

# **INTERNAL Audit Manual**

## **PART 4**

# **DETAILED GUIDANCE ON SPECIFIC AUDIT AREAS**

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## 1. INTRODUCTION

In this part of the Manual, detailed directions are given for the following specific areas of the audit:

- Audit of the budget cycle;
- Review of the human resources management;
- Review of the work with cash / payment means and banks;
- Review of the work with incomes and demands;
- Review of the processes for procurement and payments;
- Review of the systems for stocks and property;
- Review of the payroll and expense arrangements;
- Review of the public procurement procedures and
- Review of the inventory.

For each of the specific areas of the audit are explained objectives of: the audit, the area (system) and controls. In the enclosed tables, internal auditors should give conclusions for the accomplishment of the control objectives once they gather enough evidences and information based on received answers from questionnaires and conducted tests. For some areas of the audit are given audit programs with audit tests that should be conducted.

Internal auditors should implement directions and respectively to fulfil the working tables for the conclusions and to implement the audit programs. Also, given directions for the specific areas can be changed and amended depending on the particularities of the regulation, the organization and the scope of the audit. Ascertained control objectives and audit tests should be presented in the audit program for every specific audit.

## 2. AUDIT OF THE BUDGET CYCLE

### Introduction

The budget is the most important tool used by management to plan, control and monitor the activities and performance of the organisation. Within a large organisation, the budget exists at a number of levels of detail.

Within the national budget, there will be an approved expenditure vote for each ministry, agency or department. These vote levels should be supported by detailed budgets for the individual activities of each ministry, which sub-divisional breakdowns used for day to day management and control. Across the whole Government, every line of expenditure should have a clear budget holder responsible and held accountable for controlling that expenditure.

Budgets for each organisation within the Government and LSGUs should also be linked to the strategic plan and targets of that organisation. Budgets and therefore the allocation of scarce resources should be directed constantly to the Government's priorities, rather than being driven on the basis of who received what in the previous year.

### The Role of Internal Audit in Budgeting

As a management function, internal audit can usefully assist the management in evaluating and recommending improvements to the organisation's budgetary arrangements. This section provides guidance to assist internal audit in a review of the budgetary arrangements in one organization.

### Overall Budgetary Arrangements

The overall audit objectives of internal audit with respect to an organisation's budgetary arrangements are to ensure that all income and expenditure is adequately planned, controlled and monitored. Hence, the overall audit objective can be reviewed from point of view of the following three more specific objectives:

<b>Audit Objective</b>	<b>Definition</b>
Planning	Appropriate budgets are established that are consistent with the organisation's strategic plan and financial forecasts
Control	The budget provides an adequate framework for keeping the organisation's activities in line with its strategic plan
Monitoring	Appropriate reports are produced to enable senior managers to effectively monitor the organisation's financial position and activities against its budget and strategic plan

The attached audit program provides guidance on important issues and tests that internal audit can conduct to assess the planning, controlling and monitoring of the organisation's activities. However, it remains a matter of judgement for the auditor to assess the overall adequacy of budgetary arrangements in each organisation, dependant on the nature and culture of that organisation.

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System:

Budget Review

File Reference

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## ANNEX

### AUDIT PROGRAM FOR AUDIT OF THE BUDGET CYCLE

#### CONCLUSIONS<sup>1</sup>

	OBJECTIVE	result SATISFACTORY (Y / N)	initials	date	wp ref.
	<b>System Objective:</b>				
	All income and expenditure is adequately planned, controlled and monitored				
	<b>Control objectives:</b>				
A	Appropriate budgets are established that are consistent with the organisation's strategic plan and financial forecasts				
B	A suitable budgetary control framework has been developed				
C	Managers are provided with suitable expenditure reports				
D	Appropriate management accounts (reporting system) are produced to enable senior managers to effectively monitor the organisation's financial position				

	GOOD	REASONABLE	POOR
The organisations overall budgetary arrangements are:			

Auditor in charge: \_\_\_\_\_ Date: \_\_\_\_\_

Head of Internal Audit Unit: \_\_\_\_\_ Date: \_\_\_\_\_

<sup>1</sup> The table with the conclusions is filled after gathering enough evidences and information based on questionnaires and tests prepared in compliance with direction given in continuance.

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**A.Appropriate budgets are established that are consistent with the organisation’s strategic plan and financial forecasts**

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
<b>A1</b>	<b>Budgets are set as part of the organisation’s planning cycle.</b>				
1.1	Budget setting is in compliance with the strategic plans of the organization and the Fiscal strategy of the Ministry of Finance.				
1.2	A suitable timetable for budget setting has been developed, which is integrated with the Government’s overall budget formulation process. This has been communicated to all senior management involved in budget setting.				
1.3	The Head of Finance produces a draft budget which is line with the expected expenditure vote for the organisation, in compliance with the strategic plans of the organization and the Fiscal strategy of the Ministry of Finance				
1.4	Where the expenditure vote finally approved by Parliament is significantly different from that expected, the Head of Finance revises the organisation’s budget accordingly.				
1.5	The organisation's annual budget is formally agreed by the Head of the subject before the beginning of the relevant financial year.				
<b>A2</b>	<b>Budgets are set on an objective basis and presented in an appropriate format.</b>				
2.1	Budgets are based on the resources needed to achieve the operational plan rather than historic budget figures.				
2.2	Budgets are linked to organisational objectives and targets outlined in the strategic plan.				
2.3	The format of the budget document provides a clear explanation of the				

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	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
	rationale for the proposed allocation of resources.				
2.4	The budget document provides information at the appropriate level of detail to inform stakeholders of the organisation's activities.				
2.5	Where possible, public feedback is taken into account in budget formulation.				
2.6	Plans from individual budget holders in the organization (departments, units, branch offices, etc.) are supported by an objective analysis of costs, by expenditure category, (e.g. staff expenditure, materials, transport and capital costs etc.).				
2.7	The amount of staff expenditure is identified on the basis of the number of full time equivalent staff, average wages and expected total staff costs.				
2.8	Where budgets are set below the previous year's level of actual expenditure, detailed actions and measures to generate these cost savings are shown.				
2.9	Suitable assumptions, made when developing the budget, are clearly identified.				
2.10	Capital budgeting is fully integrated in the budget process.				
2.11	Budgets for expected income have an objective basis in fact and are consistent with actual income generation in previous years.				
2.12	Where the organisation has a history of over budgeting (or over estimating income), managers are aware of this and try to learn from past problems.				
<b>A3</b>	<b>Suitable information is available to enable accurate budgets to be set.</b>				

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	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
3.1	Budget setters have relevant information on increased / reduced expected expenditure limits; expected inflation figures; property maintenance costs; costs for services from other entities etc. Other suitable information e.g. expected income and historical budgets is available as a guide to budget setting.				
<b>A4</b>	<b>Managers are actively involved in the development of their budgets.</b>				
4.1	All managers who are going to control the budgets are involved in their development and agree with the final budget or are at least provided with an adequate explanation for the level of budget that is finally agreed.				

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**B. A suitable budgetary control framework has been developed**

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
<b>B1</b>	<b>Each area of the budget has one and only one budget holder (organizational unit)</b>				
1.1	All managers are clear which income and costs they are responsible for and what their allocation is.				
<b>B2</b>	<b>All managers have appropriate written instructions on the setting, use, control and monitoring of their budgets.</b>				
2.1	There is an appropriate and documented process for virement with suitable rules for the level and authorisation required.				
2.2	Reasonable measures have been taken to account for contingencies in the budget.				
2.3	These rules have been agreed by senior management.				
<b>B3</b>	<b>Managers are able to control the level of expenditure or income from their budgets.</b>				
3.1	Managers are only held financially responsible for the costs of activities they can actually control.				
3.2	Budgets are devolved to the managers who actually control the expenditure concerned.				
3.3	Managers are expected to identify savings from other budget heads if one budget head overspends.				
<b>B4</b>	<b>The spend or income from each budget head is adequately planned</b>				



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	OBJECTIVE	result (Y/N)	initials	date	wp ref.
<b>B1</b>	<b>Each area of the budget has one and only one budget holder (organizational unit)</b>				
1.1	All managers are clear which income and costs they are responsible for and what their allocation is.				
4.1	End of year spends are avoided and the spending profile is reasonable over the year.				
4.2	Managers are given reasonable incentives to make savings on their budget e.g. being able to spend at least a proportion of any savings or extra income generated.				
4.3	Suitable action is taken if, for example, spending is higher than expected or income lower than planned in the first part of the year. Where appropriate savings can be carried over to the next year.				
<b>B5</b>	<b>All budgets are periodically reviewed by senior managers.</b>				
5.1	Budgets are reviewed at least monthly to ensure they are adequately controlled.				
5.2	Senior managers supervise the co-ordination of individual budget holders, promote the efficient use of resources; spot emerging problems; and ensure that suitable action is taken (e.g. moving budgets from one area to another if necessary to manage the overall budget).				

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**C.Managers are provided with suitable expenditure reports**

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
<b>C1</b>	<b>Managers receive suitable budget reports regularly each month.</b>				
1.1	Managers receive details of actual income and expenditure compared to a suitable profile (i.e. showing the likely seasonal spend) of the annual budget on a monthly basis (with variances).				
<b>C2</b>	<b>Managers have access to further information as required.</b>				
2.1	On request, budget holders can obtain transaction listings or have on-line access to the information system. This allows individual items of expenditure or income to be identified and checked.				
<b>C3</b>	<b>Budget reports include details of commitments.</b>				
3.1	Budget reports show the value of orders raised but not yet paid in addition to the value of invoices that have been received and paid.				
<b>C4</b>	<b>Managers are required to reconcile any records they keep with the central records.</b>				
4.1	The system for budget monitoring is integrated with, or uses the same base information set as, the financial accounting system.				
4.2	Where managers use their own / subsidiary commitment accounting systems they are required to reconcile their records to the management accounts / budget reports produced on a central level each month.				

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**D. Appropriate management accounts (reports) are produced to enable accounting officers and senior managers to effectively monitor the organisation's financial position**

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
<b>D1</b>	<b>Senior Management receive and consider detailed management accounts on a monthly basis.</b>				
1.1	Managers of the budget users in the organization are held to account for any over or under spends in their budgets and where possible over spends in one area are compensated for by under spends in another.				
<b>D2</b>	<b>Each quarter the managers of the budget users receives suitable management accounts (reports).</b>				
2.1	<p>Management accounts include:</p> <ul style="list-style-type: none"> <li>➤ income and expenditure account - comparison of actual to profiled / budget (with variances) on a current month and year to date basis, with a forecast out-turn to the year end</li> <li>➤ balance sheet - comparison of actual to budget, and forecast to year end</li> <li>➤ commentary on significant variances and an action plan to manage the effects over the next period.</li> </ul> <p>The management accounts are properly discussed and actions recorded at regular senior management team meetings.</p>				
<b>D3</b>	<b>Managers are required to provide explanations for any variances.</b>				
3.1	Managers have to explain differences between their agreed budgetary profile and the actual expenditure in the previous period if these are more than about 10% of the budgeted figures. Explanations should then be provided to senior managers and				

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	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
	the Head of Finance.				
<b>D4</b>	<b>Any amendments to the budget are formally agreed and recorded.</b>				
4.1	All transfers of money from one budget head to another, should be suitably authorised by senior managers in line with the formal scheme of delegation. The original budget should still be reported in management accounts even if this is amended during the year.				
4.2	Where forecasts suggest it will not be possible to continue to provide the planned level of service for the whole year within the current budget, the accounting officer prepares a proposal for the Manager of the organization, and seeks a suitable supplementary.				
4.3	Supplementary votes (budget rebalance) are recorded in the budget by amendments to the original budget, and forecast expenditure is compared to the new profiled budget.				

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### **3. REVIEW OF HUMAN RESOURCES MANAGEMENT**

#### **Introduction**

People are the most important resource for any organisation. They usually account for the majority of its expenditure, and are responsible for all its outputs. The way an organisation recruits, trains, manages and rewards its people is fundamental to the performance of an organisation. Recognising the importance of people as a resource leads to the recognition of good human resource management as a key strategic objective. Establishing a human resource department and giving human resource management appropriate status in an organisation is key to achieving the organisation's mission.

#### **The Role of Internal Audit in Reviewing Human Resource Management**

In conducting a review of HRM it is important firstly to identify who is responsible for, and who performs, the different aspects of HRM. Once this initial review has been performed, it will be possible to design tailored audit programs for the specific organization in the public sector.

Based on the reports from performed audits of HRM in the subject from the public sector whose employees have status as civil servants, Central Internal Audit within the Ministry of Finance will prepare and submit information for most essential problems to the Government of RM, which resolving is under competency of the Agency for civil servants

#### **Audit objectives of the audit of the Human Resource Management**

The overall audit objectives of internal audit with respect to an organisation's HRM arrangements are to ensure the economy, efficiency, and effectiveness of HRM activities.

<b>Audit Objective</b>	<b>Definition</b>
Economy	All inputs to the process are secured in the most economical manner, with regard to the specifications of cost and quality;
Efficiency	Given inputs to a process are converted into outputs in the most efficient manner possible;
Effectiveness	The outputs to a process are designed to be as closely aligned to the overall objectives of the organisation as possible.

An HRM review can be structured by focusing on five key areas:

- Activities of central departments with responsibility for HRM
- Recruitment
- Training
- People Management
- Performance Management

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The attached audit program provides guidance and tests on these five areas, which internal audit can use to evaluate the organisation's HRM arrangements.

**ANNEX**

**AUDIT PROGRAM FOR AUDIT OF THE HUMAN RESOURCE MANAGEMENT**

**CONCLUSIONS<sup>2</sup>**

	<b>OBJECTIVE</b>	<b>result SATIS-FACTORY (Y / N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
	<b>System Objective:</b>				
	Human resource management is conducted economically, efficiently and effectively.				
	<b>Control objective:</b>				
A	Activities of central departments with responsibility for Human resource management are adequately devised, assigned and carried out.				
B	Recruitment is strategically planned, and conducted in a robust and open manner.				
C	Comprehensive training needs are assessed; appropriate training is provided and evaluated.				
D	There are adequate procedures for managing, developing and communicating with the people in the organisation.				
E	There are adequate procedures for monitoring, improving and rewarding performance in the organisation.				

	<b>GOOD</b>	<b>REASONAB LEPOOR</b>	
The organisations overall human resources policies and strategies are:			

Auditor in charge: \_\_\_\_\_ Date: \_\_\_\_\_

Head of Internal Audit Unit: \_\_\_\_\_ Date: \_\_\_\_\_

<sup>2</sup> The table with conclusions is filled after gathering enough evidences and information based on questionnaires and tests prepared in compliance with directions given in continuance.

**A. Activities of central departments with responsibility for Human Resource Management are adequately devised, assigned and carried out.**

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
<b>A1</b>	<b>Human resource strategies are properly developed and coordinated.</b>				
1.1	An HR strategy has been developed within the Government / organisation, and is revised appropriately.				
1.2	The HR strategy links to the organisation's mission, vision and value statements, and includes a statement on the organisation's commitment to its employees.				
1.3	The HR strategy has been communicated properly to all organisations and staff. Responsibilities for implementation have been assigned.				
<b>A2</b>	<b>The human resource division has an appropriate status in the organisation</b>				
2.1	The head of HR is a member of the senior management team.				
2.2	HR issues are discussed at the highest level in the organisation.				
2.3	HR has its own budget, under the control of the head of HR, which is adequate for it to fulfil its duties.				
2.4	HR has the appropriate number of qualified staff commensurate with its responsibilities and status within the organisation.				
<b>A3</b>	<b>Appropriate monitoring of HR's activities and impact is conducted.</b>				
3.1	The head of HR is accountable to the manager who is on appropriate high level in the organisation.				
3.2	HR help set, monitor and report performance targets for the organisation, including for example: <ul style="list-style-type: none"> <li>•Staff turnover rates</li> </ul>				



	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
	<ul style="list-style-type: none"> <li>•Job vacancy rates</li> <li>•Absenteeism rates</li> <li>•Significant employee achievements.</li> </ul>				
3.3	Performance measures are reported and used to drive remedial action. Reporting includes historical trends, analysis across divisions / departments, and comparison to other organisations.				
<b>A4</b>	<b>HR set and monitor appropriate organisational policies.</b>				
4.1	HR produces appropriate policies and guidance on the conduct of staff dismissals.				
4.2	HR takes the lead in data protection issues and ensures its own employee data meets data protection requirements.				
4.3	HR takes the lead in formulating and implementing the organisation's policies on retrenchment and redundancy.				
4.4	<p>The organisation's retrenchment policy considers all alternatives in retrenchment, including:</p> <ul style="list-style-type: none"> <li>•Natural wastage</li> <li>•Recruitment Bans</li> <li>•Redeployment</li> <li>•Voluntary Redundancy</li> <li>•Compulsory Redundancy.</li> </ul>				
<b>A5</b>	<b>HR takes an active role in key staff issues.</b>				
5.1	HR has a lead role in helping to plan for and manage any major restructuring or retrenchment exercises.				
5.2	HR is proactive in communicating to staff on all personnel issues.				
<b>A6</b>	<b>HR has a proactive approach to managing risk.</b>				
6.1	HR identifies the key staffing and personnel risks to the organisation, and				

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
	produce plans for dealing with these risks.				
6.2	HR monitor public perception of the organisation's staffing and personnel activities, and respond appropriately to press coverage of staffing issues, including: <ul style="list-style-type: none"> <li>•Redundancies</li> <li>•Allegations of corruption</li> <li>•Allegations of nepotism</li> <li>•Concerns over salary levels, the award of allowances and expense payments.</li> </ul>				
<b>A7</b>	<b>HR seeks to maintain the quality of its services.</b>				
7.1	The HR department identifies and seeks to maintain best practice in its activities, and seeks external reviews of its activities to confirm this.				
7.2	HR adopts a culture of continual learning, and promotes this culture across the organisation.				

**B. Recruitment is strategically planned, and conducted in a robust and open manner.**

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
<b>B1</b>	<b>Appropriate recruitment strategies have been designed and implemented.</b>				
1.1	HR conducts formal reviews of staffing needs to meet the strategic plan against current capacity in the organisation.				
1.2	The recruitment strategy sets out the organisation's recruitment policy, in terms of using internal and external recruitment.				
<b>B2</b>	<b>The recruitment process is robust and open.</b>				
2.1	All recruitment needs are driven by the strategic plan.				
2.2	For each position to be filled, a formal job or person specification is produced. This is used to design internal or external advertisements for the position.				
2.3	Job adverts state the nature, terms and conditions of employment, including grade or salary if appropriate.				
2.4	For all vacancies, leading candidates are interviewed in a fair and objective manner.				
2.5	The appointment process is conducted in an open and fair manner.				
2.6	Formal references and evidence of relevant qualifications are obtained prior to employment.				
<b>B3</b>	<b>Appointment procedures and employment contracts are robust.</b>				
3.1	All appointments are made using formal conditions of employment,				

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
<b>B1</b>	<b>Appropriate recruitment strategies have been designed and implemented.</b>				
1.1	HR conducts formal reviews of staffing needs to meet the strategic plan against current capacity in the organisation.				
1.2	The recruitment strategy sets out the organisation's recruitment policy, in terms of using internal and external recruitment.				
	which are legally binding on the employee.				
3.2	Conditions of employment include a probationary period during which the employee's performance is assessed.				
3.3	Where relevant, the conditions of employment determine the length of the appointment and performance measures to be used in monitoring performance.				
3.4	Conditions of employment give the salary level / salary grade of the position.				
<b>B4</b>	<b>Appropriate induction procedures are in place.</b>				
4.1	For all new staff, an appropriate induction process is designed.				
4.2	Management seeks feedback on the appointment and induction process, and uses this to make improvements.				

**C. Comprehensive training needs are assessed; appropriate training is provided and evaluated.**

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>inititals</b>	<b>date</b>	<b>wp ref.</b>
<b>C1</b>	<b>Training needs assessments are linked to the strategic plan.</b>				
1.1	Formal comparison of existing capabilities to assessed needs is conducted across the organisation. The results are prioritised and used to produce training plans.				
1.2	Training needs assessments make use of staff surveys to identify current skills and perceived needs.				
1.3	Training needs are addressed through an appropriate balance of formal training programs and on the job training.				
<b>C2</b>	<b>Adequate training records are maintained.</b>				
2.1	Adequate records are kept by personnel of employee's qualifications, training records and needs, tailored to current job specifications.				
<b>C3</b>	<b>Suitable Training is Provided.</b>				
3.1	For specific technical areas, staff are enrolled on formal training programs to give them the skills or qualifications they need.				
3.2	Junior staff are assigned mentors who take responsibility for their career development and for organising on the job training.				
3.3	Regular assessments are carried out on training provided, including course assessments by delegates as well as external assessments.				
3.4	During their career development, staff receive training in management skills,				

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>inititals</b>	<b>date</b>	<b>wp ref.</b>
	communication and team skills.				
3.5	Qualified professional staff are encouraged to participate in relevant Continual Professional Development (CPD) programs.				
<b>C4</b>	<b>Training investments are protected.</b>				
4.1	Where the organisation has sponsored professional training of its staff, it has made arrangements to recover the costs of this investment if the employee leaves the organisation within a certain period after qualification.				

**D. There are adequate procedures for managing, developing and communicating with the people in the organisation.**

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
<b>D1</b>	<b>Adequate procedures exist for management within the organisation</b>				
1.1	The organisational structure is appropriate and has been communicated to all staff.				
1.2	All staff report to and are responsible to a line manager.				
1.3	Managers know which staff and what outputs and budgets they are responsible for.				
1.4	Managers receive appropriate training on performance review and performance monitoring.				
1.5	HR enables managers to be aware of and promote compliance with corporate policies, such as: <ul style="list-style-type: none"> <li>•Whistle blowing policies</li> <li>•Grievance procedures</li> <li>•Codes of conduct</li> <li>•Equal opportunities policies</li> </ul>				
<b>D2</b>	<b>An appropriate environment exists for staff development.</b>				
2.1	HR or senior management take a responsibility for career development of key staff.				
2.2	HR identifies key positions within the organisation and utilises succession planning to develop junior staff for their future promotion.				
2.3	As part of career development, managers encourage rotation of duties, additional work experience and secondments to other job posts with aim of gathering knowledge that will need in their future roles.				
2.4	Management seeks to involve staff in				

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>inititals</b>	<b>date</b>	<b>wp ref.</b>
	organisational development through input to strategy and working groups to facilitate organisational change.				
<b>D3</b>	<b>Adequate communication exists between staff and management.</b>				
3.1	Appropriate communication channels have been developed to allow management to communicate efficiently and effectively with staff.				
3.2	Management seek the opinion of staff regarding job satisfaction, scope for change etc through appropriate feedback mechanisms such as surveys.				



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**E. There are adequate procedures for monitoring, improving and rewarding performance in the organisation.**

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>inititals</b>	<b>date</b>	<b>wp ref.</b>
<b>E1</b>	<b>Appropriate performance monitoring systems are in place.</b>				
1.1	HR have designed a performance review system which is used to set goals and targets for all employees, monitor performance and provide feedback to stimulate improvement.				
1.2	Careful attention is paid to aligning and balancing individual and team targets in the performance review system.				
1.3	Performance targets are generated through a two way dialogue between staff and management.				
1.4	Managers seek staff's perceptions of the organisation and compare these to the organisations value statement.				
1.5	Management makes use of focus groups and communication events to assess staff perceptions of the organisation's internal procedures and culture.				
<b>E2</b>	<b>The organisation continually seeks to improve performance.</b>				
2.1	Management use the performance monitoring system to identify poor performance and seek improvements.				
2.2	Appropriate disciplinary procedures are used where poor performance continues.				
2.3	The organisation has established mechanisms for implementing demotions, transfers or redundancies if appropriate.				
2.4	HR conducts periodic reviews of salaries and conditions against similar organisations and the private sector, in order to improve staff retention rates.				
<b>E3</b>	<b>Appropriate incentive schemes are in</b>				

## Internal Audit Manual

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>inititals</b>	<b>date</b>	<b>wp ref.</b>
	<b>place to encourage and reward good performance.</b>				
3.1	Promotion decisions are linked to the performance appraisal system.				
3.2	Incentives, where appropriate, are used to reward staff / teams for continually achieving their objectives.				
3.3	An open and transparent mechanism is in place to reward outstanding performance or innovation, through, for example, enhanced salary payments, financial rewards or formal awards.				

## 4. REVIEW OF CASH COLLECTION AND BANK ARRANGEMENTS

### Introduction

Cash management and banking (Treasury) arrangements are one of the most fundamental systems operated by any organisation. Also, cash (and other liquid resources) are an organisations most important physical asset. The ability to pay wages and pay suppliers depends on the availability of cash.

As an asset, cash is also the asset most at risk from fraud and corruption, as it can be hard to trace and is easy to spend. It is therefore of fundamental importance to any organisation to have good systems for collecting, managing and disbursing cash.

The system objective with respect to cash and banking (Treasury) arrangements is to ensure that all cash income is collected, recorded adequately and promptly banked; and that suitable banking (Treasury) services are obtained.

### The Role of Internal Audit in assessing cash and bank arrangements

Internal audit should assist the head of Finance by evaluating and recommending improvements to the control environment surrounding the organisation's cash management and banking arrangements. Types of generic controls for this system are the follows:

- Segregation of duties
- Organisational
- Authorisation and approval
- Physical
- Supervision
- Personnel
- Arithmetical and Accounting
- Management

This part of the manual provides guidance to assist internal audit in a review of the cash management and banking arrangements in one organization.

### Audit Objectives of the audit of cash and bank management systems

The overall audit objectives with respect to an organisation's cash management and banking (Treasury) arrangements are to ensure the complete and accurate recording and disclosure of all transactions and assets, and the proper security, substantiation and utilisation of all assets.

<b>Audit Objective</b>	<b>Definition</b>
Completeness	All transactions, assets and liabilities relevant to the period of review have been recorded.
Measurement / valuation	The recorded transactions, assets and liabilities have been correctly and accurately valued or measured.
Disclosure	The recorded transactions, assets and liabilities have been properly classified and recorded in the organisation's financial records.
Security	All assets are kept securely, custody is clearly stated, and

## Internal Audit Manual

Substantiation	access is properly authorised. Recorded assets and liabilities are periodically compared with independent financial records.
Utilisation	All liquid financial assets are utilised efficiently

The attached audit program provides guidance on important issues and tests that internal audit can conduct to evaluate the control environment around the organisations cash management and banking arrangements, depending on the nature and culture of that organisation.

### Substantive Testing

Where it has been determined, either through a weak Preliminary Systems Evaluation or testing of the control environment that adequate controls are not operating in practice, the auditor may decide to conduct some substantive testing. The purpose of this is two fold:

- To determine if any significant losses have occurred, and
- To contribute towards internal audit's assessment of the organisation's overall control environment.

The results of this work will either:

- provide assurance to management that there has not been any significant losses to the organisation as a result of a weak control environment, or
- provide evidence to management that the weak control environment has lead to significant losses, and thus prompt management to take appropriate action

The objective of substantive testing is to evaluate the adequacy and completeness of outputs rather than the operation of controls. For example, checking the amount actually paid to a supplier is the same as the amount on the invoice.

It is thus more detailed in its nature, more time consuming, and requires larger samples to gain the same level of assurance. However, errors discovered in substantive testing are more significant, as they usually represent a loss to the organisation, where as errors from controls test demonstrate a control failed to operate – but not necessarily that an error occurred.

The attached DST audit program provides a list of possible substantive tests the auditor may carry out to assess the organisation's cash management and banking (Treasury) arrangements.

# Internal Audit Manual

Organization:

Audit period:

System:

Cash collection and bank arrangements

File no.

Prepared by:		Date:	
Controlled by:		Date:	

<b>Overall system objective:</b>	<b>ALL CASH INCOME IS COLLECTED, RECORDED ADEQUATELY AND PROMPTLY BANKED; SUITABLE BANKING SERVICES ARE OBTAINED.</b>		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Preliminary Control Risk:	Analytical Review Evidence:
	High / Medium / Low	High / Medium / Low	High / Moderate / Low

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
<b>COMPLETENESS</b> - All transactions, assets and liabilities relevant to the period of review have been recorded.							
Income received through the bank and at each cash office is adequately recorded.	For each cash payment: an officer is issuing a receiving doc; a cashier is receiving the money, recording it and issuing cash receipt. (principle of two staff, who both check and confirm the total cash and cheques received).						
	Cash and records of receipts are passed promptly to the treasury.						
	Where possible the public is informed to pay at central cashiers etc and to make						

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Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	bank transfers to the organisation.						
	All cash / bank transfers are adequately recorded and witnessed.						
	Receipts are issued for all income received by hand.						
	Cash tills are used properly. Till keys are adequately controlled by supervisors and readings recorded.						
	The public can clearly see cash register displays and see that cash taken is rung into the till.						
Cash collection is undertaken securely and efficiently	11111111Comprehensive procedure notes for cash collection are available for all relevant staff, are regularly updated and include action to be taken for attempted theft						
	Staff involved with cash collection do not also maintain debtors records or get involved with debt recovery action						
<b>MEASUREMENT / VALUATION</b> - The recorded transactions, assets and liabilities have been correctly and accurately valued and measured.							
Income is adequately accounted for and banked promptly	Payments from/to bank accounts are adequately controlled. Bank paying-in slips record each cash payment and cash totals. Bank paying-in slips are reconciled to cash takings and to daily totals on the cash receipting system.						

# Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	Actual and expected income is compared regularly. All income streams are reviewed at least quarterly and any significant variations from expected income (budgets) is investigated.						
	Bank account reconciliations are undertaken regularly. The balance on each of the bank accounts according to the bank statement is independently reconciled to the figure expected from the financial records at least monthly. This may be relaxed for accounts with few transactions.						
	The person who reconciles the accounts does not have access to cash or the accounting records. Bank statements are received by and the reconciliations are undertaken by staff who does not work in treasury and who do not have access to any cash.						
	Daily reconciliation of cash and records. Collection by each cashier is checked and a cumulative total of all differences is maintained and reviewed regularly each month.						
<b>DISCLOSURE</b> - The recorded transactions, assets and liabilities have been properly classified and recorded in the organisation's financial records.							
Income received is correctly and accurately recorded in the accounts.	All cash or bank payments received through the bank or at cash offices are promptly recorded and correctly coded according to the established chart of accounts.						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
Assets and liabilities are properly recorded in the accounts.	Cash, investments and borrowings are properly coded in the accounting according to the established chart of accounts.						
<b>SECURITY</b> - All assets are kept securely, custody is clearly stated, and access is properly authorised.							
Money received at all cash offices is held securely.	All tills are locked when not attended by the till registrar.						
	Any money held over night in a cash office is held in a secure safe, and cash offices have adequate security.						
Income is adequately accounted for and banked promptly	22222222There is an established procedure and timetable for daily close down of cashiers' tills, cashing up, reconciliation and banking. All income is banked intact and promptly each day.						
	Promptness of banking is checked periodically by a manager or chief cashier.						
Cash collection is undertaken securely and	The organisation has adequate insurance against theft and fraud, including a fidelity guarantee policy.						



# Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
efficiently							
	All staff involved in cash collection have suitable training, personal alarms, and vary routes used for transfer of cash.						
	Each treasury is maintained as a secure environment with limited staff access and suitable security measures are periodically tested. All cash collection points are secure and clearly sign posted.						
Banking facilities are appropriate and efficient	The bank mandate (signatories etc) is up to date. Staff are removed from the mandate as soon as they leave the organisation. Bank accounts are only opened as necessary in the name of the organisation. There is a pool of several senior staff who are signatories.						
	Banking services are periodically formally reviewed. They are covered by a written agreement and are adequately monitored.						
	Bank charges are formally reviewed for reasonableness and significant changes at least once a year.						
	Orders for payments to regular creditors are issued to the Treasury in compliance with the regulation. There is limited staff access to the system, and printouts are checked and signed by authorised signatories.						
<b>SUBSTANTIATION</b> - Recorded assets and liabilities are periodically compared with independent financial records.							
Assets held are regularly	At least annually (as part of the preparation of the annual accounts) records of all assets and liabilities are						

# Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
substantiated.	compared to independent records of the relevant financial institutions.						
	At least monthly, reconciliation is performed between cash recorded on the accounting system and amounts recorded on bank statements.						

**UTILISATION** - All liquid financial assets are utilised efficiently.

Loans and investments are appropriate and are reviewed regularly.	The organisation has a coherent investment and borrowing policy, in line with Government policy.						
	Rates of returns and risk profiles of all investments are reviewed periodically.						
	Interest rates on all loans are reviewed periodically and the possibility of early redemption or loan consolidation is considered.						
Bank accounts are used efficiently	The nature and number of bank accounts held is subject to regular review, with a view to consolidating accounts where possible.						

# Internal Audit Manual

Organization:

File no.

Audit period:

System:

Cash collection and bank arrangements

Prepared by:		Date:	
Controlled by:		Date:	

<b>Overall objective:</b>	ALL CASH INCOME IS COLLECTED, RECORDED ADEQUATELY AND PROMPTLY BANKED; SUITABLE BANKING SERVICES ARE OBTAINED.		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Control Risk:	
	High / Medium / Low	High / Medium / Low	

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	<b>Completeness:</b> All transactions, assets and liabilities relevant to the period of review have been recorded.					
1	Observe cash collection at a sample of cash offices and ensure all receipts are recorded.					
2	Check calculation of daily totals of cash receipts.					
3	Check daily totals agree to amounts passed to Treasury/Main cashier office and/or banked.					
4	Check that invoices / bills / charges raised instruct the public to pay at the central cashiers' office, and make bank transfers payable to the organisation.					
5	Check that receipts have been used for cash payments received.					
6	Check that receipts are sequentially numbered, and that all receipt numbers can be accounted for.					
7	Check that all receipt books can be accounted for.					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
8	Observe staff using cash tills and ensure all monies are rung in to the till.					
9	Ensure a daily record of till readings is kept, and test records back to till rolls.					
10	Check cash collection procedure notes are complete and adequate.					
11	Ascertain whether staff are aware of the procedure notes and correct procedures for recording and safeguarding cash.					
12	Ensure that staff responsible for cash collection are not also involved with recovering debts.					
	<b>Measurement / valuation:</b> the recorded transactions, assets and liabilities have been correctly and accurately valued or measured.					
13	Reconcile amounts on bank paying in slips to cash totals for the relevant period.					
14	For each major source of income, compare actual income to budget for the period and investigate significant differences.					
15	Repeat the bank reconciliation for the latest month, and ensure that all reconciling items are bona fide.					
16	Ensure that all bank reconciliations have been performed and/or reviewed by appropriate senior accountants, who are not involved in daily cash management.					
17	Review the list of differences for a selection of cash offices. Ensure there is no evidence of regular or significant under / over receipt of cash. Investigate any unusual					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	trends.					
	<b>Disclosure:</b> The recorded transactions, assets and liabilities have been properly classified and recorded in the organisation's financial records.					
18	Review a list of cash receipts and check the correctness of coding against the chart of accounts.					
19	Review a list of investments and borrowings, and ensure all are properly recorded on the accounting system.					
	<b>Security:</b> All assets are kept securely, custody is clearly stated, and access is properly authorised.					
20	Observe practices in cash offices and ensure tills are locked when not attended.					
21	Observe cashing up at cash offices; ensure this follows a suitable, established procedure; and ensure all monies are properly stored in a secure safe.					
22	Inspect physical security of cash offices, including locks, alarms, windows and safes.					
23	Ensure that cash is banked on a regular basis, appropriate to the amount of cash taken and security of cash storage systems.					
24	Review the number of days between cash being received and cash being credited in the bank. Investigate where significant cash balances are not banked promptly.					
25	Check the organisation's insurance					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	policies to ensure cover against theft of cash and fraud.					
26	Check that staff involved in cash collection has received appropriate training.					
27	Check that officers responsible for handling and transporting cash have alarms and take adequate security precautions when transporting large amounts of cash.					
28	Check that cash collection points are secure and clearly sign posted.					
29	Check that bank mandates are up to date and reviewed regularly.					
30	Check that senior officers who have left the organisation have been removed from the bank mandate.					
31	Check that only appropriate senior members are authorised as signatories for each bank account.					
32	Obtain a list of bank accounts from the organisation's main banks, check that each one is valid and is included in the organisations financial records.					
33	Review the number of bank accounts in use and consider whether this is appropriate.					
34	Check whether the organisation is periodically reviewing its banking services.					
35	Review the level of bank charges compared to previous periods and similar organisations. Consider whether these appear reasonable.					
36	Inspect security arrangements of the supply of receipt books.					
37	Review the register of receipt books and ensure that all can be accounted					

# Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	for.					
38	Obtain / prepare a list of major supplier payments by the organisation according to type of payment and investigate where there are significant, regular cash payments.					
39	Obtain a list of payments done via the Treasury and for a sample of payments, ensure these relate to bona fide goods / services provided.					
	<b>Substantiation:</b> Recorded assets and liabilities are periodically compared with independent financial records.					
40	Obtain a list of all cash, investments and borrowings from the accounting system, and check whether they are in compliance with the regulation.					
	<b>Utilisation:</b> All liquid financial assets are utilised efficiently.					
41	Obtain and review the organisations investment and borrowing policy, and check this is in line with government regulations.					
42	Calculate the annual rate of return on major investments, compared to current interest rates, and investigate where returns are below expectations.					
43	Review the interest rates charged on major loans against current interest rates and consider the costs and benefits of early repayment.					

Auditor in charge: \_\_\_\_\_ Date: \_\_\_\_\_

Head of Internal Audit Unit: \_\_\_\_\_ Date: \_\_\_\_\_

## 5. REVIEW OF INCOME AND DEBTOR ARRANGEMENTS

### Introduction

This section covers the raising and recording of taxes and other charges of the subjects on central and local level on power, as well as the monitoring and collecting of debts due. It thus covers all aspects of income generation and collection except the cash receipting system, which is covered under cash and bank.

Subjects from the public sector on central and local level realize incomes comprises mainly revenue due from different forms of taxation, as well as amounts receivable in exchange for goods and services provided.

The Budget and the budget users presently use a cash accounting system. Under this system, it records in its accounts only cash received in a given period. However, in compliance with the accounting regulations these subjects should also produce a balance sheet. This means that budgets and budget users must record the balance of monies due but not received in a given period. These are known as debtors.

It is appropriate therefore that the budgets and budget users should record all charges raised (income), amounts received, and amounts due but not received (debtors). For the purpose of good management of an organisation, it is important to have robust procedures to monitor, control and collect debts due. It is therefore appropriate that internal audit, as a management function, assists the accounting officer to improve systems of control for income and debtors.

The system objective with respect to income and debtors is to ensure that invoices are raised promptly and accurately for all non-cash income due to the organisation, and this income is collected efficiently.

### Income

When referring to revenue of the subjects from the public sector on a central and local level we are referring to the following revenues:

- Domestic direct taxes
- Domestic indirect taxes
- Property taxes
- Charges and fees
- Sales of goods and services
- Revenues from property and government's investments / units of the local self government
- Other miscellaneous revenues
- Capital revenue (from sale of governments property / units of the local self government)

### Tax Assessments

Taxes are important source of domestic revenue. To realize the payment of taxes, subjects from the public sector on a central and local level must carry out a tax assessment, which involves four stages:



## Internal Audit Manual

- filing of returns or documents by the tax payer, or collection of particulars by the assessing authority;
- investigation of the facts by the assessing authority and application of the relevant law to compute the tax base,
- determination of deductions, exemptions or reliefs admissible, and
- calculation of the tax payable.

### Key controls over income

Different types of income require different systems for raising charges and collecting amounts due. These different systems will therefore exhibit different key controls.

Some key control over income from taxes and duties are given below.

- the inspection of goods or books of account for tax purposes, the assessment of taxes and duties, and their collection must be carried out by separate persons independent of each other;
- any reduction, exemption or relief of taxes and duties must be approved by responsible officials other than those who made the assessments;
- employees who inspect goods for tax purposes would not be allowed to fill out the declaration forms by themselves since this could create room for collusion and pave the way to manipulation;
- proper security controls should be operated to ensure that no goods leave the premises of a customs area without being taxed;
- all related documents should be kept in one place in order to facilitate collection of revenue; and
- there should be a continuous follow-up to ensure the prompt and accurate collection of taxes and duties.

Key controls over income from goods and services provided by the subjects from the public sector are shown below.

- there must be approved official rates and lists of charges for all services rendered;
- duties of staff should be segregated between the determination of the appropriate revenue and the actual collection;
- the collection, recording and accounting of revenues should be adequately controlled in order to prevent manipulation;
- in the case of services where customers have to make an initial deposit before receiving the service, controls should exist to prevent receipt without the appropriate prepayment; and proper registers should be maintained of all services provided; and
- amounts due from debtors should be properly accounted for, and proper procedures followed to ensure their speedy collection.

### **Debtors**

At any given time can happen to the subjects from the public sector on a central and local level that taxes and charges for services will have been raised by but not yet paid. This money due represent an asset of the subjects and should be safeguarded in the same manner as any other asset. It is important therefore that an accurate register of all debtors is maintained, that they

## Internal Audit Manual

are collected promptly and efficiently, and that appropriate action is taken to chase outstanding debts, and write off debts that can no longer be paid.

### The Role of Internal Audit in assessing income and debtors

Internal audit should assist the CFO by evaluating and recommending improvements to the control environment surrounding the organisation's systems for income and debtors. Types of generic controls for income and debtor systems are as follows:

- Segregation of duties
- Organisational
- Authorisation and approval
- Physical
- Supervision
- Personnel
- Arithmetical and Accounting
- Management

This section provides guidance to assist internal audit in a review of the income and debtor systems.

### Audit Objectives in income and debtor systems

The overall audit objectives with respect to an organisation's income and debtor systems are to ensure the completeness, accuracy, regularity and disclosure of income, and the completeness, existence, valuation, disclosure, security and substantiation of debtors.

<b>Audit Objective</b>	<b>Definition</b>
Completeness	All income and debtors relevant to the period of review have been recorded.
Existence	All debtors recorded are valid, exist and are likely to be paid.
Measurement / valuation	The recorded income and debtors have been correctly and accurately valued or measured. Debtor valuations reflect the likelihood of payment.
Regularity	All income has been raised in accordance with established laws and regulations.
Disclosure	Income and debtors have been properly classified and recorded in the organisation's financial records.
Security	All debts are pursued appropriately to ensure they remain a valid asset of the government.
Substantiation	Outstanding debtors are periodically verified to source records to ensure the debt remains valid.

The attached audit program for control tests provides guidance on tests that internal audit can conduct to evaluate the control environment for the income and debtor systems. However, it remains a matter of judgement for the auditor to assess the overall adequacy of cash

## **Internal Audit Manual**

management and banking arrangements in each organisation, dependant on the nature and culture of that organisation.

### **Direct Substantive Testing**

Where it has been determined, either through a weak Preliminary Systems Evaluation or testing of the control environment that adequate controls are not operating in practice, the auditor may decide to conduct some direct substantive testing. The purpose of this is two fold:

- To determine if any significant losses have occurred, and
- To contribute towards internal audit's assessment of the organisation's overall control environment.

The results of this work will either:

- provide assurance to management that there has not been any significant losses to the organisation as a result of a weak control environment, or
- provide evidence to management that the weak control environment has lead to significant losses, and thus prompt management to take appropriate action

The objective of substantive testing is to evaluate the adequacy and completeness of outputs rather than the operation of controls. For example, checking the amount actually paid to a supplier is the same as the amount on the invoice and on the purchase order. It is thus more detailed in its nature, more time consuming, and requires larger samples to gain the same level of assurance. However, errors discovered in substantive testing are more significant, as they usually represent a loss to the organisation, where as errors from controls test demonstrate a control failed to operate – but not necessarily that an error occurred.

The attached audit program for substantive tests provides a list of possible substantive tests the auditor may carry out to assess the organisation's income and debtors systems.

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<b>Overall system objective:</b>	INVOICES ARE RAISED PROMPTLY AND ACCURATELY FOR ALL NON-CASH INCOME DUE TO THE ORGANISATION, AND THIS INCOME IS COLLECTED EFFICIENTLY.		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Preliminary Control Risk:	Analytical Review Evidence:
	High / Medium / Low	High / Medium / Low	High / Moderate / Low

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
<b>COMPLETENESS</b> - All income and debtors relevant to the period of review have been recorded.							
Proper records are kept of all tax payers.	Lists of all tax payers for the organisation are kept up to date and periodically reviewed.						
	Appropriate files are kept for all tax payers either in paper or electronic format.						
Taxes due to the organisation are raised and recorded appropriately.	The number of tax assessments and tax invoices raised is reconciled to the number of tax payers on the list.						
	All tax payers for whom no assessment or charge is raised are checked to ensure there is a valid reason for this.						
	Tax assessment notices are sent to taxpayers without delay.						
	Records of all taxes due are recorded on an adequate						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	computerised system.						
	Adequate arrangements are made to feed data from the tax recording system to the organisation's financial managements system.						
Tax exemptions are valid.	Tax exemptions are only granted in accordance with statutory provisions.						
	Exemptions are checked (on a sample basis) by officers independent of the assessment and collection process.						
Tax receipts are compared to budgets.	Budgets for expected tax receipts are based on objective information, such as prior year receipts, changes in tax rates, tax base and collection rates.						
	Actual tax receipts are compared to budgets, by region, and significant variations investigated.						
	Percentage tax collection rates are monitored and recorded in management accounts. Poor or falling collection rates are investigated and appropriate action taken.						
	Tax revenues as a percentage of the overall tax base (e.g. VAT as						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	a percentage of sales) are compared to prior years. Significant changes are investigated.						
Customs taxes are levied appropriately.	Goods declared as imported are properly inspected.						
	Declarations are duly signed by the customs officials.						
	Proper security controls operate to ensure that no goods leave a customs area without being taxed.						
	There is proper authorisation and checking of duty-free goods.						
Suitable charges are made for all goods and services provided.	All staff has access to an official, published scale of charges, covering all services and goods provided.						
	The scale of charges is reviewed and approved each year by the management team / accounting officer or they agree the percentage increase to be applied.						
Invoices / Bills are raised promptly and accurately for all goods and	There is a target for the prompt issue of invoices. The achievement of this target is monitored and revised if						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
services provided.	necessary.						
	All invoices / bills are official serially numbered documents. These identify the individual who prepared them and their department. All invoices are periodically accounted for.						
	Segregation of duties exists between staff: <ul style="list-style-type: none"> <li>•raising invoices, collecting income and undertaking debt recovery</li> <li>•receiving post and raising invoices</li> <li>•raising invoices and those with access to the related goods or services</li> </ul>						
	There is a periodic income register, to ensure all recurrent income is invoiced. Amendments are made by staff other than those who raise invoices. Annual increases are checked to scale of charges or other prime documents.						
Receipts from goods and services are compared to budgets.	Suitable budgets are set for all potential income sources, based on objective and realistic expectations. These are disaggregated to a suitable level and monitored regularly.						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	Explanations are obtained for any unusually low income levels.						
<b>EXISTENCE</b> - All debtors recorded are valid, exist and are likely to be paid.							
Recorded debtors are valid assets of the organisation.	All recorded charges and taxes are supported by adequate documentation.						
	An established procedure exists for writing off debts when they are no longer regarded as collectable.						
	Bad debt write-offs are checked and approved by senior officers, and reported in the management accounts.						
<b>MEASUREMENT / VALUATION</b> - The recorded income and debtors have been correctly and accurately valued or measured. Debtor valuations reflect the likelihood of payment.							
All tax charges raised are calculated appropriately.	A tool for electronic calculation of taxes has been designed and is used where appropriate, based on collected information.						
	Manual tax calculations are checked by an independent officer.						
	Source documents used to carry out tax assessments are checked for authenticity and copies held on file.						



## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	There is adequate segregation of duties between the inspection of goods or books of account for tax purposes, the assessment of taxes and duties, and their collection.						
Taxes due are adequately recorded in the accounts of the organization.	Amounts of taxes due on the tax systems are periodically compared and reconciled to amounts on the organisation's accounting system.						
Charges for goods and services are correctly calculated.	Invoices / Bills are independently checked (at least on a sample basis) to ensure prices and accounting codes are correct.						
	Staff has access to procedure notes and are aware of their contents.						
Suitable computer access controls are used.	Passwords and user profiles are used to control access to information on the general ledger.						
	Passwords are changed at least every 6 months. Each member of staff has their own password and has been instructed not to give their passwords to any other person.						
	The computer system administrator should not use the						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	system or have access to any of the finance systems.						
Suitable bad debt provisions are made.	The organisation periodically reviews its debtors and makes a suitable provision against bad and doubtful debts.						
	Suitable aged debtor analysis is prepared for senior managers each month. Suitable information is produced regarding debt write offs.						
	Methods for calculating provisions are reasonable with regard to past collection rates, and are applied consistently.						
<b>REGULARITY</b> - All income has been raised in accordance with established laws and regulations.							
Tax calculations follow statutory provisions.	Adequate procedure notes have been written for all tax collectors to instruct them on their duties.						
	Adequate training has been provided in tax calculation and assessment.						
	Administrative instructions issued by the taxing authority are followed.						
	Tax assessments are reviewed by a senior officer, at least on a sample basis.						
<b>DISCLOSURE</b> - Income and debtors have been properly classified and recorded in the organisation's financial records.							

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
All income is appropriately recorded in the financial records.	The structure of income records in the government's chart of accounts matches the types of taxes and charges levied.						
	The coding of tax and other income on the accounting system is checked for accuracy and consistency.						
Debtors are properly recorded in the financial records.	Balance sheets show the net debt due. The costs of debt write offs and general provisions are shown against the organisation's management accounts.						
<b>SECURITY</b> - All debts are pursued appropriately to ensure they remain a valid asset of the government.							
There is an adequate system for collecting all taxes due.	Systems for recording tax charges raised and payments received record due dates appropriately.						
	Taxpayers are penalised for late payment and penalties are levied according to Revenue Authority regulations or the law.						
There is an appropriate debt recovery policy.	Procedures are adequately documented including guidance on suitable agreements to pay in instalments. All relevant staff have access to this.						
	Reminder letters are sent promptly to all debtors in line with policy and are accurately recorded. Automatically						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	reminders are sent for new/small debts.						
	There is an established procedure and legal provision for pursuing overdue debts through the courts.						
	Legal action is taken against over due debtors where deemed to be cost efficient.						
Credit is only provided to individuals where appropriate.	Goods and services are not provided on credit to individuals with significant debts owed to the organisation. Departments can check the total debt owed by individuals to the organisation.						
Debt write off is adequately controlled.	Appropriate authorisation is obtained for the write off of bad debts.						
	Senior officers receive regular reports on performance of debtor collection against agreed targets, and consider changing debt collection procedures where necessary.						
<b>SUBSTANTIATION</b> - Outstanding debtors are periodically verified to source records to ensure the debt remains valid.							
The validity of recorded over due taxes is properly confirmed.	Where possible, significant over due taxes are confirmed with tax payers (Note – liaise with external audit, who may carry out this test as part of their audit						

**Internal Audit Manual**

<b>Audit Objective. Control Objective</b>	<b>Key Controls Identified</b>	<b>Control Adequate to Meet Objective? (Y / N n/a)</b>	<b>Control Confirmed by Walk Through Test? (Y / N / n/a)</b>	<b>Control Test to Evaluate Operation of Control</b>	<b>Sample size for Test of Control</b>	<b>Results of Tests of Controls</b>	<b>Control Operates Adequately in Practice? (Y / N n/a)</b>
	testing).						
The validity of debtors is properly confirmed.	Where possible, significant debts are confirmed with debtors (Note – liaise with external audit, who may carry out this test as part of their audit testing).						

# Internal Audit Manual

Organization:

File no.

Audit period:

System:

Income and claims

Prepared by:		Date:	
Controlled by:		Date:	

<b>Overall objective:</b>	<b>FOR ALL CASH INCOME OF THE ORGANIZATION ARE ISSUED APPROPRIATE DOCUMENTS (INVOICES/ACCOUNTS) AND THESE INCOMES ARE EFFICIENTLY OBTAINED.</b>		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Control Risk:	
	High / Medium / Low	High / Medium / Low	

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTOR Y (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	<b>Completeness:</b> All income and debtors relevant to the period of review have been recorded.					
1	Check the list of tax payers / taxable bodies has been updated.					
2	Check a sample of files for tax payers to ensure adequate documentation is kept.					
3	Compare and reconcile (where possible) the number of tax payers to the number of tax invoices.					
4	Check that there is adequate reason for any tax payers not being sent tax invoices.					
5	Check the length of time between tax assessments conducted and tax invoices sent out.					
6	Check a sample of tax assessments to invoices and records of due amounts. Investigate any discrepancies.					
7	Compare amounts due on the tax system to amount of taxes due on the financial management system.					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTOR Y (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
8	Test the validity of tax exemptions in accordance with statutory provisions.					
9	Compare tax receipts for the period to budget, by region, and obtain explanations for significant variances.					
10	Enquire in to the methods used to estimate the budget for tax income, and consider whether this is reasonable.					
11	Recalculate the percentage tax collection rates for the period, check these are reported to management, and compare to previous periods.					
12	Calculate tax revenues as a percentage of the tax base, compare to previous periods and investigate significant changes.					
13	Observe the processes for assessing and levying customs taxes on imports. Ensure goods declared as imports are properly assessed.					
14	Inspect security at customs points and ensure goods imported can not leave the area without being inspected and assessed.					
15	Check that goods classed as duty free meet the statutory classifications for duty free goods.					
16	Check that prices are published (and annually updated / reviewed) for all services provided by the organisation.					
17	Calculate the percentage of invoices that are produced within timescales established by management, or within reasonable timescales.					
18	Check that invoices are consecutively numbered, and that					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTOR Y (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	all invoices can be accounted for.					
19	Check that invoices have been issued for items on the periodic income register.					
20	Enquire in to the methods used to estimate the budget for charges for goods and services, and consider whether this is reasonable.					
21	Compare revenues for the period to budget, by region, and obtain explanations for significant variances.					
	<b>Existence:</b> All debtors recorded are valid, exist and are likely to be paid.					
22	Check a sample of debtor balances to ensure adequate documentation is held to support the debt.					
23	Investigate significant write offs for bad debts and ensure there are adequate reasons (e.g. bankruptcy, court judgement, death).					
	<b>Measurement / valuation:</b> The recorded income and debtors have been correctly and accurately valued or measured. Debtor valuations reflect the likelihood of payment.					
24	Recalculate a sample of tax charges to ensure accuracy. Investigate any discrepancies.					
25	Check the adequacy and authenticity of source documents used for tax calculations.					
26	Check the calculation of the bad debt provision is in accordance with established procedures and consistent with prior years.					
27	Check the debtors recorded in the					



## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTOR Y (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	accounts is the net debt (total debt less write offs and provisions).					
	<b>Regularity:</b> All income has been raised in accordance with established laws and regulations.					
28	Check that taxes and service charges raised are done in accordance with relevant statutory provisions.					
	<b>Disclosure:</b> Income and debtors have been properly classified and recorded in the organisation's financial records.					
29	Check that tax invoices and receipts have been properly coded on the financial ledger.					
30	Check that the costs of debt write offs and provisions have been reflected in management information showing the cost of the service.					
	<b>Security:</b> All debts are pursued appropriately to ensure they remain a valid asset of the government.					
31	Check that the due dates recorded for taxes are in accordance with relevant laws and regulations.					
32	Check that penalties for late payment have been calculated and applied properly.					
33	Check that reminder letters for non-payment have been sent at the appropriate time.					
34	Check that significant overdue debts are being pursued appropriately, and investigate where this does not appear to be the case.					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTOR Y (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	<b>Substantiation:</b> Outstanding debtors are periodically verified to source records to ensure the debt remains valid.					
35	Obtain direct confirmation from debtors regarding the validity of over due debts (Note – liaise with external audit, who may carry out this test as part of their audit testing).					

Auditor in charge: \_\_\_\_\_ Date: \_\_\_\_\_

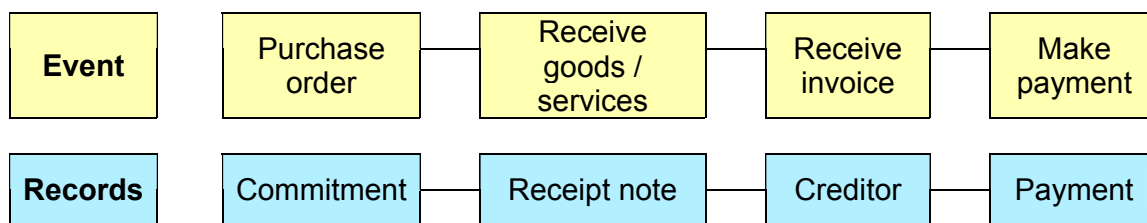
Head of Internal Audit Unit: \_\_\_\_\_ Date: \_\_\_\_\_

## 6. REVIEW OF PURCHASING AND PAYMENT PRACTICES

### Introduction

This section covers the purchasing, receiving and payments of goods and services by the subjects from the public sector. Hence, it covers all aspects of the system used by Government to acquire goods and services, except for those acquired through the use of public procurement procedures.

The system for acquiring goods and services can be illustrated as follows:



It thus covers the placing of orders, the receiving of goods and invoices and payments made in respect of these goods. It also covers the organisation's records relating to purchase, receiving and payment of goods/services.

One of the biggest problems in financial management in large public sector organisations is managing debts. A major cause of this is the lack of systematic procedures for recording all

## Internal Audit Manual

commitments and liabilities, which makes it harder for the organisation to plan its cash flow and manage its resources. Taken to its extreme, this is evidenced by cupboards full of unrecorded, accruing unpaid invoices; the organisation obtaining a reputation as a bad payer; and eventually companies and other organisations refusing to supply it with goods and services.

The risk of this is exacerbated by the use of a cash accounting system. Under this system, the Government records in its accounts only payments made in a given period. It does not record the value of goods ordered or received which have not yet been paid for. However, the Public Accounting Act also requires from budgets and budget users to produce a balance sheet. This implies the Government must record the value of goods and services received but not yet paid for in a given period. These are known as creditors.

It is appropriate therefore that the Government's systems record all goods and services received (expenditure), amounts paid, and goods and services received but not paid for (creditors). For the purpose of good management of an organisation, it is important to have robust procedures to record all purchases, commitments and payments due, in order to properly manage cash flow and resources. It is therefore appropriate that internal audit, assists the accounting officer to improve systems of control for purchases and payments.

The system objective with respect to purchases and payments is to ensure all goods and services required by the organisation are received, accounted and paid for efficiently.

### Key Controls over Purchase Orders

After expenditure votes have been made and budgets set, the purchase order is the first stage in the process of acquiring goods and services. This stage initiates a transaction and usually commits the organisation to a future liability. If accounting records are not complete and accurate at this stage, it becomes very difficult for the organisation to ensure that:

- all goods and services it requires are received
- only valid payments are made
- accurate records exist of the organisation's liabilities

Some key controls over purchase orders are:

- only authorised staff can place orders on behalf of the organisation
- all orders fall within the approved vote and budgets of the organisation
- adequate resources exist to meet the liabilities created
- all orders are completely and accurately recorded
- orders are matched to goods received and to invoices

### Key Controls over Receipt of Goods and Services

There should be an official order for all goods and services received by an organisation. When goods or services are received, the goods received note (GRN) should be matched to a valid, open order to ensure its validity. Goods received which do not relate to a valid, open order should be investigated carefully: accepting such goods may incur an obligation which has not been properly approved.

## Internal Audit Manual

Ensuring the complete recording of all goods and services is crucial to ensure that payments are only made for goods received. It is advisable to ensure that all goods received are signed for, and that the organisation and the supplier keep a copy of this receipt.

Some key controls over the receipt of goods and services are:

- all goods and services received are accompanied by a goods received note, copies of which are kept by the organisation and supplier
- all goods received are matched to an official order before being accepted; the order is marked as closed on the system
- goods received without an official order are checked for appropriate authorisation before acceptance
- all goods are checked for quality, quantity and specification before being accepted; the goods received note is signed for by an authorised officer
- goods are only delivered to approved locations which have adequate security.

### Key Controls over Payments

Payments for goods and services may be made by cash or direct bank transfer (Treasury). Security and efficiency are highest when using bank transfers, then cash. It is therefore recommended that organisations limit the use of cash payments where ever possible. However, for small payments and payments to small suppliers, cash may be the only feasible payment method.

The primary objective in the auditing of payments is to ensure that all payments have been properly authorised, recorded and made to the relevant supplier. In order to achieve this primary objective, it is necessary to ensure that:

- invoices received are matched to approved orders, marked as delivered
- invoices are checked, authorised for payment and stamped as 'PAID'
- payments are made to the right party for the right amount
- all the proper supporting documents are attached to the payment voucher
- the payment is correctly recorded in the accounting records
- all payments are correctly recorded under the appropriate budgetary heads and expenditure votes

Key controls over cash payments include:

- payments over specified limits are made by bank / treasury only, and imprest systems are used for petty cash payments
- there is proper segregation of duties among personnel e.g., authorising officers, paying officers (cashiers) and recording (accounting) personnel
- payment vouchers and supporting documents are examined before payment and approved by authorised officials
- safes or vaults are used for custody of cash
- there is adequate security over cashiers' offices
- there are proper procedures for the accurate recording of all cash payments.

## **Internal Audit Manual**

Key controls over bank payments include:

- proper procedures for the preparation of payment vouchers, including attachment of supporting documents and deduction of discounts, returns, etc
- adequate procedures for the receiving, recording, custody and issue of cheque books
- adequate rules and regulations governing the preparation of requests for Treasury payments, e.g. machine printed, officials authorised to sign, use of crossings, etc
- appropriate methods for transmission - by direct transfer to the payee's bank account, etc
- adequate procedures for the arrangement, storing and custody of all paid invoices and supporting documents for a specified period
- proper recording of all payments in the cash and bank books, monthly reconciliation with bank statements and follow-up of any uncleared items, all duties being properly segregated amongst staff.

### **Key Controls over Creditors and Commitments**

At any given time, goods and services will have been ordered or received by the organisation, but not yet paid for. Items ordered represent a commitment of the organisation; items received but not paid represent a creditor. The recording of commitments is useful for planning cash flow in an organisation, though commitments fall outside the scope of a normal accounting system. Commitment accounting and monitoring should only be used where the organisation perceives additional control is needed over its expenditure, for example if it has a history of incurring obligations which it can not meet.

Normally, organisations start to record accounting transactions when a good or service is provided. The accounting entry is usually prompted by the receipt of a good or service, or the receipt of an invoice for a good or service provided. At this point, when a good or service has been provided, the organisation has incurred a liability to make a future payment. It is essential for effective management of the organisation that it records, measures and monitors its liabilities, so it can make plans to honour these obligations in the future. It is important therefore that an accurate register of all creditors is maintained, so that they can be paid when due, to the correct party, and at the correct rate.

### **The Role of Internal Audit in purchase and payment systems**

The internal audit should assist the accounting officer by evaluating and recommending improvements to the control environment surrounding the organisation's purchase and payment systems. Types of generic controls for purchase and payment systems are:

- Segregation of duties
- Organisational
- Authorisation and approval
- Physical
- Supervision
- Personnel
- Arithmetical and Accounting

# Internal Audit Manual

- Management

This section provides guidance to assist internal audit in a review of the purchase and payment systems in the organization.

## Audit Objectives in Purchase and Payment Systems

The overall audit objectives with respect to an organisation's purchase and payment systems are to ensure the completeness, occurrence, measurement, regularity and disclosure of purchases and payments, and the completeness, valuation, ownership and disclosure of creditors and/or commitments.

<b>Audit Objective</b>	<b>Definition</b>
Completeness	All purchases, receipts, payments and creditors relevant to the period of review have been recorded.
Occurrence	All recorded orders and receipts actually occurred and were relevant to the period of review.
Measurement / valuation	The recorded purchases, payments and creditors have been correctly and accurately valued or measured.
Ownership	All recorded creditors are properly those of the audited body and arise solely from regular activities.
Regularity	Purchases and payments are in accordance with established laws and regulations that are in force
Disclosure	Purchases, payments and creditors have been properly classified and recorded in the organisation's financial records.

The attached audit program provides guidance on tests that internal audit can conduct to evaluate the control environment for the purchase and payment systems. However, it is a matter of judgement for the auditor to assess the overall adequacy of purchase and payment systems in each organisation.

## Direct Substantive Testing

Where it has been determined, either through a weak Preliminary Systems Evaluation or testing of the control environment, that adequate controls are not operating in practice, the auditor may decide to conduct some direct substantive testing. The purpose of this is two fold:

- To determine if any significant losses have occurred, and
- To contribute towards internal audit's assessment of the organisation's overall control environment.

The results of this work will either:

- provide assurance to management that there has not been any significant losses to the organisation as a result of a weak control environment, or
- provide evidence to management that the weak control environment has lead to significant losses, and thus prompt management to take appropriate action

The objective of substantive testing is to evaluate the adequacy and completeness of outputs rather than the operation of controls. For example, checking the amount paid to a supplier is the same as the invoiced amount.

## Internal Audit Manual

Hence it is more detailed, more time consuming, and requires larger samples to gain the same level of assurance. However, errors discovered in substantive testing are more significant, as they usually represent a loss to the organisation, where as errors from controls test demonstrate a control failed to operate – but not necessarily that an error occurred.

The attached audit program provides a list of possible substantive tests the auditor may carry out to assess the organisation's purchase and payment systems.

<b>Overall system objective:</b>	<b>ALL GOODS AND SERVICES REQUIRED BY THE ORGANISATION ARE RECEIVED, ACCOUNTED AND PAID FOR EFFICIENTLY.</b>		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Preliminary Control Risk:	Analytical Review Evidence:
	High / Medium / Low	High / Medium / Low	High / Moderate / Low

<b>Audit Objective. Control Objective</b>	<b>Key Controls Identified</b>	<b>Control Adequate to Meet Objective? (Y / N n/a)</b>	<b>Control Confirmed by Walk Through Test? (Y / N / n/a)</b>	<b>Control Test to Evaluate Operation of Control</b>	<b>Sample size for Test of Control</b>	<b>Results of Tests of Controls</b>	<b>Control Operates Adequately in Practice? (Y / N n/a)</b>
<b>COMPLETENESS</b> - All purchases, receipts, payments and creditors relevant to the period of review have been recorded.							
Appropriate orders are raised for all goods and services.	Official order books are held securely. Only staff authorised to place orders have access to the order records.						
	Orders are raised promptly on official order forms.						
All goods and services that have been ordered are received and used as required.	Adequate segregation of duties exists between staff authorised to order goods; those who receive them and those who have access to the payments system.						
	All goods are checked upon receipt against the official order (or						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	good received note) and their quality is checked; the invoice is then initialled and dated. Queries are documented and promptly raised with the supplier.						
	Goods received are held securely. Where appropriate a secure designated receiving area is used. All orders indicate where the goods should be delivered.						
Duplicate payments are avoided.	Checks are made to ensure that duplicate payments are avoided. Invoices are stamped PAID when input for payment; payments are only made from original invoices.						
	Appropriate computer reports are produced and investigated, e.g. same invoice value or order number paid to same supplier in last three months.						
All valid creditors are recorded on the creditors system.	Records of outstanding orders are checked periodically to ensure they are still open. Cancelled orders are marked as such on the order system.						
<b>OCCURRENCE</b> - All recorded orders and receipts actually occurred and were relevant to the period of review.							
All goods are received in full and relate to valid orders.	All goods received are checked to official purchase orders before the goods received note is signed.						
	Goods received are checked and signed for by appropriately						



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Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	authorised staff.						
<b>MEASUREMENT / VALUATION</b> - The recorded purchases, payments and creditors have been correctly and accurately valued or measured.							
Payments are made accurately and promptly for all goods and services received.	Adequate segregation of duties exists between staff who: •certify payments •account for creditor payments						
	All payments are certified. This is documented by initialling and dating the invoice, to confirm checks made on receipt; that received as ordered; and expenditure code is appropriate.						
	Lists are maintained of all staff authorised to certify invoices for payment.						
All payments for goods and services are adequately accounted for.	All payments give rise to an individual entry in the creditor payments system and can be traced to the relevant invoice.						
	Lists of all proposed payments (prepayment reports) are checked, initialled and dated by authorised staff before the payments are made. For at least a sample of these payments, checks are made that the value and payee are the same as on the invoice and the invoice has been properly authorised.						

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Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	Exception reports are produced of larger payments for particular checks. All payments over a certain value are individually signed or signed by a second person.						
<b>OWNERSHIP</b> - All recorded creditors are properly those of the audited body and arise solely from regular activities.							
All creditors are generated solely from appropriately authorised orders.	All orders are suitably authorised. Budget holders authorise orders to show that the goods or services are required and that a budget is available within their delegated limits.						
	Suitable levels of stocks are maintained. However, these should be minimised and no more than e.g. one month's supply should be held.						
	Amendments to standing data on creditors is adequately authorised and checked. Amendments to the creditor payments master file are suitably checked and authorised. Summary reports of all changes are periodically checked.						
	Checks are made to ensure no staff are set up as creditors.						
There are adequate access controls to the ordering and creditors	Passwords and user profiles are used to control access to information on the general ledger.						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
systems.							
	Passwords are changed at least every 6 months. Each member of staff has their own password and they have been clearly instructed not to give / share / tell their password to any other person.						
	The computer system administrator (the person who sets up new staff, changes profiles etc) does not use the system or have access to any of the finance systems.						
Transactions are in accordance with the appropriate delegated authority	There is an up to date authorised signature list for authorising purchase orders, payments and creditor write offs.						
<b>REGULARITY</b> - Purchases and payments are in accordance with established laws and regulations.							
Payments are made in accordance with payment terms.	Payments are made within an appropriate time scale with regard to prompt payment discounts and supplier terms of credit (30 days unless otherwise stated in the contract). Compliance with payment terms is reported to management at least quarterly.						
All payments relate to approved	All orders are approved by budget holders or managers under delegated authority. Orders						

## Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
expenditure heads.	indicate the budget head to which the purchase relates.						
	Budget holders review all expenditure charged to their budgets each month to ensure the expenditure falls within the approved vote.						
<b>DISCLOSURE</b> - Purchases, payments and creditors have been properly classified and recorded in the organisation's financial records.							
All transactions are properly recoded in the financial records.	The structure of expenditure records in the government's chart of accounts allows for the recording of types of expenditure incurred, by organisation and region.						
	All coding is checked for accuracy and consistency at least on one sample basis.						

# Internal Audit Manual

## AUDIT PROGRAM FOR SUBSTANTIVE TESTS

Organization:

File no.

Financial year:

System: purchase and payments

Prepared by		date	
Revised by		date	

<b>Overall objective:</b>	<b>ALL GOODS AND SERVICES REQUIRED BY THE ORGANISATION ARE RECEIVED, ACCOUNTED AND PAID FOR EFFICIENTLY.</b>		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Control Risk:	Analytical Review Evidence:
	High / Medium / Low	High / Medium / Low	High / Moderate / Low

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	<b>Completeness:</b> All purchases, receipts, payments and creditors relevant to the period of review have been recorded.					
1	For a sample of payments, ensure: <ul style="list-style-type: none"> <li>•each relates to a bona fide good or service needed by the organisation</li> <li>•the payment is supported by an official invoice</li> <li>•there is evidence (e.g. GRN) of the goods being received</li> <li>•the GRN relates to any appropriately authorised order</li> </ul>					
2	For any payments tested which can not be traced back to an authorised order, investigate and check that the payment has been properly authorised and seek evidence of a good or service provided.					
3	Observe the receipt of goods in a designated receipting area. Ensure that all goods are being adequately checked and counted before being signed for.					
4	Check adequate security facilities exist at designated receipting areas.					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
5	Interrogate the computer payments system for evidence of payments made to same supplier for same amount or same order number. Investigate for duplicate payments.					
6	Interrogate the purchase order system for old, outstanding orders. Enquire with the person raising the order whether the order is still open or whether it has been cancelled. Ensure cancelled orders are marked cancelled on the system.					
	<b>Occurrence:</b> All recorded orders and receipts actually occurred and were relevant to the period of review.					
7	Check a sample of GRNs back to official orders. Ensure the descriptions, quantities and prices match.					
8	Check GRNs are not signed for by the person who authorised the order.					
	<b>Measurement / valuation:</b> The recorded purchases, payments and creditors have been correctly and accurately valued or measured.					
9	Test the pricing calculations on a sample of invoices. Ensure the payments made were for the right amount. Investigate any discrepancies between invoice prices and quoted order prices.					
10	Where there are goods returned to suppliers, overpayments or overcharging, ensure that suppliers have issued appropriate credit notes and these have been recorded as debit entries on the creditors system.					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
11	Interrogate the system for payments over a certain value, and ensure they are for bona fide goods or services.					
	<b>Ownership:</b> All recorded creditors are properly those of the audited body and arise solely from regular activities.					
12	Obtain the latest budget reports for the organisation and analyse for any (pro-rata) areas of over spending or near overspending on goods and services. Investigate levels of outstanding orders on these budget heads, and consider whether total spending plus commitments is greater than the approved budgets.					
13	For areas of overspending identified, enquire of management about actions taken to rectify overspending.					
14	Investigate levels of major stocks held compared to current usage rates. Discuss with management where stock holding does not appear to be in line with usage.					
15	Review standing data on the creditors system. Check that recent amendments to data are bona fide and that supporting documents are held to validate new suppliers.					
	<b>Regularity:</b> Purchases and payments are in accordance with established laws and regulations.					
16	Review a sample of payments and ensure that payments are made by the due date. Ensure that prompt payments discounts have been taken where appropriate.					
17	Review latest budget reports and obtain a breakdown of goods and services under each budget head.					

# Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	Test a sample to ensure the expenditure has been charged to the correct budget head and expenditure vote.					
	<b>Disclosure:</b> Purchases, payments and creditors have been properly classified and recorded in the organisation's financial records.					
18	Check a sample of purchases has been properly coded on the financial ledger.					
19	Check that credit notes received have been deducted from the cost of service in management information / budget reports.					

Auditor in charge: \_\_\_\_\_ Date: \_\_\_\_\_

Head of Internal Audit Unit: \_\_\_\_\_ Date: \_\_\_\_\_



## 7. REVIEW OF PAYROLL AND EXPENSE ARRANGEMENTS

### Introduction

This section of the Manual covers payroll, allowances and expense payments for employees. Payroll usually represents the largest proportion of an organisation's expenditure, and is an area where good controls are essential to prevent fraud and corruption.

Payroll systems usually incorporate payments that are made direct from employees' payroll such as personnel income tax and pension contributions. The accuracy of these payments is therefore also covered by internal audit work on payroll systems.

The system objective with respect to payroll and expenses is to ensure that current employees are paid accurately and promptly.

### Key controls over payroll and expenses

The most important controls in a payroll system are to ensure segregation of duties between the personnel function (responsible for hiring new staff and setting salary rates) and the payroll function (responsible for administering payroll payments), and to ensure prompt and accurate budget reports are distributed to all budget holders showing the payroll costs charged to their budget.

Payroll is an area where computer based controls checks and computer based audit techniques can usefully be employed. For example, if all payroll payments are processed on a single computer payroll system, it is possible to download the payment file in to a database and interrogate it for duplicate names and addresses, payments over particular values, allowances over a particular percentage of salaries etc. It is also possible to run cross checks between the payroll system data and personnel system data, and reconcile the two.

### The Role of Internal Audit in assessing payroll and expense systems

Types of generic controls for payroll and expense systems are as follows:

1. Segregation of duties
2. Organisational
3. Authorisation and approval
4. Physical
5. Supervision
6. Personnel
7. Arithmetical and Accounting
8. Management

This section of the manual provides guidance to assist internal audit in a review of the payroll and expense systems in the institution.

### Audit Objectives in Payroll and Expense systems

The overall audit objectives with respect to an organisation's payroll and expense systems are to test the completeness, occurrence, measurement/evaluation, regularity and disclosure of all payments for employees.

# Internal Audit Manual

<b>Audit Objective</b>	<b>Definition</b>
Completeness	all payments relevant to the period of review have been recorded;
Occurrence	all recorded payments, and transactions to which they relate, actually occurred and were relevant to the period of review;
Measurement / Evaluation	the recorded payments have been properly calculated;
Regularity	all payments are in accordance with relevant legislation and other specific requirements'
Disclosure	all payments have been properly classified and allocated to the appropriate expenditure votes, as they were foreseen with the budget.

The attached audit program provides guidance on tests that internal audit can conduct to evaluate the control environment for the payroll and expense systems. However, it remains a matter of judgement for the auditor to assess the overall adequacy of payroll and expense systems in each organisation, dependant on the nature and culture of that organisation.

## Direct Substantive Testing

Where it has been determined, either through a weak Preliminary Systems Evaluation or testing of the control environment that adequate controls are not operating in practice, the auditor may decide to conduct some direct substantive testing. The purpose of this is two fold:

- 1.To determine if any significant losses have occurred, and
- 2.To contribute towards internal audit assessment of the organisations' overall control environment.

The results of this work will either:

- 1.provide assurance to management that there has not been any significant losses to the organisation as a result of a weak control environment, or
- 2.provide evidence to management that the weak control environment has lead to significant losses, and thus prompt management to take appropriate action.

The objective of substantive testing is to evaluate the adequacy and completeness of outputs rather than the operation of controls. For example, checking the amount actually paid to an employee is the same as the amount stipulated on his / her contract. It is thus more detailed in its nature, more time consuming, and requires larger samples to gain the same level of assurance. However, errors discovered in substantive testing are more significant, as they usually represent a loss to the organisation, where as errors from controls test demonstrate a control failed to operate – but not necessarily that an error occurred.

The attached audit program with substantive tests provides a list of possible substantive tests the auditor may carry out to assess the organisation's payroll and expense systems.

# Internal Audit Manual

## AUDIT PROGRAM FOR CONTROL TESTS

Organization:

File no.

Financial year:

System: Payroll and Expense costs

Prepared by		date	
Revised by		date	

<b>Overall system objective:</b>	<b>Current employees are paid accurately and promptly</b>		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Preliminary Control Risk:	
	High / Medium / Low	High / Medium / Low	

Audit Objective. <b>Internal Objective</b>	<b>Key Controls Identified</b> <b>Audit Manual</b>	Control Adequate to Meet Objective?  (Y / N n/a)	Control Confirmed by Walk Through Test?  (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice?  (Y / N n/a)
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**COMPLETENESS** – All payments relevant to the period of review have been recorded

All payroll and expense payments made promptly.	A check is made on changes to the number of staff on the payroll compared with the last period. On each payroll / section of payroll the number of staff paid is reconciled with the previous month (or week) and the changes included within authorised data input.						
	A register is maintained of all expense claims received. All expense claims are recorded on the system as soon as they are received, and are marked as paid as soon as they are paid.						

**OCCURRENCE** - All recorded payments, and transactions to which they relate, actually occurred and were relevant to the period of review.

Suitable control accounts are used to validate total payments.	The output from payroll is reconciled to the input totals in the general ledger through the use of suitable controls.						
	The total debits / credits to the payroll system are compared to those posted to the general ledger. If the control account does not balance this is investigated and suitable action taken to ensure that this is corrected. The reconciliation is promptly reviewed. Preparers and reviewers initial and date all reconciliations.						
	Total payments						

# Internal Audit Manual

## AUDIT PROGRAM FOR SUBSTANTIVE TESTS

Organization:  
 Financial year:  
 System:

File no.

Payroll and Expense costs

Prepared by		date	
Revised by		date	

<b>Overall objective:</b>	<b>CURRENT EMPLOYEES ARE PAID ACCURATELY AND PROMPTLY</b>		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Control Risk:	
	High / Medium / Low	High / Medium / Low	

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	<b>Completeness:</b> All payments relevant to the period of review have been recorded					
1	Compare and reconcile number of payments made in consecutive periods. Investigate discrepancies.					
2	Check a sample of expense payments have been paid once and only once.					
	<b>Occurrence:</b> All recorded payments, and transactions to which they relate, actually occurred and were relevant to the period of review					
3	Reconcile payroll output totals to general ledger input totals. Investigate any discrepancies.					
4	Reconcile payroll output totals to payroll figures recorded on the bank statement.					
5	Check a sample of payroll payments to the staffing establishment lists of the employees. Ensure payments are for the correct amount and have been made to the correct employees.					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
6	Produce / obtain a list of total expense payments for the period by employee. Review the list to assure in the reasonableness and investigate any significant payments made based on higher qualifications and responsibilities.					
	<b>Measurement and evaluation:</b> The recorded payments have been properly calculated.					
7	Take a sample of starters and leavers, check there is adequate authorisation from the personnel department. Check whether payments start and finish on the correct dates.					
8	Check amendments to standing data to source records, e.g. changes in salary rates, staff salary levels, expense rates.					
9	Check a sample of standing data on the pay roll system to source documents.					
10	Where cash payments are used, check a sample of payments to amounts recorded on the payroll system.					
11	Interrogate the system to produce lists of payments for further investigation, including: <ul style="list-style-type: none"> <li>•gross greater than given percentage of basic pay, as it is ascertained in the legislation</li> <li>•gross pay greater than a given limit</li> <li>•net pay greater than the given limit</li> <li>•salary above the grade maximum</li> <li>•overtime greater than a given limit</li> <li>•allowances greater than a given limit</li> <li>•cash payments greater than a limit.</li> </ul>					
12	Review the budget reports for the organisation and check that the staff					

# Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	costs charged to the budget relate only to bona fide employees. Check that total staff budget costs are within the approved expenditure vote.					
	<b>Regularity</b> - All payments are in accordance with relevant legislation and other specific requirements.					
13	Review of sample of deductions from payroll (e.g. income tax, pension payments) and check these have been calculated in accordance with existing legislation.					
14	Check that monthly / annual totals transferred to the tax authorities agree to the tax authority's records.					
15	Check any other payroll deductions to appropriate source records.					
16	Check the rates at which expenses have been paid agree to appropriate legislation.					
17	Check a sample of expense claims to appropriate supporting documentation.					
18	Check that any foreign travel expenses claimed are supported by adequate documentation and appropriate approval for the trip.					
	<b>Disclosure</b> – all payments have been properly classified and allocated to the appropriate expenditure votes as they were foreseen with the budget.					
19	Check that a sample of payroll transactions has been coded correctly on the financial ledger.					

Auditor in charge: \_\_\_\_\_ Date: \_\_\_\_\_

Head of Internal Audit Unit: \_\_\_\_\_ Date: \_\_\_\_\_

## 8. REVIEW OF STORES AND PROPERTIES SYSTEMS

### Introduction

This section of the manual covers the recording and management of stores and properties. Stores include all items of stock held by the organisation for resale, distribution or production of other goods and services. Properties include all fixed and movable assets held by the organisation for long term benefit, being mainly: land, buildings, vehicles, machinery, computer equipment, fixtures and fittings.

This section of the manual therefore covers the majority of the Public sector's non-monetary assets.

### The Role of Internal Audit in stores and properties

The responsibilities of internal audit in relation to these assets are to audit the system of internal control in managing stores, stock and properties.

It is appropriate that systems are in place to record all stores and properties of the organisation. For the purpose of good management, it is important to have robust procedures to control and safeguard assets, and to ensure they are utilised effectively. It is therefore appropriate that internal audit, as a management function, assists the accounting officer to improve systems of control for stores and properties.

Based on organisation's property records, the internal audit should make additional tests with aim to confirm the completeness, existence, valuation, ownership and disclosure of the organisation's property.

Types of generic controls useful for stores and property systems are as follows:

1. Segregation of duties
2. Organisational
3. Authorisation and approval
4. Physical
5. Supervision
6. Personnel
7. Arithmetical and Accounting
8. Management

This section manual provides guidance to assist internal audit in a review of the stores and property systems in the institution.

### Audit Objectives in Stores and Property Systems

For the management of the organisation's stores and property, the system objective is to ensure that all stores and properties are properly safeguarded, verified and utilised effectively.



## Internal Audit Manual

<b>Audit Objective</b>	<b>Definition</b>
Security	All stores and properties are held securely.
Substantiation	Stores and properties are periodically verified to ensure they exist and that any impairments are reflected in their valuations.
Utilisation	All stores and properties are utilised effectively.

The attached audit program of the control tests provides guidance on tests that internal audit can conduct to evaluate the control environment for managing stores and property.

### Direct Substantive Testing

Where it has been determined, either through a weak Preliminary Systems Evaluation or testing of the control environment that adequate controls are not operating in practice, the auditor may decide to conduct some direct substantive testing. The purpose of this is two fold:

- 1.To determine if any significant losses have occurred, and
- 2.To contribute towards internal audit's assessment of the organisation's overall control environment.

The results of this work will either:

- 1.provide assurance to management that there has not been any significant losses to the organisation as a result of a weak control environment, or
- 2.provide evidence to management that the weak control environment has lead to significant losses, and thus prompt management to take appropriate action.

The objective of substantive testing is to evaluate the adequacy and completeness of outputs rather than the operation of controls. For example, checking that all assets recorded on an accounting officer's statement exist and are effectively utilised by the organisation. It is thus more detailed in its nature, more time consuming, and requires larger samples to gain the same level of assurance. However, errors discovered in substantive testing are more significant, as they usually represent a loss to the organisation, where as errors from controls test demonstrate a control failed to operate – but not necessarily that an error occurred.

The attached audit program for substantive tests provides a list of possible substantive tests the auditor may carry out to assess the organisation's stores and property systems.

# Internal Audit Manual

## AUDIT PROGRAM FOR CONTROL TESTS

Organization:  
 Financial year:  
 System:

Store and Property

File no.

Prepared by		date	
Revised by		date	

<b>Overall system objective:</b>	<b>ALL STORES AND PROPERTIES ARE PROPERLY SAFEGUARDED, VERIFIED AND UTILISED EFFECTIVELY.</b>		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Preliminary Control Risk:	
	High / Medium / Low	High / Medium / Low	

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
<b>SECURITY</b> - All stores and properties are held securely.							
The list of assets is accurate and up to date.	A designated officer is responsible for maintenance of the fixed asset register. This is kept on a secure computer system and only authorised officers can amend data.						
	All purchases and disposals of fixed assets are recorded on the asset register.						
	Adequate computer systems are used to record the receipt and issue of all stock.						
The list of assets provides sufficient information to assist	All property is assigned an owner (individual for computers, vehicles etc, division for machinery, buildings, land) who is held responsible for						

# Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
and enhance security.	the security / substantiation / utilisation of that asset.						
	The accounting officer's list of assets records the location of all non-moveable property.						
	All property is given a unique security reference, marked on the property, and recorded on the asset register.						
	The stock register records the location of all stocks, and each location is under the delegated responsibility of an authorised employee.						
All fixed assets are held securely.	Security arrangements at all locations are appropriate to the value of property held there.						
	Property losses are reported to managers and investigated promptly.						
All stocks are held securely.	There is adequate physical security at storage units, including locks, alarms, security guards and restricted access.						

**SUBSTANTIATION** - Stores and properties are periodically verified to ensure they exist and that any impairments are reflected in their valuations.

# Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
Stock levels are regularly verified.	There are properly controlled, periodic stock takes under taken management. These compare the level of each type of stock in store to the level recorded on the computer systems. Differences are properly investigated.						
	Stock takes consider the valuation of stock, and ensure that stock is valued in accordance with the Government's accounting policy.						
	For significant stores, an annual stock take is undertaken by an independent body (usually external audit).						
Fixed assets are periodically verified.	Management has implemented a rolling program of asset verification, checking that all assets on the list are still held by the organisation. The frequency of checks takes in to account the value of the asset and the risk of						

# Internal Audit Manual

Audit Objective. Control Objective	Key Controls Identified	Control Adequate to Meet Objective? (Y / N n/a)	Control Confirmed by Walk Through Test? (Y / N / n/a)	Control Test to Evaluate Operation of Control	Sample size for Test of Control	Results of Tests of Controls	Control Operates Adequately in Practice? (Y / N n/a)
	misappropriation						
	Asset verification considers the present state and usefulness of the asset against its present value, and ensures the asset's valuation is in accordance with the legislation.						
<b>UTILISATION</b> - All stores and properties are utilised effectively.							
Stock holdings are kept at an appropriate level.	Management considers the cost of holding stock, risk of loss and average usage levels, to determine an optimum minimum and maximum stock level.						
	All write offs, losses and impairments of assets are charged to the accounts of the appropriate division.						

# Internal Audit Manual

## AUDIT PROGRAM FOR SUBSTENTIVE TESTS

Organization:  
 Financial year:  
 System:

Store and Property

File no.

Prepared by		date	
Revised by		date	

<b>Overall objective:</b>	<b>ALL STORES AND PROPERTIES ARE PROPERLY SAFEGUARDED, VERIFIED AND UTILISED EFFECTIVELY.</b>		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Control Risk:	
	High / Medium / Low	High / Medium / Low	

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	<b>Security:</b> All stores and properties are held securely.					
1	Review the list of fixed assets and check that it is up to date and contains details such as location, owner, security number.					
2	Check that recent amendments to the register have been made by authorised staff.					
3	Obtain a list of fixed asset purchases and ensure these have been input on the asset register.					
4	Review the asset register for disposals and sale of assets. Ensure there is adequate authorisation and reason for asset disposals.					
5	Ensure that proceeds from the sale of assets are appropriate considering the asset's value, and that the proceeds have been credited to the					

## Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	organisation's bank account.					
6	Test that a sample of stock receipts and issues have been correctly recorded on the stock system, with regard to quantity, valuation and location.					
7	Visit a sample of locations and check that security arrangements for fixed assets are adequate for the value of assets held there.					
8	Enquire in to any cases of property losses and ensure that management investigated and responded appropriately.					
9	Visit storage facilities and ensure that security arrangements are adequate for the value of stocks held there (e.g. locks, alarms, security guards, restricted access).					
	<b>Substantiation:</b> Stores and properties are periodically verified to ensure they exist and that any impairments are reflected in their valuations.					
10	Obtain the list of fixed assets and seek to verify the existence of a sample of assets. Stratify the list into subgroups of assets with high, medium and low risk of loss. Sample from each sub group separately, focusing on larger value items.					
11	Ensure that any impairment in the asset is reflected in its valuation.					
12	Attend a stock take and ensure that stocks are counted and valued appropriately.					
13	Review stock taking arrangements to ensure they are robust.					
14	Ensure stock is not double counted or					

# Internal Audit Manual

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	incorrectly categorised to cover up losses.					
15	Obtain stock sheets and recount a sample to ensure accuracy.					
16	Review the method for valuing stock and ensure this is in line with the legislation					
17	Examine any damaged or obsolete stock and ensure these are marked as such on the stock sheets. Ensure these are valued appropriately.					
	<b>Utilisation:</b> All stores and properties are utilised effectively.					
18	Compare the level of stocks held at stores to the average usage levels. Where excessive stock appears to be held, consider the value of capital tied up in stock and report the interest cost to management where significant.					

Auditor in charge: \_\_\_\_\_ Date: \_\_\_\_\_

Head of Internal Audit Unit: \_\_\_\_\_ Date: \_\_\_\_\_



# 9. REVIEW OF THE PUBLIC PROCUREMENT PROCEDURES

## Introduction

This section of the manual covers the public procurement of goods and services that are regulated with the Law for public procurement and by laws. Very often are made changes in value limits and procurement procedures, so that these directions can be used only after will be consolidated with the current legislation.

Take into consideration that provisions from the Law for public procurement do not refer to the purchase of equipment and stocks for state defence and security (like the Ministry of Defence).

According to the Law for public procurement, procurement procedures should be implemented when buying goods or services for which is expected that will cost more than 3000 euros. It is expected gains to be bigger than the costs of the procedure.

The Law for public procurement forbids the purchase to be separated on parts with aim to avoid the public procurement procedures or other legal limitations.

The rules for procurement should not be considered as a group of rules that must be respected, but as a possibility the organization to get higher value for invested money. For an example, during the year, several suppliers can implement group purchase and all together to procure equipment or office material in value of 10 million denars. Taken as a group, there is significant possibility these suppliers to work together to embody one procurement with much lower price and on that way to save significant resources for own organization.

## Audit risk and sampling

Public procurements in the organization usually are characterized with small number of procurements with high amount that are executed every year. The usual method for taking samples that is consisted of the internal audit – attributive sampling – is not suitable for this case, because risks are specific for every purchase. Because of this, usually the whole testing of the procurements should be done through selection of key units – focusing on those purchases that are:

- with high value;
- with strategic importance for the organization;
- politically sensitive;
- with high risk for failure of the purchase.

This will probably direct the focus mainly to purchases that are subject to national or international public tenders.

## Internal Audit Manual

The procurement process in these cases usually should include the following steps:

	Time (weeks) (Min./Max.)	Total spent time (cumulative weeks) (Min./Max.)
Defining the specifications or the procurement conditions		
If needed, getting approval		
Preparation of tender documentation		
Approval of the tender documentation from the Commission for public procurement		
Advertisement of the tender		
Arrival of offers and tender opening		
Offer assessment		
Investigation and approval from the Commission for public procurement		
Reviews and approvals from authorised person		
Reporting for the choice of best bidder		
Concluding contract		

This table should give directions that will help the auditor to understand the procurement process in the Republic of Macedonia, and the time frame for each separate step in the procedure should be determined in compliance with the regulation, internal act of the organization and specifications of the procurement.

### Control objectives

Control objectives for the public procurement procedures are as follows:

- Clear justification for the need of the goods or services;
- Goods or services are procured with lowest prices;
- Goods or services are received when they were needed;
- Procured goods or services are with appropriate quality and accurate specification.

The internal audit should help to the high management through assessment and giving recommendations for improvement of the control environment where is implemented the public procurement process. The types of basic controls that are used in the public procurement system are:

- Segregation of duties;
- Organization;
- Authorization and approval;
- Physically;
- Supervision;
- Personnel;
- Arithmetic and accounting;
- Managerial.

This part of the manual gives directions to help the internal audit during the audit of the public procurement system in the organization.

# Internal Audit Manual

## Audit objectives of public procurement systems

General audit objectives of the public procurement systems in the organization are to confirm that purchases are done economically, efficiently and effectively.

<b>Audit objective</b>	<b>Definition</b>
Economy	All inputs in the process are provided of the most economy way in relation to the specifications for the cost and the quality;
Efficiency	Given inputs in the process transfer in results on the most efficient way;
Effectiveness	Results from the process are designed to be compatible as much as possible with the general goals of the organization.

The attached audit program for audit provides guidance on audit tests that should be done to assess the control environment of the public procurement system. Still remains the auditor to decide for the adequacy of the public procurement system in every organization.

### Substantive tests

Where will be decided to be necessary, whether through previous assessment of the systems or through testing of the control environment that adequate controls are not implemented, the auditor can decide to perform several direct substantive tests. The objective of these tests is:

- to determine whether occurred some significant losses, or
- to contribute for the complete appraisal for the whole control environment in the institution.

Results from this will provide:

- assurance for the management that no significant losses happened for the institution as a result of the weak control environment, or
- proofs for the management that the weak control environment brought to significant losses and hence recommends to the management to undertake appropriate activities.

The objective of the substantive tests is to assess the adequacy and the completeness of the results, and not the working of the controls. For example, the check whether detailed regulations for procurements have been implemented for specific procurements. Hence, the more tests are detailed, the more time they need for realization and bigger number of samples for achieving of same level of assurance. However, errors that are discovered through substantive tests are more important, because mostly they show loss for the institution, than errors discovered through control tests that show that controls are not functioning properly – but not that an error occurred.

The attached audit program for substantive tests provides a list of possible substantive tests that the auditor can make in order to assess the procurement systems in the institution.

# Internal Audit Manual

Organization:  
 Financial year:  
 System:

Public procurement

File no.

Prepared by		date	
Revised by		date	

## ANNEXES

### AUDIT PROGRAM FOR AUDIT OF PUBLIC PROCUREMENTS

#### CONCLUSIONS<sup>3</sup>

	OBJECTIVE	result SATIS- FACTORY (Y / N)	initials	date	wp ref.
	<b>System Objective:</b>				
	All goods and services that are necessarily for the organization are provided economy and timely and they are with adequate specification and quality.				
	<b>Control objectives:</b>				
A	There is clear justification for the need for the goods and services.				
B	Goods and services are provided with lowest prices.				
C	Goods and services are provided when they are needed.				
D	Purchased goods and services are with adequate quality and exact specification.				

	Good	Reasonable	poor
The overall procedure for public procurement of the organisation is:			

Auditor in charge: \_\_\_\_\_ Date: \_\_\_\_\_

Head of Internal Audit Unit: \_\_\_\_\_ Date: \_\_\_\_\_

<sup>3</sup> The table with conclusions is filled after will be gathered enough evidences and information based on questionnaires and tests prepared in compliance with directions given in continuance.

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Organization:  
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## A. Clear justification exists for the need for goods and services

	OBJECTIVE	result (Y/N)	initials	date	wp ref.
<b>A1</b>	<b>Strategic approach exists towards procurements.</b>				
1.1	The organization has a strategy for procurements that covers the whole process for purchase of goods and services form other subjects.				
1.2	The procurement strategy shows clear relation between the objective of the procurements and the organizational objectives.				
1.3	A written procedure exists that covers the procurements and all employees are familiarized with its content.				
<b>A2</b>	<b>Bigger procurements are respectively planned.</b>				
2.1	The annual process of planning includes prognosis of the need for goods and services, including time frame assessment.				
2.2	The organization prepares procurement plan for those goods and services for which there is enough money in the adopted budget or they are budgeted for the following years.				
2.3	For all bigger procurements or services that are given to external companies there is a document (study) for economical justification.				
2.4	The document for economical justification identifies and assesses the options for achieving the objectives of the activity for which the procurement should be made and reviews different methods for procurements such as common procurements with other				

# Internal Audit Manual

	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
	organizations.				
2.5	The document for economical justification is presented and approved by the high management before the procurement is implemented.				
<b>A3</b>	<b>There is respective Commission for public procurements.</b>				
3.1	In the organization is established a Commission for public procurements. Its members, appointment and procedures are in compliance with the Law for public procurements.				
3.2	The Commission for public procurements has working manual or document for the conditions for work, where are given the obligations, responsibilities and limitations of the authorizations.				
3.3	All members of the Commission for public procurement are familiarized with the conditions for work and trained/involved in the procurement process.				

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## B. Goods and services are purchased with lowest prices.

	OBJECTIVE	result (Y/N)	initials	date	wp ref.
<b>B1</b>	<b>Most appropriate selection procedures are used.</b>				
1.1	The Commission for public procurement is familiarized with regulations for procurements for the organization and it implements them in tender procedures.				
1.2	When is used a procurement from one exclusive source, the institution that makes the procurement also records the reason for that and requires approval from the Bureau for public procurements within the Ministry of Finance.				
<b>B2</b>	<b>Goods and services are provided in most economy quantities.</b>				
2.1	The organization reviews the possibility for accepting a contract for shipment in the moment when there is a need with aim not to create excessive stocks.				
2.2	The organization made an assessment for the optimal quantity for purchase with aim to get the best price from suppliers.				
<b>B3</b>	<b>The organization is actively using group supplies with other organizations.</b>				
3.1	The organization investigated whether some other organization provides similar goods or services and requests procedure for group supply.				
<b>B4</b>	<b>The organization has established adequate relations with all bigger suppliers.</b>				

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	OBJECTIVE	result (Y/N)	initials	date	wp ref.
<b>B1</b>	<b>Most appropriate selection procedures are used.</b>				
1.1	The Commission for public procurement is familiarized with regulations for procurements for the organization and it implements them in tender procedures.				
4.1	The organization tried to make frame contracts with suppliers from which often purchases similar goods.				
4.2	The organization concludes adequate contracts for determination of prices / guarantee for the price stability from suppliers, for example to get a discount if the goods can be found on other place with cheaper prices; or to ascertain prices that are subject of change depending of the season.				
4.3	When possible, the organization uses methods for electronic purchases in order to minimize the transaction costs.				
<b>B5</b>	<b>The organization has adequate knowledge for the market of own customers.</b>				
5.1	The organization / Bureau for public procurements prepared a list of certified suppliers for different types of goods and services. Regularly it reviews the quality of their products and their financial condition.				
5.2	The Government actively reviews programs with which can enable to suppliers an access to markets for which is considered that does not have enough choice and competition.				



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## C. Goods and services are received when they are needed.

	OBJECTIVE	result (Y/N)	initials	date	wp ref.
<b>C1</b>	<b>Needs for procurements should be adequately planned.</b>				
1.1	Annual plans and documents for economy justification include the time frame for planned distribution of goods and services.				
1.2	Plans include adequate costs for execution of procurement procedures.				
<b>C2</b>	<b>Big projects / procurements are adequately managed.</b>				
2.1	Responsible person is appointed for projects/procurements management.				
2.2	Adequate plans exist for managing every bigger contract.				
2.3	Project managers are adequately trained / have knowledge for methodology for project management.				
2.4	Project plans include time frame for bigger activities, dead lines for the key results and key moments in the project				
2.5	During the project, several adequate controls exist.				
2.6	Project plan identifies all bigger risks and the measures that will be undertaken for decreasing, insuring, transfer or accepting of these risks.				
2.7	Adequate external advice is required when the project team does not have the necessary knowledge or experience for project management.				
<b>C3</b>	<b>The work of suppliers is reviewed.</b>				

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	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
3.1	The organization / Government follows the work of the suppliers in relation of timely delivery and accomplishment of dead lines of the projects.				
3.2	The organization has adequate plans for unforeseen situations in case if suppliers are not in position to deliver the goods or services that are crucial for the work of the organization.				
3.3	Contracts with suppliers include provisions for decreasing the price in cases when the supplier will not deliver in the dead line defined in the contract.				
<b>C4</b>	<b>Adequate procedures exist for ordering goods for stock.</b>				
4.1	Adequate systems are used for recording and monitoring of the levels of goods on stock.				
4.2	Lowest levels for stocks are set up and if they are reached the organization orders new goods for stock. These lowest levels are determined by calculation of costs for order for goods for stock, average rates of use and the time needed for delivery.				

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## D. Purchased goods and services are with adequate quality and accurate specification

	OBJECTIVE	result (Y/N)	initials	date	wp ref.
<b>D1</b>	<b>Tender specification is adequate.</b>				
1.1	Tender specifications are prepared by appropriately trained and qualified staff who is familiarized with goods and services that are procuring.				
1.2	When the organization does not have adequate technical experts to prepare procurement specifications then an adequate technical support is requested.				
<b>D2</b>	<b>Before concluding the contract, suppliers are respectively assessed.</b>				
2.1	When something like that exists, suppliers are compared with suppliers lists approved by the Government.				
2.2	The reputation of the supplier is checked and respective recommendations and proofs for previous realized similar procurements.				
<b>D3</b>	<b>Overview on current basis is done.</b>				
3.1	Long term projects are regularly checked by the organization / independent experts and not only performing a check at the end of the project.				
3.2	The quality of deliveries from important suppliers is regularly checked comparing it with the specifications.				
<b>D4</b>	<b>Payments are related with satisfactory execution.</b>				
4.1	Standards of the services are specified in the contracts where it is possible.				
4.2	Methods for reviewing of the standards and punishments for not fulfilling the standards are stated in the contracts.				

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	<b>OBJECTIVE</b>	<b>result (Y/N)</b>	<b>initials</b>	<b>date</b>	<b>wp ref.</b>
4.3	Observation of the standards is monitored and also decreasing of process is provided, when those standards will not be achieved.				
4.4	Adequate stimulus activities exist to encourage good, consistent service from suppliers.				
4.5	Procedures for solving disputes and arbitration are foreseen in the contracts.				
4.6	Ascertained are the rights and responsibilities in case of violation of the contract and respective arrangements exist for alternatives in case when the procurement will be terminated from certain reasons.				

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## AUDIT PROGRAMME FOR SUBSTANTIVE TESTS

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### SUBSTANTIVE TESTS

<b>Overall objective:</b>	<b>ALL GOODS AND SERVICES THAT ARE NECESSARY FOR THE ORGANIZATION ARE PROVIDED ECONOMICALLY AND TIMELY AND ALL THAT WILL APPROPRIATE SPECIFICATION AND QUALITY.</b>		
<b>SYSTEM RISKS:</b>	Inherent Risk:	Control Risk:	
	High / Medium / Low	High / Medium / Low	

TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	<b>Economy:</b> All inputs are provided on most economy way in relation to costs and quality					
1	Overview of the business plans of the organization, budgets and payments that are above the margin for "small procurements". Provide a list of big payments and procurements where tender procedures should have been used.					
2	Take sample from this list based on the value, strategic importance, political sensitivity and the risk for failure of the project. Require proofs that the tender procedures were implemented as they should.					
3	For selective projects review the tender documentation within the Commission for public procurements. Check whether tender methods are in compliance with the procurement regulations, based on the total assessment of the project value.					
4	When procurement is made from one exclusive source, check whether that one is adequately approved and whether the reason for that is appropriately recorded and adequate.					
5	Revise the payment system in order to find the					

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TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	total value of payments for biggest suppliers during one year. Consider whether there are evidences that some projects are divided on smaller parts in order to avoid the procurement regulations or whether there is scope for establishing contracts for procurements with bigger suppliers.					
6	Check whether international companies that received contracts are registered within the respective professional body.					
7	Check whether tenders are published in adequate newspapers/magazines.					
8	Check whether technical and financial offers are requested and received in separate envelopes and whether technical manuals are publicly opened and reviewed by the Commission for public procurements before opening of the financial offers.					
9	Check whether technical offers that do not correspond with the minimal requests are returned back to the bidder with unopened financial offer.					
10	Check whether the method for assessment and scoring of the technical and financial offers is in compliance with the method stated in the tender documentation.					
11	Check whether the contract is awarded to the best bidder in compliance with provisions from the Law for public procurement.					
12	When the contract is not awarded to the bidder stated in the provisions from the Law for public procurement, check whether the reason for this is recorded and justified.					
	<b>Efficiency:</b> Given inputs are transferring in results on most efficient way.					
13	Check whether for the procurement is prepared adequate tender documentation.					
14	Check whether the tender documentation is approved by the Commission for public procurements before it is given to the suppliers.					
15	Check whether the tender documentation is already sent to all respective suppliers (those that are selected on the tender or those who were interested in and for which is considered					

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TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
	that have the necessary knowledge and experience).					
16	Check whether long term projects are regularly assessed by independent experts.					
17	Check whether time situations for construction works are confirmed by respectively qualified professionals.					
18	Check whether signed contracts include: <ul style="list-style-type: none"> <li>•Dead line for finishing the procurement and key phases from the procurement, if it is possible;</li> <li>•Standards for services/specifications of the goods;</li> <li>•Methods for reviewing the standards;</li> <li>•Punishments for not accomplished standards;</li> <li>•Procedures for solving disputes;</li> <li>•Punishments for violation of the contract.</li> </ul>					
19	Check whether there were suppliers did not accomplish the defined standards and/or dead lines, respective punishments/discounts are applied.					
	<b>Effectiveness:</b> As much as possible results are consolidated with the general objectives of the organization.					
20	For big procurements for which tender is announced during the year, check whether a procurement has been included in the strategic/annual plan and whether it was respectively approved.					
21	Check whether procurements are implemented only when there is enough money for that in the budget or if there are foreseen means for the next year.					
22	Check whether plans for the procurement are also reviewing the available options for procurement (buying, lizing, partnership contracts, etc.) and whether these options are appropriately assessed and approved.					
23	Review the constitution and appointment of the members of the Commission for public procurements versus requests of the Law for public procurements.					

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TEST NO.	AUDIT OBJECTIVE AND AUDIT PROCEDURE	RESULT SATISFACTORY (Y / N)	INITIALS	DATE	W.P. REF.	ERRORS TO SOF
24	Check whether is required additional approval from competent body when the amount for complete realization of the procurement surpasses the amount that was first approved for the procurement.					

Auditor in charge: \_\_\_\_\_ Date: \_\_\_\_\_

Head of Internal Audit Unit: \_\_\_\_\_ Date \_\_\_\_\_

### 10. INTERNAL AUDIT ON INVENTORY

The conduct of the inventory of the budgets and within budget users is regulated with Article 31 paragraph 2 of the Law on accounting budgets and budget users ("Official Gazette of the Republic of Macedonia" no.61/02, 98/02 and 81/05) and the Rulebook for accounting for the budgets and budget users ("Official Gazette Republic of Macedonia" no. 28/03, 62/06 and 8/09).

According to Article 21 of the Law on Accounting of the budgets and budget users, the budgets and budget users are obliged at least once a year through conducting an inventory on 31st December to make adjustment of the situation of their assets and sources expressed in the accounting with the real situation. If the person in charge of the budgets and budget users does not perform an inventory under the provisions of this Article shall be punished for misdemeanour with a fine of 30,000 to 50,000 denars.

According to the Rulebook on accounting for budgets and budget users, the budgets and budget users are obliged to make an inventory of assets, liabilities and claims at the end of the year and to reconcile the situation of the assets and their sources expressed in accounting with the real situation ascertained with the inventory. With an inventory is shall be determined the status of the financial means, papers of value, tangible and intangible that are in use, out of use and in preparation, materials, spare parts, small assets, liabilities, obligations, assets of other entities that are within budgets and budget users and own means of the budgets and budget users that are located at other entities on 31st December. By exception, the budget users that perform publishing or bookselling activity for their specific assets (books, documents, films, photographs, archive material, etc.) can make an inventory within deadline of five years but not longer.

For implementation of the inventory, the budgets and budget users should establish necessary number of permanent or temporary inventory commissions, to determine the operations that the Inventory Commission should perform as well as the persons who are materially in charge for the assets that are subject for the inventory and their immediate supervisors, to determine the date when the inventory starts, the time to perform the inventory



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and the deadline for submission of the report for performed inventory with enclosed inventory lists, so that the deadline for submission of this report and the inventory lists to the accounting may be latest 20 days before the deadline prescribed for submission the final account.

➤ Persons who are materially in charge for the assets that are subject for inventory, latest by the date determined for starting the inventory should group and mark the assets for their easier, quicker and correct inventory performance.

The data for the inventory should be entered separately in natural and monetary values in the inventory lists. The inventory lists are an accounting document whose value shall be confirmed by the members of the inventory commission. The changes occurred between the day of the inventory and the day determined under which the inventory shall be performed, shall be entered in the inventory lists additionally based on accounting statements for those changes.

➤ The Inventory Commission performs the following tasks:

- identifying, measuring, counting and closer description of the assets and entering those data in the inventory lists;
- writing material changes occurred between the day of inventory and the day determined for performing the inventory;
- entering the accounting material situation of the assets in the inventory lists;
- determining the material differences between the situation of the ascertained inventory and the accounting situation;
- valuable calculation of the ascertained material differences;
- determining the causes of disagreement between the situation of the inventory and the accounting situation and
- signing the inventory lists.

The inventory of the denar and foreign currency assets in the cash box is done by counting the denominations. Funds on the open accounts within the treasury account and foreign currencies accounts shall be inventoried based on the last statement of the turnover and condition of those assets for the year for which the inventory is performed. While performing the inventory, the foreign currency assets in the cash box and on the foreign currency accounts shall be calculated according to the average rate of the National Bank of the Republic of Macedonia published on 31st December. The inventory of the papers of value shall be made by recording the serial number, amount and establishing the formal legal correctness. The ascertained situation with the inventory of the denar funds, foreign currency funds and papers of value shall be recorded in separate inventory lists.

An inventory of claims and obligations shall be carried out according to the situation in the accounting, by checking and verifying the validity of expressed amounts. The commission for inventory of claims and obligations shall perform the following tasks:

- determines the legal basis for existing of the claims and liabilities;
- confirms that the situation of the not paid requirements and undertaken claims and liabilities are properly, chronologically, completely and accurately recorded in the accounting records;

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- confirms whether the requirements from foreign buyers or the obligations towards the foreign suppliers are provided with financial instrument for providing the requirements, meaning an instrument for payment / payment in accordance with the regulations for providing finances;
- confirms whether and what measures have been taken by the responsible persons within the user for payment of claims arising from past years and
- confirms the reasons for not paid obligations towards the suppliers, creditors and employees.

Claims and liabilities for which there is no proper documentation, the Inventory Commission states them in separate inventory lists. The funds belonging to the budgets and budget users and not found on the day of inventory shall be recorded in separate inventory lists if until the day of completion of the inventory have not been received inventory lists from the entity where these assets are located. The budget and budget users where are located assets from other entities, should record them and the inventory lists immediately after the inventory shall submit to the entity to which they belong to.

The Inventory Commission determines the situation with an inventory, compiles inventory lists and a report for the performed inventory:

- proposals for recording the shortages, meaning the surpluses (the difference) of the value of assets,
- claims and liabilities,
- notes and explanations of the persons handling the material and monetary values for the determined differences, as well as
- other remarks and explanations of the differences occurred.

The data from the accounting records shall be given to the Inventory Commission after writing to the actual situation in the inventory lists and their signing.

When examining the report for performed inventory by the person in charge of budgets and budget users shall be concluded:

- the way of liquidation of the ascertained shortages;
- the of recording of the ascertained surpluses;
- the write-off of not payable and old claims;
- the write-off of assets for the equipment and small inventory, and
- the measures that should be taken against the persons responsible for shortages occurred, damages to assets and for not payable claims.

Report of the performed inventory together with the act of the person in charge of budgets and budget users shall be submitted to the accounting for recording the differences and reconciliation of the accounting with the actual situation ascertained with the inventory, latest twenty days before the deadline prescribed for submission of the final account.

### INTERNAL AUDIT ON THE INVENTORY

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The audit on the inventory is significant audit activity since the implementation of the inventory at the end of the year has an important control and corrective function of the assets, claims and liabilities. One of the main objectives of the audit on the inventory is giving assurance to the management whether it provides adequate protection from abuse in the use and disposal of assets. The audit on the inventory of assets, claims and liabilities aims to state more precisely the assets and their sources, meaning the business results and disabling to hide possible losses or potential reserves. The audit on the inventory is desirable to be carried out during the implementation of the inventory.

### **AUDIT ON THE PROCEDURE FOR INVENTORY**

The conduct of the inventory should be regulated by an internal act - a procedure for conducting the inventory which should be aligned with the regulation (the law and by-laws that regulate it), accounting standards and the internal control standards. Of course into consideration should be taken also the guidelines from the Ministry of Finance and the good practice both in public and private sector in order to better carry out this important operation. The task of the auditor is to improve the procedure for conducting the inventory, and if it does not exist in written form to initiate its writing.

The procedure for conducting the inventory should contain the following procedures:

- Establishing inventory commissions;
- Preparation of the inventory material;
- Performing physical, natural meaning actual inventory;
- Defining the differences between the situation after the inventory and situation in the accounting;
- Ascertaining the reasons for occurred surpluses and shortages;
- Providing proposals and measures to eliminate the reasons of costs and shortages;
- Deciding on the results of the inventory, and
- Recording the results of the inventory in the accounting so that the accounting situations will be brought to the real situations, meaning the situations ascertained with the inventory.

The procedure for conducting the inventory should be clearly defined:

- the body that will bring the decision for inventory (the management organ or the governance body).
- the competences of the commission chairman and the obligation for bringing the Plan for working of the Inventory Commission and
- the competences of the central Inventory Commission to:
  - coordinates the work of all inventory commissions and
  - to check whether the inventory commissions timely delivered plans for work and whether the preparatory things for inventory are done,

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- to make a control of the accuracy of the performed inventory during the inventory and
- to gather the reports for inventory from the commissions after finishing the inventory.

### **HIGH RISK AREAS OF THE INVENTORY**

During the inventory is necessary the presence of the employee responsible for material and monetary values that are subject for the inventory, and in case of his/her inability to attend the inventory, he/she should determine an employee who will be present on the day of the inventory on his/her behalf.

The auditor should particularly pay attention to the high-risk categories such as cash, papers of value and claims and liabilities, which are subject to the inventory on a specific way. The auditor should check whether the entity has determined the date of reconciliation of the claims and to ensure the reality of the compliance of the claims with the real situation. For this, he/she should request written confirmations of the debts towards the creditors, and if it does not exist than to request them by him/herself.

High risk in conducting the inventory is performing an inventory of something that is recorded in the accounting and actually its not existing, as well as performing an inventory of something that will be found without making detailed analysis.

The auditor should verify whether the inventory commission made classification (analysis) of the goods, materials or spare parts and whether eventually some of them might be inventoried as new, but actually is old and probably already written-off. This should have a reflection on the value of stocks, and if the stocks are useless to be written-off. Especially carefully should be checked the classification of the spare parts in terms of whether they are for machines that are in use, out of use or written-off. The auditor should verify whether the unnecessary spare parts are written-off, as well as whether is it conducted classification on claims and liabilities from real point of view and to those that are not paid or paid within 60 days and more than 60 days.

The scope of the inventory also should be an important part of the audit on the inventory. In this, the auditor should get assurances:

- whether with the inventory are covered all assets found on the day of the inventory, regardless of whether they are assets belonging to the entity or not (for storage, handling, processing, repair, lease, etc.).
- whether the assets that do not belong to the entity are stated in separate inventory lists.
- whether with the inventory are covered and stated on separate inventory lists:
  1. assets on transport, abroad, for processing, repair, etc., and are not derived from inventory lists from the entities where they are located.
  2. materiel values that belong to the entity but on the day of the inventory are located at other entities and are not acquired inventory lists for them.
  3. assets whose value is reduced due to expired period of use, meaning they are damaged, lost in quality, etc,
  4. claims and liabilities for which there is no proper documentation (reality of stated amounts and the reasons for not timely payments).

### **AUDIT ON THE PLANNING OF THE INVENTORY**

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Well planned inventory is a condition for well conducted inventory. The auditor should check whether in the work plan of the inventory commission are set the terms for:

- identifying, measuring, counting and detailed description of the assets and entering those data in the natural form in the inventory lists;
- signing the inventory lists;
- entering natural changes occurred between the day when the inventory is conducting and 31.12.;
- entering of the accounting quantity of the assets in the inventory lists;
- determining the quantity differences between the situations ascertained with the inventory and the accounting situation;
- value calculation;
- determining the reasons for non-consolidation between the situation after the inventory and the accounting situation; and
- the dead line for value assessment of the assets in the inventory lists.

### AUDIT ON THE PREPARATION FOR THE INVENTORY

An audit of the preparation of the inventory refers to the preparations that should be implemented by the responsible for material assets and the preparations in the accounting.

The auditor should check whether:

- the inventory areas (warehouses, workshops, etc..) have been previously sorted out;
- whether the stocks are duly marked (hanging label cards, nomenclature numbers, name, unit measure or other suitable manner);
- whether the goods are arranged in proper form for quicker and easier measuring, weighing, counting etc.;
- whether have been provided the basic conditions for work of the inventory commissions;
- whether the basic and other assets for work are marked with inventory numbers;
- whether are consolidated the accounting and the storage records;
- whether have been prepared adequate forms, inventory lists and other additional forms; and
- whether have been prepared the data for inventory of materials and goods on road, as well as for making inventory of assets belonging to other entities.

The auditor should verify whether have been conducted preparations of the inventory in the accounting, meaning:

- whether is determined the situation in the analytical records;
- whether have been checked all entries that refer to the business year and whether they are completely recorded;
- whether has been made reconciliation of the analytical records with the main book, and
- whether has been made reconciliation of the trade and the situation of the warehouse records with the accounting records.

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- The auditor also should check:
- whether eventually the head of the accounting, as well as the employees who perform analytical records provide accounting data on the quantities and values of the inventory commissions until they get assurance that the physical inventory is completed.
- whether on the places where the inventory is carried out during the physical inventory have been removed all records for the situation of the assets that are subject for inventory.

### **AUDIT ON THE REPORT FOR INVENTORY**

Upon completion of the work, in as shorter term as possible, the inventory commissions are obliged to submit a report for the performed inventory and to submit it to the management body. The management body reviews the report for the performed inventory in presence of the members of the inventory commissions and the head of the accounting and decides on the proposals from the inventory commissions upon certain proposals.

The auditor should check whether the report on inventory contains:

- all formal elements (data for the inventory commissions, composition, work of the commission in full composition, information for the time and place of the inventory etc.);
- all analytical elements (reasons for the differences on the inventory - shortage or surplus, reasons for large stocks, obsolete stocks, outdated claims etc.);
- proposals for entry of shortages meaning surpluses and correction of the value of assets, claims and liabilities;
- remarks and explanations to the employees who are handling material and monetary values for the ascertained differences and other remarks;
- explanation of the occurred differences which are consequence of replacement of some similar types or sizes of homogenous materials, small inventory, production, finished products, goods, etc.;
- other proposals regarding the inventory; and
- data for reconciliation (calculation) of the ascertained surpluses with shortages which is allowed only with obvious replacement of similar types or sizes.

### **AUDIT ON THE IMPLEMENTATION OF THE INVENTORY**

In this part of the audit the auditor should check:

- whether in the inventory lists after determining the situation of the assets and their sources (physical inventory) is entered the accounting situation and shall ascertain the surpluses and shortages expressed in material and valuable indicators;
- whether the inventory lists are consolidated by analytical accounts;
- whether the inventory lists are signed by all members of the inventory commission and the manager in charge for the assets that are subject to inventory no matter whether they are the inventory lists for material assets, the inventory lists for the assets, sources, claims and liabilities that are consolidated by vale and quantity or are processed manually or on computer.
- whether after completed inventory, in the inventory lists are entered only corrections for obvious errors and changes that occurred from the day of performed physical inventory until the day when the inventory is carried out, i.e. 31.12., and on the basis of appropriate accounting corrections for those changes (receipt note, dispatch note, request note).

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- whether the corrections are entered by crossing-out and so that the crossed-out quantities and amount are obviously readable.
- whether the corrections made are textually explained in the report of the inventory commission.
- whether the ascertained surpluses and shortages of the assets are entered in full as such: surpluses in favour of extraordinary income, and shortages ON burden of extraordinary expenditures.
- whether, if established central inventory commission, all inventory commissions shall submit their reports and inventory lists to that commission.
- whether the report for the performed inventory, the central commission shall submit to the management authority of entity and the head of the accounting.
- whether the management authority reviewed the received report on inventory, at a meeting on which participated the members of the inventory commissions, members of central inventory commission and the head of accounting and a final decision is made for:
- the manner of entry and liquidation of the ascertained shortages and surpluses of the material and other values;
- direct write-off and write-off through correction of the value of the material values, claims and liabilities;
- write-off of old and unusable assets;
- scrap, scattering and breaking; and
- other questions related to the inventory etc.
- whether report for performed inventory together with the decisions, decisions and conclusions of the management authority are submitted in the accounting for entering the differences and reconciliation of the accounting situation with the real situation ascertained with the inventory.
- whether with the inventory of tangible and intangible investments (assets) are covered all fixed assets, so that assets belonging to others are inventoried in separate inventory lists and a copy is submitted to their owners.
- whether the inventory of intangible investments (spending on research and development, founding ventures, limited part of the negative exchange rate differences over inflation, patents and licenses, investments in fixed assets belonging to others, multi year lease, intangible investments in preparation and similar, is performed based on the actual situation ascertained with the physical inventory as well as based on the accounting documentation and situation.
- whether the inventory of the land is made on the basis of the cadastral documents for ownership of the subject on some type and parcel of the land.
- whether the land which is not recorded in the cadastre as ownership of the subject is entered in a special inventory list.
- whether the inventory of assets for work (buildings, equipment and multi-year plants, main herd and other assets for work) was performed on the spot.
- whether with the inventory of buildings are determined also the possible damages, additional investments (adaptation and reconstruction), whether it is about building facilities that are commonly used or objects that only part is used which is owned by the entity and shall be inventoried as such.
- whether the inventory of the equipment is carried out by groups as recorded in the analytical records.
- does the whole equipment has:

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- 1.inventory numbers and whether it had changes,
- 2.whether it is intentionally used and
- 3.whether it is about equipment in function, for expense or is out of function.

- whether the inventory of multi year plants is done by direct insight as to determine whether the multi year plants because of drought have reduced gender or dried, whether additional plans have been planted, whether is necessary reduce of plants etc.
- whether the value of the plants is determined based on the data from the accounting for all investments made and not taking into account the land on which they are planted.
- whether the inventory of the primary balance covers the total cattle that serves for income and work (large, medium and small cattle) except the cattle in fatten.
- whether the primary balance during the year is recorded by purchasing value, and at the end with the inventory is ascertaining the market value.
- whether during the inventory of the primary herd is ascertaining also the growth by weight, number and value, and expressed in number of throats (quantity), color, weight, price and growth.
- whether with the act for inventory is set the way of determining the price of primary balances (by way of commission according to the average wholesale price reached for such goods in December, thus indicating that the market price for breeding herd can not be lower than the market price of the same herd in feeding).
- whether the growth of the primary balance is registered on the account of other business incomes.
- whether in the inventory of assets for work are covered works of fine art, sculpture or other art, works of museum value, cultural monuments and historical monuments and books in libraries.
- whether the inventory of library materials (books, films, archive materials, etc.) is performed according to the general acts of the entity, but not longer than 5 years.
- whether the inventory of fixed assets under construction (storage of investment material, investments in process, allocated funds, claims for advances, etc.) is made with immediate insight on a way they are maintained in the analytical records.
- during the inventory of investments in process, whether the inventory commission:
  - 1.ascertained also the extent of finalization of the investment for each object separately,
  - 2.carried out a comparison of the extent of the finalization with the value of recorded temporary situations and whether the payments are made correctly, and
  - 3.ascertained the day when the use started and the day of completion of the investment due to the obligation for calculation of the depreciation.
- whether stopped investments are inventoried and expressed in separate inventory lists thus ascertaining: the reasons for stopping and the conditions for liquidation of the same.
- whether the inventory commission for stopped investments checked whether the value of the used material or parts are realistically calculated, whether they are rationally used, whether after the prescribed procedure are sold or stored for future use, etc.
- whether the inventory of claims for advances is performed analytically according the types of fixed assets (intangible investments, natural resources and equipment).
- whether the inventory of materials and spare parts covers: the materials on stock, materials in processing, processing and manipulation, spare parts in warehouse,



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accessory, consumables and other materials and purchased semi-products and parts in storage.

- whether the quantities of raw materials and materials are inventoried by individual counting or measuring thus the originally packed materials are not unpacking and the quantity shall be taken as on the receipt note.
- whether the execution of the inventory of the large material, the material that is thrown around, not enough sorted out and similar, previously making special preparations of the place of inventory.
- whether during the inventory is taken care for the protection of the quality of the stocks and the deadline for use.
- whether during the inventory of raw materials and materials, the commission ascertained whether there were complaints and if there were whether they were accepted and whether the goods are returned back to the supplier.
- whether the commission took care whether the materials and raw materials that are given in production and they are not put in process, not inventoried two times and as storage of raw materials and as not finished production.
- the material given in production at other entities is inventoried on the papers for dispatching the material as well as on the basis of received inventory lists from the entities where the materials are located.
- whether after the physical inventory of the raw materials and materials have been entered the accounting situations and ascertaining differences meaning shortages and surpluses.
- whether when determined differences (shortages and surpluses) are assessed the reasons for those differences and ascertained the responsibility of the persons for those shortages and made assessment of the true value due to making real obligation of the responsible persons, the calculation of tax and other.
- does the subject of the inventory of small assets, car tires and wrapping material covers:
  1. small assets and other assets that are considered as small assets on stock,
  2. wrapping material on stock,
  3. car tires that are on stock and are in use and
  4. small assets and wrapping material in use.
- whether in separate inventory lists are stated the worn-out small assets.
- whether before the inventory of small assets has been performed a check whether the items are properly included in small assets according to the nomenclature.
- whether the inventory of small assets and wrapping material on stock is carrying out on same way as the inventory of raw materials and materials.
- whether the small assets given in use based on the reverse, coupons, chips, stamps, tool books and similar is conducted at the same time within all persons in charged of small assets.
- whether during the preparations of the inventory has been checked the compliance of the records for making obligations for small assets and has been taken into account the worn-out of the small assets.
- whether on a separate inventory list is stated: worn-out small assets, wrapping material on repair and on road and others worn-out wrapping material.
- whether during the inventory of the car tires is taken care for the car tires that are in the vehicle at the time of purchase of the vehicle, thus not excluding the spare tires, which together with the vehicle make the purchase value of the fixed asset.

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- whether the spare tires are specifically marked and recorded in the records of fixed assets as long as they are in use
- whether the worn-out car tires are expressed in separate inventory lists and whether they will be sold or destroyed in order to prevent abuse or mistakes in the next inventory lists.
- whether the inventory of the goods on stock is making by the places of the goods and by persons in charge of handling those goods and covers: goods in warehouse (wholesale, retail, wholesale in warehouse, in purchase station, consignment, commissions, imported, given for sale, customs goods), goods in another storage (in the country or abroad), goods in shop and deposited wrapping material in shop and goods in processing and manipulation.
- whether the inventory of the goods on stock is performing by identifying, measuring, counting and closer description of the goods and entering those data in natural form in inventory lists, signing, registering the natural changes occurred between the day when the inventory is conducting and 31.12., entering the natural accounting situation in the inventory lists, ascertaining the natural differences and their value calculation and determining the reasons for non-consolidation.
- whether the individual prices for each item are entered in the inventory lists in the natural inventory of the actual inventory place if the goods are charged financially (eg: goods in a shop that is in charge for retail prices).
- whether the individual prices of the goods in warehouse for which is obligatory to maintain material accounting during the physical inventory, the prices shall not be entered but will be done after the physical inventory based on the data from the material accounting. If however the prices are clearly displayed or with hanging labels the prices shall be entered, but with previous check in the material accounting.
- whether with the inventory of money are covered: inventory of cash money in the cash box, stamps and other vouchers in the cash box and cash assets on the accounts.
- whether the cash money are inventoried by counting the money in cash box which is found on the spot without covering various receipts and other valuable papers.
- whether the inventory of cash in the cash box is making on the last working day of the current year or the first business day next year (03:01).
- whether during the inventory of the coupons for fuel, warm meals etc., the inventory commission checks whether the coupons are properly and timely calculated and whether they are used intentionally.
- whether the foreign money are inventoried by types of currencies with the situation on 31.12., and are calculated by applying the middle exchange rate of 31.12.
- whether the inventory commission ascertained the eventual differences (surpluses or shortages) in the currency and a difference due to the change of the rate. (Because the amounts in the statements of the funds in foreign currency are expressed in currencies and in the accounting the currencies from 31.12. should be expressed in denars according to average (not buying or sales) conversion rate, occurred difference is positive or negative rate difference that should be recorded in the accounting.
- whether the inventory of the cash on the accounts is performed on the basis of the insight in the statements of the situation of those funds (last statement).
- whether the ascertained situations from last statements separately by accounts are expressed in inventory lists and especially of the denar funds and assets in foreign currency and whether according to such ascertained situations in the inventory lists shall be entered the accounting situations and expressing the eventual differences that for the denars might be a result of incomplete implemented recording, incorrect entries, wrong

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assigned funds on the statement etc., and for the funds in foreign currency due to exchange rate fluctuations.

- whether with the inventory of the papers of value are covered: stocks, bonds, treasury bills, certificates, commercial bills, notes (bill of exchange and promissory notes) and checks.
- whether during the inventory of papers of value are involved also members with special expertise.
- whether in the inventory list of shares are entered data on type of share, publisher of the share, tag on whose name it is, number of shares and cash amount, terms of payment of dividend, the place, date of issue and the serial number with a control number of the share.
- whether during the inventory of bonds, treasury bills, certificates, commercial bills, notes and checks are entered all relevant data, and whether for the checks is checked that the deadline for payment has not expired.
- if there checks given for payment and not paid, whether they are signed based on the documents (lists) for transmission of payment.
- whether the inventory of claims and liabilities is carried out under the accounting condition and includes all claims and liabilities.
- whether during the inventory of claims and liabilities the commission checked and ascertained the reality of the expressed amounts and the reasons for not timely payment of claims meaning not timely payment of liabilities.
- whether the claims and liabilities for which there is no proper documentation, are expressed in separate inventory lists.
- whether the requirements in foreign currencies are expressed in denars according to the average exchange rate.
- whether the inventory of the claims covers:
  - 1.advances for non-material investments,
  - 2.advances for natural resources,
  - 3.advances for tool for work,
  - 4.investments in related companies,
  - 5.invested money in banks,
  - 6.other invested means,
  - 7.investments in papers of value,
  - 8.loans given in the country,
  - 9.loans given abroad and
  - 10.other long term investments (advances for buyers, deposits and bails, claims according non-balance evidence etc.)
- whether the commission for inventory of the claims and liabilities ascertained if there is legal basis for each claim i.e. liability.
- whether accurately and correctly is ascertained the extent of each claim i.e. liability.
- whether is ascertained which claims are suspicious, disputed, not-payable and whether they are expressed in a separate inventory list due to:
  - 1.proposing correction or write-off,
  - 2.assessing the responsibility of the employees,
  - 3.reserving funds for the liabilities that might come out from court disputes,

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4. performing mutual closing of the situations of the claims if there are obligations to the same debtor, due for payment before expiration of the claims,
  5. special conducting of the inventory of expired commitments and in the report proposing measures for their recording etc.
- whether the report for inventory of the claims and liabilities of the commission covers:
    1. сите согледувања до кои дошла во текот на пописот;
    2. all observations to which it came across during the inventory;
    3. accuracy and order in the compilation and submission of the accounting documents according to the acts of the entity and the Law on accounting;
    4. accuracy, orderly and correctness in the maintenance of the accounting records for the claims and liabilities;
    5. measures that are undertaking for timely payment;
    6. reasons that brought to suspicious, disputed, not-payable and expired claims and responsibility for such situations.
  - whether after adoption of the report for performed inventory of claims and liabilities, on the basis of the decision to accept the report has been made:
    1. write-off of expired claims;
    2. correction of the value of suspicious, disputed, not-payable and expired claims; and
    3. out of balance are recorded the not paid written-off claims for which there is a possibility to be paid.
  - whether in the inventory of the assets for common use are covered:
    1. funds for common use for the needs of housing (apartments and apartment houses, investment in apartments and apartment houses and loans for apartment construction),
    2. funds for common use for other needs (buildings, equipment, investments) and
    3. funds for civil protection and defense.
  - whether the inventory of assets for common use are inventoried on separate inventory lists, and afterwards prepared recapitulation according the order of the accounts.

### **UNDERSTANDING THE MOTIVATION OF THE ENTITY FOR THE INVENTORY**

There are three main reasons why the client may be inclined to misstatement of the quantity of the goods which he owns and therefore why we need to verify that he actually has the thing for which claims that has:

- Incapacity - the client may be counting things twice, not counting items or simply counts wrong, without any specific intention, but because of incapacity and incompetence.
- Need to increase the profit – maybe they are counting damaged items, estimated quantity with great ratio or deliberately count the items two times.
- Need to reduce the profit - this could be achieved by omission of items from counting on the pretext that they are damaged, or by not performing counting in different warehouses or parts of warehouses.

### **MINUTES FOR PERFORMED AUDIT**

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When the auditor will return to the office, should prepare minutes and write the details for the inventory while they are still fresh in his memory. He should make sure that he documented the tests of the controls and the reality of the inventory in accordance with the instructions. The minutes should contain the following elements:

- Date / time / place
- Name of the employee with whom contact is made
- Brief description of the location where you worked and the items you counted
- Particular moments of the counting and their problematic parts

## EXAMPLE FOR AUDIT PROGRAM

Mutual internal audit	<u>AUDIT PROGRAM</u>	<u>INVENTORY</u>	
Client/Project:			
Audit components	Assets - Inventory		
Prepared by:		Date:	
Period that is auditing			
Audit testing	Marking	Comments	
<b>A. Previous preparation</b>			
1. To provide complete list of the locations that have assets and the total quantity of each location			
2. To provide a copy of the instructions for the physical inventory before the date of performing the inventory in order to discuss with the client about any kinds of changes. Overview of the proposed changes for conducting the inventory and instructions for counting. Discuss with the client any kind of the potential areas or obvious weaknesses.			
3. Surround the premises of the warehouse before the inventory starts in order to check the arrangement of the assets and the areas on which should be paid special attention during the inventory.			
4. Provide a copy of: <ul style="list-style-type: none"> <li>•Lists with names of units or departments</li> <li>•Names of the heads of the units</li> <li>•Number of inventory lists</li> <li>•Latest list for all assets in each unit</li> </ul>			
<b>B. Monitoring the procedures of the client</b>			
1. Monitor the teams that carry out the inventory during the inventory operations, paying attention to whether they follow the instructions, if they are careful in exercising the numbering or whether they are careful in terms of correct and complete register of the descriptions for assets in use.			
2. Pay attention whether the teams perform systematic inventory to the areas that are entrusted to them in order to ensure full coverage without making duplication in the counting of areas for which other teams are in charge.			
3. Observe whether all assets that are located in the primary field for storage, including the vehicles for filed work, trucks, tanks etc. are properly included or excluded from the counting of the assets.			
4. Make sure that the teams that carry out the inventory shall organize the physical movement in a way that would			

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avoid double counting or to avoid prejudice to any part of the assets of the inventory.		
5. Determine whether the serial number and the description of the last operational number for identification are correct and comply with the review of the numbers that are attached to the material or by requesting identification from the staff of the client.		
6. Ensure that the teams that perform some of the inventory open some of the closed cards or containers to determine the number and composition (e.g. identity, model number, physical characteristics, etc.) and to harmonize these numbers with the descriptions of the card or container.		
7. Ensure that the teams who perform the counting are careful with empty boxes, gaps in the layers of inventory, etc..		
8. Where applicable, check whether the client compares the numbering with the existing documents and instantly explore any major differences.		
<b>C. Tests performed by the auditor</b>		
1. Select and count the specific pallets, baskets, layers of materials and compare the count with the counting of the client, description, last operation and other data on completed listings.		
2. Register a sufficient number of details that would allow you to accurately align the summarizing of the assets later.		
3. Create tests for counting with the teams for counting of the client and make comparison on the spot with other pallets, baskets, etc.. of the same or similar products.		
<b>D. Completing</b>		
1. Take into account any significant quantities of unusable goods, goods that are difficult to move, goods which are too big, damaged or unusable and are subsequently registered for control.		
2. Prepare an agenda for working notes: Summarizing the results of your observations, test counting, etc. as well as a derived conclusion on the effectiveness of the counting of the assets and the extent of our satisfaction with the work done.		
<b>E. Termination of delivering and receiving assets</b>		
1. Visit the areas for reception and delivery of assets and make sure that employees in these departments understand the procedures that should be followed for identifying received goods or supplies that are made immediately before or after the inventory.		
2. Select several recipients of deliveries before and after the inventory and register the following: <ul style="list-style-type: none"> <li>•Number of the last received reports and description of the asset that is included in the counting.</li> <li>•Number of the last evidence for delivery and description of the asset that is sent.</li> <li>•Giving and receiving information that are sufficient to test the procedures for treating intra-organizational, intra-separately and intra-storage transfer during the counting of the assets and during the break as well as the documents for linking with similar tests done elsewhere.</li> </ul>		
<b>F. Forwarding the inventory</b>		
<b>G. Summing up of the inventory</b>		

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1. Get the latest lists of the inventory, summing up and compliance with the main book and main accounts.		
2. Using the information obtained during the inventory: (a) reconcile the test counting with the lists for the assets, reconcile the numbers on the lists for entry, quantity, description, phase of completing (last operational number etc.) and any other relevant information.		
(b) Reconcile the information regarding the numbers stated on the lists for counting used in the inventory and ascertain that: F.order of the lists is complete G.unused and revoked lists are not taken into account H.additional accountings or lines are not added to the list for counting		
(c) Reconcile the confirmations from (or counting made within) those that are outside the area where is performing inventory and have the inventory lists.		
(d) Determine if proper steps are taken in connection with the materials that are observed during the inventory and are assessed as damaged, unusable etc.		
3. Reconcile the prices given for certain goods with correct prices, documents, invoices from suppliers etc.		