PROFESSIONAL STANDARDS

The Internal Audit Department shall comply with the Standard on International Audit Guidelines and Practices.

Work of the Internal Audit Department and results of each audit shall be confidential to FRDP and will not be disclosed to third parties, except to the external auditors, unless by the consent of Executive Director and/ or the Chair of the Audit Committee.

Internal Audit Department, shall ensure :

- That all internal audit assignments are undertaken with due professional care.
- Audits are completed by suitably skilled, experienced and competent auditors, whether internal or external resources are used.
- Audit Programs, Working papers and reports are conducted and prepared in accordance with the required professional standards.
- All staff undertake training to maintain their professional development.

13. CONTINUITY AND IMPARTIALITY

- Internal audit within FRDP shall be a permanent function.
- Internal Audit Department shall be objective and impartial in performing its assignments.
- Objectivity and impartiality entails that the Internal Audit Department itself seeks to avoid any conflict of interest. To this end, staff assignments within audit department shall be rotated periodically.
- Impartiality requires that Internal Audit Department is not involved in the operations of FRDP or in selecting or implementing internal control measures. However, Internal Audit Department may give recommendations for strengthening internal control and can also give opinions on specific matters related to internal control procedure as per the request of senior management.
- In an effort to continually improve the internal audit function, the Internal Audit Department shall be encouraged to maintain professional relationship with other organizations' Internal Audit Departments. In addition they shall be encouraged to maintain membership in and attend meeting of local, national and international organization that serve to promote the modern practice of auditing and internal auditing.

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14. METHODOLOGY

Internal Audit Services will apply the most appropriate risk based auditing methodology in the conduct of its work.

15. REVIEW OF CHARTER

This charter will be reviewed whenever necessary, to ensure an appropriate level of cost-effective, value-added internal audit service to FRDP.

ISSUED UNDER THE SIGNATURE OF:



Tayyab Uddin Memon :
Chairman
Audit Committee, FRDP

Dated : 17 June 2014



Muhammad Achar Bozdar
Chairman
FRDP

Dated 17 June 2014